

Allianz Global Sustainability

Monthly commentary

Investment Objective

The Fund aims at long-term capital growth by investing in global equity markets of developed countries in accordance with environmental and social characteristics. The Investment Manager may engage in foreign currency overlay and thus assume separate foreign currency risks with regard to currencies of OECD member states, even if the Sub-Fund does not include any assets denominated in these respective currencies.

What Happened in January

Global equities advanced over January, led by European shares. While US stocks also moved higher, gains were limited by a sharp reversal in Technology shares after a Chinese start-up announced that it had developed a chatbot with the same functionality as an established artificial intelligence (AI) model – but at a fraction of the cost. The news added to the uncertainty caused by Donald Trump’s return to the White House, with the President swiftly signing a raft of executive orders to progress his disruptive agenda.

US equities closed a volatile month moderately higher as investors digested a plethora of executive orders from President Donald Trump, including withdrawing the US from the World Health Organisation (WHO) and Paris Climate Accord, stepping up threats to seize control of both the Panama Canal and Greenland, forcibly evicting illegal immigrants and taking steps to shrink the federal workforce.

European equities delivered strong gains over January, with the EuroStoxx 600 Index hitting fresh highs. Shares benefitted from increased interest in the region as favourable relative valuations helped investors overlook lacklustre growth and the threat of higher US tariffs. The rotation away from richly-valued US Technology stocks was a further tailwind.

Portfolio Review

Both stock and sector allocations were positive over January.

Stock selection in the US was overwhelmingly positive during the month, with strong contributions from France and the UK.

Contributors

A cyber security company was one of the Fund's top performing stocks during January, with the shares rising 16%. We continue to see increases in high profile cyberattacks and ransomware incidents globally, which has elevated the demand for advanced cyber security solutions. Escalating US/China tensions – exacerbated by remarks from US lawmakers about technology transfer policies heightens awareness further. In this environment, the company's cloud-native platform stands to benefit from an accelerated adoption rate.

Health Care was one of the strongest performers in January, and several of the Fund's top 10 contributors came from the sector. A laboratory equipment and instruments supplier rose 15% as the market's confidence in the end market demand started to increase. Although the core business has been performing well, the industry has been digesting large amounts of inventory that built up in a post-COVID buying spree. Recent commentary from the company points to a normalising environment in 2025.

Shares of an eyewear company rose 13% in January. The global appetite for wearable technology has been on an upward trajectory, driven by increasing interest in devices that offer both utility and style. The company's eyewear brand is at the forefront of this technological rollout with a product developed with a social media company. The AI glasses are well-positioned to capture a share of this growing market by offering a product that not only looks great but also provides tangible digital benefits – such as on-the-go information, seamless integration with social media, and potential augmented reality (AR) applications. The company is also entering the hearing aid market with its wearables and we will see new products here in 2025.

Detractors

The top two largest detractors were underweight positions (no exposure): a German-listed software company, and a US health care company, both performing strongly over the month.

An Indian bank declined during the month alongside the broader Indian market. The company reported their Q3 earnings during the month, highlighting the resilience in their business model despite some macro headwinds the Indian banking sector is currently facing.

Significant Transactions

Over the month, we sold our position in a semiconductor manufacturing equipment supplier as we were concerned by the recent bounce in the share price that wasn't linked to near-term fundamentals. We also sold a provider of derivatives marketplace, and a composite decking manufacturer, and initiated new positions in a Japanese conglomerate, a customer relationship management (CRM) software provider, and a waste management environmental services company.

The Japanese conglomerate mentioned above operates across a wide range of industries, including industrial machinery, information technology, energy systems, and infrastructure solutions. This broad portfolio means the company is not overly dependent on the success or challenges of any single market, making its business more resilient to economic fluctuations.

Additionally, the company is well-positioned to take advantage of long-term industry trends, such as the global push for renewable energy, advancements in digital transformation, and increasing demand for smart infrastructure. By spreading its operations across multiple high growth sectors, the company can adapt to changing market conditions and capitalise on emerging opportunities, ensuring long-term stability and growth potential. It will be a beneficiary of the AI rollout in Japan.

The CRM software provider stands to benefit significantly from the increasing availability of more affordable large language models (LLMs). These advanced AI models, which power natural language processing and automation, are becoming less expensive to develop and deploy, making them more accessible for companies.

With cheaper LLMs, the company can enhance its AI-powered features, such as chatbots, automated customer support, predictive analytics, and workflow automation, at a lower cost. This could improve efficiency for businesses using its software, while also making AI-driven solutions more affordable for a broader range of customers.

The waste management environmental services company operates in a crucial industry that provides essential services, such as waste collection, recycling, and disposal, which households, businesses, and municipalities rely on regardless of economic conditions. Because these services are necessary for public health and environmental safety, demand remains steady, even during financial downturns.

The company benefits from long-term contracts with municipalities and businesses, which help lock in revenue over extended periods. Additionally, waste management services are often subject to regulated pricing mechanisms, meaning price adjustments are controlled and less vulnerable to market volatility.

Market Outlook

While we are constructive on equities, and particularly our portfolio, it is clear that current valuations are unlikely to push markets higher, and for 2025 it will be earnings that are more responsible for market moves.

Tariff weaponisation contrasts with a potential de-escalation in Ukraine and the Middle East which should make for a dynamic risk backdrop.

Higher and stubborn rates and inflation add to concerns that the US fiscal position will become a focus subject that can threaten US exceptionalism. As it stands, the velocity of the US economy contrasted with Europe and Asia still makes it attractive as a region and the AI trade is still the best growth impulse of any economy.

If and when equity markets' returns are derived in a less concentrated fashion, we would expect our portfolio to perform well.

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All data are sourced from Bloomberg and Allianz Global Investors as at 31 January 2025 unless otherwise stated.

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