Allianz Global Investors

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 June

Global equities closed June higher as “tariff fatigue” took hold after months of heightened volatility. While it was yet another headline-rich month, especially on the geopolitical side with an escalation in the Middle East, US markets recovered their losses from the April lows. The S&P 500 was up 4.96%, while Nasdaq was in the green by over 6.5%, both reaching new all-time highs. The rally was driven by big tech, a slight dovish shift by the US Federal Reserve (Fed), and optimism on the trade front. These new highs, however, were also achieved despite a large amount of headline volatility around geopolitics and domestic politics. The strong performance of US stocks also means they continue to narrow the performance gap versus European Union (EU) peers.

De-escalating fears of a global trade war and soaring geopolitical tensions in the Middle East dominated the headlines for most of June. In monetary policy news, the European Central Bank (ECB) cut its key interest rate by 25 basis points (bps) to 2.0% amid increasing deflationary pressures on the back of President Donald Trump’s erratic trade policy. Meanwhile, policymakers at the Fed, Bank of England (BoE), Bank of Japan (BoJ), and People’s Bank of China (PBoC) kept rates on hold at their respective meetings during the month.

In currency markets, the US dollar extended its decline for most of June, hitting its lowest level in more than three years after President Trump announced that he would be writing to trading partners to outline new tariff rates after the current 90-day pause on reciprocal tariffs expires on 9 July. The euro and British pound were the main beneficiaries of the dollar's weakness, both hitting multi-year highs as the greenback slumped into month end, while the Japanese yen closed the month little changed against the dollar.

Portfolio Review

We saw a continuation of trend in the Technology sector from the previous month with Taiwan Semiconductor Manufacturing Company, Microsoft, and a supplier of advanced materials and solutions to semiconductor and other high technology industries, amongst the top contributors – as well as our lack of exposure to a smartphone, computer and communications equipment giant. Meanwhile, our underweight position in Nvidia impaired as the stock continued to perform strongly.

Our holding in a company that reinvents and manufactures nutrition, health, and beauty products detracted after a competitor announced a weak pre-close update. We do not think a read across is particularly strong. Animal health company Zoetis also underperformed over the month and was amongst the top detractors following their results that highlighted concerns about the growth prospects for their Librela product and increased competition in some franchises. Again, this was known but Health Care remains out of favour, which is why valuations are so attractive.

Significant Transactions

We initiated two new positions over June. The first is a home improvement retailer. We entered this position as we are three years into a housing downcycle in North America. Existing home sales are at record lows in a context of rising rates. Meanwhile, the company has expanded the business through acquiring commercial businesses that will give them a new leg of growth. We can also see the prospect for a turnaround as rates might go lower with a new Fed chair despite the potential stimulus from the "Big Beautiful Bill" which itself is positive for gross domestic product (GDP).

We also initiated a position in an eye care specialist. They are uniquely positioned to leverage their comprehensive portfolio of surgical equipment, consumables, intraocular lenses, and vision care products to capture growth from demographic trends and ongoing technological innovation in ophthalmology. We have taken advantage of recent weakness in the contact lens market which ,in our view, is temporary and affords us a good entry point.

Market Outlook

Global equity markets have crosswinds that leave investors divided between taking the optimism of the tariff de-escalation and some stimulus, and the inherent pessimism of leading indicators looking poor with markets having rallied strongly.

We have mentioned before that there is a stagnant nature to many broad economic and consumer categories and have maintained that artificial intelligence (AI) related exposure is the one constant through what has been large spikes in uncertainty. The "Big Beautiful Bill" adds some GDP stimulus but again the clearest positive is focused on AI and accelerated depreciation.

We are constructive on our positioning which has slightly less cyclicality and a mild defensive growth tilt, but we have acted where excessive moves have happened in both directions and this continues to be our strategy through this uncertainty.

In the short term, we will see slightly weaker momentum in cyclicals and as such the narrative for a rebound in H2 becomes even more important. We are overweight the AI theme, but we are diversified across the eventual winners as the speed and substance of change is heavily debated. The July deadline for tariff deals, a mixed outlook for earnings, and lingering questions around America's debt and the leadership of the Fed are likely to result in further volatility ahead. We continue to believe that stockpicking will be far more important this year, and a muted style exposure combined with positions that are accessing the AI theme will lead to outperformance.

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All data are sourced from Bloomberg and Allianz Global Investors as at 30 June 2025 unless otherwise stated.