

Allianz

Japan Equity

Monthly commentary

Investment Objective

The Fund aims at long-term capital growth by investing in Japanese equity markets in accordance with environmental and social characteristics.

What Happened in April

Japanese equities recovered from tariff-induced weakness early in the month to finish April with slight gains. Returns to international investors were enhanced by the strength of the yen, which hit the psychological barrier of USD/JPY 140 for the first time this year.

The catalyst for the market recovery was news of Trump's abrupt U-turn on tariffs. While most of the tariffs were paused for 90 days, the baseline 10% tariff alongside last month's 25% levy on cars imported to the US remain in place for Japan. More positively, equities rallied on trade talks optimism as Japan became the first country to enter into official negotiations with the US. Dovish commentary from Bank of Japan (BoJ) Governor Kazuo Ueda also helped to calm market jitters. Headline inflation eased slightly to 3.6% in the year to March from 3.7% in February, while annual core inflation retraced to 3.2% in March after slowing to 3.0% the previous month. The flash au Jibun Bank Japan composite purchasing managers' index (PMI) rose to 51.1 in April from 48.9 in March (50 separates growth from contraction).

Within the market, domestic-related sectors such as Construction and Retail outperformed, while sectors more sensitive to global growth such as Energy and Mining declined. The Bank sector was also weak on reduced expectations of further rate hikes.

Portfolio Review

The Fund underperformed the benchmark TOPIX index in April, mainly due to stock selection in the Consumer Discretionary sector.

At the individual stock level, stocks that can be expected to be less exposed to US tariffs impact such as a video game company, a medical data company, and a retail store operator outperformed. On the other hand, a department store group underperformed as the market grew concerned that sales momentum driven by inbound tourists would weaken due to the strengthening yen. In addition, since the market expects the BoJ might delay the next rate hike given recent market volatility, financial stocks such as banks also detracted.

Market Outlook

While initial concerns regarding tariffs have eased, there are still significant uncertainties. In addition, high inventory levels accumulated prior to the tariff policy change and the growing uncertainty in international trade which could restrain capital expenditure (capex) and production represent further risks. The full impact of the tariff announcements on corporate performance and the real economy may only emerge with a lag of several quarters.

Furthermore, the BoJ has revised down its outlook for both economic growth and inflation, making it increasingly unlikely that additional rate hikes will be implemented within the year. Although the BoJ might delay the rate hike, the JPY has strengthened. The current level (JPY 140-145/USD) is already factored into companies' guidance. A mildly strong yen can mitigate cost-push inflation, which is positive for households.

In longer term, structural drivers remain in place for a more positive outlook. In particular, the combination of higher inflation and ongoing governance reforms should contribute both to improved earnings as well as a greater focus on shareholder value. The spring wage negotiations are seen as having concluded successfully and are expected to help improve consumption going forward.

Under these circumstances, we aim to maintain a balanced portfolio, combining growth stocks with higher earnings visibility as well as selective value-oriented stocks with potential positive catalysts, such as turnaround prospects and an improvement in shareholder returns. The portfolio also has relatively close-to-benchmark sector positioning, so that we expect stock selection to be the consistent driver of returns.

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