Allianz Global Investors

Allianz Thematica

Monthly commentary

Investment Objective

The Fund aims at long-term capital growth by investing in global equity markets with a focus on theme and stock selection in accordance with environmental and social characteristics.

What Happened in February

Global equities delivered mixed returns over February as markets struggled to navigate President Trump's deliberately disruptive and unpredictable agenda. Chinese stocks surged, boosted by strength in Technology companies. European shares also advanced, underpinned by growing optimism over a potential end to the war in Ukraine. In contrast, US and Japanese equities lost ground. At a sector level, defensive Consumer Staples companies were the best performing area in the MSCI All Country World Index, with Energy and Real Estate companies also faring well, while the Consumer Discretionary and Communication Services sectors suffered notable setbacks.

Global bonds delivered positive returns. US Treasuries were among the strongest performers, boosted by signs of slowing US economic momentum. European government bonds also rose but lagged their US counterparts in anticipation that higher European defence commitments will likely cause government spending to balloon across the continent. In contrast, Japanese government bonds sold off, with yields touching the highest level since 2009 mid-month.

February brought growing signs that the US economy was slowing, with inflation expectations jumping due to President Trump's tariffs threats. Retail sales, consumer sentiment and home sales slumped in January and early indications showed services activity in February had contracted for the first time in more than two years. While the US Federal Reserve (Fed) indicated it was in no rush to cut rates, the European Central Bank (ECB) is expected to continue to reduce borrowing costs. Conversely, accelerating Japanese inflation increased the likelihood of another rate hike from the Bank of Japan (BoJ).

The British pound also rose against the US dollar and the euro, bolstered by hopes that the UK may secure a trade deal with the US and better-than-expected economic data. Oil prices eased over February, with Brent crude closing the month back below USD 73 a barrel as slowing US growth and the threat of a global trade war dampened the demand outlook. Gold rallied further, touching a fresh record high of USD 2,950 an ounce, amid robust demand for safe-haven assets.

Performance Analysis

The Fund returned negatively in February, lagging global equity markets as represented by the MSCI AC World Index. Stock selection as well as sector allocation have been a drag to overall performance. The Fund benefitted from the overweight to Utilities as well as to the underweight to Communication Services and Consumer Discretionary. On the other hand, the overweight to Technology as well as the underweight to Health Care and Consumer Staples has been a burden.

Stock selection has been a burden especially in the Technology sector. As the underweight to stocks like an electric vehicle (EV) manufacturer and a technology conglomerate has been a major benefit to the portfolio, a consumer electronics and smart manufacturing company has been a large benefit to the Fund as it benefitted from the strong recovery among Chinese Technology companies. China's technological advances are increasingly visible. In this environment, portfolio activity has been focused on adding to companies which are expected to benefit from the more rapid adoption of artificial intelligence (AI). The aforementioned EV manufacturer suffered from negative momentum which due to weaker delivery numbers.

On the other hand, the exposure to a computer networking company has been a burden after it suffered from the negative sentiment across data centres affected markets during the last week of February. The underweight of a graphics processing unit manufacturer has been a negative effect as well since the stock bounced back slightly after the sharp correction over January after the release of an open-sourced AI model developed by an emerging Chinese startup. We have also decided to respond to the recent evolution of technology within the financial services market and the wider adoption of AI beyond the initial investment phase. Therefore, we decided to bring two new themes to the portfolio. To capture these growth trends more effectively, we have split the broad Digital Life theme into two, more distinct themes. Adoption will focus on the next wave of implementation and proliferation of efficiency-enhancing applications based on the recent advancements of AI, and Digital Finance, which captures companies within the evolving financial sector benefitting from fintech, blockchain and decentralised finance developments. In response to the US election outcome, the Health Technology theme is being phased out due to the increase in regulatory uncertainties. In our view, a diversified multi-thematic portfolio continues to offer many opportunities for investors to benefit from structural megatrends in the current year. Regarding the positioning, we have moved to a higher degree of concentration as we have sought to strengthen our investment conviction.

All data are sourced from Bloomberg and Allianz Global Investors as at 28 February 2025 unless otherwise stated.