

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 the Sustainability Key Performance Indicator Strategy (Absolute Threshold). In this context, the aim is to target a specific minimum allocation into sustainable investments to achieve the investment objective.

What Happened in July

Global equities rose modestly in July, bolstered by progress in US trade talks for most of the period. A positive start to the Q2 earnings season also boosted stocks, although gains were capped after President Trump stepped up his campaign against US Federal Reserve (Fed) Chair Jerome Powell, raising concerns about the central bank's independence, as well as by ongoing geopolitical tensions. Turning to sectors, Information Technology and Energy were the strongest sectors in the MSCI All Country World Index, followed by Utilities. Conversely, the Health Care and Consumer Staples sectors generated negative returns in July.

In currency markets, the US dollar clawed back some of its recent losses in July as US economic data remained resilient. In contrast, the euro weakened in the aftermath of the trade deal announced by Washington and Brussels. European leaders subsequently argued that the deal disproportionately favours the US. The British pound also fell against the dollar and the euro on softer-than-expected gross domestic product (GDP) and retail sales data. Meanwhile, having risen on news of a US-Japan trade deal, the Japanese yen subsequently pulled back on post-election political uncertainty to end July down against the dollar and the euro.

Oil prices rose modestly in July with Brent crude closing the month just below USD 72 per barrel as trade deal optimism spurred hopes of increased global demand. President Trump's threats to ramp up sanctions on Russia unless it reached a peace deal with Ukraine further supported oil prices towards month-end. Meanwhile, gold prices remained elevated, although prices moved modestly lower to end the month around USD 3,300 per ounce as increased risk appetite undermined the precious metal's safe-haven appeal.

Performance Analysis

Both theme and stock selection weighed on results. Exposure to Infrastructure and Clean Water and Land supported returns, while Digital Finance and Generation Wellbeing detracted. An underweight position in index heavyweight – a graphics processing unit manufacturer – also hurt performance amid its strong rallies.

July saw notable gains from a manufacturer of solid oxide fuel cells that produce electricity on-site; a manufacturer of electronic components; and Synopsys - all outperforming global equities. Synopsys benefitted from completing its USD 35 billion acquisition of an engineering simulation software company and the US government lifting export restrictions to China, boosting long-term growth confidence. The manufacturer of solid oxide fuel cells mentioned above surged on record Q2 results, a new deal with a computer technology company, and clean energy tax-credit optimism, attracting strong retail investor demand. The manufacturer of electronic components rallied on double-digit sales and earnings growth, driven by AI infrastructure and energy demand, appealing to growth-focused investors. These company-specific catalysts stood out despite broader market caution.

Conversely, a food corporation, a cyber security company, and a sportswear company lagged. The food corporation suffered from softer consumer volumes in Europe and currency headwinds, overshadowing solid earnings. The cyber security company dropped after announcing a USD 25 billion acquisition of a provider of identity and access management security, as investors worried about execution risks and the high valuation amid slowing organic growth. The sportswear company delivered strong Q2 revenue and profit growth, but its stock declined due to concerns over demand sustainability in a competitive market and perceived overvaluation. While global equities advanced, the Fund's performance was held back by underexposure to market leaders and select stock-specific setbacks, offsetting gains from other themes and stocks.

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