

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 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 an emerging Chinese startup, which launched an open-sourced artificial intelligence (AI) model, announced that it had developed a chatbot with the same functionality as an American AI company's 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. Late on 31 January, after financial markets had mostly closed, the US administration slapped 25% tariffs on imports from Mexico and Canada, as well as 10% on Chinese imports, with effect from 1 February.

Global bonds were volatile. Yields rose sharply for the first half of the month, with the yield on the 10-year Treasury briefly trading at 4.8%, its highest level since 2023, as stronger-than-expected US economic data sparked fears that the next move in US rates may be up rather than down. However, yields fell in the second half of January as these fears appeared overblown. While the 10-year US Treasury yield closed the month little changed, government bond yields ended higher in Japan and Europe. Corporate bonds outperformed government debt, with high yield posting the best returns.

It was a mixed month for interest rates. The US Federal Reserve (Fed) left rates on hold, prompting a barrage of criticism from Donald Trump who insisted global rates should be lowered at the World Economic Forum in Davos. Meanwhile, as widely expected, the European Central Bank (ECB) lowered rates by 25 basis points (bps) for the fifth time this cycle, while the Bank of Japan (BoJ) raised rates by the same amount. Threats of higher US tariffs continue to hang over the global economy, sparking a flurry of trade deals between non-US countries.

In currency markets, the Japanese yen strengthened, buoyed by the BoJ's decision to raise rates to "around 0.5%", the highest level in 17 years, with BoJ officials signalling that the central bank will raise rates further if the economy and prices move in line with expectations. Brent crude closed the month around USD 76 a barrel. Gold rallied, breaching USD

2,800 an ounce for the first time on record as US investors sought to repatriate gold ahead of potential tariffs on US imports.

Performance Analysis

The Fund returned positively in January, outperforming global equity markets as represented by the MSCI AC World Index. Stock selection as well as theme allocation have been a driver to overall performance.

From a sector perspective, the overweight to Industrials and Materials has been a tailwind, while the underweight to Financials and Communication Services has been a drag. From a thematic perspective, themes like Digital Life and Health Technology performed best over the recent month, followed by Intelligent Machines. This once again shows that Technology dominates the current market as these themes have a very high exposure to the sector.

The structural underweight to Technology index-heavyweights like a graphics processing units manufacturer, a computer and consumer electronics manufacturer, and a technology conglomerate has been a benefit to overall performance, while the underweight to Meta Platforms and an ecommerce giant has been a minor burden. Nevertheless, the last month showed that the strong outperformance of the Magnificent 7* has eased. On the positive side, the Fund benefitted from the exposure to a cyber security company (Digital Life), as well as a medical devices manufacturer (Health Technologies), and an online retailer of pet food and other pet-related products (Generation Wellbeing).

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 (number of themes has decreased from 7 to 6 for the time being, number of stocks has gone from approximately 200 to 155).

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

* Magnificent 7 refers to a group of US stocks which includes Alphabet, Amazon, Apple, Meta Platforms, Microsoft, Nvidia, and Tesla.

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