

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 October

Global equities mostly ended October lower. Early gains were more than offset by a weak close to the month. At a sector level, Health Care, Materials, Consumer Staples and Real Estate fell the most, while Financials, Communication Services and Energy moved higher.

Global bonds sold off, with yields rising sharply in the US as polls indicated Donald Trump was likely to win November's presidential election. The former president has promised to hike import tariffs substantially, while tax cuts are likely to further swell the fiscal deficit. The yield on the 10-year US Treasury bond rose 50 basis points (bps) over the month to close just below a 4-month high of 4.3%. On a global basis, corporate bonds outperformed government debt, with high yield debt faring better than investment grade securities.

With economic data continuing to indicate a soft landing for the US economy and a solid jobs market, expectations grew that the US Federal Reserve (Fed) may slow the pace of its rate cuts. In Europe, the European Central Bank (ECB) lowered interest rates by 25 bps, marking its third cut of this year. The People's Bank of China (PBoC) also reduced its 1- and 5-year loan prime rates by 25 bps. The rates are used as a reference point for most loans and mortgages in China. In Japan, hopes of higher government spending came up after the ruling Liberal Democratic Party lost its parliamentary majority for the first time in 15 years.

The US dollar strengthened as investors moderated their forecasts for the pace of rate cuts by the Fed. While the euro fell against the dollar, it rose against the Japanese yen. Oil prices initially surged past USD 80 a barrel after Iran launched hundreds of rockets at Israel, sparking fears that Israel may retaliate by attacking Iranian oil facilities. Gold prices surged to a fresh record high of almost USD 2,800 an ounce amid ongoing geopolitical tensions and as investors evaluated political risks ahead of the US presidential election.

Performance Analysis

The Fund returned negatively (in EUR, gross of fees) in October, underperforming global equity markets as represented by the MSCI AC World Index.

The theme selection contributed negatively to overall performance, while stock selection among the themes has been slightly negative. The largest thematic detractor has been the theme Next Generation Energy which suffered most over the month of October. While the market was starting to price in a win of Donald Trump in the presidential election on 5 November, this created a negative sentiment for this theme over the course of October. Intelligent Machines also did weaker as the semiconductor industry negatively reacted to a weaker guidance by a supplier of semiconductor manufacturing equipment, specifically machines for the production of chips through lithography. Digital Life contributed well to overall performance driven by positive stock selection.

From a sector perspective, the overweight to Materials and Utilities created a burden, as well as the underweight to Financials as classical banks benefitted from a steepening in the yield curve in Europe and the US. From a single stock perspective, positive performance occurred from a manufacturer of semiconductor testing devices and electronic measuring instruments which reported better-than-expected quarterly results. A consumer electronics manufacturer (Digital Life) benefitted from the tailwind in the Chinese market after the government announced further stimulus programmes as of the end of September.

A solar panels manufacturer (Next Generation Energy) has been among the detractors as rising interest rates are generally lowering the speed of the energy transition. A specialty chemicals producer (Clean Water and Land) suffered from muted quarterly results. The biggest detractor was the underweight to technology company that designs graphics processing units, while being underweight a technology conglomerate has been a positive contributor.

In our view, a diversified multi-thematic portfolio continues to offer many opportunities for investors to benefit from structural megatrends in the current year. At the same time, both earnings growth as well as sales growth are expected to come in well above global equity markets average.

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