

Allianz

US Equity Fund

Monthly commentary

Investment Objective

The Fund aims at long-term capital growth by investing in companies of the United States of America equity markets with a minimum market capitalisation of USD 500 million.

What Happened in September

US stocks advanced in September following the US Federal Reserve (Fed) implementing a larger-than-expected 50-basis point (50-bps) interest rate cut. The S&P 500 Index rose by 2.14% and the Nasdaq Composite increased by 2.68% during the month. The Consumer Discretionary and Utilities sectors led, while Energy and Health Care lagged. Large cap stocks outperformed small caps and growth beat value.

US bonds advanced modestly during the month. The Bloomberg US Aggregate Bond Index rose by 1.34% for the month. The 10-year US Treasury yield was essentially flat during the month, ending at 3.81%.

Performance Review

An overweight in the Health Care sector was the main detractor from performance. Furthermore, individual stock selection within the Information Technology, Consumer Discretionary and Health Care sectors detracted the most. Stock selection within the Consumer Staples, Industrials and Real Estate sectors contributed the most to performance.

Contributors

Not owning a financial services company contributed positively to performance this month. Shares fell after management lowered guidance for 2025 net interest income (NII) and higher expenses versus expectations.

Not owning shares in a diversified holding company that focuses on insurance and reinsurance, freight rail transportation and utility, and energy generation and distribution businesses through its subsidiaries, benefitted performance this month. While the company posted a strong Q2 earnings report, driven by insurance earnings and investment income, non-insurance results were soft which weighed on the stock's performance.

An overweight position in Ingersoll Rand Inc. (IR) contributed to performance in September. Positive stock performance was driven by rising demand for IR's industrial products and an increase in orders. Strategic acquisitions since June have further strengthened its position, enhancing productivity and product revenue.

Detractors

Holding an underweight position in an electric vehicle (EV) maker negatively impacted performance this month. The upcoming robotaxi event in early October is expected to drive up the value of the company. Deliveries are anticipated to increase in Q3, further fuelling optimism around the stock.

An overweight position in a producer of crude oil and natural gas negatively impacted performance this month. The company faced headwinds from the third consecutive monthly decline in oil prices and growing concerns in September about the costly merger with a peer.

Owning a non-benchmark position in a supplier of semiconductor manufacturing equipment, specifically machines for the production of chips through lithography, negatively affected performance this month. The stock declined following a large customer announcing lower capital spending plans along with potential restrictions on services and support for semiconductor factories in China.

Purchases and Sales

This month, we initiated a position in a data analytics and risk assessment company. We added to one fund that has environmental, social and governance (ESG) restrictions and cannot own a management and technology consulting and engineering services firm due to ESG constraints, and therefore we have added it as a substitute.

We initiated a position in a building materials manufacturer. This was done to increase exposure to housing, as we view the company as a long-term beneficiary of the increase in multi-family construction. We also expect margin benefits from increased sales of specialised products.

This month, we sold our position in an online vehicle auction company. We sold the company to zero, as we see limited upside from here due to declines in used car pricing, which will pressure margins.

Market Outlook

The stickiness of the "last mile" of inflation suggests that the US may be facing structural inflation pressures, driven by supply chain constraints and a tight labour market (despite disappointing job growth numbers, layoffs have not increased and unemployment remains at only 4.2%). Inflation that persists above 2% may prevent the Fed from cutting rates as aggressively as the market hopes. The anticipated rate cuts resemble past recession scenarios, but today's economic landscape differs significantly – the current economy does not seem to be on the brink of collapse. In fact, in Fed Chair Jerome Powell's words, "the US economy is basically fine". The temporary boost to the workforce from immigration and shift in consumer spending back to services have also helped dampen inflation, but these trends may not be sustainable.

This disconnect could lead to increased volatility, especially in the bond market, if the Fed's actual moves fall short of expectations. Investors should be prepared for potential sharp adjustments in pricing as the market navigates its perceptions in this rate-cutting cycle.

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All data are sourced from Bloomberg and Allianz Global Investors dated as of 30 September 2024 unless otherwise stated.

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