Allianz

Market Review and Outlook

June 2022

The content of this document is supplementary to the Monthly Fund Factsheets.

For the following funds:

Allianz Life Master Bond Fund ("MBF")
Allianz Life Master Equity Fund ("MEF")
Allianz Life Master Dividend Fund ("MDF")
Allianz Life Master Dana Ekuiti ("MDE")
Allianz Life Master ASEAN Plus Fund ("AMAF")
Allianz Life Managed Fund ("MF")
Allianz Life Equity Fund ("EF")
Allianz Life Dynamic Growth Fund ("DGF")
Allianz Life Equity Income Fund ("EIF")
Allianz Life Bond Fund ("BF")
Allianz Life Dana Padu ("DP")
Allianz Life ASEAN Plus Fund ("AAF")

Market Review

For equities, the MSCI World Index slumped by 8.8% mom to close at 2,546 points for the month of June. Similarly, the Dow Jones Index declined by 6.7% mom amidst global recession fears, rising rates environment, and geopolitical tensions in Europe. On the US' economic front, retail sales in May decreased by 0.3% mom as compared to +0.9% mom in April. Its May industrial production increased at a slower pace of +0.2% mom as compared to +1.1% mom in the previous month. US S&P Composite Purchasing Managers' Index (PMI) growth weakened to 53.6 in May as compared to 56.0 in April. Over in Europe, the Stoxx 50 Index dipped by 8.8% mom during the same period following a lower Eurozone S&P Composite PMI reading of 54.8 in May as compared to 55.8 in April. Its April retail sales contracted further by 1.3% mom after a lesser contraction of 0.4% mom in the previous month. Nonetheless, its industrial production growth rebounded by +0.4% mom in April as compared to a dip of 1.8% mom in the previous month. Conversely, China's Shanghai Composite Index surged by +6.7% mom in June following an improvement in Caixin China Composite PMI reading of 42.2 in May as compared to 37.2 in April. Market sentiment was buoyed by gradual relaxation of Covid-19 restrictions in key cities. After cutting its 1-year Loan Prime Rates twice in December 2021 and January 2022 to bolster its economic growth, the People's Bank of China kept it stable at 3.7% in its June 2022 meeting. After a reduction of the 5-year Loan Prime Rate in May 2022, it was also kept stable in its June 2022 meeting.

In June, Brent oil reversed its 6-months uptrend by dropping 6.5% mom to USD114.81/bbl amid concerns on lower demand for gasoline amidst rising rates environment to combat inflation as well as global recession fears. Crude palm oil (CPO) price dipped by 23.0% mom to RM5,088/MT after Indonesia lifted its export ban on 23 May with the introduction of Domestic Market Obligation (DMO). It had recently changed the DMO ratio to 7x of domestic sales as compared to 5x previously, to accelerate exports.

On the ASEAN front, equity markets closed the month under review with negative performances. Malaysia's FBMKLCI retraced by 8.0% mom due to recession fears and concerns over global tightening to combat inflation, leading to slowing demand. June saw the first monthly net foreign equity withdrawal for 2022, amounting to RM1,282m, bringing year-to-date (YTD) inflows to approximately RM6.1b. From an economic standpoint, Malaysia's April industrial production growth weakened to +4.6% yoy from a growth of +5.1% yoy in the previous month. May manufacturing PMI also weakened to 50.1 as compared to 51.6 a month ago. Indonesia's Jakarta Composite Index fell by 3.3% mom following a lower S&P Global manufacturing PMI reading of 50.8 in May as compared to 51.9 in the previous month. The Indonesian central bank held its 7 - day repo rate stable at 3.5% in its June meeting, unchanged since February 2021. Similarly, the Stock Exchange of Thailand tapered by 5.7% mom following regional peers and a flattish S&P Global manufacturing PMI reading of 51.9 in May, similar to the previous month. The Bank of Thailand kept its Benchmark Interest Rate at 0.5%, unchanged since May 2020. Singapore's Straits Times Index eased by 4.0% mom despite a higher industrial production growth of +10.9% mom in May, as compared to +2.2% mom in April. Its May PMI reading was also slightly stronger at 50.4 as compared to 50.3 in April and its Non-oil Domestic Exports rebounded to a growth of +3.2% mom in May as compared to a contraction of 3.3% mom in April.

US Treasury (UST) yields reached a YTD high in June, rising by +13-28bps mom, due to the higher-than-expected May inflation data and the Fed's first +75bps rate hike since 1994. May 2022 inflation was up +8.6% yoy (April 2022 inflation: +8.3% yoy) which was the highest increase since December 1981. It was largely due to the rising food, gas and energy prices over the past year. Excluding the volatile food and energy prices, May 2022 core CPI still grew at +6.0% yoy as compared to +6.2% yoy in April 2022. The Fed then raised interest rates by +75bps on 15 June in an aggressive bid to rein in inflation. Market participants had initially anticipated a +50bps hike but began to price in a +75bps hike after the higher-than-expected inflation reading. Meanwhile, the Fed slashed its GDP growth projection for 2022 from +2.8% to +1.7% and had also revised its growth projections for 2023 and 2024 to be less than +2.0%.

Malaysian Government Securities (MGS) yields were up +10-22bps mom which were largely in line with UST movements. On 26 May, S&P revised Malaysia's sovereign credit ratings' outlook to stable from negative which reflected their expectations that Malaysia's steady growth momentum and strong external position would remain intact for the next two years. S&P also expects Malaysia's GDP to grow +6.1% this year and +5.0% in 2023, driven by the strong exports, high commodity prices and full reopening of the economy. On 6 July, the Monetary Policy Committee (MPC) proceeded to raise the Overnight Policy Rate (OPR) by 25bps to 2.25% as widely expected. The decision was made based on the strong growth prospects for the Malaysian economy and in line with Bank Negara Malaysia's (BNM) earlier guidance for a measured and gradual monetary policy adjustment.

Foreign funds net sold Ringgit bond holdings with net outflows of RM4.1b (May: +RM0.5b), bringing YTD outflows to -RM3.2b. Foreign share of both MGS and MGS+MGII reduced to 36.5% (May: 37.4%) and 23.9% (May: 24.7%) respectively. Malaysia's foreign reserves shrunk by USD3.8b mom to USD109.0b as of end-June 2022.

Market Outlook

Globally, key events continue to be centered around how higher interest rates and quantitative tapering will affect end demand, leading to concerns of economic recession. Nonetheless, China had reduced the quarantine period for international travelers to around 10 days as opposed to 14-21 days previously, in a bid to loosening Covid-19 restrictions. Locally, the government had decided to maintain electricity and water tariffs in Peninsular Malaysia to stem inflation but raised the ceiling price of standard chicken from RM8.90/kg to RM9.40/kg, in line with rising feedstock cost.

For equities, we would continue to adopt a prudent yet sensible posture towards our equity market's longer term growth trajectory and, where opportunities arise, would direct monies into fundamentally good investments. That said, during this period of nascent economic recovery, we would be partial towards robust growth sectors but should remain watchful for any changes in market environment which might necessitate a realignment of investment direction. We might also at times assume a degree of trading bias to take advantage of any market volatility.

Locally, bond yields are expected to remain volatile in tandem with the UST yield movements. The markets have been jittery over the aggressive Fed rate hike path as upside risks to inflation persist, while there are simultaneous downside risks to growth as the ongoing Ukraine conflict is set to further worsen the global supply chain constraints. In its latest statement, BNM reassured that economic developments and inflationary conditions will be monitored continuously and any rate hike would be done in a measured and gradual manner, ensuring that monetary policy remains accommodative to support sustainable economic growth in an environment of price stability. Further OPR hike(s) could happen in 2H22, after BNM kickstarted its policy normalization cycle in May 2022.

We think the risk-reward of MGS has improved with the Ringgit rates market well priced for BNM normalisation. We would remain cautious of the bond market volatility arising from both external and internal fronts, which would impact local yields. Moreover, we would maintain our strategy to accumulate bonds at favourable valuations skewing towards good quality names.

For Allianz Life Global High Payout Fund:

Target Fund Manager's Comment (For Allianz Global High Payout Fund)

What helped?

- The Fund performed in line with global equity markets.
- Defensive stocks did well during the downturn in global stocks in the past month. The strategy could profit from its exposure to sustainable and defensive dividend stocks.

What hurt?

- The Fund posted a negative return and lagged the defensive customised benchmark. Dividend stocks with an attractive valuation suffered from a setback of Value stocks in a volatile month with surging recession fears.

Market Review and Outlook

Global equities slumped over June on concerns that a period of negative growth may be needed to bring persistent inflation under control. US stocks were particularly weak as the US Federal Reserve (Fed) adopted a more aggressive policy stance. In contrast, Chinese shares defied the downturn, rallying strongly as they were boosted by signs that the crackdown on China's internet companies may be easing and by the partial lifting of lockdowns in key cities. All sectors in the MSCI ACWI Index delivered negative returns over the month.

US equities tumbled over June on fears that a recession would be needed to tame rampant inflation. The S&P 500 Index moved decisively into a bear market with all sectors suffering sizeable losses. The Energy sector, a rare bright spot so far in 2022, led the market lower, suffering double-digit losses. While the stock market decline means valuations have become more attractive, attention is now turning to earnings with fears that rampant inflation and the prospect of a recession could lower margins.

European equities fell sharply over June (in EUR terms) amid fears of a European recession. Worries over the supply of gas also increased, with the International Energy Agency warning that Europe must prepare for the complete severance of Russian gas exports this winter. Russia cut the flow of gas through the Nord Stream 1 pipeline by 60% during June: it has already suspended gas deliveries to the Netherlands, Denmark, Poland, Bulgaria and Finland after they refused to pay in rubles. The reduction in supply comes as European countries are trying to build up their gas reserves ahead of winter.

For Allianz Life Asia Multi-IncomePLUS Fund:

Target Fund Manager's Comment (For Allianz Asian Multi Income Plus)

Market Review

Equity markets in Asia ex Japan were broadly down in June. Despite the strong rally seen in the Chinese equities, the rest of the region suffered on the back of a deteriorating economic outlook. Taiwan and Korea were among the worst hit markets as investor sentiment soured on tech stocks globally due to fears of a global recession and a cautious outlook for the semiconductor sector. Australia was down as the Reserve Bank of Australia raised rates by a greater-than-expected 50 basis points (bps). ASEAN markets also retreated over the month given the selling pressure from global investors.

The Asian USD high yield credit market was weak in June, with the JP Morgan JACI Non-Investment Grade Index correcting by -6.09%. The correction in June was less idiosyncratic in nature but more evenly spread and driven by general global risk aversion on recession concerns. Credit spreads widened from 839 bps to 965 bps, while 5-year US Treasury yields rose from 2.82% to 3.04%. Market turnover remains low while the new issue market is still inactive.

In this environment, the Fund return was negative in USD terms in June.

A key detractor over the month came from a major producer of DRAM chips (Dynamic Random Access Memory) used in personal computers, smartphones and other industrial applications. With the uncertain macro environment and weak global demand, we may expect a delayed recovery of the company. While we hold onto the position for now, we will monitor the recovery progress of the stock.

On the other hand, the top contributor was Trip.com, the largest online travel booking platform in China. Sentiment for travel companies in China improved over the month given the easing of COVID lockdowns and reduction of inbound quarantine requirements. The continued resumption of travel in Europe and the rest of Asia also boosted growth of Trip.com's international business platform.

The asset allocation at the end of the month was 69.6% invested in Asian equities and 30.4% in Asian fixed income, with the remainder in cash.

In terms of equity portfolio activity, in June we exited some positions in the Energy and Shipping space and we added to companies in China with stronger earnings outlook for H2 2022. For example, we initiated positions in internet platform companies where we expect to see renewed earnings after encouraging signs that the peak of regulatory pressure has passed.

For the fixed income sleeve, we invest in bonds with the aim of long-term interest accrual. In June, we sold our exposure to an issuer with idiosyncratic credit concerns and will look to reinvest to diversify the portfolio.

At the end of the month, we held 63 equities and 88 fixed income securities. The equity portfolio yield was 2.8%, and the average fixed income coupon was 5.5% with an average credit rating of BB and duration of 2.6 years.

Market Outlook

We remain in extremely uncertain times with low visibility around future economic developments globally. However, notwithstanding the challenging macro environment, our base case scenario is to be cautiously optimistic on the market outlook.

In particular, although it seems unlikely that China will reach its official target of "around 5.5%" gross domestic product (GDP) growth for the full year, nonetheless, there is growing confidence of an economic rebound in H2. While the US Federal Reserve and most other central banks are now focused on combatting inflationary pressures – and, in doing so, taking action which will dampen economic activity – China's goal is to generate renewed economic momentum, especially ahead of the National Party Congress in Q4.

Elsewhere, we believe that the sharp pullback in regional Asian markets has resulted in a number of stocks coming back to attractive valuation levels.

Asian high yield credit markets should consolidate in the short term. We expect the market to be bifurcated with most of the volatility driven by distressed Chinese property developers while other issuers remain more stable. We are focused on higher quality issuers and aim for diversification within the portfolio.

For Allianz Life Amanah Dana Ikhlas:

Collective Investment Schemes Fund Manager's Comment (For Maybank Malaysia Balanced-I Fund)

Market Review

The Malaysian bond weakened over the month of June, after a recovery in the previous month, with govvies yield up by 3-23 bps month-on-month. Sentiment turned cautious on inflation fears as the US' persistently high inflation numbers prompted a more aggressive tightening by the FOMC, which hiked the Fed Fund rate by 75 bps, the largest hike in 28 years. Towards month-end however, sentiment changed as recessionary fears due to aggressive monetary tightening worldwide took over inflationary concerns. Global bond market rallied on risk-off sentiment, moderating the drop in bond yields over the month. Meanwhile, corporate bonds also weakened over the month, but at a smaller rate.

While global markets ended the month broadly flat to slight negative, this masked the downbeat performance during the period. Expectations of policy tightening and concerns of a slowdown in China's growth pushed investor sentiment lower. Equity markets did, however, see a reprieve following Fed's pushed back against the speculation of more aggressive hikes during the latter part of the month as well as China's effort to cushion the slowdown. Struggling with the strict Zero-Covid policy, the State Council announced policies including fiscal, credit to support corporate and household sectors with the emphasis on stabilizing labor market. Shanghai re-opened and reduced mobility restrictions following the easing Covid-19 cases. At the same time, the US indicated that that it may consider removing some tariffs on Chinese imports to easy inflation pressure.

Global markets plunged in June amid rising fears of recession, inflationary pressures, and a hawkish Fed. During the month, the Fed hiked its benchmark interest rate by 0.75%, the most increase since 1994 causing fears that the aggressive rate hikes would lead to a US recession. This sparked investors to turn risk-off causing substantial sell-off in equity markets. However, China bucked the trend, outperformed the market on the back of easing, economic re-opening, and expectations of growth acceleration in 2H and suggestions of US tariffs reduction.

For the month, the KLCI fell 8.0% mom to 1,444pts on concerns of rising costs, the sharp drop in commodity prices (especially) CPO prices (largely due to removal of palm oil exports by Indonesia) and net selling by foreigners. Energy, plantation, and healthcare (gloves) led the index lower. PMI fell to 50.1 in May (Apr: 51.6) which generally suggests a stagnation in the manufacturing conditions and a slowdown in the coming quarters. BNM's international reserve was US$112.8bn as of 31 May. Malaysia's unemployment rate fell to 3.9% in Apr (Mar: 4.1%) in line with the economic reopening. Exports grew 30.6% yoy while imports rose 37.3% resulting in a trade deficit of 8.3%. Lastly, CPI was up 2.8% yoy in May (April: +2.3% yoy) driven by food prices. Food inflation rose by 5.2%, the highest since Nov 2011.

In regional markets, in local currency terms, Philippines was the worst performer, falling 9.1% mom on global macro concerns as well as perceived dovish stance by the central bank relative to the Fed. This was followed by Thailand, falling 5.7% dragged by energy, consumer discretionary and financials. Singapore dropped 4.0% led by telecommunications, consumer discretionary and IT. Indonesia fell the least, by 3.3% led by declines in materials and energy. Currencies were also weaker, against the greenback, the Peso declined the worst by 4.6%, followed by Baht (-2.8%), Rupiah (-2.1%), Sing Dollar (-1.4%) and the Ringgit (-0.7%).

Market Outlook

After the further rebound in 1Q2022 GDP growth of 5% YoY (4Q2021: +3.6% YoY, full year 2021: +3.1% YoY), Malaysia GDP growth is expected to continue its rebound, with projected annual GDP growth for 2022 at 5.3% to 6.3%. The rebound is driven by improving domestic demand and labour markets, as lockdown measures are relaxed, and economy sectors as well as international borders reopen. Bond yields have moved higher on continued recovery, as well as the hawkish tilt by central banks globally to contain high inflation rates. US Federal Reserve has hiked twice in 2022 with a cumulative 125bps increase. BNM also delivered a surprise 25bps OPR hike in its May meeting, and another 25bps hike in July to bring OPR to 2.25%, as BNM commences its policy normalization in a "measured and gradual manner". Recession risks, however, has increased due to aggressive DM monetary tightening and has taken over inflationary concerns. Additionally, given the flush liquidity in the banking system, this will continue to lend support to the local bond market as yield pickup remains decent as compared to the low yielding fixed deposits and money market funds.

The equity outlook for Asia, as for other parts of the world, hinges on the Fed's response to the challenges of inflation and how the Russia-Ukraine conflict resolves. For Asia in particular, the outcome of China's Zero Covid-19 policy and whether it can emerge from what is hopefully a bottom of the country's economic cycle will determine if Asia can continue to outperform the world in the 2H2022. With such backdrop of persisting volatility, we are neutral on Asian equities. Given the hawkish tone set by the Fed, the rest of Asia ex-Japan except for China, will likely press on the path of policy tightening. The impact of this path will be closely watched over the next 12 months as the risk of recession and corporate failures rise with rising borrowing costs and inflation. Another source of drag for economies is the diminished purchasing power of consumers due to persistent inflation that will likely lead to lower-than-expected growth from private consumption. Until global equity markets have repriced adequately to reflect the extent of economic slowdown that lies ahead, market volatility will persist. Locally, we are cautiously optimistic on the local equity market. We are on the view that Malaysia economic recovery theme will continue despite rising threat of inflation and interest rate. However, rising cost and margin pressure are risks to earnings in 2H2022, but corporates should likely be able to absorb these shocks to some extent.

For Malaysian sukuk, we believe our preference for corporate bonds (which are less volatile and provide higher yields compared to govvies) and strong credit selection will continue to protect our portfolio. We prefer strong AA-rated and A-rated papers for yield pickup and potential long-term upgrade. We will look to gradually increase duration by increasing sukuk exposure but still maintain our underweight duration bias on the back of increasing DM recessionary fears amidst a hawkish global central banks' monetary policy outlook. We will continue to trade opportunistically and will also look into new primary issuances that offer higher yields, as well as bonds in the secondary market that has oversold.

For Malaysian equities, we are in a capital preservation mode with higher cash levels. We have trimmed our holdings in commodity related i.e., plantation stocks and materials. In the near-term, we are inclined to hold stocks that are more defensive to weather the volatility. These include sectors such as communication services (mostly fiber related stocks) as demand remains resilient amidst a slowdown. We also maintain our positive view on financials as they benefit from interest rate hikes although we note there are rising risks of falling asset quality. Besides this, we look for recovery plays such as some of the construction names that have been positive in the news flow front, notwithstanding the restructuring of the toll highway concessions.

For Allianz Life All China Equity Fund:

Target Fund Manager's Comment (For Allianz All China Equity)

Market Review

The Fund lagged the benchmark in June. The main detractor was stock selection in the Information Technology sector where selective holdings were weak due to a slowdown in the global smartphone and consumer electronics industries. The overall allocation effect was limited as a result of the close-to-benchmark sector and geographic allocations.

At a single stock level, a key detractor was a manufacturer of high precision components such as wireless earbuds, as well as a smart hardware producer for virtual/augmented reality (AR/VR) products. The share price was weak after news that a social media giant downgraded forecasts for its virtual reality headset shipments. The earnings impact is relatively small, and we believe the company remains well positioned to benefit over the longer term from growth in the metaverse and related AR/VR space.

On the other hand, a key contributor was a manufacturer of lithium-ion battery core material, which is in the electric vehicle (EV) supply chain. The company makes lithium iron phosphate cathodes and is a key supplier to dominant EV battery producers. We expect the company to expand further into new business areas such as e-bikes and e-scooters which should support future growth potential.

Market Outlook

June saw an ongoing recovery for China equities. The MSCI China All Shares Index rallied by close to 8% in the month. Within this, China A-shares were up by around 10% and are now around 20% higher compared to the low point towards the end of April (USD terms). Offshore equities have also seen positive returns.

The rally is particularly notable as it has coincided with a period of broader global equity market weakness. Indeed, China A-shares have now outperformed the S&P 500 Index year-to-date, a marked turnaround from the early months of the year.

While the US Federal Reserve (Fed), and most other central banks, are now focused on combating inflationary pressures – and, in doing so, taking action which will dampen economic activity – China's goal is to generate renewed economic momentum, especially ahead of the National Party Congress in Q4.

To that end, there have been recent announcements across a range of areas, including new infrastructure spending, tax breaks for businesses, incentives for car sales, an easing of loan terms, cuts in mortgage interest rates and instructions for banks to increase lending.

Although the zero-COVID policy continues to weigh on consumer sentiment in particular, the number of new COVID cases has remained quite stable at low levels in recent weeks. And macro data has also recently been somewhat stronger than expected. The manufacturing purchasing managers' index (PMI) in June recovered to above the 50 level, for example.

Therefore, although it seems unlikely that China will reach its official target of "around 5.5%" gross domestic product (GDP) growth for the full year, nonetheless, there is growing confidence of an economic rebound in H2.

The main change in portfolio positioning in June was to initiate a position in Kweichow Moutai, the white liquor company, and the largest constituent of most China-A shares indexes. We see the recent launch of the company's new e-commerce platform (iMoutai) as a potential new future growth driver. And we have also observed improving corporate governance and quality of investor communication. Conversely, we exited another alcoholic beverage company, where we see limited scope for positive earnings surprises.

As at the end of the month, the onshore/offshore allocation is close to benchmark with around 51% in China A-shares. The largest overweight sector position is Information Technology and the largest underweight is Utilities.

For Allianz Life Global Artificial Intelligence Fund:

Target Fund Manager's Comment (For Allianz Global Artificial Intelligence)

Market Review

Global equities slumped over June on concerns that a period of negative growth may be needed to bring persistent inflation under control. US stocks were particularly weak as the US Federal Reserve (Fed) adopted a more aggressive policy stance. The Fed raised rates by 75 basis points (bps) – its first move of that magnitude since 1994 – and warned that some economic pain may be needed to bring inflation under control. In contrast, Chinese shares defied the downturn, rallying strongly as they were boosted by signs that the crackdown on China's internet companies may be easing and by the partial lifting of lockdowns in key cities. All sectors in the MSCI ACWI Index delivered negative returns over the month. The Energy sector, a rare bright spot so far in 2022, led the market lower, suffering double-digit losses. While the stock market decline means valuations have become more attractive, attention is now turning to earnings with fears that rampant inflation and the prospect of a recession could lower margins.

Information Technology and related stocks underperformed the broader market during the period. At the industry level, semiconductors were among the worst performers as commentary across auto and other end markets suggested that supply shortages may be easing. Software outperformed the sector and market despite mixed earnings results as investors sought safety in the relatively sturdy revenue growth and high margin characteristics of the group. Internet and ecommerce stocks continued to struggle as consumer confidence continued to deteriorate. Meanwhile, China-based internet stocks performed strongly as the government eased COVID restrictions and reports suggested a more favourable regulatory environment was emerging.

During the period, the Fund in USD underperformed on a gross of fees basis versus the custom benchmark (50% MSCI All Country World Index/50% MSCI World Information Technology Index).

Contributors

Our position in a biotechnology company, which has an antibody discovery platform, was among the top contributors over the period. Its full-stack, artificial intelligence-powered (AI-powered) drug discovery platform searches and analyses the database of natural immune systems to find antibodies that can be developed as drugs. Shares gained along with other pharma/biotech stocks as longer duration growth areas benefitted from moderating interest rate hike expectations. In the prior period, the company reported strong revenue and earnings results and a strong cash position to help fund platform scaling capabilities. We remain constructive on the shares as the company has dozens of programmes in varying stages of development, some of which could be significant drivers in the future.

Our position in China-based internet commerce and infrastructure company, Alibaba, was also among the top contributors. Shares gained amid reassuring messages from the Chinese government concerning alleviation of recently enhanced regulatory actions and broader support for the economy. We continue to see a favourable risk/reward for Alibaba shares given our expectation for steady growth and profitability together with attractive valuation. We believe that Alibaba, despite the regulatory changes, still has very compelling long-term opportunities to solve customer problems and deliver unique experiences leveraging AI.

Detractors

Our position in ON Semiconductor was one of the top detractors. The company's chip solutions are used in power and data management applications with key end markets being the Automotive, Industrial, and Communications segments. Shares fell along with other semiconductor companies following negative industry commentary concerning deteriorating supply/demand conditions. We believe ON is favourably positioned through the cycle with a focus on secular growth end markets coupled with various efficiency efforts that should help the company realise a higher earnings power and valuation over time.

Our position in storage and communications chip maker, Marvell Technology, was also among the top detractors. Like ON, Marvell shares fell in sympathy with the overall semiconductor space. Recent management commentary suggests that demand across key segments, such as cloud, enterprise, and communications infrastructure, continues to outpace supply. While the currently robust demand environment is unlikely to persist indefinitely, we believe Marvell can continue to outgrow peers given its attractive end-market exposures and executional rigour. We maintain our positive view on the stock given attractive growth supported by multi-year design wins and a disciplined capital allocation profile.

Purchases and Sales

During the period, we exited our position in a mobility-as-a-service provider as we are concerned about the competitive dynamics around rideshare and food delivery. In the rideshare market, there are increasing indications that new entrants are considering getting into the market leveraging autonomous technologies. In food delivery, an online food ordering and food delivery platform has emerged as the market share leader, which presents a challenge for the company to maintain brand recognition for its food delivery category. Given these concerns, we chose to exit the company at this time. We also exited a procurement and expense management software provider. While the company has unique offerings regarding spend optimisation and sourcing, we are concerned that this may not be a priority for new customers given the macroeconomic uncertainty. Given these considerations, we chose to exit at this time.

We redeployed the proceeds to a new position in a human capital management (HCM) and payroll solutions provider. The company's software suite helps businesses streamline and automate payroll processes, with additional modules for employee engagement including benefits and training. The company has consistently grown revenues faster than its peers in the HCM/payroll space but remains less than 5% penetrated in its target market. We believe the company's relatively new module marks a paradigm shift in the payroll space by empowering employees to review and approve their paychecks through extensive intelligent workflows powered by data insights. We decided to initiate on the name at this time as we believe the revenue growth and profit margin profile are more resilient than appreciated. In addition, while the company has seen early success in the rollout of the new module, we believe it is a key differentiator in a competitive market and has the potential to accelerate the company's share gains.

Market Outlook

We believe a significant portion of the market's ongoing volatility has been driven by uncertainties regarding the stickiness of inflation and the course of actions necessary to bring it back to the Fed's targeted level. We see the Fed members aligning behind the goal of ensuring inflation does not become entrenched over the longer term. The inflation battle is complicated by a host of external factors outside the control of monetary policy, such as Russia's invasion of Ukraine and the ongoing supply chain disruptions. While there is more clarity around the Fed's response to inflation, the market is in the process of discounting the economic and earnings impact caused by the more restrictive monetary policy. The tightening of financial conditions is starting to have some visible impacts on business and consumer confidence as well as economic activity.

While we believe the growth outlook will most likely moderate, we see companies taking prudent actions and proactively shoring up their operations in anticipation of a potential slowing of economic activity. In the consumer space, several bellwethers have reported steady top-line trends, but bloated inventories and overstaffed conditions are leading to weakening margins and earnings. In the Technology and Media segments, several companies have announced hiring freezes or even small-scale layoffs. That said, we believe corporate profitability will enter a period of negative revisions over the next few quarters, which will likely drive an increase in market volatility. The upcoming downward earnings revision cycle has been well anticipated by the market and is a necessary step to improving investor sentiment.

With this complicated backdrop, investors have shown a preference for defensive sectors that have higher visibility of earnings. Looking ahead, we expect cyclical and other high-beta areas will face pressures amid slowing economic growth. We have moderated some of our cyclical exposure along with upgrading the portfolio in names that we believe can continue to grow profitably in the face of ongoing inflationary pressures and tighter financial conditions. While the financial markets are likely to remain choppy in the near term, we believe certain oversold areas could be in the bottoming process over the next quarter as their valuations are nearing historical ranges. The longer-term business fundamentals remain healthy as enterprises are committing to multi-year digital transformation projects to enhance their competitiveness and drive sustained growth.

While we navigate through this volatility, we remain focused on investing in companies driving innovation and change. Concerns regarding interest rate policy, inflationary pressures, and a host of other macro uncertainties have contributed to the market's year-to-date swoon. The market reaction to these concerns is understandable. However, as we look at the ascendency of some of the largest companies in the world over the past 25+ years, we believe the single largest driver of their success has been their ability to innovate. We remain encouraged that the pace of technological innovation continues to advance at an accelerating pace driven by the adoption of AI. As such, our focus remains on identifying the companies we believe can leverage the ongoing innovation cycle to drive long-term shareholder value for our investors.

AI infrastructure outlook

We expect healthy demand for the ongoing build-out of AI infrastructure in the coming years. As AI training progresses past the pilot stage, the next phase will be about the new types of processing and storage needed to deploy AI from the cloud to billions of edge devices. We continue to believe the global rollout of 5G will accelerate going forward, and the resulting higher bandwidth will enable the collection of more data from billions of mobile and Internet of Things (IoT) devices. Within AI infrastructure, we maintain a constructive view on the semiconductor space over the longer term, despite the near-term down-cycle pressures. Looking forward over the next few years, we believe demand in many end markets will remain attractive and drive broad growth across the semiconductor industry.

AI applications outlook

We are seeing AI get embedded into an increasing number of software applications and systems to help make more intelligent decisions. AI is helping to drive higher levels of automation, better recommendations, faster decision-making, and significant cost savings. As AI continues to advance, we expect software and apps to offer even more personalised services, made possible through an increased understanding of user behaviour and search patterns, allowing companies to deliver more human-centric experiences in real-time. Smart assistants will begin to move from passive to proactive interactions by anticipating the user’s needs rather than simply waiting for instructions. AI and machine learning will continue to automate mundane tasks and complicated analyses to free up employees to focus more time and attention on creative and strategic tasks. The recent introduction of quantum cloud computing could lead to significant breakthroughs in AI and machine learning in the coming years as researchers design new algorithms to exploit the exponentially faster computing power. We are just beginning to see AI become a part of more applications, which could potentially create an even bigger market opportunity than past IT transformation eras.

AI-enabled industries outlook

We are seeing more companies begin to leverage AI to drive innovation. Many of our portfolio holdings in the Automotive, Consumer, Health Care, and Finance sectors are already seeing the early benefits from AI, which is allowing them to introduce unique products and services enabling them to outperform their industry peers. We expect to see more industries rollout AI projects across more of their operations to accelerate their digital transformation. We believe companies will continue to adopt AI technologies such as facial recognition for identification and fraud detection, autonomous vehicles and robots for transportation and logistics, robotic process automation (RPA) and virtual digital workers to automate repetitive office tasks, predictive maintenance powered by IoT to minimise maintenance costs and equipment down time, and augmented and virtual reality (AR/VR) to create engaging experiences and entertainment.

Overall, we continue to believe we are at the very early stages of massive disruptive change brought about by advancement in AI and its deployment. We believe that these changes will drive meaningful growth for companies that are able to take advantage and drive disruption within their respective industries. While it is expected at times that markets may question the underpinnings of this growth, we believe the compounding effect from AI disruption will create long-term shareholder value. We believe that stock picking will be imperative to capturing the benefits of this opportunity, especially in an environment characterised by disruption and change.

For Allianz Life Oriental Income Fund:

Target Fund Manager's Comment (For Allianz Oriental Income)

Market Review

Asia Pacific equities retreated in June. In general, sentiment was dampened by concerns over rising inflation, slowing economic growth and the outlook for interest rates, with several of the region's central banks following the US Federal Reserve (Fed) in raising rates. China equities were a bright spot. Sentiment was lifted by signs that the authorities were starting to ease the regulatory crackdown on internet companies. In addition, economic data improved significantly while inflation held steady, boosting hopes that the People's Bank of China (PBoC) may take further steps to stimulate economic growth.

Japan equities were modestly weaker in local terms, although returns for foreign investors were depressed by weakness in yen. In contrast to most other central banks, the Bank of Japan (BoJ) maintained its supportive stance, maintaining interest rates at -0.1% and keeping the 10-year Japanese government bond yield within a range of +/-25 basis points (bps) around zero. Elsewhere, technology-heavy markets such as Taiwan and Korea were weak amid evidence of a slowdown in the semiconductor supply chain. The stronger dollar and rising rates also weighed on ASEAN markets.

Market Outlook

The Fund lagged the benchmark during the month. The main detractors were an underweight position in China and stock selection in Taiwan where a number of Technology names saw significant profit taking.

At a single stock level, a top detractor was Alchip Technologies in Taiwan. The company is a semiconductor design house which makes application-specific chips used mainly in high performance computing and data centres. Having been a top contributor in Q1, the stock saw significant profit taking in line with the rest of the Technology sector. We slightly trimmed exposure given the near-term headwinds in the semiconductor space but continue to see the company as well positioned over the long term. In particular, their strong foothold in China should provide structural support from the country's push for greater self-sufficiency in semiconductor production.

Conversely, the top contributor was Akeso, a China biotech company specialising in oncology drug development. The stock had previously been weak, in line with the rest of the sector, on concerns about a slowdown in the global biotech space as well as geopolitical concerns related to the US Food and Drug Administration (FDA) recently refusing to approve several new drugs developed in China. We believe Akeso has strong pipeline potential and have been adding to the position in recent months.

Portfolio activity last month was mainly focused on reducing Information Technology exposure and adding to Energy names. In the Technology space, we reduced exposure to parts of the semiconductor supply chain where we see near-term headwinds. Overall, we maintain a relatively high level of exposure to the Technology sector and have selectively used share price weakness to add to high conviction positions.

The increased exposure to Energy is in line with the portfolio's overall repositioning in recent months for the changed operating environment, especially rising inflationary pressures and higher input costs. We have added to stocks where we see strong and/or potential for improving cash flows.

From a country perspective, the portfolio is overweight in Taiwan – albeit at a lower level compared to last month – with underweight exposures in Japan and India. From a sector perspective, other than Technology and Energy, the portfolio is also overweight in Health Care, balanced by limited holdings in Financials and Communication Services.

Notwithstanding the challenging macro environment, our base case scenario is to be cautiously optimistic on the market outlook. In particular, although it seems unlikely that China will reach its official target of "around 5.5%" gross domestic product (GDP) growth for the full year, nonetheless, there is growing confidence of an economic rebound in H2. In contrast to the Fed and most other central banks who are focused on combatting inflationary pressures, China's goal is to generate renewed economic momentum, especially ahead of the National Party Congress in Q4.

We remain relatively cautious on the near-term outlook in Japan. The deteriorating outlook for the global economy combined with the higher rate environment remains a headwind. And the higher commodity and energy prices will increase costs and squeeze margins, especially for downstream manufacturers. Having said that, the weaker Japanese yen clearly makes certain companies and sectors more competitive relative to global peers. Elsewhere, we believe that the sharp pullback in regional Asian markets has resulted in a number of stocks coming back to attractive valuation levels.

For Allianz Life Total Return Asian Equity Fund:

Target Fund Manager's Comment (For Allianz Total Return Asian Equity)

Market Review

Asian equities retreated in June. In general, sentiment was dampened by concerns over rising inflation, slowing economic growth and the outlook for interest rates, with several of the region's central banks following the US Federal Reserve (Fed) in raising rates. China equities were a bright spot. Sentiment was lifted by signs that the authorities were starting to ease the regulatory crackdown on internet companies. In addition, economic data improved significantly while inflation held steady, boosting hopes that the People's Bank of China (PBoC) may take further steps to stimulate economic growth. The lockdowns in Shanghai and Beijing were mostly lifted, although certain districts were subject to flash lockdowns while officials conducted mass COVID testing.

Elsewhere, Technology-heavy markets such as Taiwan and Korea were weak amid evidence of a slowdown in the semiconductor supply chain. In Korea, inflation hit a 14-year high of 5.4% in May. The stronger dollar and rising rates also weighed on ASEAN markets. Thailand held up the best, followed by Singapore and Indonesia, while Malaysia and the Philippines weakened the most.

The Fund slightly lagged the benchmark during the month. At a country level, the underweight in China detracted. The impact was partly mitigated by positive stock selection in India and China.

At a single stock level, the top detractor over the month was Samsung Electronics. The company is a major producer of DRAM chips (Dynamic Random Access Memory) used in personal computers, smartphones and other industrial applications. Weakness in end markets and uncertainties in global demand have weighed on DRAM pricing and are likely to push back previous expectations of a recovery. We slightly trimmed exposure given the more subdued near-term outlook, but overall, we believe the share price weakness has factored in much of the bad news.

Conversely, the top contributor was Kweichow Moutai, China's leading producer of white liquor. The stock was strong last month in response to expectations of an economic recovery and pent-up consumer demand following the extreme lockdowns. We see the recent launch of the company's new ecommerce platform (iMoutai) as a potential new future growth driver.

In recent weeks, we have added to China exposure including a leading online travel agency. Although the timing of China's opening up is uncertain, we expect incrementally more positive news flow in the coming months. We also added back to Alibaba, given increasing signs that the peak of regulatory pressure has passed for the internet platform space.

At the end of the month, from a country perspective, the portfolio has an overweight position to Southeast Asia including Singapore and Thailand, and is underweight the North Asia markets of Korea and Taiwan. At a sector level, the Fund is overweight Financials, Consumer Staples and Energy, whilst being underweight Industrials, Utilities and Health Care.

Market Outlook

We remain in extremely uncertain times with low visibility around future economic developments globally. However, notwithstanding the challenging macro environment, our base case scenario is to be cautiously optimistic on the market outlook.

In particular, although it seems unlikely that China will reach its official target of "around 5.5%" gross domestic product (GDP) growth for the full year, nonetheless, there is growing confidence of an economic rebound in H2. While the Fed, and most other central banks, are now focused on combatting inflationary pressures – and, in doing so, taking action which will dampen economic activity – China's goal is to generate renewed economic momentum, especially ahead of the National Party Congress in Q4.

Elsewhere, we believe that the sharp pullback in regional Asian markets has resulted in a number of stocks coming back to attractive valuation levels.

For Allianz Life Global Income Fund:

Target Fund Manager's Comment (For Allianz Global Income)

Market Review

Risk assets and investment grade credit recorded sharp declines in June as central banks throughout much of the world deploy tighter monetary policies to curb inflation. In the US, reports of higher-than-expected consumer and producer prices and historically low consumer sentiment (due to rising inflation expectations) lifted odds the US Federal Reserve (Fed) would opt for more aggressive hikes at the June and July Federal Open Market Committee (FOMC) meetings. By month-end, the Fed had raised rates by 75 basis points (bps) to a target rate of 1.50% to 1.75% and commenced quantitative tightening. The Bank of England (BoE) had hiked 25 bps, and the European Central Bank (ECB) had abandoned its dovish stance. Against this backdrop, US Treasury yields and most commodities were volatile, trading higher initially before retreating into month-end on global slowdown fears. The yield curve (2s10s) flattened in the month, closing with a modestly positive slope.*

Against this macro backdrop, global equity markets, as measured by the MSCI World Index, returned -8.66%^ with non-US developed stocks underperforming their US counterparts. Global convertible securities and high-yield bonds also declined and new issuance remained subdued. Global fixed income, as measured by the Bloomberg Global Aggregate Index, returned -3.21% with US exposure holding up better than non-US.**

The portfolio participated in the selloff across risk assets with nearly all positions finishing lower in June. Interest rate risk also detracted from performance, but investment grade credit exposure was much firmer, helping dampen the portfolio's downside volatility.

After significant year-to-date gains through May, an oilfield services issue (Schlumberger) within the Energy complex underperformed in June. Semiconductor companies finished lower and fears of slowing demand and rising cost partially attributed to weakness in Apple (technology hardware). Despite passing the Fed's annual stress test, Wells Fargo (banking) underperformed. Lastly, macro headwinds pressured a financial services provider and a chemical company, among others.

There were a few positive individual contributors, but their combined impact on performance was not material. Outperformers included China-based holdings with exposure to commercial banking and ecommerce. Defensive companies were also a source of strength within Health Care, including positions in managed care (UnitedHealth) and pharmaceuticals.

Exposure to Technology and Communication Services increased. Some positioning was a function of the Fund taking advantage of dislocations within the convertible and high-yield markets as higher yielding opportunities with compelling risk/reward return profiles emerged. Investments were focused on issuers with stable fundamentals/credit metrics, operating performance visibility and low perceived default risk. Exposure to Financials, Health Care and Consumer Discretionary decreased.

Market Outlook

The market outlook remains highly uncertain amid a long list of concerns: US recession fears, slowing earnings momentum, aggressive monetary policy tightening, a shifting yield curve, elevated inflation, rising interest rates and an ongoing geopolitical crisis, among others. We address each risk below.

Economy: Despite a healthy labour market and steady consumption, the Atlanta Fed's GDPNow gauge is currently showing contracting Q2 growth and implying the US economy entered a recession in H1. As headwinds from inflation, monetary policy, overseas lockdowns, supply chains and the geopolitical crisis ease, US and global economic growth should later resume.

Earnings: Revenues and earnings could be impacted by slower global growth, tighter financial conditions and the Ukraine crisis. Margin pressures, currency headwinds, inventory build-up and changing consumer habits could also weigh on top-line and bottom-line. Corporate pricing power and operating leverage are potential offsetting factors.

Fed: Currently, markets are pricing in a high probability of a 75-bps hike in July, but odds can shift quickly. For example, in just weeks, odds have shifted to a rate cut by mid-2023.

Yield curve: The yield curve (2s10s) is inverted (at time of writing) increasing the odds of recession. Going forward, the shape of the curve should provide improved clarity around the direction of inflation and economic growth.

Inflation: The Fed's preferred measure of inflation – the Core Personal Consumption Expenditures (PCE) Price Index – continued to ease on a year-over-year basis and inflation expectations, such as the 5-year breakeven rate, have fallen.

Declining commodity prices, price discounting, normalising supply chains and rising financing costs should generally lead to lower prices for goods. Prices for services however could be stickier due to changing consumer behaviour. Markets will be focused on the slope of inflation's descent and where the measure ultimately settles.

Interest rates: The 10-year US Treasury yield peaked at 3.48% in mid-June, stalling around the upper bound of its 10-year trading range. By month-end, the yield settled below 3% on signs of cresting inflation and recession fears. A rising interest rate environment accompanied by steady economic growth and moderate inflation would be a welcome development.

Ukraine: The effects of the crisis are numerous and far-reaching, but systemic financial risks to the US appear contained.

While caution may still be warranted, there are several constructive factors worth highlighting. First, examining the past four rate hike cycles, the S&P 500 Index gained +15.3% on average from initial hike to last hike. Second, equity valuations have improved. The S&P 500's forward price-to-earnings multiple fell more than 5 turns to 15.8x in June from 21.4x in December, undercutting its long-term average of 16.4x (since September 1995), and price-to-free cash flow multiple (LTM) fell further below its long-term average. Third, corporate liquidity could lead to shareholder friendly activities such as stock buybacks and increased dividends. Corporations could also use liquidity to spur organic growth or for mergers and acquisitions (M&A) purposes to boost future sales and profits. Any one of these observations including emerging signs of peak Fed hawkishness could help equities find a bottom in the future.

Convertible securities should continue to provide benefits to investors, including an attractive asymmetric return profile and a low correlation to core fixed income. Today, the asset class exhibits more defensive characteristics, given the market's lower delta and closer proximity to the bond floor. This dynamic should allow for greater downside protection if equity volatility persists. If underlying equities strengthen from here, convertible securities are positioned to participate in the upside.

Credit's risk/reward opportunity is compelling after a historic start to the year. In addition to a favourable technical backdrop (due to a less active primary market following record new issuance in 2020 and 2021), high-yield credit statistics and fundamentals are healthy, near-term refinancing obligations remain very low and managements continue to prioritise debt reduction. With respect to high-grade corporates, rising interest rates remain a key risk. That said, the investment opportunity has improved on the back of sharply higher yields coupled with a positive fundamental outlook. Both markets trade at a deep discount to face value, offering attractive total return potential and higher spreads that compensate for noted risks.

All data are sourced from Allianz Global Investors dated 30 June 2022 unless otherwise stated.
* Source: BofA Merrill Lynch, as at 30 June 2022
^ Source: MSCI, as at 30 June 2022
** Source: Bloomberg, as at 30 June 2022

For Allianz Life Thematica Fund:

Target Fund Manager's Comment (For Allianz Thematica)

Market Review

Global equities slumped over June on concerns that a period of negative growth may be needed to bring persistent inflation under control. US stocks were particularly weak as the US Federal Reserve (Fed) adopted a more aggressive policy stance. In contrast, Chinese shares defied the downturn, rallying strongly as they were boosted by signs that the crackdown on China's internet companies may be easing, and by the partial lifting of lockdowns in key cities. All sectors in the MSCI ACWI Index delivered negative returns over the month.

With inflation continuing to accelerate, central banks adopted a more aggressive stance to raising rates. The Fed raised rates by 75 basis points (bps) – its first move of that magnitude since 1994 – and warned that some economic pain may be needed to bring inflation under control. The Bank of England (BoE) also raised rates, although the mere 25-bps hike prompted speculation that it was "going soft" on inflation. The European Central Bank (ECB) finally abandoned its dovish stance, signalling it would likely raise rates by 25 bps in July and would implement more aggressive rate rises later in the year. Japan and China remained outliers.

Commodity prices weakened, undermined by fears that slowing growth would lower demand. Having initially rallied, oil prices subsequently fell back with Brent crude closing the month at around USD 110 a barrel. Industrial metals prices also slid, with copper falling to its lowest level since early 2021. Wheat prices also eased back to levels last seen prior to Russia's invasion of Ukraine.

Market Outlook

The Fund was under pressure over the course of June trailing the performance of the MSCI AC World index. All themes with the exception of the Pet Economy theme resulted in a negative contribution in June. The Pet Economy theme benefitted to exposure to a range of larger cap Consumer Staples and Health Care companies. Within the other themes, it was mostly companies with a growth profile that suffered from an accelerated rotation in the market. The Infrastructure theme, which remains the strongest contributor year-to-date, came under pressure as rising recession fears led to setbacks in basic material prices, which in turn harmed the producer companies held in the theme. Next Generation Energy was also under pressure due to the exposure to copper and lithium companies. The list of the largest detractors is accordingly dominated by stocks from the Infrastructure and Next Generation Energy themes including the positions in a lithium technology company (Next Generation Energy), a steel company and an aluminium and renewable energy company (both Infrastructure).

At the beginning of 2022, there were, in particular, expectations that drove markets. Rising inflation will only be transitory and geopolitical risks are unlikely to materialise. Both of these obviously had to be corrected during H1. The same applies to the hope that the global supply chain bottlenecks would dissolve quickly due to the end of the COVID restrictions. In addition, there were two other developments. First, rising interest rates on a global basis not only called into question the sustainability of the elevated valuation levels in the equity markets, but furthermore introduced the availability of an alternative source of returns. And secondly, the lockdown winners of recent years – in particular from the Technology sector – have not been able to repeat their growth so far this year. Rather, there have been positive surprises from the value segment of the market. Although all these risks were in principle known and on the radar screen, the collective assessment of their likelihood of occurrence has steadily increased, now to the point of there being tangible recession scenarios.

We already started to adapt the Fund last year and exchanged the primarily technology-oriented themes. Instead, we have substituted two fresh themes, "Infrastructure" and "Intelligent Machines", which are better suited to this phase of the market and should thus provide positive impulses. In addition, across the almost 200 holdings of the Fund, we have cut those stocks that had very high valuations and a growth profile that extends too far into the future. This has changed the character of the portfolio from a growth-biased portfolio to a more balanced "core" portfolio, which is reflected in more normal market-like valuation of the portfolio and also a more stable performance.

Current equity market valuations are well below 2021 levels, but they are still rather average by historical standards. However, this already offers investors the opportunity to re-enter the market at more realistic prices. Despite the selloff, we are however still far from potential lows connected to the disaster scenarios. At the same time, there are selective reasons for optimism. We will therefore follow developments over the summer very closely and keep the cautionary stance until then.

For Allianz Life Elite Income Fund:

Target Fund Manager's Comment (For PIMCO GIS Income Fund (Accumulation))

Market Review

In June, volatility, inflation and geopolitical strains continued to weigh on investor sentiment, with major moves across debt and equity markets. Developed market sovereign yields broadly rose in June, as central banks prioritized reining in inflation over economic growth.

In the US, the Fed hiked rates by +75bps, for the first time since 1994, as headline CPI inflation came in at 8.6% YoY in May and 6.0% YoY for core, both surprising to the upside, primarily due to large jumps in rents. As a result of the more aggressive monetary policy tightening path, Fed officials also downgraded their growth and unemployment forecasts. Given prior forward guidance for a +50bps hike, 10Y Treasury yields sharply repriced higher in the first half of the month, reaching close to 3.5%, but subsequently rallied strongly as the market's focus turned to rising recession risks, with the equity-bond correlation returning to negative territory.

Elsewhere, the BoE once again raised rates by +25bps as expected, the ECB signaled a rate hike in July and an end to its asset purchase program this month, while the SNB surprised markets with a +50bps hike. Following the FOMC meeting, the ECB also called an emergency meeting, where they announced plans for a new "anti-fragmentation instrument", which will particularly address the impact on peripheral yields. The BoJ has been an outlier amongst the developed economies, as it kept rates unchanged at -0.1% and maintained its yield curve control policy despite the vast market intervention required. On the month, 2Y US, UK and German yields rose +40bps, +26bps and +14bps to 2.95%, 1.83% and 0.63%, respectively. Similarly, 10Y US, UK and German yields rose +17bps, +13bps and +21bps to 3.01%, 2.23% and 1.33% respectively.

Meanwhile, persistently high inflation and slowing global growth expectations pushed developed market equities into a bear market, with the MSCI World Index down -8.7% in June, and -20.5% YTD. The risk-off sentiment also propagated through credit markets as investment grade credit outperformed high yield, with USD and EUR IG spreads +22bps and +46bps wider, respectively, while USD and EUR HY spreads widened by +163bps and +167bps.