Market Review and Outlook

September 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 9.5% mom to close at 2,379 points for the month of September. Similarly, the Dow Jones Index declined by 8.8% mom amidst a rising rate environment to combat inflation and a strong labor market in the US, which led to global recession fears. On the US' economic front, retail sales in August increased by 0.3% mom as compared to a flat reading mom in July. Its August industrial production eased 0.2% mom as compared to +0.6% mom in the previous month. US S&P Composite PMI's contraction widened further to 44.6 in August as compared to 45.0 in July. Over in Europe, the Stoxx 50 Index dipped by 5.7% mom during the same period following a lower Eurozone S&P Composite PMI reading of 48.9 in August as compared to 49.9 in July. Its industrial production growth reduced by 2.3% mom in July as compared to a gain of +0.7% mom in the previous month. Nonetheless, its July retail sales rebounded by +0.3% mom as compared to a decline of 1.2% mom in the previous month. Similarly, China's Shanghai Composite Index fell by 5.6% mom in September following a deterioration in Caixin China Composite PMI reading of 53.0 in August as compared to 54.0 in July. Market sentiment was hampered by the weak property market, a weak CNY, and slowing growth. After further cuts in August 2022 for its I-year and 5-year Loan Prime Rates, the People's Bank of China kept it stable at 3.65% and 4.30%, respectively, in its September 2022 meeting.

In September, Brent oil tapered further by 8.8% mom to USD87.96/bbl amid demand concerns stemmed by the ongoing interest rate hike, a strong US Dollar, and global recession fears. Crude palm oil (CPO) price dipped by 16.9% mom to RM3,327/MT as palm oil inventory continued to build up amid higher output and imports by refiners from Indonesia due to favorable pricing against Malaysia's CPO.

On the ASEAN front, equity markets closed the month under review with negative performances. Malaysia's FBM KLCI retraced by 7.8% mom due to global recession fears and political concerns on the upcoming general election. September saw the second monthly net foreign equity outflow for 2022, amounting to RM1,627m, bringing YTD inflows to approximately RM6.6b. From an economic standpoint, Malaysia's July industrial production growth strengthened to +12.5% yoy from a growth of +12.1% yoy in the previous month. However, August manufacturing PMI weakened to 50.3 as compared to 50.6 a month ago. Indonesia's Jakarta Composite Index fell by 1.9% mom despite a higher S&P Global manufacturing PMI reading of 51.7 in August as compared to 51.3 in the previous month. The Indonesian central bank further raised its 7 - day repo rate by 50bps in its September meeting to 4.25%. Similarly, the Stock Exchange of Thailand tapered by 3.0% mom following regional peers. Its August S&P Global manufacturing PMI increased to 53.7 in August as compared to 52.4 in July. The Bank of Thailand hiked its Benchmark Interest Rate by 25bps to 1.00% in its September meeting. Singapore's Straits Times Index eased by 2.8% mom despite an industrial production growth of +2.0% mom in August, as compared to contraction of 2.3% mom in July. Its August PMI reading was slightly weaker at 50.0 as compared to 50.1 in July and its Non-oil Domestic Exports turned to a decline of 3.9% mom in August as compared to a growth of +1.4% mom in July.

US Treasury (UST) yields continued their upward trend again in September as the yield curve was up 49-77bps mom. Sell-off was particularly strong for shorter tenures in mid-September as the hot inflation data for August of 8.3% yoy (consensus: 8.1% yoy, July 8.5% yoy) led market participants to consider the possibility of an unprecedented 100bps hike in September's FOMC meeting. While Fed unanimously settled for a 75bps hike for the third consecutive time to 3.25%, Fed now projects the terminal rate to be 4.6% in 2023 and signalled that recession may be the price to pay to tame inflation. With the markets being concerned that the Fed will remain more hawkish for longer than anticipated, this then led to another round of sell-off closer to month-end.

Malaysian Government Securities (MGS) yields were not spared as well in September as the yield curve was up 30-44bps mom. The bulk of the movements was towards the month-end following the 75bps hike in the US and Fed's signal that more hikes will come which intensified the global risk-off sentiment. Shortly after the US rate hike, MGS saw its weakest auction year-todate as the 7yrs MGS recorded only a bid-to-cover (BTC) ratio of only Meanwhile, demand for the first government MYR Sustainability Sukuk (15yrs MGII 3/38) was strong as it registered a BTC ratio of 2.383x despite weak global sentiment for bonds.

Foreign funds turned net seller in September with mild net outflows of RMO.4b of Ringgit bond holdings (August: +RM5.6b). This increased YTD outflows to RM1.6b. Foreign share of both MGS and MGS+MGII declined to 35.9% (August: 36.1%) and 23.1% (August: 23.5%) respectively. Malaysia's foreign reserves contracted by USD2.1b to USD106.1b as of end-September 2022 (August: USD108.2b).

Market Outlook

Globally, key events continue to be centered around inflation data and the quantum of future interest rates hikes. Fed chair Powell had in numerous occasions reiterated that he will 'keep at it until the job is done'. US unemployment is now seen rising to 4.4% in 2023, up from the current 3.7%. Given that a rise of more than 50bps in the unemployment rate has always been associated with a recession, the Fed is suggesting that a recession may be its base case for 2023. Locally, the government had unveiled its Budget 2023, which is a people friendly budget. However, uncertainty remains as the PM has called for a dissolution of parliament, which will pave the way for GE15.

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. US Fed had forecasted that rates would reach 4.4% by the end of this year and 4.6% in 2023, which marked a somewhat hawkish shift from their current dot plot projection. With only 2 more FOMC meetings scheduled for 2022, this implies a further 125 bps of tightening over the course of the November and December FOMC meetings. The Fed Chairman explained that higher interest rates, slower growth and a softening labour market will be painful for the public but it will not be as painful as failing to restore price stability. On the other hand, local monetary policy is expected to remain accommodative to support sustainable economic growth in an environment of price stability as BNM reassured that economic developments and inflationary conditions would be monitored continuously and any rate hike would be done in a measured and gradual manner.

We are of the view that the risk-reward of MGS has improved with the Ringgit rates market well priced for BNM normalisation but we are also mindful of the bond market volatility arising from both external and internal fronts, which would impact local yields. The risk remains if domestic inflation surprises on the upside and foreign portfolio outflow accelerate. We would however 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?

- In a weak market environment, the Fund could perform better than global equity markets.

What hurt?

- The Fund lagged behind the very defensive customised benchmark.

Market Review and Outlook

Global equities fell over September. Hawkish statements from US policymakers following stronger-than-expected inflation data prompted an initial sell-off. The weak trend picked up speed when the situation in Ukraine entered a more dangerous phase as, following significant territory gains by the Ukrainian army, Vladimir Putin mobilised 300,000 Russian citizens, annexed four Ukrainian provinces following sham referendums, and threatened to use nuclear weapons. The UK also sent jitters through financial markets when the new government abandoned years of fiscal prudence as it sought to kickstart economic growth.

US equities slumped as hawkish statements from the US Federal Reserve (Fed) and a gloomy outlook from bellwether FedEx weighed on sentiment. The S&P 500 Index retreated to levels last seen in mid-June, marking a drop of around 20% from its peak in early-January. All areas of the US market recorded negative returns, with value stocks holding up slightly better than growth-oriented companies.

European equities fell (in EUR terms) over September as the economic outlook darkened. The decline took European equities into a bear market, having fallen at least 20% from their peak in early-January 2022. The EU proposed a windfall tax on energy companies to help pay for lower household bills, although the proposals were met with severe reservations from some member states. In political developments, a coalition of far-right parties won Italy's general election, with Giorgia Meloni set to become Italy's first female prime minister.

For Allianz Life Asia Multi-IncomePLUS Fund:

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

Market Review

Asian equity markets tumbled over September, weighed down by concerns over persistent inflation, global economy outlook and aggressive tightening from the US Federal Reserve (Fed). While general inflation in Asia Pacific is lower than that of most G7 economies, several central banks in the region continued to hike rates. The Reserve Bank of Australia (RBA) raised rates to the highest levels since January 2015, while the Australia market has reached a new low since mid-June. Chinese equities fell sharply over ongoing weak domestic economic conditions. Hong Kong shares also weakened as rates were increased to 3.5% to maintain Hong Kong's currency peg with the US dollar, but the city's decision to end mandatory hotel quarantine brought a more positive outlook. South Korea and Taiwan markets also lost ground as Tech companies were hit by fears of weaker demand given the slowdown in global growth. Overall ASEAN markets outperformed the broader region. Indian stocks also remained relatively resilient with the more robust domestic economic activity.

The Asian USD high yield credit market, as represented by the JP Morgan JACI Non-Investment Grade Custom Index, decreased by 6.35% in September. The correction came in the later part of the month as liquidity concerns grew about a big private Chinese developer. This was a surprise to the market and dragged other issuers down as well. Credit spreads widened from 1,013 basis points (bps) to 1,163 bps, while 5-year US Treasury yields rose sharply from 3.35% to 4.09%.

In such an environment, the Fund return was negative in USD terms in September. Within the equity sleeve, the main detraction came from our China holdings.

On a single stock level, the top detractor was Tencent, a leading internet and gaming company in China. The stock was a leading contributor the previous month and faced profit taking in September along with the broader market sell-off. While our view is that we are past the point of peak regulatory pressure for Chinese internet companies, we reduced the position size to control risk.

Conversely, the top contributor was Galaxy Entertainment Group, a casino operator in Macau. Galaxy is viewed as a key beneficiary of China's relaxation of COVID-19 travel restrictions. Given the recent resumption of package tours from mainland China to Macau, we view China's reopening as being only a matter of time. Galaxy is well-positioned relative to competitors with a strong balance sheet to help withstand the current challenging conditions.

The asset allocation at the end of the month was 66.6% invested in Asian equities and 32.3% in Asian fixed income, with the remainder in cash.

In terms of portfolio activity, in September we reduced exposure to China given the ongoing macro uncertainty. We exited positions in a Chinese property management services company, as well as a Chinese video streaming platform, and reallocated the proceeds towards defensive stocks in Australia and Indonesia.

For the fixed income sleeve, we invest in bonds with the aim of long-term interest accrual. In September, we sold our exposure to issuers with potential idiosyncratic concerns and reduced our concentration in other names.

At the end of the month, we held 55 equities and 77 fixed income securities. The equity portfolio yield was 3.4% and the average fixed income coupon was 5.3% with an average credit rating of BB and duration of 2.6 years.

Market Outlook

We remain in uncertain times with low visibility around future economic and geopolitical developments globally. Increasing tighter monetary policy around the world amid rising inflationary pressures and the continued strength of the US dollar are also combining to create a challenging environment for regional equities.

While the headwinds to growth and recessionary fears have pervaded market chatter, our base case is to be cautiously optimistic on the longer-term outlook for regional equities. As we look into 2023, we note that any signs of stabilisation, and a potential bottoming out of bad news, would likely lead to a market rebound. The sharp pullback in regional Asian equity markets has resulted in a number of stocks that we monitor coming back to attractive valuation levels, and the regional Asian market as a whole is trading below longer-term average levels.

A key driver of the regional uncertainty rests in China, as the world awaits the outcome of the National Party Congress. A more supportive policy environment after the Party Congress in October should also create a more helpful environment for equities.

Apart from this important gathering of leading Chinese officials, who will set the tone for policy direction in the coming years, the two biggest factors weighing on economic activity are the housing market and COVID policies. What happens next with both of these will likely shape the near-term performance of the China markets. While we are seeing increased measures to support the Chinese property sector being announced, we continue to expect the market to be bifurcated with stronger Chinese property issuers outperforming distressed issuers. Fixed income market valuations as a whole remain cheap, and we should see more differentiation between issuers.

For Allianz Life Amanah Dana Ikhlas:

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

Market Review

The Malaysian sovereign bond market weakened amidst a widespread global bond sell-off in September led by series of rate hikes by central banks during the month and continued bear steepening of the US Treasury curve as market priced in more aggressive hikes by the US FOMC after a higher-than-expected US CPI print and further hawkish statements by its policy makers. Further volatilities were added from the market negative reactions towards recent UK's mini budget that led to its central bank intervention after its long-term borrowing costs soared to above 5% for the first time in two decades. As a result, the MGS yield rose 31-46 bps across the curve against the US Treasuries 35-79 bps jump. Meanwhile, locally, corporate bonds saw muted trading as bidding interest dried out amidst the volatilities that saw more defensive positioning while offers grew.

Global equity markets downturn accelerated in September as slower growth expectations raised the odds of a recession and while the Fed maintains its hawkishness. Inflation data and interest rates remained in the limelight. The Fed continued to tighten with a 75bps raise, with the ECB following with an equal rate rise. Philippines raised rates by another 50bps to 4.25% while BNM raised 25bps to 2.50%, the third consecutive move. Sentiment was negative all around as Asean equity market slumped as well, wiping out gains back in August. Asean currencies continue to be under pressure. Commodities declined on concerns of risk of global recession and on uncertainty on China's demand. On month-on-month basis, oil prices slid 9.0% to US$88/bbl while crude palm oil tumbled 18%. Hard commodities remained under pressure as steel, aluminum, iron ore, copper, and nickel fell 9.3%, 8.5%, 4.3%, 3.0% and 1.4% respectively. In precious metals, gold fell 2.9% on rising yields and stronger US$. Silver bucked the trend, with palladium and platinum gaining 3.7% and 1.8% respectively. Closer to home, Malaysia fell by 7.8% mom to close at 1,394pts, the lowest since May 2020. Negative returns were driven by plantations, telecommunications, energy, and industrials. Plantations were the worst performer in September on lower CPO prices due to high inventory (ending 2m in Aug) and rising fertilizer costs.

Market Outlook

As the outlook for Malaysia economy is improving with 2022 GDP is expected to grow between 5.5% - 6.5%, we expect that the local fixed income market to remain resilient despite headwinds from global tightening cycle. The Malaysia economy is expected to surpass government's growth forecast following such strong 2Q2022 GDP data. As a result, the local bond market remained stable after Bank Negara Malaysia (BNM) recently hiked the Overnight Policy Rate (OPR) by another 25bps to 2.50% in September 2022, third rate hike to happen in FY2022 thus far. Currently, overall market consensus is expecting the OPR to be at the 2.75% level by end-2022.

As a result, the local bond market has priced in fully the additional 25bps hike by year end, judging from the historical yield spread between the OPR vs MGS 10-Year. Therefore, we have seen no knee-jerk reaction post OPR hike, and we continue to see local bond market remains steady. It is worth to note that during the recent MGS/GII auctions, a relatively healthy bid to cover ratios have been recorded, confirming that liquidity in the MYR bond market remains ample.

The equity outlook for Asia and for that matter, Malaysia will be set by the tone set by the Fed and other central banks globally. Malaysia will be no exception and will resume 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 earnings disappointments rise with rising interest rates and inflation. Potential drags could also come from diminished purchasing power of consumers due to the persistent high inflation and therefore lower growth from private consumption. Having said that, recession in Malaysia, at this juncture is only a remote possibility despite the heightened risk of recession in the US and the EU as well as economic weakness in China. Barring a big shock on a scale of global systemic contagion, a slower growth Is likely the outcome for Malaysia. However, internally, the outcome of GE15 and political stability will be the key risks that investors will be focus on moving forward.

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 Arated 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 maintain our capital preservation mode to better weather through the near-term volatility. We are comforted that corporate earnings have stayed somewhat resilient, but we do foresee margin compression moving forward due to the expected slowdown. In the near-term, we are likely to focus on quality names with characteristics of resilient to inflation and margins be it through cost efficiency or demand inelastic. Having said that, valuations have come-off substantially albeit not at depressed level of yet. Elsewhere, 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 outperformed the benchmark in September. It was another value-driven month in the market with Energy (especially coal stocks) and Real Estate outperforming. Conversely, concerns about both the weakness of the domestic economy as well as the global slowdown in consumer electronics weighed on areas such as the semiconductor and electric vehicle (EV) supply chains.

At a single stock level, one of the top contributors was Poly Developments and Holdings, a large property company. The company is benefitting as homebuyers turn increasingly to state-owned developers that have the financial strength to withstand the current downturn. We expect Poly Developments to gain significant market share from cash-strapped private sector peers. The stock is our preferred holding in the Real Estate sector and has delivered positive absolute returns year-to-date.

On the other hand, an electronics component maker detracted. The stock had been a leading contributor the previous month, which gives a sense of the ongoing level of rotation within the market. The company is a key supplier to a US tech giant. It has been gaining share in wireless earbuds and smartwatch in particular, and has also been expanding into smartphone assembly and casing. The stock was weaker as a result of the cyclical slowdown in smartphone sales globally. We continue to see the company as well positioned for longer-term growth.

Market Outlook

It was a challenging month for China equities. China A-shares declined although still outperforming offshore indices that are more exposed to higher global rates and tightening global liquidity. Returns to global investors were further impacted by the strength of the US dollar.

The key driver of the China A-shares market has been ongoing weak domestic economic conditions. These typically have the greatest influence on domestic retail investors who dominate market turnover. The two biggest factors weighing on economic activity are the housing market and COVID policies. What happens next with both of these will likely shape the near-term performance of the equity market.

So far, there have been more policy actions on the property side including lower mortgage rates and some easing of previous curbs on property transactions. Government policy is, in our view, designed to do "just enough" and avoid repeating mistakes of the past, when "big bang" stimulus resulted in high debt levels and overbuilding. However, with the property market still under pressure, we expect further policy initiatives including state-owned banks providing additional financing.

The way the housing market in China works is that homebuyers put in their money upfront and move into their new home after it has been built. In short, they run significant credit risk. Therefore, restoring confidence and providing credit to cash-strapped property developers is key.

In terms of COVID easing, so far there have only been glimpses of opening-up, such as Hong Kong's decision to end mandatory hotel quarantine and the resumption of package tours from mainland China to Macau. We view China's reopening as being only a matter of time. The ongoing ad-hoc lockdowns and frequent testing are ultimately unsustainable for growth, social stability and global connectivity.

In this environment, a key portfolio position is overweight in the Consumer Discretionary sector. We see potential for "opening up" beneficiaries such as travel and tourism to recover, as well as pent-up consumer demand following the extended period of lockdowns. Conversely, the portfolio is underweight in Financials, particularly the larger banks, where we see risks of deteriorating asset quality.

As at the end of the month, the onshore/offshore allocation is close to benchmark with around 51% in China A-shares.

For Allianz Life Global Artificial Intelligence Fund:

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

Market Review

Global equities fell over September. Hawkish statements from US policymakers following stronger-than-expected inflation data prompted an initial sell-off. The US Federal Reserve (Fed) raised interest rates by a further 75 basis points (bps), and the 10-year Treasury yield reached a twelve-and-a-half-year high of 4.0%. The weak trend picked up speed when the crisis in Ukraine escalated to a higher threat level. The UK also sent jitters through financial markets when the new government abandoned years of fiscal prudence as it sought to kick start economic growth. The S&P 500 Index retreated to levels last seen in mid-June, marking a drop of around 20% from its peak in early January. Tech stocks were hit by fears of slower growth and higher rates, while the Real Estate sector was hurt by higher mortgage rates. Utilities and Industrials were also notably weak. In contrast, Health Care held up the best.

Information Technology and related stocks underperformed the broader market during the period, as more companies faced headwinds from rising interest rates and mounting recessionary fears. Underperformance was led by mega-caps including Meta and a technology conglomerate, as earnings estimates have come down amid weakening consumer demand, lower advertising spending, and cost inflation. Software stocks came under pressure for similar reasons, along with commentary from management teams suggesting elongating sales cycles and weakness in Europe. Semiconductors underperformed the sector and market due to concerns of slowing demand and rising inventories spilling over beyond gaming, personal computers (PC), and smartphones. Electronic and communications equipment companies fared best during the month.

During the period, the Fund in USD slightly outperformed 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 cloud security company was one of the top contributors during the period. The company reported strong quarterly financial results with revenue, earnings, and billings all exceeding expectations. Despite the challenging macro environment, we believe the company remains well-positioned to produce attractive long-term growth. The company is a first mover in cloud security that has created a new market in the cyber security world with an innovative product suite and strategic focus, which should disrupt the competitive landscape for years to come.

A provider of genomic liquid biopsy for cancer detection was also a top contributor. The company uses artificial intelligence (AI) and machine learning to accurately identify and categorise cancer markers that may appear in blood samples. Liquid biopsy allows for a non-invasive and faster approach for cancer detection. Analysts expect positive results to be announced later this year for the company's blood-based colorectal cancer screening, which could lead to US Food and Drug Administration's (FDA's) approval next year. We maintain our positive view on the stock given its early mover advantage in liquid biopsy and sizeable total addressable market potential.

Detractors

Our position in a database software company was one of the top detractors during the period. The company reported better-than-expected quarterly financial results, but investors were disappointed by management's lowered guidance. While the company is seeing strong new customer growth, its consumption-based revenues are trending lower due to the challenging macroeconomic environment. We remain constructive on the shares based on our view of a robust demand environment for cloud-based applications and the company's uniqueness as a database-centric and platform agnostic provider.

Our position in a leading ecommerce company was also a top detractor as shares fell in sympathy with the broader market decline. The company's business model is driven by AI-powered algorithms that personalise its customer experience, monitor its logistics network, and constantly optimise the experience. More recently, the company has been making aggressive investments in augmented reality (AR) to help customers better visualise items, such as tables and couches, in the customers' environment. We believe these initiatives can enable the company to gain greater share in the furniture and home furnishing market, and management is embracing greater cost discipline that could help improve future profitability.

Purchases and Sales

During the period, we exited the remaining position in a producer of computer memory and data storage solutions, as demand trends look to be deteriorating beyond the PC and consumer electronics end markets. Given the limited visibility on when memory pricing will improve, we decided to exit the position to fund more compelling ideas. We also exited an online marketplace for freelance services as market conditions for the company's services have changed with the current economic environment. Overall, we do not believe the current labour market conditions are favourable for the company either on the demand side or supply side of its platform.

We redeployed the proceeds to a position in a chemicals company which develops, manufactures, and markets engineered specialty chemicals worldwide. The company's lithium segment has seen strong growth as the global expansion of electric vehicles is driving demand for lithium batteries. The company has been leveraging data science and AI to drive throughput and reduce down-time in its chemical processing facilities.

We also initiated a position in a software company which provides a cloud-based visual work operating system that consists of modular building blocks to create software applications and work management tools. The company's entire business is built on top of its analytics platform, which analyses every aspect of its operations from customer experiences to marketing campaigns. We believe the company's modular automation platform can have a broader applicability to help automate cross-functional organisational workflows and drive greater collaboration, especially in hybrid work environments.

Lastly, we re-initiated a position in another software company which builds and deploys software platforms for the intelligence community in the US. The company is growing outside its roots in the intelligence community to tailor its solutions for commercial and enterprise applications. Its commercial segment has been one of the fastest growing segments and is increasing as a share of total revenues. With shares back near its initial public offering (IPO) price, we believe the reward-to-risk ratio of owning the shares is more attractive now.

Market Outlook

Equity markets across the globe had a challenging month of performance in September and finished Q3 in the red. Inflation data came in hotter-than-expected as the annual headline consumer price index (CPI) remained elevated at 8.3% and the core CPI number (excluding energy and food) increased significantly. The equity and bond market sell-off amplified heading into the September Fed meeting over fears that the Fed could maintain a hawkish stance, and they did in fact raise another 75 bps. The Fed has now raised rates by 3.0% in just over six months, causing other central banks to raise rates, like the Bank of England (BoE) and the European Central Bank (ECB). With continued COVID lockdowns and a lack of meaningful monetary stimulus in China and escalation by Russia in its conflict with Ukraine, equity and bond investors are facing a difficult macro environment, to say the least.

The economic picture in the US and the global economy remains complicated. On the one hand, the US employment remains above trend, consumer spending is holding up relatively well, corporate balance sheets remain healthy, supply chain constraints are easing, and broad measures of commodity prices are close to levels last seen in January 2022. On the other hand, this very strength and resiliency of the US economy may require the Fed to tighten financial conditions more aggressively to reduce inflationary pressures. The Fed has recently reiterated its hawkish stance for higher interest rates to fight inflation and the need for more than a few "good" data points on inflation before easing from their restrictive stance.

Meanwhile, the US dollar continues to strengthen against other major currencies, given this backdrop of higher interest rates and a more resilient US economy. A strong US dollar is good for the US, as it makes imports cheaper, which in turn moderates inflationary pressures. At the same time, many US multinational companies could see headwinds from currency translation. For the rest of the world, a strong US dollar creates challenges, as many global commodities, such as oil, are priced in dollars, which adds to the inflationary pressures in local terms. The strong dollar is creating significant headwinds for US companies with foreign revenue and pressuring other central banks to act.

For equity markets, we believe a meaningful portion of the restrictive Fed policy and inflation concerns are now reflected in valuation. Trailing 12-month price-to-earnings (P/E) for the S&P 500 is now below its 10-year average and 72% of the index constituents are trading below their pre-pandemic price-to-book value. Interestingly, an equal weighted construction of the S&P 500 shows that the current forward P/E is below the pandemic low in 2020 and close to the lows tested in 2018 and 2012. The focus in the upcoming earnings season will turn to the corporate outlook and how much Street estimates may need to be revised down as we head into the coming year. There is an estimated USD 5 trillion of assets sitting in money markets and ultra-short bond funds, as investors weigh the opportunities for re-entry into the markets. With 10-year US Treasury yields approaching levels not seen since the global financial crisis, it remains a cautious market for now. We believe volatility may continue, although there should be greater stock return dispersion and opportunities to generate alpha as valuations in some parts of the market are looking more attractive.

AI infrastructure outlook

Over the long term, we expect healthy demand for the ongoing build-out of AI Infrastructure as AI progresses from the pilot stage to mass deployment. For semiconductor companies, quarterly earnings results were relatively mixed with the outlook for the rest of the year and early 2023 more conservative. As expected, consumer PC demand and gaming activity was weaker given demand was pulled forward due to the pandemic restrictions of stimulus-driven spending. The outlook for corporate PCs, servers, and data centres is also starting to moderate some due to economic uncertainties. Supply chain issues are gradually improving, and we believe most of our semiconductor holdings have unique products and intellectual property that should insulate their earnings better. Valuations have also pulled back to reasonable levels, and we maintain a constructive view on the space over the long term given the many secular growth drivers of cloud, 5G, Internet of Things (IoT), edge computing, electric and autonomous vehicles, leading-edge manufacturing, etc.

AI applications outlook

Spending on cloud and cyber security related applications appears to be more resilient and should weather a downturn better. On the flip side, the weakening in advertising spending puts pressure on the top-line revenue growth for social media related companies, and the pressure may continue until there is greater economic clarity. 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. 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.

AI-enabled industries outlook

AI-enabled industries will most likely receive a net boost from the Inflation Reduction Act with renewable energy related names set to be long-term beneficiaries. If we are entering an economic slowdown, AI-related investments in areas such as productivity enhancement and automation, for example, should help companies better navigate the choppy environment. 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 roll out AI projects across more of their operations to accelerate their digital transformation.

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 stockpicking 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

Asian equity markets tumbled over September, weighed down by concerns over persistent inflation, weak global economic activity and aggressive tightening from the US Federal Reserve (Fed). While general inflation in Asia Pacific is lower than that in most G7 economies, several central banks in the region continued to hike rates. The Reserve Bank of Australia (RBA) raised rates to the highest level since January 2015, for example.

In terms of the region's markets, South Korea and Taiwan lost ground as tech companies were hit by fears of weaker demand, given the slowdown in global growth. It was also a challenging month for China equities. China A-shares declined although still outperforming offshore indices that are more exposed to higher global rates and tightening global liquidity. The Japanese equity market also declined, and the Bank of Japan (BoJ) intervened in the currency market for the first time since 1998, as the Japanese yen fell to a 24-year low against the US dollar. Overall, ASEAN markets outperformed the broader region. Indian stocks also remained relatively resilient with more robust domestic economic activity.

The Fund slightly lagged the benchmark during the month. The main detractor was an underweight position and stock selection in Japan. From a sector standpoint, the overweight positioning and stock selection in Information Technology caused the largest drag, although this was offset by positive stock selection in the Consumer Discretionary and Consumer Staples sectors.

At a single stock level, the top detractor was Lasertec Corp in Japan. Lasertec provides inspection machines for semiconductor and flat panel production. The company has a specific technology niche focused on mask inspection machines where it has a leading global position. The stock remains a high conviction holding, with the share price weakness mainly a reflection of sentiment towards the overall semiconductor supply chain.

Conversely, the top contributor was Galaxy Entertainment Group, a casino operator in Macau. Galaxy is viewed as a key beneficiary of China's relaxation of COVID-19 travel restrictions. Given the recent resumption of package tours from mainland China to Macau, we view China's reopening as being only a matter of time. Galaxy is well positioned relative to competitors with a strong balance sheet to help withstand the current challenging conditions.

There was some repositioning at stock level during September, in light of the deteriorating global macro environment. For example, we reduced exposure to shipping stocks. While we remain convinced about capacity constraints, the weakening demand outlook is likely to put some pressure on freight rates.

We maintain an overweight allocation to Technology, which is the largest absolute sector position in the portfolio. However, we have become more selective in our approach. Over the last month, we have trimmed semiconductor-related exposure, in particular. Within the sector, we retain our core tech names as demonstrated through our holding in Lasertec, for example. Other than Technology, the portfolio is also overweight in Energy, Health Care and Industrials, balanced by limited holdings in Financials and Communication Services.

From a geographical perspective, the portfolio is overweight in Taiwan – albeit at a lower level compared to earlier in the year – with underweight exposures in India, China and Japan. We continue to look for opportunities to add to conviction stocks which have been, in our view, unfairly punished in the market volatility and rotation.

Market Outlook

We remain in extremely uncertain times with low visibility around future economic and geopolitical developments globally. Increasingly tighter monetary policy around the world amid rising inflationary pressures and the continued strength of the US dollar are also combining to create a challenging environment for regional equities.

A key driver of regional uncertainty rests in China. As well as awaiting the outcome of the National Party Congress, the two biggest factors weighing on economic activity are the housing market and COVID policies. What happens next with both of these will likely shape the nearterm performance of China equity markets.

While the headwinds to growth and recessionary fears have pervaded market chatter, our base case is to be cautiously optimistic on the longer-term outlook for regional equities. As we look into 2023, we note that any signs of stabilisation, and a potential bottoming out of bad news, would likely lead to a market rebound. The sharp pullback in regional Asian markets has resulted in a number of stocks that we monitor coming back to attractive valuation levels, and the regional Asian market as a whole is trading below longer-term average levels. The weaker yen, for example, clearly makes certain Japanese companies and sectors more competitive relative to global peers, notwithstanding the global economic headwinds.

For Allianz Life Total Return Asian Equity Fund:

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

Market Review

Asian equity markets tumbled over September, weighed down by concerns over persistent inflation, weak global economic activity and aggressive tightening from the US Federal Reserve (Fed). While general inflation in Asia Pacific is lower than that in most G7 economies, several central banks in the region continued to hike rates. South Korea and Taiwan markets lost ground as Tech companies were hit by fears of weaker demand given the slowdown in global growth. Overall ASEAN markets outperformed the broader region. Indian stocks also remained relatively resilient with more robust domestic economic activity.

It was a challenging month for China equities. China A-shares declined although still outperforming offshore indices that are more exposed to higher global rates and tightening global liquidity. Returns to global investors were further impacted by the strength of the US dollar. The key driver of the China A-shares market has been ongoing weak domestic economic conditions. These typically have the greatest influence on domestic retail investors who dominate market turnover.

The Fund outperformed the benchmark during the month. The key contributor was security selection in the Consumer Discretionary and Communication Services sectors. This was partially offset by stock selection within Information Technology, with the sector as a whole facing headwinds. Market effects saw Singapore overweight and China underweight benefitting relative performance. Conversely, stock selection in Taiwan and Hong Kong detracted.

At a single stock level, a top contributor was HDFC Bank, the leading private sector bank in India. Despite growing recessionary fears globally, domestic credit demand has remained robust in India. With a high level of capital and underlying profitability, we view this as an exceptionally well-managed bank. In addition, we see the merger with mortgage lender HDFC Ltd as an opportunity to increase exposure to the fast-growing housing segment as well as providing cross-sell opportunities.

Conversely, a leading detractor over the month was a Chinese pharmaceutical research and development (R&D) services company. Geopolitical factors are weighing heavily on this sector, especially news flow around reshoring of the US pharmaceutical supply chain amid soaring China-US relations.

The main portfolio activity in the month was to reduce exposure to China, particularly in the Financials sector where the prolonged period of economic weakness is raising concerns about credit quality, especially in the larger banks and insurance companies. Conversely, we added to existing financial holdings in Singapore, India and Indonesia, each of which should benefit from higher rates.

At the end of the month, the overall Financials exposure therefore remains little changed (still overweight) with other key positions in Consumer Staples and Telecoms, whilst being underweight Industrials, Utilities and Health Care. From a geography perspective, the portfolio had an overweight position in Southeast Asia. The largest relative position is in Singapore, where we are focused on stocks with potential for positive cash flow generation and which should be resilient in the challenging macro environment.

Market Outlook

We remain in extremely uncertain times with low visibility around future economic and geopolitical developments globally. Increasingly tighter monetary policy around the world amid rising inflationary pressures and the continued strength of the US dollar are also combining to create a challenging environment for regional equities.

While the headwinds to growth and recessionary fears have pervaded market chatter, our base case is to be cautiously optimistic on the longer-term outlook for regional equities. As we look into 2023, we note that any signs of stabilisation, and a potential bottoming out of bad news, would likely lead to a market rebound. The sharp pullback in regional Asian markets has resulted in a number of stocks that we monitor coming back to attractive valuation levels, and the regional Asian market as a whole is trading below longer-term average levels.

A key driver of the regional uncertainty rests in China, as the world awaits the outcome of the National Party Congress. Apart from this important gathering of leading Chinese officials, who will set the tone for policy direction in the coming years, the two biggest factors weighing on economic activity are the housing market and COVID policies. What happens next with both of these will likely shape the near-term performance of the China equity markets. A more supportive policy environment after the Party Congress in October should also create a more helpful environment for equities.

For Allianz Life Global Income Fund:

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

Market Review

Markets sold off in September as investors digested persistent inflation, rising interest rates, currency volatility and downstream implications of hawkish central banks globally. The US Federal Reserve (Fed) hiked interest rates by 75 basis points (bps) – the third consecutive increase of this magnitude – and commentary remained hawkish with chair Powell reiterating the Fed's commitment to returning to 2% inflation and cautioning against prematurely loosening policy. The US dollar and US Treasury yields surged – fuelled hotter-than-expected inflation – and core bonds fell more than -4% in the period.*

In this environment, global equity markets, as measured by the MSCI World Index, returned -9.30%.^ US stocks performed in line with their non-US developed counterparts and all sectors declined. Global convertible securities also fell with new issuance starting strong before pausing. Global high-yield bonds settled lower and new issuance remained negligible. Global fixed income, as measured by the Bloomberg Global Aggregate Index, returned -5.14% with US exposure holding up marginally better than non-US.**

The portfolio was negatively impacted by broad market weakness with nearly all holdings detracting from performance in the period. Allocations to convertible securities and corporate bonds – asset classes exhibiting defensive characteristics – helped dampen downside volatility.

Underperformance among top detracting individual positions was generally attributable to macro pressures. Shares of Microsoft (software) traded lower alongside Apple (consumer electronics) on reports of iPhone production cuts. Concerns around advertising revenue weighed on Alphabet (internet services), and fears of slowing sales and rising costs hurt Amazon (ecommerce). Other sources of weakness included holdings with exposure to Semiconductors, Financial Services, Aircraft Manufacturing, Waste Management and Refining.

With the exception of select positions in Therapeutics and Pharmaceuticals, there were no meaningful positive individual contributors to performance.

Netting new purchases and complete sells over the period, Consumer Discretionary and Energy exposures increased whereas Industrials and Materials decreased.

Market Outlook

The market outlook remains uncertain given global slowdown concerns, declining earnings momentum, global central bank tightening, yield curve (2y10y) inversion, rising interest rates and elevated inflation. We address each risk below.

Economy: Financial conditions have tightened, and housing, manufacturing and consumer sentiment have weakened. On the other hand, a strong labour market, healthy consumer balance sheets and steady consumption indicate a resumption of gross domestic product (GDP) growth.

Earnings: Revenue growth will largely hinge on pricing power resiliency and any impact from normalising demand, a strong dollar and inventory markdowns. Earnings estimates could fall further as forecasts for slower sales and margin contraction offset gains from operating leverage.

Fed: A terminal rate of 4.6% implies additional rate hikes of 150 bps are forthcoming. Market expectations have aligned with this forecast, estimating it to be achieved in early 2023. An upwardly revised terminal rate is a potential risk.

Yield curve and interest rates: Inversions (3m10y) prior to the last four recessions peaked on average around -50 bps. If this repeats, the 10-year yield could rise to 4.1% or a range of 3.8% to 4.3%.

Inflation: Inflation's downward trajectory will largely depend on the path of wages, housing/rent and services, which have been sources of upward pressure. The 5-year breakeven rate suggests that these components will roll over. Additionally, the Fed projects inflation will fall significantly from current levels.

While caution is still warranted, there are several constructive factors worth highlighting. Valuations have improved with the S&P 500's forward price-to-earnings multiple declining to 15.15x (September) compared to its long-term average of 16.37x (since September 1995), and price-to-free cash flow multiple (LTM) falling further below its long-term average. With the Fed funds rate quickly approaching the terminal rate, Fed hawkishness will be increasingly constrained. This dynamic could also lead to more subdued US Treasury and the US dollar markets which have been headwinds for equities. Lastly, 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.

US 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 September 2022 unless otherwise stated.
* Source: BofA Merrill Lynch, as at 30 September 2022
^ Source: MSCI, as at 30 September 2022
** Source: Bloomberg, as at 30 September 2022

For Allianz Life Thematica Fund:

Target Fund Manager's Comment (For Allianz Thematica)

Market Review

The Fund outperformed global equity markets (MSCI AC World Index) in Q3. While the markets as a whole suffered a slight absolute decline, the strategy was slightly up (in EUR). This nevertheless masks the fact that global equities experienced a rollercoaster ride in Q3 2022. At the beginning of the quarter, stock markets recovered because a slowdown in growth raised hopes of a less aggressive course of interest rate hikes by central banks. However, the rally ended abruptly in mid-August following restrictive statements by the US Federal Reserve and the European Central Bank in response to persistently high inflation. In September, the price decline accelerated as inflation continued to exceed expectations in the US and the Ukraine crisis entered a more dangerous phase. The UK also caused nervousness in the financial markets: After years of pursuing a cautious fiscal policy, the new government took a different course to boost growth.

The majority of the themes in the portfolio made a positive contribution to relative performance over the quarter. The Energy of the Future theme, where the drive by European countries to reduce dependence on energy imports from Russia is providing new, additional impetus, was the best contributor to performance over the quarter. Within the theme, positions in First Solar, Albermarle and a global lithium technology company, for example, made good contributions. The Infrastructure theme was the second strongest contributor. In contrast, the Health Technology theme and, to a lesser extent, Clean Water and Land and Intelligent Machines lagged the market.

Market Outlook

Looking ahead, the Energy of the Future theme, for example, appears largely recession-proof. Put simply, the energy transition must not be stopped or halted by a recession. The energy emergency reinforces and accelerates the transformation of energy supply, which should be particularly noticeable in Europe. In fact, the theme could even become a beneficiary of possible government investment plans in the case of a recession. With little scope for monetary policy support, the burden must be borne by the fiscal side. Given that governments generally do not have much room for spending, stimulus measures will have to be very targeted.

The energy transition, which is high on the political and social agenda anyway, offers itself as a starting point for stimulus investments. The theme Infrastructure could also benefit in the same way.

We also see other areas, such as the Pet Economy, as largely resilient to an economic downturn. Recent Grassroots Research® studies* confirm that pet owners are more likely to want to save in other areas of consumption during times of financial stress. In both the US and Europe, pet owners cite dining out, travel and clothing as areas for savings. When it comes to spending on pets - as well as insurance and health - consumers are less likely to save. In fact, the covid situation has already shown that pets actually became even more important in crisis situations.

Timing-wise, we were obviously a little too early with the Intelligent Machines theme, which has yet to make a positive performance contribution since being added to the portfolio in December 2021. Companies in this segment suffered from the continued rotation in the equity market. However, our fundamental thesis of a new wave of automation as a result of inflation - labour shortages, rising input costs - and an increased trend towards regionalisation to strengthen strained supply chains remains intact. As such, we believe the portfolio remains well positioned for the current environment of high inflationary pressures and rising recessionary risks.

For Allianz Life Elite Income Fund:

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

Market Review

September was marked by substantial market volatility, including a rise in bond yields and a sell-off in risk assets. There was a shock to UK markets near the end of the month, as the newly formed government's proposed mini-budget, which included £45bn in tax cuts funded by raising additional debt, was received poorly by markets and led to a decline in sterling and a sharp sell-off in UK gilts. Markets were later calmed by an emergency intervention by the Bank of England on September 28th.Energy markets remained turbulent, with suspicious leaks detected in the Nord Stream Pipeline and Germany announcing a €200 billion borrowing plan to fund a gas price gap. The MSCI World was down -9.46% and the US ten-year treasury yield increased by +64bps over the month as central banks across the board continued their rate hiking cycles, prioritizing the fight against inflation over growth concerns.

In the US, inflation showed signs of slowing, with headline CPI print coming in at 8.3% YoY compared to a June peak of 9.1%, albeit a long way away from the Fed's target. The Fed delivered a 75bps rate hike, attempting to stamp down inflation as labor markets remained resilient.

Investors grew increasingly concerned over signals that central banks were willing to keep a restrictive monetary policy to maintain their credibility even if growth were to slow and unemployment were to rise. The ECB also delivered a 75bps rate hike as the energy shock continued to impact inflation numbers, while the BoE hiked rates by 50bps, slightly lower than market expectations.

Persistent inflation numbers, hawkish central banks and market reaction to UK government policies resulted in higher bond yields along the curve. On the month, two-year US, German and UK government bond yields rose +79bps, +56bps and +121bps to 4.28%, 1.75% and 4.20% respectively. Ten-year US, German and UK government bond yields rose +64bps, +57bps and +129bps to 3.83%, 2.11% and 4.08% respectively.

Market volatility and risk-off sentiment propagated through credit markets, with USD and EUR investment grade spreads +19bps and +23bps wider, respectively, while USD and EUR high yield spreads widened by +40bps and +73bps, respectively.