Market Review and Outlook

April 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 8.4% mom to close at 2,796 points for the month of April. Similarly, the Dow Jones Index declined by 4.9% mom, a reversal from the previous month over uncertainties on the pace of rate hikes for the upcoming US Federal Open Market Committee (FOMC) meeting as well as its forward guidance on rates. On the US' economic front, retail sales in March grew at a faster pace by +0.5% mom as compared to +0.3% mom in February. Similarly, its March industrial production increased by +0.9% mom as compared to +0.5% mom in the previous month. US S&P Composite PMI growth strengthened slightly to 57.7 in March as compared to 55.9 in February. Over in Europe, the Stoxx 50 Index dipped by 2.6% mom during the same period following a lower Eurozone S&P Composite PMI reading of 54.9 in March as compared to 55.5 in February and amidst the ongoing conflict in Ukraine. Nonetheless, its February retail sales grew by +0.3% mom as compared to +0.2% mom in the previous month. Its industrial production growth was also higher by +0.7% in February as compared to a flat reading mom in the previous month. China's Shanghai Composite Index also dipped by 6.3% mom in April following a lower Caixin China Composite PMI reading of 43.9 in March as compared to 50.1 in February. Market sentiment was also affected by disruptions arising from lockdowns in certain parts of China as officials attempted to contain Covid – 19 outbreaks. 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 3.70% in its April 2022 meeting. The 5-year Loan Prime Rate was also kept stable in its April 2022 meeting.

In April, Brent oil continued surging by +1.3% mom to USD109.34/bbl amid concerns on supply following European Union's threat to completely phase out reliance on Russian energy supplies by the end of the year. Crude palm oil (CPO) price rebounded by gaining +20.2% mom to RM7,683/MT after Indonesia decided to enact a temporary ban on palm oil exports effective 28 April, as it attempted to lower the prices of domestic bulk cooking oil. Subsequently, the ban caused demand to shift to Malaysian palm oil products.

On the ASEAN front, equity markets closed the month under review with mix performances. Malaysia's FBMKLCI rose by +0.8% mom, led by positive sentiment towards relaxation of Covid-19 restrictions (e.g. no longer mandatory to wear mask outdoors), borders reopening, and higher CPO price after Indonesia banned palm oil exports. April saw the fourth month of consecutive monthly net equity buying amounting to RM825m, bringing YTD inflows to approximately RM7.3b. From an economic standpoint, Malaysia's February industrial production growth weakened to +3.9% yoy from a growth of +4.3% yoy in the previous month. March manufacturing PMI also weakened to 49.6 as compared to 50.9 a month ago. Indonesia's Jakarta Composite Index climbed by +2.2% mom following a higher S&P Global manufacturing PMI reading of 51.3 in March as compared to 51.2 in the previous month. The Indonesian central bank held its 7 - day repo rate stable at 3.5% in its April meeting, unchanged since February 2021. On the other hand, the Stock Exchange of Thailand tapered by 1.6% mom following a lower S&P Global manufacturing PMI reading of 51.8 in March, from 52.5 in the previous month. The Bank of Thailand kept its Benchmark Interest Rate at 0.50%, unchanged since May 2020. Singapore's Straits Times Index eased by 1.5% mom following a contraction in industrial production of 12.6% mom in March, a reversal from a growth of +16.6% mom in February. Its March PMI reading was also slightly weaker at 50.1 as compared to 50.2 in February.

Nonetheless, its March Non-oil Domestic Exports improved, albeit still contractionary, to a decline of 2.3% mom as compared to a dip of 2.8% mom in the previous month.

US Treasuries (UST) yields rose +38-59bps mom across the curve to their highest levels in more than three years over anxiety from the elevated inflation. US headline Mar'22 CPI rose by +8.5% yoy which is the highest monthly gain since Dec 1981 as food and energy prices soared from the Russia-Ukraine conflict. The 3-4 May 2022 FOMC meeting saw Fed deliver its largest interest rate hike since 2000 by +50bps as expected, to bring the fed funds rate range to 0.75-1.0% after a +25bps hike in March. Fed signaled it would continue the aggressive rate hike pace over the next few meetings to combat the soaring inflation.

Following the UST movements, the Malaysia Government Securities (MGS) yields rose +31-59bps mom across the curve as some tenures reached levels unseen since 2008. The 10y MGS reached a high of 4.44% before closing the month at 4.38% (+53bps mom). Auctions during the month (7y, 10y, 15y and 20y) however saw decent bidding (between 1.9x to 2.5x) as valuations turned attractive following the selloffs. On 5 April, the World Bank trimmed Malaysia's 2022 GDP expansion to 5.5% from 5.8% previously largely due to economic uncertainties and cascading effects arising from the Russia-Ukraine conflict. Malaysia's Mar'22 CPI rose +2.2% yoy (survey: +2.3% yoy) which was unchanged from Feb'22. This was mainly driven by the +4% yoy increase in the food and non-alcoholic beverages segment as prices for food such as chicken and specific vegetables subgroup spiked as much as +10.5% yoy and +14.5% - 24.1% yoy respectively according to the Department of Statistics Malaysia.

Foreign funds net sold Ringgit bond holdings by another RM2.2b in April (March: -RM4.0b), reversing all the inflows YTD. Foreign share of both MGS and MGS+MGII decreased to 37.6% (March: 38.8%) and 25.0% (March: 25.5%) respectively. Foreign reserves decreased by USD3.1b mom to USD112.5b as of end-April 2022.

Market Outlook

Globally, key events continue to be centered around FOMC's upcoming rate decisions for the rest of the year to combat inflation as well as the ongoing geopolitical tensions between Russia and Ukraine. China's zero Covid-19 policy continues to be in effect as lockdown at parts of China continues. China signaled that it might loosen its monetary policy as authorities seek to combat an escalating Covid-19 outbreak, a slumping property market and spiking commodity prices. Locally, the Umno Supreme Council unanimously proposed party vice-president Datuk Seri Ismail Sabri Yaakob as the Prime Minister candidate for the 15th general election. Malaysia government is also likely to introduce a targeted fuel mechanism for the lower income group to combat rising crude oil prices.

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 trend higher in tandem with the UST yields. The markets have been jittery over the aggressive Fed rate hike path as upside risks to inflation looms, while there are downside risks to growth as the ongoing Ukraine conflict is set to further worsen the global supply chain constraints. Although our monetary policy is expected to remain accommodative to support a sustainable economic recovery, BNM is cognizant of the consequences of keeping interest rates low for an extended period. Hence, BNM is keeping a watchful eye on inflation during this recovery. Consequently, any potential adjustment to the degree of accommodation will remain data-dependent and undertaken in a measured and gradual way to preserve an appropriate level of support to the economy. Following the recent selloff, we think the risk-reward of MGS has improved with the MYR rates market well priced for BNM normalisation. We remain cautious of the bond market volatility arising from both external and internal fronts, which would impact local yields. We would maintain our strategy to accumulate bonds at favourable valuations skewing towards good quality names but will only extend duration in liquid papers at fair valuations.

For Allianz Life Global High Payout Fund:

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

What helped?

- The strategy outperformed global equity markets but somewhat lagged its customized benchmark.
- Due to its balanced exposure, the Fund could hold up well in a weak market as compared to global equity markets.

What hurt?

- The underweight to US stocks contributed negatively in the past quarter.

Market Review and Outlook

Globally, equities dropped again in April. Sentiment was knocked by signs that central banks are likely to be more aggressive in tightening monetary policy, sparking fears of a slowdown in the global economy. Hopes of a swift end to the conflict between Russia and Ukraine were also dashed, while concerns that China's zero-COVID policy would lead to further lockdowns added to the negative tone.

It was another weak month for US equities, with sentiment knocked by disappointing results from several high-profile 'new technology' companies. The S&P 500 Index approached a one-year low while the tech-heavy Nasdaq fell to its lowest level since late-2020 amid fears over the impact of higher rates and lower growth on company profits. The S&P 500 Index has now fallen more than 10% since its peak at the start of 2022, placing it firmly in correction territory, while the Nasdaq's more than 20% decline means it is now in a technical bear market. Despite the downbeat tone, around 80% of S&P 500 companies that have reported Q1 results to date have topped expectations, according to FactSet.

European equities lost ground in April as investors started to anticipate that the European Central Bank was moving closer to raising rates. The French presidential election also caused some uncertainty but, in the end, Emmanuel Macron secured another five years in office after beating Marine Le Pen by a significant margin.

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 April. China equities sold off as the prospect of widening lockdowns dampened the outlook for economic growth. China's strict zero-COVID policy had led to factory closures and closed key ports, sparking fears of further supply chain disruptions. Consumer spending has also slumped. Elsewhere in the region, markets like Australia, South Korea and New Zealand were generally weak amid the rising interest rate environment and inflation fears. Taiwan equities was also weak as the Semiconductor sector continued to suffer from China factory closures and weaker semiconductor demand forecasts. Within ASEAN, Indonesia and Malaysia ended the month positive as commodity exporters given the higher commodity prices.

Following the rebound in late March, Asian USD high yield credits corrected in April. The JP Morgan JACI Non-Investment Grade Index corrected by –1.00%, while US Treasury yields were sharply higher again, with the 5-year benchmark rate rising from 2.46% to 2.95%. Unlike previous months, Chinese high yield credits were stable in April. The correction in April was driven by issuers from Macau and lower yielding issuers from India, which were impacted by higher US Treasury yields.

In this environment, the Fund return was negative in USD terms in April. Key detraction came from Taiwan holdings, particularly in the Technology sector.

In terms of single stock, the top detractor over the month was Unimicron Technology, the global leading manufacturer of integrated chip (IC) substrates and printed circuit boards (PCB). Despite a strong set of Q1 results, the stock came under pressure as investor sentiment was dampened along with weakened smartphone demand. While we believe the company is well positioned to benefit from multiple growth drivers such as 5G smartphones, we have reduced some exposure and will monitor its recovery progress.

On the other hand, the top contributor was China National Building Materials, a large cement and gypsum board producer. The company is a beneficiary of a more supportive economic policy environment and China's boost in infrastructure investment. We also like the company for its improving cost control and increased revenue contribution from its new materials segment.

The asset allocation at the end of the month was 66.9% invested in Asian equities and 31.6% in Asian fixed income, with the remainder in cash.

In terms of equity portfolio activity, in April we exited our position in a leading health care provider in Australia after the share price rose on news of a potential acquisition. We also reduced our overall exposure in Taiwanese technology companies to take profit from the strong performance in 2021. We used the proceeds to add to selective positions. For example, we initiated positions in an insurance company in Korea and a leading chemical producer in Southeast Asia.

For the fixed income sleeve, we invest in bonds with the aim of long-term interest accrual. We saw a number of bonds mature in April and are looking to reinvest the proceeds.

At the end of the month, we held 69 equities and 94 fixed income securities. The equity portfolio yield was 3.0% and the average fixed income coupon was 5.6% with an average credit rating of BB and duration of 2.6 years.

Market Outlook

Clearly, we are in extremely uncertain times with low visibility around future economic developments globally. Tighter monetary policy around the world amid rising inflationary pressures, and the strength of the US dollar, are also combining to create a challenging environment for regional equities.

Looking ahead, a potential bright spot could be the pivot to an easier monetary and fiscal policy setting in China. This should ultimately result in a stabilisation of the Chinese economy and also provide a more supportive backdrop to markets. Of course, a lot will depend on how long the current COVID lockdowns last, and whether the Shanghai experience is repeated elsewhere in the country.

In terms of other key risks, there has been speculation about whether China will face Western sanctions as a result of providing support to Russia. We think this is an unlikely scenario. The economic cost of jeopardising China's access to the vast US and European export markets would be huge. Nonetheless for the time being, geopolitical risks are likely to result in a higher risk premium for the market.

Asian high yield credit markets should continue to consolidate in the short term. We expect the market to continue 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 sovereign bond continued its sell-off in April, with yields jumping 60-80bps amidst rising global bond yields as the US Federal Reserve turned increasingly hawkish. The US Fed Chairman commented that a 50 bps "will be on the table for the May meeting", and that drove global yields up even further. MGS 10-years closed at 4.32%, up by 40bps from the previous month as bond sentiment remained bearish. Meanwhile, corporate bond yields also moved higher tracking the movements in govvies, with yields up between 38-56bps month-on-month. Year-to-date, govvies' yield has jumped by 60-97 bps, while corporate bonds were up by 50-85 bps.

Global equity markets tumbled in April as investors price in the persistence of the geopolitical dispute, hawkish Fed, lockdowns in China leading to lower demand and strengthening of the USD. While equities were better earlier in the month, this was quickly reversed as a more aggressive policy measure by the US Fed to stem the rising inflation caused risk-off mode by investors. The lockdown in China intensified led to concerns on demand which was already suffering from logistical disruptions. The USD was stronger by 4.7% (DXY Index). Closer to home, the KLCI was relative better, rising 0.8% to close at 1,600pts, driven by the re-opening of borders and higher CPO prices following the ban of palm oil exports by Indonesia. The plantation sector, energy and construction were the best performers while technology, communication and healthcare were at the bottom. Foreign remained buyers amounting to RM826m (USD184m) but considerably lower compared to March (+RM3.3bn). This brings the year-to-date net inflow of RM7.3bn. In macroeconomics, Malaysia's IPI grew 3.9% yoy in February (Jan: +6.8% yoy) driven by the manufacturing sector. Exports grew 25.4% while imports grew by 29.9% in March. This brings a trade surplus of RM26.7m (+10.3% yoy). March CPI was up 2.2% yoy mainly driven by food and beverages as prices of food such as chicken and vegetables surged roughly 10%.

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 75bps increase. BNM also delivered a surprise 25bps OPR hike in its May meeting, bringing OPR to 2.00%. Despite this, the Malaysian market remains flush with liquidity, and this will provide support to the local bond market as yield pickup remain decent as compared to the low yielding fixed deposits and money market funds.

The KLCI fared better in April driven by the re-opening of borders and higher CPO prices. BNM's surprised hike which is line with global central banks could also help defend the weaking MYR against the USD. Malaysia's 1Q GDP beat market expectations on the back of recovering demand and strong labor market suggesting domestic demand remains supportive moving forward which could be positive for equities. Also, foreigners remain net buyers in April, amounted to RM826m, albeit lower than March's RM3.3bn net inflow.

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 maintain our underweight duration bias as we assume a more defensive stance given our expectation of a higher yield curve on continued economic recovery and rising US Treasury yields driven by US Feds interest rates hikes. 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 have turned defensive and will lower the allocation for equity to 40-45% which suggests a high cash position within the equity allocation from time to time and take a more tactical trading position. We remain focus on the recovery and structural theme such as financials, materials, and energy. In the near-term, we are favourable to beneficiaries of higher commodity prices and rising interest rates although we note that recently prices have eased from their recent peaks. We think commodity prices broadly would remain high, albeit pass its peak due to linger supply constraints, under capex/opex (both o&g and fertilizer) and logistical issues.

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 April. The main contributor was stock selection in the Consumer Discretionary and Health Care sectors. The close-to-benchmark sector allocations helped mitigate the impact of the high level of market volatility. There was a significant dispersion of returns during the month between the best performing and the worst performing sectors (Communication Services -0.3% compared to Health Care -12.0%, USD).

At a single stock level, a key contributor was a leading construction and engineering contractor. The stock has been a beneficiary of a more supportive economic policy environment, with a focus on increased fiscal stimulus in recent months. Linked to this, the company announced that Q1 2022 new contracts had risen by a robust 84% year-on-year with particularly rapid growth in infrastructure construction and design.

On the other hand, a key detractor was the zero exposure to a leading white liquor brand and the largest China A-shares stock by market cap. The white liquor sector overall was resilient in the market weakness in April and the performance of our two preferred holdings – Wuliangye Yibin and another wine company – compensated for the lack of exposure to the stock.

Market Outlook

April was a volatile month for China equities. At one stage, the MSCI China All Shares Index had fallen by 13% before recovering somewhat and finishing with a decline of 6.3% (USD). Within this China A-shares lagged with a decline of 9.7%, part of which was due to currency weakness. Offshore equities were more resilient with the MSCI China index returning 4.1% after a sharp recovery in the final days of the month.

The main focus during the month was the COVID lockdown in Shanghai which started at the end of March and only showed signs of easing towards the end of April. The severity of the impact on economic activity – especially the services sector – became clear with the non-manufacturing purchasing managers' index (PMI) of 41.9 in April, well below the level of 50 which signals expansion rather than contraction.

As we saw two years ago at the beginning of the pandemic, the weaker recent economic activity is likely to result in pent-up demand when the lockdown measures ease. For that reason, all eyes are on the daily COVID numbers as well as on the government's "dynamic zero" policy. At this stage, it appears that policymakers are prioritising zero-COVID over the official growth target of "around 5.5%" this year.

Nonetheless, there have also been signs of further economic policy easing recently. The reserve ratio requirement was reduced by 25 basis points (bps) in April. Infrastructure investment has also accelerated significantly, and banks are being strongly encouraged to extend credit.

The most decisive news on policy easing came at the end of the month from the Politburo, China's top decision-making body. At the quarterly meeting on economic policies, policymakers announced a major step up in support to deliver economic targets for the year, with a particular focus on infrastructure as well as an easing of restrictions in the property sector.

Our view is to expect a stabilisation in macro conditions as we head into H2. China equities are typically quite sensitive to domestic credit and liquidity conditions and therefore we also expect this change in policy environment to be supportive for the market.

Portfolio activity recently has been to add to areas such as construction engineering which should benefit from the stronger fiscal stimulus, especially municipal infrastructure spending. We also added slightly to internet / platform exposure. In aggregate, we are now close to neutral in this area. These allocations have been funded by reducing exposure in areas such as the electric vehicle supply chain where we see some earnings risk as a result of higher raw material costs.

At month end, the onshore / offshore allocation is close to benchmark with around 48% in China A-shares. The largest overweight sector position is Information Technology (2.8%) and the largest underweight is Consumer Discretionary (-2.5%).

For Allianz Life Global Artificial Intelligence Fund:

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

Market Review

Global equities dropped again in April. Sentiment was knocked by signs that central banks are likely to be more aggressive in tightening monetary policy, sparking fears of a slowdown in the global economy. Hopes of a swift end to the conflict between Russia and Ukraine were also dashed, while concerns that China's zero-COVID policy would lead to further lockdowns added to the negative tone. At a sector level, the month saw a rotation towards high-quality dividend-paying stocks that may be able to protect their earnings by passing on higher costs to customers. Consumer Staples was a rare bright spot, with several household names announcing prices hikes. Meanwhile, "new technology" stocks continued to be hurt by fears that higher rates would undermine the value of their future earnings.

Information Technology and related stocks underperformed the broader market during the period. A combination of hawkish US Federal Reserve (Fed), elevated inflation, geopolitical risks, ongoing supply-chain issues, and mixed earnings results had varied impacts on the subsegments within Technology. Semiconductors fell the most with reports of weakening consumer electronics demand and supply chain constraints. Software companies reported strong earnings results and management guidance was positive, but the stocks struggled to post gains. Internet and ecommerce stocks remained weak amid the shift in consumer and investor preferences for re-opening beneficiaries.

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 health benefits management company was one of the top contributors. In April. The company reported strong quarterly revenue and earnings results that exceeded analysts' expectations. Management highlighted the company had its strongest selling season in which it grew membership by over three million. We believe the company's investments in digitisation and artificial intelligence (AI) are paying dividends, allowing the company to gain efficiencies in client care while expanding the breadth and quality of their offerings. We continue to see a long runway for growth and consistent profitability improvements supported by these investments.

Our position in a fast food chain operator was also a contributor. At the end of the period, the company reported robust quarterly sales results, driven by steady momentum in same-store- sales in both the US and international markets. The company's investments in digitisation, including online and kiosk ordering and new loyalty programs, have been key drivers underlying the sales momentum. While it is facing food and wage cost inflation, the company is seeing pricing power to partially offset this some along with other efficiency gains. We remain constructive on the company's prospects and continue to see a favourable risk/reward.

Detractors

Our position in electric vehicle (EV) maker, Tesla, was one of the top detractors. Shares came under pressure with its founder, Elon Musk, making a take-private bid for a social network which could require sales of a portion of its stake. During the period, the company released fiscal quarter results that exceeded estimates on both revenue and operating margins, and reiterated their growth outlook despite ongoing supply-chain challenges. We remain confident that estimates are likely to remain solid amid strong demand and ramping supply. We believe the world is now embracing EVs and the move towards sustainable transport has reached an inflection point. We also believe that the company is positioned to lead this transition given its lead over the competition and continued rapid innovation.

Our position in Plug Power was also among the top detractors. The company provides alternative energy technology focused on hydrogen fuel cell systems used for the industrial off-road market and the stationary power market. Shares pulled back with other alternative energy stocks after surging in the prior month. During the period, Plug announced a large deal to supply a leading retailer with up to 20 tons of green hydrogen per day. We remain constructive on the long-term earnings power of the business given the company's secular growth opportunity in the hydrogen fuel cell market and scalable technology solutions.

Purchases and Sales

During the period, we exited our remaining stub position in a data analytics software provider as the company has seen significant employee turnover over the past year which appears to have continued even after the addition of a new CEO. We are concerned that this level of turnover could translate into greater chances of some missed execution. While we chose to exit the position at this time, we will continue to evaluate the steps the company's new leadership is taking to improve the company's execution. We also sold a data warehouse solutions provider as we have had concerns regarding the pace of the company's migration to the cloud and its ability to compete with rising leaders in the cloud data analytics market.

Market Outlook

We believe the market's decline in April to be mostly attributable to uncertainty in the pace of the Fed's monetary policy normalisation and whether going too fast to fight inflation could drive a more material slowdown in economic growth. Markets have quickly priced in a 50-basis point (bp) hike in May with several more hikes through the rest of the year. Another area we are watching closely is the Fed's quantitative tightening measures, which should be another draw on liquidity. In our view, markets are now pricing in a higher risk for an economic slowdown and potentially a credit or liquidity event that often follows such tightening environments. Additionally, the inflation picture that has prompted incremental hawkishness is far from resolved with Russia's war on Ukraine impacting commodity prices and China's COVID-zero policy continuing to roil supply chains.

Risk of slower growth ahead but the US economy remains resilient

Through the quarterly earnings period, management commentaries have been mixed with some discretionary spend areas, like in shelter-in-place/work-from-home beneficiaries, calling out significant softening in their businesses, while more broadly exposed consumer and commercially oriented companies have generally been positive on their recovery trajectories.

While it is likely that tightening monetary and fiscal conditions will impact the growth outlook, we believe companies and consumers are well-situated to ride out an economic soft patch given record low unemployment and healthy balance sheets.

Markets are quickly pricing in higher rates and slower growth

With this complicated backdrop, investors have shown a preference for defensive sectors that have higher visibility of earnings. Meanwhile, cyclical and other high-beta areas have seen more acute pressure. 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 tighter labour and inflation conditions. While markets are likely to remain choppy in the near term, we are optimistic that these oversold pockets of the market, such as long-duration growth, may be stabilising as valuations come into historical support ranges. Business fundamentals remain robust as enterprises are committing to multi-year digital transformation programmes and many consumer shifts remain early in their adoption phase.

While we navigate the broader macro and geopolitical environment, we remain focused on investing in companies driving innovation and change. On a year-to-date basis, the market focus has been on interest rate policy, inflation, and terrible geopolitical circumstances that have caused equity markets to decline. The focus on these concerns presently 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, which they have done through technology bubbles, wars, global financial crises, and pandemics. We remain encouraged that the pace of technological innovation continues to advance at an accelerating pace driven by 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. In line with the upswing in other pro-cyclical areas, semiconductors have performed well fundamentally and in terms of share price. Looking forward, demand across many areas of end demand remains strong and supply is relatively constrained. We think these dynamics should remain in place over the next several quarters and are supportive of further upside in semiconductor shares.

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 roll out 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

In line with global markets, equities in Asia also declined in April as the US Federal Reserve's (Fed's) more hawkish stance and the impact of Russia's invasion of Ukraine weighed on markets. China equities sold off as the prospect of widening lockdowns dampened the outlook for economic growth. China's strict zero-COVID policy has led to factory closures and closed key ports, sparking fears of further supply chain disruptions.

Elsewhere, ASEAN markets were mixed with Indonesia and Malaysia again bucking the broader regional decline, helped by their status as commodity exporters. Several countries in the region took steps to tackle rising inflation: South Korea raised rates while Singapore also tightened monetary policy. Japan equities weakened modestly as a further easing of border restrictions failed to offset the adverse impact of a hawkish Fed and rising inflationary pressures. In contrast to other central banks, the Bank of Japan (BoJ) vowed to keep bond yields at zero and reaffirmed its commitment to stimulus measures. As a result, the Japanese yen fell to a 20-year low against the US dollar.

Market Outlook

The Fund lagged the benchmark during the month. At a country level, the key detractor was stock selection in Taiwan, especially in the Technology sector, as weakness in smartphone sales raised concerns over the earnings outlook for the semiconductor supply chain.

At a single stock level, a top contributor was Koh Young Technology, a Korean company and a global leader in inspection equipment for consumer and auto electronics. The company reported a good set of quarterly results. We see significant future growth potential from artificial intelligence-based smart factory solutions, which should help shift the market perception of Koh Young from a hardware maker to a more of a software company over time.

Conversely, the top detractor was ASMedia Technology, a Taiwan-based technology company that specialises in motherboard chipsets. The share price decline is related to concerns over weakening personal computer (PC) demand at end customers. Given the lacklustre near-term outlook, we reduced our weighting during the month.

The overall positioning of the portfolio remains little changed. From a country perspective, the portfolio is overweight in Taiwan, with underweight exposures in Japan and India. From a sector perspective, the portfolio has significant exposure to Information Technology and Industrials, balanced by limited holdings in Financials, Communication Services and Consumer Discretionary. Our favoured positions are often in smaller companies which have invested heavily in their core technologies over several years to establish a sustainable, competitive edge.

Over the month, we reduced exposure to selective Technology stocks where we see near-term earnings risks and added to areas where we have higher conviction on pricing power, which has become an increasingly important factor given rising input costs. For example, we initiated a new position in a marine shipping stock in addition to increasing exposure to existing holdings in the sector.

Clearly, we are in extremely uncertain times with low visibility around future economic developments globally. Tighter monetary policy around the world amid rising inflationary pressures, and the strength of the US dollar, are also combining to create a challenging environment for regional equities.

Looking ahead, a potential bright spot could be the pivot to an easier monetary and fiscal policy setting in China. This should ultimately result in a stabilisation of the Chinese economy and also provide a more supportive backdrop to markets. Of course, a lot will depend on how long the current COVID lockdowns last, and whether the Shanghai experience is repeated elsewhere in the country.

In terms of other key risks, there has been speculation about whether China will face western sanctions as a result of providing support to Russia. We think this is an unlikely scenario. The economic cost of jeopardising China's access to the vast US and European export markets would be huge. Nonetheless for the time being, geopolitical risks are likely to result in a higher risk premium for the market.

We remain relatively cautious on the near-term outlook in Japan. Higher commodity and energy prices will increase costs and squeeze margins, especially for downstream manufacturers. In addition, the tightening of policy in the US and other central banks remains a further headwind. Having said that, once we are through what is likely to be a cautious reporting season, valuations are reasonable.

For Allianz Life Total Return Asian Equity Fund:

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

Market Review

In line with global markets, equities in Asia also declined in April as the US Federal Reserve’s (Fed’s) more hawkish stance and the impact of the war in Ukraine weighed on markets. China equities sold off as the prospect of widening lockdowns dampened the outlook for economic growth. China’s strict zero-COVID policy has led to factory closures and closed key ports, sparking fears of further supply chain disruptions. The official manufacturing purchasing managers’ index (PMI) fell to 47.4 in April while the non-manufacturing PMI slumped to 41.9, both readings were the lowest since early-2020.

Elsewhere, ASEAN markets were mixed with Indonesia and Malaysia again bucking the broader regional decline, helped by their status as commodity exporters. Indonesia, for example, is the world's top exporter of palm oil, thermal coal and a major producer of nickel, copper and refined tin. Several countries in the region took steps to tackle rising inflation. South Korea raised rates while Singapore also tightened monetary policy.

The Fund lagged the benchmark during the month. At a country level, the key detractor was stock selection in Taiwan, especially in the Technology sector, as weakness in smartphone sales raised concerns over the earnings outlook for the semiconductor supply chain.

The top contributor over the month was Reliance Industries. The company’s more cyclical businesses have benefitted from rising commodity prices which are leading to improved cash flow generation. The company also continues to make progress in its roll-out of ecommerce and digital operations as well as expansion into new energy areas such as solar, batteries and hydrogen.

Conversely, the top detractor was a Taiwan-based technology company that specialises in motherboard chipsets. The share price decline is related to concerns over weakening personal computer (PC) demand at end customers. Given the lacklustre near-term outlook, we reduced our weighting during the month.

From a country perspective the portfolio has an overweight position to Southeast Asia including Singapore, Thailand and Indonesia, and is underweight the North Asia markets of Korea and Taiwan. At a sector level, the Fund is overweight Consumer Staples, Energy and Communication Services, whilst being underweight Materials, Utilities and Consumer Discretionary.

Over the month, we reduced exposure to the Technology space and added to Energy through a new position in a Korean refinery stock. We also added to other businesses that should be more resilient in an inflationary environment such as Singapore Financials, where net interest margins should widen as interest rates move higher.

Market Outlook

Clearly, we are in extremely uncertain times with low visibility around future economic developments globally. Tighter monetary policy around the world amid rising inflationary pressures, and the strength of the US dollar, are also combining to create a challenging environment for regional equities.

Looking ahead, a potential bright spot could be the pivot to an easier monetary and fiscal policy setting in China. This should ultimately result in a stabilisation of the Chinese economy, and also provide a more supportive backdrop to markets. Of course, a lot will depend on how long the current COVID lockdowns last, and whether the Shanghai experience is repeated elsewhere in the country.

In terms of other key risks, there has been speculation about whether China will face western sanctions as a result of providing support to Russia. We think this is an unlikely scenario. The economic cost of jeopardising China’s access to the vast US and European export markets would be huge. Nonetheless for the time being, geopolitical risks are likely to result in a higher risk premium for the market

For Allianz Life Global Income Fund:

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

Market Review

After a reprieve in March, the selloff resumed in April. All major asset classes declined in the month.

Pessimism rose in the period with investors facing rising interest rates, China lockdowns, and an ongoing war and debating whether the global economy and corporate earnings could withstand an aggressive, US Federal Reserve (Fed)-led tightening campaign to combat inflation.

The expected pace of interest rate hikes in 2022 accelerated over the month with Fed Chairman Powell indicating that a half-percentage increase was "on the table" in May. Against this backdrop, US Treasury yields surged, and the curve (2s10s) steepened due to a sharper move at the longer end.*

Economic reports diverged with Q1 US gross domestic product (GDP) growth falling and inflation continuing to rise, while consumer sentiment rebounded, and weekly jobless claims remained low.

Mixed financial results and guidance from a few high-profile companies overshadowed a better-than-expected start to the Q1 earnings season. Through April, 77% of S&P 500 companies topped earnings estimates with an upside surprise factor of +6.5%. Q1 and Q2 earnings revisions were also running above their respective historical trends.

Against this macro backdrop, both risk assets and safe haven investments finished sharply lower for the period. Global equity markets, as measured by the MSCI World Index, returned -8.31%^ with non-US developed stocks outperforming their US counterparts. Global convertible securities and high-yield bonds also declined with new issuance remaining subdued as yields and volatility spiked. Global fixed income, as measured by the Bloomberg Global Aggregate Index, returned -5.48% with US exposure holding up better than non-US.**

The portfolio participated in the sharp selloff across risk assets. With the surge in interest rates, investment grade corporates also declined materially, providing less resiliency than expected in a risk averse market environment. Little regard was given to financial results or management outlooks with nearly all holdings closing lower by month-end.

Advertising revenue concerns weighed on Alphabet (internet services). Within Technology, positions in Apple (hardware), Microsoft (software) and select semiconductors underperformed. A leading ecommerce company declined on sales growth and cost fears, and technical headwinds impacted shares of an electric vehicle manufacturer despite reporting record Q1 deliveries. Other notable detractors included Canadian National Railway (freight), Aon (insurance) and a financial services company (banking).

There were a few positive individual contributors, but the performance impact was not significant. Outperformers included an energy company, and a paint and coatings manufacturer benefitting from pricing power and pent-up demand.

Regarding notable positioning changes over the period, exposure to Technology and Industrials declined whereas exposure to Health Care and Utilities increased.

Market Outlook

The market outlook remains highly uncertain amid a growing list of concerns: decelerating US economic growth, slowing earnings growth, a steepening rate hike path, yield curve flattening, high inflation, and ongoing geopolitical angst, among others.

The quarters ahead will determine if the worst has passed, or further declines await. Regardless, several factors are 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, the S&P 500's forward price-to-earnings multiple fell to 17.5x in April from 21.4x in December. Finally, substantial corporate liquidity may point to additional stock buybacks, increasing dividend payments and rising mergers and acquisitions (M&A) activity – elements that could also support equities.

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 elevated conversion premium and closer proximity to the bond floor. This dynamic should allow for greater downside protection if equity volatility persists and/or valuations correct further. If underlying equities strengthen from here, convertible securities are positioned to participate in the upside.

Credit's risk/reward opportunity is also compelling after a historic start to the year. In addition to a favourable technical backdrop, high-yield credit statistics and fundamentals are healthy and near-term refinancing obligations remain very low. Accordingly, many high-yield market strategists expect a low default rate environment in 2022. Rising interest rates remain a key risk for high grade corporates. That said, the investment opportunity has improved on the back of sharply higher yields and a positive fundamental outlook. Both credit markets are trading at significant discounts to par, offering attractive total return potential and downside cushioning.

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

For Allianz Life Thematica Fund:

Target Fund Manager's Comment (For Allianz Thematica)

Market Review

Global equities dropped again in April. Sentiment was knocked by signs that central banks are likely to be more aggressive in tightening monetary policy, sparking fears of a slowdown in the global economy. Hopes of a swift end to the conflict between Russia and Ukraine were also dashed, while concerns that China's zero-COVID policy would lead to further lockdowns added to the negative tone.

At a sector level, the month saw a rotation towards high-quality dividend-paying stocks that may be able to protect their earnings by passing on higher costs to customers. Consumer Staples was a rare bright spot, with several household names announcing prices hikes. Meanwhile, "new technology" stocks continued to be hurt by fears that higher rates would undermine the value of their future earnings.

The International Monetary Fund (IMF) cut its forecasts for global growth, saying "global economic prospects have been severely set back, largely because of Russia's invasion of Ukraine". With the invasion of Ukraine adding to inflationary pressures, central banks became more hawkish. The market now expects the US federal funds rate to end the year at 2.8%, compared to a current range of 0.25% to 0.5%, while euro-zone interest rates are also expected to rise in 2022 for the first time in more than a decade.

After two months of sharp gains, commodity prices were relatively steady in April. Despite briefly slipping below USD 100 a barrel, oil prices rose slightly over the month, with Brent crude ending just above USD 105 a barrel. However, natural gas prices rallied on news that Russia had cut off gas supplies to Poland and Bulgaria after the countries refused to pay in Russian rubles.

Market Outlook

The strategy lagged broader global equity markets as represented by the MSCI AC World index over the course of April. Except for the Pet Economy theme, all themes in the portfolio resulted in a negative contribution to performance in April. Largest detractors were the themes Next Generation Energy and Health Tech, but also the group of stocks contained in the benchmark index but not held in the portfolio resulted in a meaningful negative contribution. This group of stocks includes large cap US Consumer Staples companies such as a consumer good company or a beverages company but also the big energy names such as an oil and gas company.

However, the low exposure to mega-cap Technology and Communications stocks like an ecommerce leader, an electric vehicle manufacturer, a technology conglomerate, a streaming service company, a technology company that designs graphics processing units, and a tech giant was a positive contributor. The exposure to companies in the Materials sector such as steel companies also resulted in a positive contribution.

In general, the investment team's view is that the ongoing conflict in Ukraine will take longer to resolve and potentially lead to higher energy, materials, and soft commodity prices for the rest of this year. We continue to believe that Europe will accelerate measures to become energy-independent from Russia. The Next Generation Energy theme is invested in key beneficiaries as the measure of choice will be a faster build-out of renewables. In addition to the existing goal of the energy transition, ie, decarbonisation to protect the climate, the goal of energy security has gained immense importance as a result of recent events. The upheavals on the global energy markets and the (planned) sanctions against Russia have led to a rethink on the European continent.

With further voluntary commitments, Europe aims to become the first climate-neutral continent by 2050. Governments in Europe, together with the European Commission, are striving for a significant diversification of existing energy suppliers. Those targets are flanked by further reduction targets in Asia and America too. The core element of a successful energy transition, the expansion of renewable energies, is to be significantly accelerated once again. There is a congruence of goals between the energy transition and energy independence.

This objective is to be accompanied by a far-reaching electrification of transportation, heating, and the transformation of industrial processes, which will enable a switch to renewable resources. The good news is that the European Commission has promised extensive financial support (30% of the EUR 1.8 billion European Union's budget by 2027). This not only reduces dependence on fossil fuels, but also is expected to encourage the emergence of new industries in Europe. Rising energy prices are a side effect throughout the transformation phase. However, this also opens up opportunities to use and develop new technologies that are still in their infancy and are yet to develop their benefits. In particular, the development of a hydrogen-based energy storage should be mentioned here, as well as other forms of energy storage or CO2-reducing technologies, whose development is favoured by rising prices.

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