Allianz

Market Review and Outlook

December 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 4.3% mom to close at 2,603 points for the month of December. Similarly, the Dow Jones Index declined by 4.2% mom due to fear of recession risk, rate hiking cycle and rising Covid-19 cases around the world as China eases its zero-Covid policy. On the US' economic front, retail sales in November eased by 0.6% mom as compared to a gain of +1.3% mom in October. Its November industrial production tapered by 0.2% mom as compared to a decline of 0.1% mom in the previous month. US S&P Composite PMI's contraction widened to 46.4 in November as compared to 48.2 in October. Over in Europe, the Stoxx 50 Index dipped by 4.3% mom during the same period following a contractionary Eurozone S&P Composite PMI reading of 47.8 in November albeit an improvement from 47.3 in October. Its industrial production contracted by 2.0% mom in October as compared to a growth of +0.9% mom in the previous month. Moreover, its October retail sales slumped by 1.8% mom as compared to an increase of +0.4% mom in the previous month. Similarly, China's Shanghai Composite Index fell by 2.0% mom in December following a deterioration in Caixin China Composite PMI reading of 47.0 in November as compared to 48.3 in October. Market sentiment was hampered by rising Covid-19 cases after the government eased its zero-Covid policy. After further cuts in August 2022 for its 1-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 December 2022 meeting.

In December, Brent oil increased slightly by 0.6% mom to USD85.91/bbl as OPEC+ agreed to keep oil production unchanged in its December meeting while China progressed towards reopening. Crude palm oil (CPO) price gained by 1.8% mom to RM4,171/MT as Indonesia unveiled its new biofuel mandate of B35 (35% mix) as compared to B30, effective January 2023.

On the ASEAN front, equity markets closed the month under review with mixed performances. Malaysia's FBMKLCI rose by +0.4% mom due to clarity on the political front as PM Anwar won the parliament confidence vote and cabinet members were successfully nominated. The new Budget 2023 is expected to be unveiled on 24 Feb 2023. December saw a monthly net foreign equity withdrawal of RM1,359m, bringing YTD inflows to approximately RM4.4b. From an economic standpoint, Malaysia's October industrial production growth slowed to +4.6% yoy from a growth of +10.8% yoy in the previous month. November manufacturing PMI also weakened to 47.9 as compared to 48.7 a month ago. The Stock Exchange of Thailand advanced by 2.0% mom as China's loosening of its zero-Covid policy will benefit the tourism sector in Thailand. Its November S&P Global manufacturing PMI weakened to 51.1 as compared to 51.6 in October. The Bank of Thailand hiked its Benchmark Interest Rate by 25bps to 1.25% in its November meeting. Conversely, Indonesia's Jakarta Composite Index fell by 3.3% mom following a lower S&P Global manufacturing PMI reading of 50.3 in November as compared to 51.8 in the previous month. The Indonesian central bank further raised its 7 - day repo rate by 25bps in its December meeting to 5.50%. Similarly, the Singapore's Straits Times Index eased by 1.2% mom following an industrial production decline of 1.2% mom in November, as compared to a growth of +0.9% mom in October. Its November PMI reading was slightly stronger at 49.8 as compared to 49.7 in October but its Non-oil Domestic Exports experienced a larger decline of 9.2% mom in November as compared to a decline of 3.7% mom in October.

During the recent FOMC meeting in December 2022, the Fed raised rates for the 7th time in the year but only by 50bps, marking an easing of the rate hike momentum. However, the Fed Chairman stressed that they were not at a sufficiently restrictive policy stance and warned that ongoing rate hikes were appropriate. He also signals that the terminal rate would trend higher than anticipated, at 5 – 5.25%, which was last seen in 2007. The FOMC minutes explained that the public should not construe the decision to move to smaller rate increases as weakening the Fed's commitment to bring inflation back to its 2% target. US Treasuries (UST) posted a loss in December as yields were pushed higher during the second half of the month by a selloff in euro-zone and UK government bonds, as well as Japanese bonds after the Bank of Japan (BOJ) unexpectedly doubled its cap on 10-year rates. BOJ Governor, Kuroda said the move was aimed at ironing out distortions in the shape of the yield curve and ensuring the benefits of the bank's stimulus program are directed to markets and companies. MoM, the UST yield curve shifted higher by 17 - 26bps as the 2yrs UST rose 12bps to 4.43% and the 10yrs UST climbed 26bps to 3.87%. Meanwhile, the November consumer price index (CPI) rose just 0.1% from the previous month, and increased 7.1% from a year ago, compared with respective estimates of 0.3% and 7.3%.

Malaysian Government Securities (MGS) yields continued their rally from November but remained in thin trading volume as the market approached the end of 2022. MoM, yield movements were mostly lower by 3 - 14bps except for the 30yrs MGS which rose 6bps to 4.59%. The 10yrs MGS declined 3bps to 4.07%. MYR appreciated against the USD at 4.4045 (end- Nov: 4.4460). December saw the release of the 2023 auction calendar with the number of auctions at 37 (comprising 19 issuances of GII and 18 issuances of MGS), compared to 36 in 2022 (comprising 18 equal issuances of MGS and GII bond issuances).

Market Outlook

Globally, inflation and the counteracting rise in rates remains to be the focus. In the most recent FOMC minutes, officials stressed that the slowdown in interest rate hike is not an indication of any weakening of the committee's resolve to achieve its price-stability goal. The Fed also warned not to underestimate their resolve to keep inflation under control. The Fed median forecast suggests the rate to be at 5.1% in 2023 and 4.1% in 2024. Locally, focus will be on the direction of the new government and the new Budget 2023 scheduled to be tabled on 24 Feb 2023.

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. In the near term, we would await the policy direction and Budget 2023 from our new Unity government. As always, we may engage in a modicum of trading activity to capitalize on any market volatility.

Bond yield volatility will persist in 2023 as the combined effects of the pace and magnitude of interest rate hikes stemming from inflationary pressures remains. While we expect more rate hikes in the US, the quantum of increase would likely be lesser. Meanwhile, BNM in November maintained its assessment that the current monetary policy stance is accommodative and supportive of economic growth. They added that the Monetary Policy Committee (MPC) is not on any pre-set course and any rate hike would be done at a measured and gradual pace.

The risk-reward of MGS has improved with the Ringgit rates market priced for BNM normalisation. Still, we are mindful of the bond market volatility arising from external and internal fronts, which would impact local yields. 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, the Fund could perform better than global equity markets.

What hurt?

- The Fund underperformed its customised benchmark. The Fund suffered from its cyclical dividend exposure.

Market Review and Outlook

Global equities retreated over December. Despite a decline in headline inflation rates, sentiment was knocked by a series of hawkish statements from central banks which implied terminal rates may be higher than the markets had priced in. Growth-focused companies in the Communication Services, Consumer Discretionary and Information Technology sectors were among the weakest performers as hopes of a more dovish stance were dashed. Meanwhile, Utilities and Health Care stocks held up the best, helped by their defensive characteristics.

After November's strong rally, US stocks sold off over December as hawkish statements from Federal Reserve (Fed) policymakers dashed hopes of a pivot to a more dovish stance. The tech-heavy Nasdaq Index dropped more than the S&P 500 Index, as value stocks held up better than growth-focused ones.

European equities retreated over December as sentiment was knocked by hawkish statements from the European Central Bank (ECB). Early in the month, European Union (EU) member states reached agreement on a USD 60 per barrel price cap on purchases of Russian oil and this was later followed by an agreement to cap EU gas prices when they hit EUR 180 per megawatt hour for three days. European gas prices eased sharply over December on news that the EU's gas storage facilities were more than 80% full, despite bitterly cold weather, thanks to record imports of LNG, a pick-up in German wind power and greater nuclear generation in France.

For Allianz Life Asia Multi-IncomePLUS Fund:

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

Market Review

Equity markets in the Asia excluding Japan region delivered mixed returns in December. In general, stocks gained in the first half of the month, boosted by signs that China was relaxing its strict zero-COVID policy, before falling back towards month-end as Chinese COVID-19 infection levels soared and major central banks reaffirmed their hawkish stance. Chinese equities, in particular, rebounded strongly at the start of December amid growing evidence of a pivot towards reopening. However, shares slumped once more as the subsequent surge in infection levels caused many people to stay at home, leading to further supply chain disruptions as factories closed and delivery drivers became ill. Stocks in South Korea and Taiwan also retreated in December as economic concerns weighed on tech shares. ASEAN markets retreated modestly, with Thailand and Malaysia being stronger relative to the Philippines, Singapore, and Indonesia. Indian markets also fell, though the annual inflation rate eased.

The Asian USD high yield credit market, as represented by the JP Morgan JACI Non-Investment Grade Custom Index, rose by 6.31% in December. Chinese property bonds continued to recover as more supportive measures were announced and more developers were able to raise financing.

The Fund return was positive in USD terms in December.

Within the equity sleeve, the top contributor over the month was Trip.com, a leading travel booking platform in China. The stock extended its November rally on reopening expectations and further COVID policy relaxation in China. We used the recent rally to take some profit and continue to view Trip.com as a beneficiary of travel resumption and reopening in China and regional Asia.

Conversely, the top detractor came from a leading semiconductor foundry globally. Announcements of order and price cuts on the semiconductor supply chain from demand weakness impacted share price over December. While share price catalysts may be muted in the near term, the company remains a core holding in the portfolio for its technology and market leadership.

The asset allocation at the end of the month was 67.7% invested in Asian equities and 31.6% in Asian fixed income, with the remainder in cash.

In terms of portfolio activity in December, we increased portfolio allocation towards China where we see stronger potential for economic growth and earnings recovery in 2023. We exited a position in an insurer in Korea given the underwriting downcycle for its auto business line.

For the fixed income sleeve, we invest in bonds with the aim of long-term interest accrual. In December, our holdings in high yield bonds continued to rebound well.

At the end of the month, we held 58 equities and 71 fixed income securities. The equity portfolio yield was 3.2% and the average fixed income coupon was 5.2% with an average credit rating of BB and duration of 2.6 years.

Market Outlook

Despite the challenging global backdrop, we maintain our base case for recovery in Asian markets. The sharp pullback last year has resulted in a number of stocks coming back to attractive valuations, and the regional Asian market as a whole is trading below longer-term average valuation levels.

China remains a key swing factor – the recent abrupt change in COVID policy, as well as improved support for the property sector, increase the probability that 2023 will see an acceleration of economic growth. This will also feed through into corporate earnings, especially in H2.

On the fixed income side, we expect more economic support measures to be announced by China now that the focus is back on economic growth. This should provide a positive fundamental backdrop for the Asia high yield universe, and market technicals should remain supportive given the lack of new supply in the market. Valuations are still cheap on an historical basis.

For Allianz Life Amanah Dana Ikhlas:

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

Market Review

The Malaysian government bond market yields were lower in December and its curve bull steepened with the short-end outperformed the belly and long-end, continuing the rally from previous month. The local bond market tracked the volatile global bond market on expectations of a smaller 50bps fed fund rate hike at the last FOMC meeting of the year. Locally, the bond market was supported from the improved local political landscape following the vote of confidence for PM Anwar Ibrahim. As a recap for 2022, BNM increased the OPR by 100bps compared to the increase in Fed Fund Rate of 425bps. As a result of monetary policy tightening globally, global bond yields increased, with MGS yields rose 28-85bp YoY across the 3y30y with 10y MGS yield 45bp higher at 4.04%. However, the late rally in Nov-Dec managed to turn in a positive total return of 1.3% for Ringgit government bonds (2021: -1.4%). BPAM All Sukuk Index registered a 1.53% YTD performance in 2022. Meanwhile, corporate bond yields rose by 45-165bps in 2022.

Global markets in December were broadly lower as participation dwindled leading up to the year-end and while also assessing the impact of an earlier-than-expected news of China's re-opening. This led to a solid performance in Hong Kong and China. The Fed raised rates by 50bps, as expected, but hampered sentiment elsewhere. Closer to home, the KLCI was flat for the month (+0.45%). Although the month started weaker on recession worries and policy changes, window-dressing activity led the market higher on its last remaining trading days. The KLCI were led by gains in plantations, transportation, and healthcare while offset by declines in real estate and construction. While political concerns were allayed as the PM passed the motion of confidence in Parliament, monopolies were put in the limelight. These centered around the Digital Nasional Berhad (DNB) 5G initiatives, Padiberas Nasional (Bernas) and lower mobile plans for targeted groups. The year concluded with KLCI declining 4.6% to close at 1,495pts. Markets were laden with the Covid-19 omicron variant, the Russia-Ukraine conflict, commodity price spikes, rapid rise in interest rates, recession risks and locally, the political landscape. This made the KLCI the second lowest performer in the region for 2022.

Market Outlook

We expect the recovery in Malaysia's fixed income market to continue in 2023, as central banks around the world have peaked on interest rate hikes and are signalling a shift towards more accommodative monetary policy. Inflation in Malaysia is also expected to moderate, leading to less pressure on the central bank to raise interest rates.

With Malaysia GDP growth expected to be 4.00% in 2023, down from an estimated 8.00% in 2022, the indication of domestic growth softening could lead to more stable and positive MGS yields in 2023. Any slowdown in economic growth caused by the recent spate of hikes could manifest in 2H2023, prompting central banks to become more accommodating and abandon their restrictive stance to avoid a hard landing. This would be ideal for bond yields to fall.

Following four consecutive 25bps rate hikes beginning in April to 2.75%, we anticipate another 25bps hike by BNM in 2023 to bring the OPR level to 3.00%, as we believe the OPR hike cycle is nearing its end. This would restore OPR to its pre-Covid level. The end of the central bank hiking cycle in 1H2023 would present a more positive dynamic to yield movements globally, positively impacting MGS yields to trend lower. Nonetheless, potential challenges to our baseline estimates include a higher terminal Fed funds rate, which may have an influence on regional rates, including Malaysian yields. As a result of the Fed's previous rate hikes, the market anticipates a terminal rate between 5.00% - 5.10%. However, if achieving price stability in the US remains a priority, the Fed could be forced to implement additional rate hikes that would increase the predicted terminal rate. This would pose a risk to the upside for MGS yields as the effect would echo throughout the global market.

For the local market, recent corporate earnings have been within expectations mainly driven by re-opening themes. Equity market performance have shown a rebound after expectations of less pace of interest rate hikes which put investors in risk-on mode. We do expect equity to continue to do relatively well in the 1H2023 following the conclusion of the GE15, providing political stability to the country. Now, focus will be on implementing growth and business-oriented policies while also reforming social and governance agendas. We expect government to continue pump-priming to offset the global slowdown and the re-opening (e.g., recovery of tourism) should have a positive effect to the domestic economy. However, we are still wary on the global macroeconomic risks and the ongoing monetary policy tightening albeit moderating. The heightened risk of recession and corporate earnings risks will be continuing to be headwinds for the local market.

For Malaysian sukuk, we will continue to trade opportunistically and realise profits, while also considering new primary issuances with higher yields to increase returns. As the outlook improves, we will consider extending duration from present neutral positions with preferred investments into attractive govvies yields and healthy AAA and AA corporate credits. Finally, we are more inclined to invest in govvies in 2023 after staying on the sidelines in 2022 due to rising global sovereign yields. As rates appear to have reached peak and central banks are anticipated to become more accommodating in 2023, we believe that government bond yields are likely to decline in 2023, allowing for advantageous trading positioning.

For Malaysian equities, we think Asean and, Malaysia could be relatively resilient. We are comforted that corporate earnings have stayed somewhat resilient, but we do foresee margin compression moving forward due to the expected slowdown. Having said that, valuations have come-off substantially although not at depressed level of yet which suggests that the negatives have been largely priced. Hence, we maintain defensive with a balance portfolio structure between defensive, value and growth stocks. Sectors that we like are commodities and in particular, energy due to the tight supply conditions and steady cash flow stocks within the utilities and consumer staples.

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 December. Stock selection was the main contributor, especially from the Health Care and the Consumer Discretionary sectors.

At a single stock level, a top contributor was Akeso, a leading biotech company with a focus on oncology. The strong share price performance followed an announcement that it had licensed the overseas rights for a key new drug to a US-based biotech company for an upfront payment of USD 500 million and potential commercial milestones up to USD 5 billion. The announcement is a further reflection of Akeso's strong product pipeline, and the move to the commercialisation phase also helps to de-risk the growth outlook.

On the other hand, a leading detractor was an electric vehicle (EV) manufacturer in China. The overall EV supply chain was under pressure last month due to concerns about weaker demand amid COVID disruptions. In recent months, we have reduced portfolio exposure to EV-related stocks, including this company, given the lack of near-term catalysts. Although it may take some time for inventory levels to be adjusted, we believe the EV space continues to have longer-term growth potential, nonetheless.

Market Outlook

After a strong rebound in November, China equities moved higher again in December. Offshore stocks led the way with the MSCI China Index rising by more than 5%. There was also a notable reversal within the market, with previously strong performing sectors such as Energy and Property giving up some of their gains and consumption and internet-related stocks generally seeing improved performance.

Last month has been remarkable for the abrupt change in COVID policies. Less than a month after the government started to talk about "policy optimisation", much of the zero-COVID regime had been rapidly dismantled. The immediate result has been a huge surge in COVID cases (estimated at 250 million in the first 20 days of December) which has put the health care system under extreme pressure.

With many Chinese households worried about infection, the initial reaction of many was to act cautiously and stay at home. Customer traffic at shopping malls and restaurants remained much lower than usual for most of the month, although there were signs of life starting to get back to normal around New Year. Domestic tourist hotspots ,such as Hainan Island in the south, were seeing long queues at duty free stores.

After three years of depressed sentiment, the end of COVID policies should trigger significant pent-up consumer demand. While Chinese households did not benefit from large state handouts in the same way as many western counterparts, nonetheless savings rates have still increased during the COVID years. Notably, there has been a steep fall in interest and mortgage rates in China last year.

Another trigger for a rebound in confidence and consumption will be signs of stabilisation in the Property sector. Recent news here has also been more encouraging. There has been a clear shift towards more direct government support for developers, with policies including extension of repayment periods, additional bank lending, resumption of equity market financing and the expansion of government bond guarantees.

We view Property as a sector in gradual but structural decline, especially given demographic changes. But nonetheless, by easing the acute financial stress and starting the process of rebuilding confidence, this removes one of the obstacles to a macro recovery.

In this environment, the Fund continues to be overweight in both the Consumer Discretionary and the Consumer Staples sectors. This includes exposure to reopening beneficiaries including China's largest online travel portal, the largest duty free store operator, a nationwide hotel chain and a major home appliances manufacturer. In recent weeks, we have also added to construction-related companies such as a waterproofing materials business which should benefit from an expected pick-up in property activity.

As at the end of the month, the onshore / offshore allocation is close to benchmark with around 47% 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 retreated over December. Despite a decline in headline inflation rates, sentiment was knocked by a series of hawkish statements from central banks which implied terminal rates may be higher than the markets had priced in. Growth-focused companies in the Communication Services, Consumer Discretionary and Information Technology sectors were among the weakest performers as hopes of a more dovish stance were dashed. Meanwhile, Utilities and Health Care stocks held up the best, helped by their defensive characteristics. Data indicated that inflationary pressures were easing, driven by slower factory gate inflation and lower shipping costs, boosting hopes that the peak of headline inflation was now past. Central banks continued to raise rates in December, but the US Federal Reserve (Fed) and the European Central Bank's (ECB's) 50 basis points (bps) hikes were smaller than their previous increases. However, in general, central banks remained hawkish, with many raising their projections for terminal interest rates. Commodity prices closed December little changed overall. Oil prices initially fell back to levels last seen at the start of 2022, prior to Russia's conflict with Ukraine, with Brent crude trading as low as USD 75 per barrel, before rallying to close the month at around USD 85 per barrel. European natural gas prices also declined sharply on news that the European Union's (EU's) gas storage facilities were more than 80% full.

Information Technology and related stocks delivered negative returns and significantly underperformed the broader market during the period. At the industry level, semiconductors and hardware were the worst performers. Several semiconductor companies warned of rising inventory levels and cutbacks in capacity utilisation into early 2023. Most investors appeared to be expecting that Q4 reporting would mark the turnaround point for semiconductor companies but worries over demand and supply are now forecasted to be deeper into 2023. The software and services industry group also underperformed the broader market, but by a smaller margin. The period was clearly a risk-off environment that disproportionately affected growth and technology stocks versus more value-oriented and defensive names. It was a challenging end to what was a very difficult 2022 for Information Technology and related stocks.

During December, stock selection within the Energy and Communication Services sectors positively contributed to relative performance, while stock selection in the Consumer Discretionary and Health Care sectors were the biggest relative detractors.

Contributors

Our position in a leading data developer platform was a top contributor during the period. The platform is used to build highly available and scalable cloud applications. Despite a softer IT spending environment in recent months, the company reported better quarterly earnings after seeing some macro weakness in the prior quarter. We believe it continues to strengthen its market position and technological leadership in the growing database-as-a-service market.

Our position in ZoomInfo Technologies was also a top contributor during the period. The company provides a cloud-based software platform for sales and marketing solutions. After a difficult November in which the stock underperformed due to conservative outlooks for growth and margins in Q4 2022 and early 2023, the company saw a rebound in its stock after some positive sell-side reports and achieving top rankings for several of its products from well-known software marketplace G2.

Detractors

Our position in electric vehicle (EV) maker, Tesla, was one of the top detractors during the period. Shares have been under pressure as investors worry that CEO Elon Musk's purchase of and involvement in a social media company continues to be an unwelcome distraction. We believe Tesla can drive continued profit margin improvements as input costs decline, new factories ramp up production, and software revenues increase. Given the uncertain macro environment, we will continue to closely monitor end demand, but to date Tesla has not seen a big impact on demand and the recent pullback in shares appears to be pricing in a lot of bad news and uncertainties. In our view, the world is now embracing EVs and the move towards sustainable transport has reached an inflection point. We also believe that Tesla is positioned to lead this transition given its lead over the competition and continued rapid innovation.

Our position in ON Semiconductor was a top detractor during the period. The company's chip solutions are used in power and data management applications with key end markets being the automotive, industrials and communications segments. Despite the company reported solid quarterly financial results at the end of October, a weak outlook from several peers and growing worries over automotive demand for chips in a recession weighted on the stock in December.

Purchases and Sales

We initiated the following positions:

- One of China's leading search and artificial intelligence (AI) companies that is leveraging its technological capabilities into new markets. The company's core search and advertising business is poised to see some improvement in growth as

zero-COVID restrictions are relaxed. Also, the company is making good progress with its driverless robo taxi service in China and recently received the first licence to test in Beijing after the success in Wuhan and Chongqing.
- An integrated payments platform for small and medium-sized businesses to manage and automate their accounts payable, accounts receivable and spend management functions. The company leverages a best-in-class AI recognition engine that can identify critical pieces of incoming documents, extract this information and automate actions such as exception identification or bill payment.
- A company which provides design, engineering, manufacturing, and supply chain services and solutions to original equipment manufacturers in Asia, the Americas and Europe. It uses AI, internet of things (IoT), augmented reality and digital twins to streamline and optimise manufacturing processes.
- A streaming entertainment service company which continues to execute against its long-term ambitions of becoming a global media platform, growing its paying subscriber base to over 200 million subscribers. The company's content strategy relies heavily on AI at many layers of its offering and the pullback in shares in recent months provided an attractive entry point as subscriber growth begins to normalise post-COVID.

During the period, we exited the following positions:
- An online platform for hospitality services. We exited the company due to concerns regarding the macroeconomic impacts of higher interest rates on its business. In particular, housing prices have started to decline, and this diminishes the economic value that the company hosts may accrue from making their properties available and could look to sell their properties, which diminishes available inventory.
- A customer relationship management platform. We exited the company due to several factors including concerns that the macroeconomic environment may impact large deal signings and recent turnover among its executive team.
- A team collaboration software company. We exited the company as we were disappointed by its recent quarterly earnings that missed expectations. Subsequent reports from competitors suggest that the company may be losing some market share in some key segments.

Market Outlook

After a strong rally on the hopes of a Fed pivot and potential for soft landing in the US and global economies, equity markets gave back much of their Q4 gains in December. Overall, the S&P 500 Index and MSCI ACWI Index still finished the quarter in positive territory.

December consumer price index (CPI) was lower than expectations for the second straight month. After the positive CPI report, there were a series of retail sales, manufacturing and services level indicators that pointed to a slowing US economy. The US yield curve remained inverted at levels which have historically indicated a recession is likely. Investor sentiment is moving away from inflation worries and Fed rate policy to the actual consequence of higher interest rates and slowing economic activity.

Outside the US, the EU is expected to go into a recession in the coming months, as it contends with energy price volatility and higher interest rates to fight inflation. China remains a wild card for the global economy. For investors, what was positive sentiment around zero-COVID policy being relaxed has been replaced by the fear that a surge in COVID cases, hospitalisations, and fatalities may chill Chinese economic activity, once again affecting global demand and supply chains. Relaxing the zero-COVID policy will take time and may not be a smooth transition.

We believe that the equity market is in the bottoming process given the economic backdrop and the Fed's campaign to fight inflation. While this fight against inflation is necessary to ensure the long-term stability of the economy and corporate profits, the near-term impact is painful for financial assets.

With equity valuations now pricing in higher for longer interest rates, the next step is working through slower business conditions and earnings trajectory over the next 12 months. The positive news is that investors have been expecting downward earnings revisions for most of 2022 in growth stocks, but we may still have several more quarters to go. Sell-side earnings expectations have been coming down, and company management is also guiding down expectations. This negative earnings revision cycle will likely result in more short-term volatility over the coming months but is a necessary step to build the foundation for sustained recovery and growth.

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 early 2023 more conservative. As expected, consumer personal computer (PC) demand and gaming continued to weaken as demand was pulled forward due to the pandemic restrictions and stimulus-driven spending. However, semiconductors have broadly been positive in Q4, although they could not escape the market decline in December. The positive quarter may reflect a bottoming out process and better differentiation amongst winners and losers given end-market exposure (eg, PC versus automotive versus advanced AI etc). Valuations are still at reasonable levels, and we maintain a constructive view on the space over the long term given the many secular growth drivers of cloud, 5G, IoT, edge computing, electric and autonomous vehicles, and leading-edge manufacturing.

AI applications outlook

Entering Q3 earnings season, software had been viewed as an area of "safety" in terms of their Q2 results and outlook relative to other tech-related groups, especially in areas such as cyber and network security, which were viewed as the type of applications companies could not afford to skip. However, as reporting got underway, software companies reported mixed financial results and reductions in their growth outlook due mostly to macro uncertainty. There were company-specific fundamental challenges in some cases. The result was what we view as a somewhat extreme reaction, mainly driven by a valuation decrease, due to the lower growth outlook, but also extended sales cycles and closing times for deals. The software and services industry group was down again in December. The key looking forward is how the macro situation unfolds and if further negative revisions will be needed as we progress through 2023. We believe the long-term fundamentals are intact as these companies are key infrastructure and application areas of the AI ecosystem. Given the moderation in growth, we will continue to assess the near-term impact of the macro situation and the long-term risk and reward profile.

In the longer term, 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 adoption continues to grow, we expect software and applications 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

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 transformation. 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 evolution.

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

Equity markets in the Asia Pacific region delivered mixed returns in December. In general, stocks gained in the first half of the month, boosted by signs that China was relaxing its strict zero-COVID policy, before falling back towards month-end as Chinese COVID-19 infection levels soared and major central banks reaffirmed their hawkish stance. Chinese equities, in particular, rebounded strongly at the start of December amid growing evidence of a pivot towards reopening.

Australian shares lost ground over December. The Reserve Bank of Australia (RBA) raised rates by 25 basis points (bps) to a 10-year high of 3.1% and indicated that further hikes would be needed to bring inflation under control. Stocks in South Korea and Taiwan also retreated in December as economic concerns weighed on Tech shares. ASEAN markets retreated modestly, with Thailand and Malaysia being stronger relative to the Philippines, Singapore, and Indonesia. Finally, Japanese equities also sold off in December, undermined by the Bank of Japan's (BoJ's) surprise decision to amend its yield curve control policy. The move led to a sharp rally in the Japanese yen, however, which improved returns to overseas investors.

The Fund underperformed the benchmark during the month. Stock selection within the Information Technology sector was a primary detractor. The overweight to this sector was also a key factor in this month's relative underperformance. From a geographical standpoint, the main source of underperformance arose from stockpicking in Japan, reversing the trend from last month when Japan was a top contributor.

One of the top detractors was Alchip Technologies in Taiwan. The company is a semiconductor design house which makes application-specific chips used mainly in high performance computing and data centres. The stock saw some profit-taking after a strong rally in November. We remain of the view that Alchip is well-positioned to manage the uncertainty regarding US Commerce Department restrictions on China's access to semiconductor technology.

Conversely, a top contributor was Akeso, a leading China biotech company with a focus on oncology. The strong share price performance followed an announcement that it had licensed the overseas rights for a key new drug to a US-based biotech company for an upfront payment of USD 500 million and potential commercial milestones up to USD 5 billion. The announcement is a further reflection of Akeso's strong product pipeline, and the move to the commercialisation phase also helps to de-risk the growth outlook.

The overall portfolio has changed little over the last month.

At the sector level, Information Technology, Energy, and Health Care continue to be the main portfolio overweights. In Technology, we have added exposure to memory chipmakers where valuations are now touching trough levels seen in previous down cycles. In Energy, we see higher oil and gas prices resulting in significantly improved cash flows and dividends. We continue to be optimistic on the long-term outlook for the Health Care sector, especially in the biotech space. Although the sector has de-rated due to policy concerns and geopolitical risks, underlying businesses continue to perform well.

From a geographical perspective, the Fund is most overweight in New Zealand and Hong Kong – a by-product of specific stocks owned in these markets. India, Japan, and China are the key underweight markets. 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

Despite the challenging global backdrop, we maintain our base case for recovery in Asian markets. The sharp pullback in the last year has resulted in a number of stocks coming back to attractive valuations, and the regional Asian market as a whole is trading below longer-term average valuation levels. China remains a key swing factor – the recent abrupt change in COVID policy, as well as improved support for the Property sector, increase the probability that 2023 will see an acceleration of economic growth. This will also feed through into corporate earnings, especially in H2.

In Japan, although the Japanese yen has rebounded from its weakest point in October, nonetheless it remains at historically low levels. Clearly this makes certain Japanese companies and sectors more competitive relative to global peers, notwithstanding the global economic challenges. In addition, we see significant potential from a rebound of inbound tourism now that border controls have been almost entirely lifted, which should provide some broader domestic macro support.

For Allianz Life Total Return Asian Equity Fund:

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

Market Review

Equity markets in the Asia excluding Japan region delivered mixed returns in December. In general, stocks gained in the first half of the month, boosted by signs that China was relaxing its strict zero-COVID policy, before falling back towards month-end as Chinese COVID-19 infection levels soared and major central banks reaffirmed their hawkish stance. Chinese equities, in particular, rebounded strongly at the start of December amid growing evidence of a pivot towards reopening. However, shares slumped once more as the subsequent surge in infection levels caused many people to stay at home, leading to further supply chain disruptions as factories closed and delivery drivers became ill.

Stocks in South Korea and Taiwan also retreated in December, as economic concerns weighed on tech shares. ASEAN markets retreated modestly, with Thailand and Malaysia being stronger relative to the Philippines, Singapore, and Indonesia. Indian markets also fell, though the annual inflation rate eased.

The Consumer Staples sector added the most value, both from allocation and stock selection effects. At a geographical level, China represented the strongest stockpicking.

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

Conversely, Samsung Electronics was a key detractor, suffering from broad-based sector weakness in a semiconductor slowdown environment. We believe that at current valuations, much of the bad news has been discounted. In the longer term, Samsung should also benefit from improved pricing, given the supply side discipline in its memory business, as well as product innovation such as its foldable phones segment.

The main portfolio activity during the month was to add to positions in China. Given the rapid changes to zero-COVID and property policies, we see potential for a further recovery in China markets from depressed valuations and investor sentiment.

At the sector level, Consumer Staples, Financials, and Communication Services remain the top overweights. From a geographical perspective, India, Singapore, the Philippines, and Thailand are the top overweights. Along with Kweichow Moutai, HDFC Bank and Samsung Electronics are the largest portfolio active positions.

Market Outlook

Despite the challenging global backdrop, we maintain our base case for recovery in Asian markets. The sharp pullback last year has resulted in a number of stocks coming back to attractive valuations, and the regional Asian market as a whole is trading below longer-term average valuation levels.

China remains a key swing factor – the recent abrupt change in COVID policy, as well as improved support for the property sector, increase the probability that 2023 will see an acceleration of economic growth. This should also feed through into corporate earnings, especially in H2.

For Allianz Life Global Income Fund:

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

Market Review

Market volatility returned in December amid concerns that a higher-for-longer monetary policy stance could trigger a recession. The US Federal Reserve's (Fed's) 50 basis points (bps) rate hike mid-month was anticipated but the Federal Open Market Committee's (FOMC's) statement and Powell's post-decision commentary contradicted expectations for less hawkish messaging founded on earlier reports of weaker macro data and November's below-consensus consumer price index (CPI) reading. US Treasury yields rose across the curve (2s10s), partially driven by the Bank of Japan (BoJ) lifting its cap on 10-year government bond yields from 0.25% to 0.50%.

In this environment, global equity markets, as measured by the MSCI World Index, returned -4.25%.* US stocks notably underperformed their non-US developed counterparts, which were much more resilient, and all sectors declined, apart from Utilities. Global convertible securities and high-yield bonds also retreated, both led by US issues. Convertible new issuance increased while high-yield primary market activity remained subdued. Global fixed income, as measured by the Bloomberg Global Aggregate Index, returned +0.54% with non-US exposure outperforming US.^

The portfolio settled lower, led by weakness across risk assets. Most holdings detracted from performance in the period, however the portfolio's corporate bond allocation helped dampen downside volatility.

Performance detractors included an automobile manufacturer (luxury auto manufacturing) and Apple (consumer electronics), which traded lower on concerns linked to slowing end market demand. A diversified financial services provider underperformed ahead of a settlement announcement. Uncertainty around digital advertising budgets weighed on a technology conglomerate (internet services) and fears of rising costs pressured an ecommerce stock. Microsoft (software) was also a source of weakness as the market considers the outlook for cloud computing growth. Other laggards included positions in cyber security, semiconductors, and a lithium producer.

Multiple holdings aided performance, including a plumbing and heating products distributor that topped consensus estimates and reaffirmed their 2023 outlook, as well as an autonomous vehicle technology company with a competitive moat. Seven & I (general merchandise retailer), Schlumberger (oilfield services provider), and a Danish pharmaceutical position also benefitted the portfolio.

Netting new purchases and complete sells, exposure to Consumer Discretionary, Consumer Staples, and Industrials increased, while Technology, Health Care, and Financials exposure decreased the most in the period.

Market Outlook

In 2022, the key uncertainty was inflation and how aggressively the Fed would respond. In 2023, the key uncertainty shifts to economic growth and its effect on corporate sales, margins, and profitability.

Market volatility may continue in 2023 as macro data, earnings expectations, and investor sentiment/positioning evolve over the course of the year. Tail risks such as increasing inflation rates, sharply higher interest rates, further aggressive Fed tightening, and continued zero-COVID policies could recede, although recession fears may continue to persist.

Q4 US economic growth is tracking ahead of consensus estimates according to the Atlanta Fed. Continuation of this momentum in 2023 largely hinges on the resiliency of the consumer and labour markets, the impact of aggressive tightening thus far, and the Fed's stance throughout the year. If a recession occurs in 2023, it could be one of the most widely anticipated in history.

2023 earnings estimates have been declining since mid-2022 due to well understood headwinds – margin compression, dollar strength, and slowing demand, among others. The current S&P 500 earnings estimate of USD 230 (per FactSet) may still be too high according to some strategists, but some projections of sub USD 200 may also be too low. On a positive note, healthy corporate and consumer balance sheets could mitigate earnings risk in 2023.

After a historic string of hikes in 2022, monetary policy has entered a restrictive phase and Fed hawkishness has become increasingly constrained as the fed funds rate quickly converges with the terminal rate. Inverted spread levels suggest further aggressive tightening is less probable unless the long end of the yield curve moves sharply higher. Regardless, a slower pace enables the Fed to assess the effect of their campaign on inflation's descent. Macro data throughout the year will dictate the central bank's path going forward.

Multiple yield curves are inverted as rate hikes prop up the short end and expectations of lower future inflation suppress the long end. While inversions are useful for predicting recessions, they are less useful for determining their onset and severity.

Inflation (CPI index) peaked at 9.1% in June 2022 and has declined for five consecutive months to 7.1% in November. The Fed and many economists and strategists anticipate inflation falling materially over the next year. Going forward, markets will be monitoring where the measure ultimately settles relative to the Fed's longstanding target of 2%.

Against this macro and micro backdrop, equity volatility could persist in 2023. However, in the near-to-intermediate term, the technical setup is favourable from a historical perspective. Examining the previous four yield curve inversions (10-year minus 2-year), the S&P 500 Index rallied on average for 17 months, gaining 28.8%. Furthermore, pessimism among individual investors was elevated throughout 2022 – the first year in the history of the AAII Sentiment Survey that bullish sentiment was below its historical average every week of the year. This tone is being reflected in current positioning with investor cash levels reaching the loftiest levels since 2001. Usually, these data points have been contrarian indicators. In addition, the market is a discounting mechanism, which means stock prices tend to trough before earnings bottom as forward projections take on greater relevance. For long-term investors, volatility may provide opportunities to allocate at more attractive entry points.

US convertible securities should continue to provide benefits to investors, including an attractive asymmetric return profile and lower interest rate sensitivity relative to core fixed income. After a challenging 2022, the universe looks vastly different compared to the past decade. Today, many securities offer high yields and most exhibit defensive characteristics given lower deltas and closer proximities to bond floors. This dynamic may allow for greater downside protection if equity volatility rises in 2023. If the prices of underlying stocks advance, convertible securities are positioned to participate in the upside. Higher financing costs will serve to benefit new issuance which could reach USD 45-50 billion, according to market strategists.

Credit's risk/reward opportunity is also compelling after a historic 2022. Rising interest rates remain a key risk for high grade corporates, however the investment opportunity has improved on the back of sharply higher yields and a positive fundamental outlook. The asset class trades at a significant discount to par, offering attractive total return potential and downside cushioning.

All data are sourced from Allianz Global Investors dated 31 December 2022 unless otherwise stated.
* Source: MSCI, as at 31 December 2022
^ Source: Bloomberg, as at 31 December 2022

For Allianz Life Thematica Fund:

Target Fund Manager's Comment (For Allianz Thematica)

Market Review

Global equities ended the year in subdued fashion, giving back some of the gains from previous months. Despite a decline in headline inflation rates, sentiment was knocked by a series of hawkish statements from central banks, which implied terminal rates may be higher than the markets had priced in. Large-cap US tech stocks were especially weak with both a US tech giant (-12%) and an electric vehicle (EV) maker (-37%) capturing the headlines as they struggled with supply chain issues and weaker end customer demand. It was a relatively broad-based market decline in December with every sector in the red.

Geographically, the China markets stood out for their continued strong recovery, especially offshore equities. While the abrupt change in COVID policies has led to a huge surge in COVID cases and put the health care system under extreme pressure, from an economic perspective, one of the darkest macro clouds weighing on the market has been removed.

The MSCI ACWI Index ended the year with a total return of -18%, the worst annual return since the global financial crisis in 2008. Highlighting the sustained tech weakness, the Nasdaq was a clear laggard (-32%) through 2022. Relative outperformers included Europe and Japan, with the Bank of Japan's (BoJ's) surprise change in monetary policy stance in thin market conditions just before Christmas contributing to a further Japanese yen rally.

Highlighting the intra-market volatility, there was more than a 60% performance dispersion between the best and the worst performing sectors – Energy (+27.5%) and Communication Services (-36.2%). The MSCI ACWI Value index ended the year more than 20% ahead of the MSCI ACWI Growth index.

Market Outlook

The Fund was down over the month but outperformed the MSCI AC World Index. The Fund returned negatively year-to-date and underperformed its benchmark. Stock selection has created a minor burden for the overall portfolio over the recent month, while sector allocation and the cash portion contributed to a positive result compared to the benchmark.

From a theme perspective, Digital Life, Health Tech and the Pet Economy contributed well to the overall results. The structural underweight in index heavyweight tech stocks like the aforementioned US tech giant, a technology conglomerate and an ecommerce leader has been a positive contributor. This overcompensates for a slightly weaker development of the Tech sector overall where layoffs and growth concerns still weigh on the sentiment. The Health Tech theme benefitted from solid performance from the likes of a pharmaceutical company, which reported further supply chain easings. The Pet Economy theme which is very much focused on consumer stocks stabilised the overall performance as well due to the defensive characteristics. Slight detraction to performance occurs from underweight in sectors like Financials or Consumer Staples. After a good run over the recent month, investors took some profits among names which are related to the Energy Transition theme, like a specialty chemicals company, and a lithium technology company. The theme Intelligent Machines still suffers from concerns regarding economic growth, which created a burden for cyclical industrial companies. Cyber Security related names like a cloud security company and a cloud services provider that delivers a broad range of services were weaker as well given the high multiples the stocks are trading at. They remain highly sensitive to overall interest rates discussions.

We already started last year to adapt the portfolio to a changing market environment and exited high-growth companies so called long duration assets. We believe that the new themes of "Infrastructure" and "Intelligent Machines" should be able to cope better in the current environment and provide positive impulses over the next month. In addition, the portfolio has been largely cleansed of stocks with very high valuations and a growth profile that extends too far into the future. This has changed the character from a growth-biased to a more balanced "core" portfolio. We continue to see selective reasons for optimism again. We will therefore continue to follow developments very closely and keep the cautionary stance until then.

For Allianz Life Elite Income Fund:

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

Market Review

To wrap up a year of turmoil, December failed to deliver a "Santa rally", leaving most markets on a down note heading into the new-year. Although hawkish signaling from central banks continued, markets were buoyant early in the month after US headline CPI surprised to the downside for the second month in a row. US headline CPI increased by 7.1% YoY vs expectations of 7.3% and core CPI fell to 6.0% YoY. In the Euro Area, headline inflation came in at 10.1% YoY, falling from 10.6% in October. In the UK, inflation fell slightly, but remains elevated, at 10.7%.

Core bond yields rose overall as markets digested central bank messaging. US, German and UK 10y yields rose by +27bps, +64bps and +51bps to 3.87%, 2.57% and 3.66% respectively. US, German and UK 2y yields rose by +12bps, +63bps and +28bps to 4.43%, 2.74% and 3.53% respectively. There was plenty of central bank activity in December. The Fed, ECB, BoE, SNB and BoC all hiked rates by +50bps. Meanwhile the Reserve Bank of Australia raised rates by +25bps.

In Asia, the BoJ delivered a big surprise, as they announced a widening of the 10y Yield Curve Control band to +/-0.5% from the previous +/-0.25%. This led to a rise in yields and a sizeable rally of the JPY. In China, faster-than-expected reopening continued, even as COVID cases surge – with the rebound in Chinese assets extending. In terms of asset class performance, equities sold off, with the S&P and MSCI World down -5.76% and -4.34% respectively over the month. In credit, USD and EUR IG spreads tightened -3bps and -13bps respectively. In high yield, USD spreads widened by +21bps, whereas EUR spreads tightened by - 14bps.

During the month, the PIMCO GIS Income Fund returned 0.00% after fees (in USD, for the Institutional class, Accumulation share), bringing YTD '22 performance to -7.49%.