Market Review and Outlook

April 2023

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 gained by +1.6% mom to close at 2,835 points for the month of April. Similarly, the Dow Jones Index increased by +2.5% mom as investors realigned risk appetites in anticipation of what was expected to be the last interest rate hike by the Federal Reserve in May. On the US' economic front, retail sales in March eased by 1.0% mom, compared to a drop of 0.4% mom in February. Its March industrial production was up +0.4% mom, an increase from flat in its previous month. US S&P Composite PMI increased to 52.3 in March as compared to 50.1 in February. Over in Europe, the Stoxx 50 Index climbed by +1.0% mom during the same period following a higher expansionary Eurozone S&P Composite PMI reading of 53.7 in March as compared to 52.0 in February. Its industrial production gained +1.5% in February as compared to +1.0% mom in the previous month. However, its February retail sales fell 0.8% mom as compared to a gain of +0.3% mom in the previous month. China's Shanghai Composite Index gained +1.5% mom in April following a stronger Caixin China Composite PMI reading of 54.5 in March as compared to 54.2 in February. Market sentiment was hampered by absence of large stimulus package in the recent National Party Congress. 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 April 2023 meeting.

In April, Brent oil decreased by 0.3% mom to USD79.54/bbl after touching a high of USD87.33/bbl during the month as OPEC announced a surprise oil production cut of more than 1m barrel per day starting 1 May 2023. Similarly, Crude palm oil (CPO) price tapered by 3.0% mom to RM3,937/MT in April as CPO production in Malaysia showed its best 1Q production since 2019.

On the ASEAN front, equity markets closed the month under review with mix performances. Malaysia's FBMKLCI declined by 0.5% mom due to continued foreign fund outflows. April saw a monthly net foreign equity withdrawal of RM250m, bringing YTD outflows to approximately RM2.0b. From an economic standpoint, Malaysia's February industrial production growth rose +3.6% yoy compared to +1.8% yoy in the previous month. March manufacturing PMI was slightly better at 48.8 as compared to 48.4 a month ago. The Stock Exchange of Thailand fell by 5.0% mom following a drop in its March S&P Global manufacturing PMI to 53.1 as compared to 54.8 in February. The Bank of Thailand maintained its Benchmark Interest Rate at 1.75% in its April meeting. Indonesia's Jakarta Composite Index rose +1.6% mom following a higher S&P Global manufacturing PMI reading of 51.9 in March as compared to 51.2 in the previous month. The Indonesian central bank kept its 7 - day repo rate stable in April at 5.75%. The Singapore's Straits Times Index increased by +0.4% mom following a rebound in industrial production of +9.3% mom in March, as compared to a decline of 11.7% mom in February. Its March PMI reading was slightly lower at 49.9 as compared to 50.0 in February but its Non-oil Domestic Exports experienced a surged of +18.4% mom in March, after posting a decline of 8.0% mom in February.

US Treasuries (UST) yields were largely down by 5 – 9bps mom as the First Republic Bank failure close to month-end relit fears of a potential regional banking crisis. Most UST tenure yields reached their lowest levels of the month on April 6th but shifted higher following the release of the March employment data on April 7th. US job market remained resilient as the number of jobs created in March rose by 236k, slightly above market expectations of 230k while the unemployment rate improved to 3.5% (consensus: 3.6%, February 3.6%). As widely expected, Fed voted unanimously to raise the Fed fund rate by 0.25% to the 5.00% – 5.25% range, its highest level in more than 15 years. The exclusion of the notation “some additional policy firming may be appropriate” which was present in prior Federal Open Market Committee (FOMC) statements, hinted that the current tightening cycle may be coming to an end.

The Malaysian Government Securities (MGS) yield curve bull – flattened by 7 – 25bps mom, with the short tenures down by 7 – 10bps mom while mid-to-long tenures were down by 18 – 25bps mom. The MGS yields movement was in – line with the MYR interest rate swap (IRS) yields movement which declined by 5 – 27bps mom and the 3 – 6 months Kuala Lumpur Interbank Offered Rate (KLIBOR) which declined by 10 – 11bps mom. Meanwhile, Bank Negara Malaysia (BNM) surprised the market with a 25bps hike to bring OPR back to the pre-pandemic level on 3rd May, citing resilient domestic growth prospects.

Foreign funds raised Ringgit bond holdings by RM1.5b in April (March: +RM6.6b). Foreign shares of both MGS and MGS+MGII fell marginally to 35.9% (March: 36.0%) and 22.9% (March: 23.1%) respectively. Malaysia’s foreign reserves declined by USD1.1b to USD114.4b as of end-April 2023 (March: USD115.5b).

Market Outlook

Globally, outlook continues to remain uncertain amid the US financial sector turmoil and persistent high inflation. As the FOMC is data dependent, subsequent data releases and communications by key members will be crucial. Locally, focus will be on the developments surrounding the US Fed rate decision and the upcoming domestic results season.

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 channel monies into fundamentally good investments. Nonetheless, we may at times adjust our stance to adapt to any market environment flux which may necessitate an investment direction shift. Otherwise, there may also be times where we could engage in a modicum of trading activity to take advantage of any prevailing market volatility.

In 2023, bond yield volatility in the fixed income market is expected to persist due to the turmoil in the banking sector following the collapse of First Republic Bank, Silicon Valley Bank and Signature Bank in the US, Credit Suisse in Europe and the sticky inflationary data. Fed’s ‘dot plot’ is diverging from market expectations as it remains at 5.1% for this year-end while the marketimplied rate is pricing in at least three rate cuts to 4.31% by year-end. BNM in its latest assessment cited that with the OPR level at 3% now, the monetary policy stance is slightly accommodative and remains supportive of the economy. With the latest 25bps hike, BNM has completely withdrawn the monetary stimulus intended to address the Covid – 19 crisis in promoting economic recovery. Despite the improved risk – reward of MGS, external and internal factors could still contribute to bond market volatility that may affect local yields. However, we will continue to accumulate bonds at favorable valuations while prioritising good quality names.

For Allianz Life Global High Payout Fund:

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

What helped?

- The strategy outperformed its customised benchmark in a strong month for global stocks.

What hurt?

- The strategy lagged the performance of global equity markets. The Fund could not hold up due to its defensive dividend strategy in a positive market environment.

Market Review and Outlook

Global stocks advanced modestly over April, with European and Japanese equities rising the most. On a sector basis, Consumer Staples companies were among the strongest performers in the MSCI All Countries World Index amid growing evidence that household names were managing to increase prices without materially curbing demand. Energy stocks also outperformed as oil prices rallied following production cuts by the Organisation of the Petroleum Exporting Countries (OPEC) and other oil producing nations, while the Financials sector rebounded as fears of a global banking crisis eased. In contrast, the Information Technology, Consumer Discretionary and Materials sectors lagged.

US equities closed the month slightly higher, lifted by a raft of better-than-expected corporate earnings from high-profile tech companies in the last days of the month. This helped the US market overcome fears of an economic slowdown as well as expectations that the US Federal Reserve (Fed) would raise interest rates at its next meeting in early May. In general, Q1 earnings beat forecasts, although overall earnings are expected to decline for the second consecutive quarter.

European equities moved higher over April (in EUR terms) as fears of a banking crisis waned and optimism over the economic outlook outweighed concerns about further hikes in interest rates. Consumer Staples companies were among the strongest performers as companies such as a multinational packaged food company that manufactures and markets a wide range of food products reported that demand was holding up well, despite higher prices. However, the Technology sector underperformed.

For Allianz Life Asia Multi-IncomePLUS Fund:

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

Market Review

Asian equity markets returns were mixed in April, but were broadly lower. China was notably weaker, due to concerns about the sustainability of the economic recovery, despite a much stronger-than-expected Q1 gross domestic product (GDP) figure of 4.5%. China's official manufacturing purchasing managers' index (PMI) disappointed in April, although there were signs of green shoots in the property market, with new home sales and new house prices both improving.

Elsewhere in the Asia Pacific excluding Japan region, Taiwan lost ground with semiconductor stocks seeing some profit taking as the expected industry recovery looks set to be pushed back to later in the year. Korean shares closed the month only modestly higher, as did Australia. Indonesia was the strongest of the smaller ASEAN markets, closing the month solidly higher. On the other hand, equities in Thailand slumped, and stock markets in Malaysia and Singapore declined slightly.

Asian USD high yield bonds, as measured by the JP Morgan Asia Credit Index (JACI) – Non-Investment Grade, ended the month in the red (-0.76%), underperforming their investment grade counterpart (1.19%). India's leading natural resources conglomerate, and a leading People's Republic of China-based (PRC-based) integrated oilfield equipment manufacturer and service provider were among the leading performers during the month, although not enough to mitigate negative drag from some Chinese property developers. Last month saw a rating downgrade of a Chinese asset management company which grabbed investors' attention. On the back of Moody's rating downgrade of the issuer to Ba1, bonds from the company moved into the JACI – Non-Investment Grade Index.

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

Within the equity sleeve, top detractors came from our positions in China internet platforms Alibaba and Tencent. After a strong performance rally since November 2022, both platforms saw selling pressure from major shareholders in April. With an accelerating macro improvement and regulatory pressures having peaked, we continue to hold our positions.

Conversely, the top contributor was Ping An Insurance, a leading insurer in China. After a prolonged period of weak industry conditions and slowing premium growth, compounded by the property sector slump over the last year, there are signs that a recovery is starting to take hold. Ping An's recent new business results were slightly ahead of expectations, and the stock remains our preferred holding in the sector.

The asset allocation at the end of the month was 67.2% invested in Asian equities and 32.6% in Asian fixed income, with the remainder in cash.

Portfolio activity on the equity side was limited in April. We continue to be positioned in high quality dividend and structural growth opportunities across Asia.

For the fixed income sleeve, we invest in bonds with the aim of long-term interest accrual. Turnover was low in April. There were bond repayments and no new investments for the month.

At the end of the month, we held 61 equities and 72 fixed income securities. The equity portfolio yield was 2.8%, and the average fixed income coupon was 5.2% with an average credit rating of BB and duration of 2.6 years.

Market Outlook

We maintain our base case for a recovery in Asian markets with a number of macro headwinds now appearing to have eased. So far, the Asian market recovery from the low point last year has primarily been a function of an improvement in valuations. Nevertheless, these remain below longer-term average levels and should continue to provide support until there is more evidence of a pick-up in corporate earnings.

The long-term risk-reward ratio of Asian high yield credits is compelling and with market valuations cheap on a historical basis, the asset class presents opportunities for strong spread compression and attractive carry. We will continue to maintain a diversified portfolio focusing on interest accrual.

For Allianz Life Amanah Dana Ikhlas:

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

Market Review

In April, the Malaysian government bond yields were lower by between 2.85bps to 26.8bps m-o-m, and yield curve bull flattened with the long-end yields decreasing more than short-ends. The decrease in yields were mostly in tandem with the decline in global bond yields, although local bond movements were less volatile over the month and more heavily demanded on the back of a more stable monetary policy outlook and better inflation and growth outlook. Government auctions during the month garnered strong bid-to-cover ratio of more than 2x, which is evidence of continued healthy demand. Meanwhile, corporate bond yield also declined, but at a smaller quantum of 1-9bps.

Global markets recovered in April following the banking sector fallout with European markets and tech-heavy Nasdaq made highs. Asian equities initially same, by faltered in the later part of April. Risk-off mode returned over renewed US-China tensions which led the tumble in China and Taiwan. Closer to home, the KLCI fell 0.47%, becoming the second worst performer both for the month as well as year-to-date. Materials and telecommunications were better while IT ad financials dragged. In local currency terms, Philippines (+1.93%) was the performer for the month led by financials, utilities while telecommunication services and consumer staples lagged. Indonesia (+1.62%) with Consumer Discretionary and Communication Services taking the lead while Materials and Consumer Staples lagged. Singapore was marginally up (+0.4%) dragged by telecommunication services, consumer staples and technology. Thailand by far was the worst performer, sliding 5.0% largely due to the political uncertainty ahead of the May elections. Main sector detractors were technology, utilities, energy, and materials. Elsewhere, commodities saw sharp reversals during the month on recession concerns. Industrial metals saw another monthly decline. China macro data remains uninspiring causing the slide in copper prices. Aluminium was also lower as China's output increased by 3% which puts the outlook for the global price of aluminium less favourable.

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 8.70% 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.

We expect the OPR to be maintained at the current 3.00% level for the rest of the year, after the surprise hike in early May. The MPC describes the current monetary policy stance as "slightly accommodative and remains supportive of the economy", removing the usual "remains accommodative" from previous statements. The latest statement also saw the removal of "further normalization", which we think implies that BNM is almost done with normalization but reserving its bullet to hike if need be. This peaking interest rate outlook, as well as anticipation of slower global growth and high probability of US recession, would be ideal for bond yields to fall, and potentially even see rate cut for US Fed Fund Rate. This would bode well for the valuations of domestic sukuk.

Equity markets were buoyant at the beginning of 2023 as we saw an impressive rally-off the lows of 2022, delivering significant positive returns across all asset classes. However, this optimism was short-lived, serving as a sobering reminder that challenges remain, plagued by persistent high inflation and recession concerns. Peaking interest rates expectations have put some pressure off valuations but there is still the risk of a hard landing or persistent service sector inflation which would make it difficult for the Fed to pivot. Rate hike concerns, weaker corporate earnings, and geopolitical tensions continue to weigh on sentiment, coupled with uncertainties over whether the US economy is headed for a "hard" or "soft" landing.

For Malaysian sukuk, we will continue to trade opportunistically and realize profits, while also considering new primary issuances with higher yields to increase returns. As the outlook improves, we aim to increase our duration for better returns from market recovery going forward, with preferred investments in attractive govvies yields and healthy AAA and AA corporate credits. 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, stocks were hit back with a reality check and markets have been volatile. Therefore, we believe it is crucial to position our portfolios to keep pace with inflation, cope with hawkish monetary policies and cautiously take advantage of longer-term trends. We will continue to adopt a balanced approach with the portfolio structure into both growth and defensive sectors to navigate market volatility while remaining nimble. We will look opportunistically on quality names that have been oversold as well as defensive and dividend yielders. There are also some thematic plays such as some of the construction names that have been positive on the news flow front, notwithstanding the restructuring of the toll highway concessions.

For Allianz Life All China Equity Fund:

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

Market Review

The Fund lagged the benchmark in April. Stock selection was the main detractor as a result of relative weakness in the Financials and Industrials sectors, which offset a positive contribution in Information Technology.

At a single stock level, a top detractor in the month was a producer of industrial automation equipment such as robotics. The stock had been a strong performer since the market low point last October. Recent weeks have seen some profit taking, given concerns about the pace of the economic recovery. Company results in early May show robust revenue growth and continued market share expansion.

Conversely, a top contributor was China Railway Group, a leading construction and engineering contractor. Twin catalysts for the strong performance were good results, underpinned by a notable improvement in operating cash flow, as well as a broad re-rating of state-owned enterprises (SOEs) across the market. Combined with a management share incentive scheme that targets double digit earnings growth and return on equity (ROE), the company continues to be a core holding in the infrastructure space.

Market Outlook

It was a frustrating month for investors in China. While economic data demonstrated an ongoing rebound, nonetheless China equities ended the month lower. Overall, China A-shares were more resilient and remain in positive territory year-to-date, while offshore equities are close to flat (USD terms).

In particular, Q1 gross domestic product (GDP) of 4.5% came in significantly ahead of expectations, leading to consensus forecasts for full-year growth being revised up by a number of sell-side analysts. Overall, 2023 forecasts are generally in the range of 6.0% to 6.5%, well above the official target of "around 5%".

Market movements continue to correlate with sentiment around the macro environment. Indeed, the strength of the recent economic data prompted some speculation that policy may be tightened in coming months to prevent a pick-up in inflationary pressures. We think this is unlikely given the early stage of the economic rebound. In addition, the latest inflationary data in March showed consumer price index (CPI) at just 0.7% year-on-year.

Indeed, looking at the Q1 GDP figure in detail, the economic recovery is clearly quite uneven. The majority of the growth came from a rebound in services, as areas such as restaurants, catering, entertainment and domestic tourism surged once the COVID lockdowns ended.

More broadly across consumption and manufacturing, however, confidence remains subdued. Reflecting this, a recent central bank quarterly survey of 20,000 households in 50 major cities reported that 58% of households are planning more saving (rather than more consumption or more investment). And although there are some early signs of a pick-up in housing activity, so far this is mainly concentrated on completing construction projects that were delayed last year.

Our view is that given the prolonged economic downturn over the last year, it should not be surprising that business confidence is taking time to recover. We expect a more broad-based recovery to unfold in coming months, as the benefits of a more pro-growth policy setting filter down into the real economy.

As such, we continue to have a relatively optimistic view on the market outlook. The policy environment should remain supportive while the nascent economic recovery takes hold. In the meantime, valuations remain attractive, especially given that we look to be at the trough of the earnings cycle.

Portfolio activity in recent months has been to add to companies which should benefit from the economic recovery as well as improved financial market sentiment. This includes initiating positions in a heavy duty truck producer, a financial software company, and a Macau gaming business that is seeing a strong pick-up in foot traffic as a result of China's reopening.

The Fund continues to be overweight in both the Consumer Discretionary and Consumer Staples sectors, with domestic consumption expected to lead the economic recovery. Conversely, we are underweight in Financials, with limited exposure to the large state-owned banks.

As at the end of the month, the onshore/offshore allocation is close to benchmark with around 50% in China A-shares.

For Allianz Life Global Artificial Intelligence Fund:

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

Market Review

Global stocks advanced modestly over April, with European and Japanese equities rising the most. On a sector basis, Consumer Staples companies were among the strongest performers in the MSCI All Countries World Index amid growing evidence that household names were managing to increase prices without materially curbing demand. Energy stocks also outperformed as oil prices rallied following production cuts by the Organisation of the Petroleum Exporting Countries (OPEC) and other oil producing nations, while the Financials sector rebounded as fears of a global banking crisis eased. In contrast, the Information Technology, Consumer Discretionary and Materials sectors lagged. Headline inflation rates continued to slow, boosting hopes that central banks may adopt a more dovish stance. However, while US interest rates may be near their peak, central banks in Europe signalled that they were far from nearing the end of their rate-hiking cycles. US Q1 gross domestic product (GDP) growth missed forecasts, slowing to an annualised rate of 1.1%, while the eurozone economy grew by a weaker-than-expected 0.1% over the first three months of 2023. In contrast, China's growth rate for Q1 beat expectations, rising 4.5% year-on-year. In the commodity markets, oil prices jumped sharply at the start of April after OPEC and other oil producing nations unexpectedly cut output, but later fell back to close the month flat as recessionary fears outweighed the prospect of tighter global supplies.

Information Technology stocks were roughly flat in April, as measured by the MSCI World Information Technology Index and the sector's performance within the S&P 500 Index. However, performance was primarily driven by several mega-cap stocks in each index, masking broader weakness in the sector as a whole. Both indices underperformed the broader S&P 500 Index.

During the period, the Fund underperformed the custom benchmark and had negative absolute performance. All three artificial intelligence (AI) categories had negative absolute and relative returns during the month. Stock selection within the Consumer Discretionary and Information Technology sectors were the main relative detractors. The reduced allocation to AI-enabled industries and subsequent larger allocation to AI applications, in particular software-related names, over the past few months has been a challenge to performance, namely because of the flight to quality created from banking stress and economic uncertainty. However, we believe that the better near-term opportunity around the latest AI technologies is in infrastructure and applications, and we are hopefully in a bottoming process for many of these names.

Contributors

The Fund's position in Meta Platforms Inc. was a top contributor for the third consecutive month. The stock returned 99.7% year-to-date through April. After a strong Q1, the company continued its momentum with a strong Q1 2023 earnings report in which generally accepted accounting principles (GAAP) earnings per share (EPS), revenue, and margins all came in above expectations. The company also delivered strong forward guidance and showed higher engagement in its Instagram product due to AI recommendations and better advertisement optimisation.

The Fund's position in an online networking service for medical professionals was the second largest relative contributor. The company develops cloud-based online health care resources for providers to better collaborate and coordinate patient care. Although a smaller position in the strategy, the stock had a solid 13% return during April, which we believe was driven by positive momentum in health care-related software and greater efficiencies from AI technology integration.

Detractors

Our position in Tesla Inc. was the largest relative detractor. Although the company reported another quarter of record vehicle production and delivery, investors were jolted by the shift to a greater emphasis on market share at the expense of margins, at least in the short term. Company management believes that a larger fleet will create a larger demand pool for add-on services, especially its self-driving software (Full Self-Driving or FSD) which even at conservative uptake estimates will be highly accretive to margins and profits. Some investors are sceptical but at the present time we believe this is a smart long-term strategic move and the company's margins are still well above most automotive peers.

Our position in Enphase Energy Inc. was the second largest detractor. Although the company delivered strong EPS and top line growth, the stock plunged on a weak outlook for its battery business and an expected slowdown in solar installations in the US. We still believe the company is well-positioned with its state-of-the-art micro-inverters (of which it shipped 90% more than the prior year period) and global solar installations should remain strong.

Market Outlook

Although April was a positive month for equities, most of the leadership came from the mega-cap stocks. As a proxy, the 10 largest weights in the S&P 500 Index, accounting for almost 28% of the total capitalisation, had an average return of just over 5% for April versus 1.6% for the overall index. However, despite this narrow leadership, stocks were still widely in positive territory as the equal-weighted S&P 500 Index delivered a positive return and the number of advancers was well above the number of decliners.

Following the banking stress in March, macro conditions continued to send mixed messages, although there was less concern around the stability of the financial sector as the large, diversified banks reported solid earnings results and deposit outflows slowed significantly from regional banks. Core inflation came in higher than expected, which coupled with less concern around the financial system led the US Federal Reserve (Fed) to raise rates by only 25 basis points (bps) at their 3 May meeting. However, this has created greater debate around the path to a "soft-landing" or "hard-landing". With inflation above the 2% target and generally a healthy but slowing economic backdrop, the Fed continued on with their rate hikes but signalled the potential for a pause. The Fed has not yet pivoted and will continue to be data-dependent with respect to future rate policies.

Economic indicators are still mixed as there was a slowdown in retail spending and manufacturing, but the job market remained extremely tight, the housing market showed signs of a turnaround, as well as business and consumer sentiment were positive. This has created greater uncertainty around the timing of a recession in the US and the potential severity.

Within equity markets, there continues to be meaningful dispersion amongst stock returns. As an example, within the S&P 500, sector returns ranged from a positive 3.6% to negative 1.2% during the month. The broader trend has been a flight to higher quality mega-cap stocks and defensive stocks that have lifted the market to year-to-date valuation highs. Through a full month of reporting, over 80% of S&P 500 companies reporting have delivered an earnings beat, although many of them gave more conservative guidance. From a bottom-up, fundamental perspective, we expect continued volatility in the markets. We remain cautious that stocks may experience another leg down if core inflation stays elevated or macroeconomic conditions deteriorate more than expected, but are hopeful the market is in a bottoming process. The high level of dispersion does create opportunities for outperformance.

Although it did not generate many headlines, the introduction of plugins for an artificial-intelligence chatbot and the positive response from many companies is significant. The first set of plugins has already been released, which includes the likes of online booking, messaging, shopping platforms and others. The technology will allow businesses to essentially plug the tool into their own systems so that it can do things like search proprietary datasets or even carry out tasks such as booking specific travel itineraries or writing and executing code. The plugins will be specific to the business and be trained on that company's proprietary database, making them more customisable and relevant to the company and its customers.

What is the implication for investors in the Fund? The developments around generative AI and generative pre-trained transformer (GPT) technology are a further demonstration that long-term demand for companies within AI infrastructure should remain strong given the computing requirements for training complex AI models and subsequent inference needed for ongoing applications. AI applications will be required to optimise the functionality of these new tools, of which the plugins are just the first step to greater customisation for individual enterprises and consumers. Finally, several companies in the AI-enabled industry category have already announced GPT-related functionality added to their services to enhance customer engagement and experience. We believe this is just the tip of the iceberg as companies become more comfortable with the technology's potential and software applications improve.

For Allianz Life Oriental Income Fund:

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

Market Review

Asia Pacific equity markets were mixed in the month. China was notably weaker, due to concerns about the sustainability of the economic recovery, despite a much stronger-than-expected Q1 gross domestic product (GDP) figure of 4.5%. Taiwan also lost ground with semiconductor stocks seeing some profit taking as the expected industry recovery looks set to be pushed back to later in the year. Indonesia was the strongest of the smaller ASEAN markets, closing the month solidly higher.

Elsewhere, Australia equities posted small gains, while Japan equities advanced in April. Warren Buffett's visit helped improve sentiment. Deep value stocks also performed well following the Tokyo Stock Exchange's (TSE's) initiative on governance reform focused on low valuation stocks. The weaker Japanese yen was also supportive for equities, as new Bank of Japan (BoJ) governor Kazuo Ueda opted to keep interest rates at -0.1% and maintained Japan's current yield curve control policy. Core inflation, which excludes both food and energy, increased to 3.8% in March from 3.5% in February.

The portfolio underperformed the benchmark in April. Information Technology stocks reversed gains from the previous month and were the primary source of detraction as investors took profits from a broad array of semiconductor, artificial intelligence (AI), and software names.

At a single stock level, a top detractor this month was Koh Young Technology. Headquartered in Korea, the company is a global leader in inspection equipment for consumer and auto electronics. Its Q1 2023 revenue and operating profit came in below consensus. While some segments did well, like auto and Internet of Things (IoT), the server andsmartphone areas were a drag given weak global spending and sluggish consumer electronics demand, respectively. We still have high conviction in this name and believe the sell-off is cyclical. Future growth potential from AI-based smart factory solutions should help shift the market's perception of Koh Young from a hardware maker to a software company.

Conversely, a top contributor was China Oilfield Services (COSL), one of the world's largest integrated oilfield service businesses. The company announced good results last month. COSL's key business activities include geophysical prospecting, drilling and oilfield technical services. As such, it should benefit over the longer term as China's oil majors increase capital expenditure (capex) in line with the country's strategic goal to develop more domestic sources of energy supply.

At a sector level, the shape of the portfolio was little changed over the month, with Information Technology, Energy, and Health Care remaining the main overweights. However, there were underlying changes at the stock level, in particular adding to select names in Japan. This included a beverage business offering premium drinks with high consumer demand and substantially better margins than peers. Another example is a financials stock that benefits from rising interest rates and yen appreciation. Conversely, we exited two names in China, which included an electric vehicle manufacturer and an aluminium smelter.

In Technology, we maintain our exposure to memory chipmakers, where valuations have been 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 also continue to be optimistic about the long-term outlook for the Health Care sector, especially in the biotech space. Although the sector has been volatile 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 Taiwan – a by-product of specific stocks owned in these markets. India remains the key underweight market, whereas the Japan underweight has been scaled back significantly as a result of the opportunities we are finding in the market given a more supportive macro backdrop.

Market Outlook

We maintain our base case for a recovery in Asian markets with a number of macro headwinds now appearing to have eased. Although there have been concerns recently about the pace of economic rebound in China, we expect a more broad-based recovery to unfold in coming months as the benefits of a more pro-growth policy setting filter down into the real economy. In the meantime, valuations remain attractive, especially given that we are at the trough of the earnings cycle.

In Japan, the outlook is also looking more encouraging. The impact of inbound tourism is helping to support domestic demand. We also expect the TSE governance reform should continue to support positive sentiment in selective small cap stocks with low price-to-book valuations. In addition, the yen continues to look undervalued so that we expect returns to international investors will be supported by longer-term currency appreciation.

For Allianz Life Total Return Asian Equity Fund:

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

Market Review

Asian equity markets were mixed in the month but were broadly lower. China was notably weaker, due to concerns about the sustainability of the economic recovery, despite a much stronger-than-expected Q1 gross domestic product (GDP) figure of 4.5%. China's official manufacturing purchasing managers' index (PMI) disappointed in April, although there were signs of green shoots in the property market, with new home sales and new house prices both improving.

Elsewhere in the Asia excluding Japan region, Taiwan lost ground with semiconductor stocks seeing some profit taking as the expected industry recovery looks set to be pushed back to later in the year. Korean shares closed the month only modestly higher. Indonesia was the strongest of the smaller ASEAN markets, closing the month solidly higher. On the other hand, equities in Thailand slumped, and stock markets in Malaysia and Singapore declined slightly.

The Fund underperformed the benchmark in April. Key detractors came from the China market, especially the big position in Alibaba, which sold off after the strong rally in March. Alibaba is an ecommerce giant in China with a dominant market share and well-established ecosystem. With an accelerating macro improvement and regulatory pressures having peaked, we believe the platform is undervalued relative to its future growth potential.

Conversely, HDFC Bank, a top holding in the portfolio and our preferred name in India, was a top contributor. HDFC Bank is India's leading private sector bank, and we continue to view this as an exceptionally well-managed business. There were several changes in the portfolio during the month. The portfolio exited an Indian automaker and a Korean oil refiner, switching instead into names in similar sectors but with better earnings growth and, in our view, superior upside potential. We also exited a Chinese food and beverage company.

As a result of these changes, we have taken some profits in North Asia and reallocated to laggard parts of Southeast Asia. The Fund is currently overweight in Singapore, India, Thailand, and the Philippines. We see the ASEAN region as a long-term beneficiary of companies diversifying their supply chains out of China ("China +1"), as well as having better demographics/younger populations.

At a sector level, the Fund is overweight in Consumer Staples, Communication Services, and Financials. This reflects both where we expect to see the main driver of the region's economic rebound as well as more structural opportunities in the coming years. The largest active positions at month-end are HDFC Bank, Samsung Electronics, and CP All.

Market Outlook

We maintain our base case for a recovery in Asian markets with a number of macro headwinds now appearing to have eased. So far, the Asian market recovery from the low point last year has primarily been a function of an improvement in valuations. Nevertheless, these remain below longer-term average levels and should continue to provide support until there is more evidence of a pick-up in corporate earnings.

Although there have been concerns recently about the pace of the economic rebound in China, we expect a more broad-based recovery to unfold in coming months as the benefits of a more pro-growth policy setting filter down into the real economy. That said, our preference leans more towards Southeast Asia given geopolitical risks and associated weak sentiment among foreign investors. We are finding distinct structural growth stories in Southeast Asia given the superior fundamentals of select businesses in this region.

Despite a solid rally, technology companies in North Asia are facing pressures related to softness in demand for electronics globally. While we expect a stabilisation in these technology and consumer electronics areas through the course of the year, we do not see a strong recovery given demand/supply dynamics.

For Allianz Life Global Income Fund:

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

Market Review

Most markets closed higher in April as corporate earnings came in better than feared, while economic data continued to be mixed. The unemployment rate fell month-over-month and inflation gauges were cooler than expected, while consumer confidence and retail sales missed expectations. The Q1 earnings season got off to a relatively strong start. According to FactSet, 79% of S&P 500 companies reported a positive earnings surprise and 74% of S&P 500 companies reported a positive revenue surprise, thus far. Management outlooks were cautiously optimistic with above-consensus guides outpacing below-consensus guides, per Bank of America. Finally, odds of a 25 basis point (25 bps) rate hike in May increased over the month but the market reaction was largely muted on the back of favourable consumer and producer price reports. These factors combined increased investor appetite for risk assets and investment grade debt.

In this environment, global equity markets, as measured by the MSCI World Index, returned +1.75%.* Non-US developed equities outperformed their US counterparts and value stocks outperformed growth. Global convertible securities declined, and new issuance slowed month-over-month, whereas global high-yield bonds finished higher and new issuance outpaced the prior period. Global fixed income, as measured by the Bloomberg Global Aggregate Index, returned +0.44% with US exposure outperforming non-US.^

The portfolio advanced (net of fees) in the month benefitting from strength across risk assets and gains in investment grade corporate bonds.

Most of the month's top contributing positions traded higher in anticipation of or following favourable earnings releases and/or optimistic management guidance. Microsoft's results were highlighted by cloud resilience and Meta reported advertising revenue growth for the first time in a year. Apple and AstraZeneca also advanced with the latter benefitting from strong emerging markets sales and improved margins. GFL Environmental delivered better-than-expected results and positive news on pending asset sales, and a surgical robotics company reported a jump in procedure volume. Other top contributors were exposed to packaging, energy, banking, and casino operations.

Notable detractors included an electric vehicle (EV) manufacturer that reported softer-than-expected margins, select Chinese ecommerce companies including one that recently announced a restructuring plan, and an automotive technology stock that reduced guidance. Semiconductor and cyber security holdings also underperformed. Other laggards were exposed to online advertising and chemicals.

Exposure increased the most in Industrials and Utilities and decreased the most in Health Care and Energy.

Market Outlook

While comparisons have been made to the financial crisis of 2008, there are key differences. 2008 was a credit crisis. Today, banks are better capitalised, leverage is lower, liquidity is higher, and risk appears isolated to a few regional banks (rather than across the entire industry) that mismanaged duration risk and assumed deposits were sticky. Moreover, the assets purchased with deposits were very liquid, unlike the illiquid assets on bank balance sheets in 2008. Another key difference is that the US Federal Reserve (Fed) and the US government responded with unprecedented speed to current events, unlike 2008.

Until the extent of bank stress spillover is well understood, it is difficult to estimate the impact on the overall economy. Credit accessibility – a potential downstream effect – could impact spending and hiring, potentially curbing growth. Lagged effects of policy tightening and the durability of household balance sheets are additional risks.

Tightening financial conditions have the same effect as rate increases and therefore can serve as a substitute, allowing the Fed to be less hawkish. The most recent Federal Open Market Committee (FOMC) policy statement reinforces this view with the Fed softening rate guidance language. Additionally, the 2-year US Treasury yield – a directional indicator of the fed funds rate historically – has dropped sharply from its peak. Finally, inflation continues to recede, also aligning with a less aggressive Fed in the future.

Inflation's trajectory remains subject to the interplay between slowing demand and disinflationary pressures from the goods-producing side of the economy, and stronger demand, labour shortages, and cost pressures tied to the services-providing side of the economy.

Above mentioned risks could also have an impact on corporate profitability, pushing out the bottoming process of forward earnings estimates. However, the stock market – a discounting mechanism – tends to trough in anticipation of earnings inflecting. Moreover, 2024's higher earnings estimate will continue to take on greater relevancy. In the near term, macro surprise momentum, a low earnings bar, and resilient top lines favour a better-than-expected Q1 earnings season.

Our market outlooks remain unchanged. Equity volatility – both upside and downside – could continue to persist partly fuelled by skewed sentiment and positioning. Currently, pessimism among individual investors remains elevated, and this tendency is reflected in current positioning with money market funds attracting outsized inflows. Typically, these data points can serve as contrarian indicators. Following outsized market movements, skewed sentiment and positioning may dampen further gain/losses.

The Fed's hiking cycle appears to be nearing an end which could be a positive development for stocks. Per Goldman Sachs, US equities generally rallied in the months following the end of past Fed tightening cycles. In the three months following the peak fed funds rate, the S&P 500 Index returned +8% (average), rising in 5 of 6 episodes. On a 12-month basis, the S&P 500 Index returned +19% (average), rising in 5 of 6 episodes.

Similarly, interest rates have rolled over with the 10-year US Treasury yield trading nearly 1% below October's peak. The US dollar has also weakened significantly after topping in September. Higher interest rates and dollar strength were two perceived headwinds for the US stock market exiting 2022.

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 compelling after a historic 2022. High-yield credit statistics and fundamentals are healthy, near-term refinancing obligations remain low and managements continue to prioritise debt reduction. As a result, defaults are expected to normalise but not significantly exceed historical averages. Notably, there are no instances of the asset class producing back-to-back negative annual returns# and forward 12- and 24-month return projections based on the current yield have been consistent with mid to high single digits##. With respect to high grade corporates, rising interest rates remain a key risk. That said, the investment opportunity has improved on the back of sharply higher yields coupled with a positive fundamental outlook. Both markets trade at a deep discount to face value, offering attractive total return potential and higher spreads that compensate for macro risks. US Treasuries will continue to play an important role, providing reliable income, counter-cyclicality, and principal protection. After an outsized move in rates, US Treasuries should be better positioned to provide portfolio diversification benefits going forward.

All data are sourced from Allianz Global Investors dated 30 April 2023 unless otherwise stated.
* Source: MSCI, as at 30 April 2023
^ Source: Bloomberg, as at 30 April 2023
# Source: ICE Data Services, as at 31 December 2022
Source: JP Morgan, as at 31 October 2022

For Allianz Life Thematica Fund:

Target Fund Manager's Comment (For Allianz Thematica)

Market Review

Global equity markets made back-to-back monthly gains, as they eked out another positive period in April. While recent data shows the global economy is cooling – US gross domestic product (GDP) growth was just 1.1% annualised in Q1 – nonetheless inflationary pressures remain high.

In the commodity markets, oil prices jumped sharply at the start of April after the Organisation of the Petroleum Exporting Countries (OPEC) and other oil producing nations unexpectedly cut output, but later fell back to close the month flat as recessionary fears outweighed the prospect of tighter global supplies. European gas prices also declined, reaching the lowest levels since June 2021, as unseasonably warm weather dampened demand and storage levels remained higher than normal for this time of year.

In rotational markets, the Energy sector was the top performer with the oil price responding to unexpected OPEC supply cuts. Financials also recovered well, and the sector has now delivered positive returns year-to-date, a resilient outcome given news flow on the global banking sector. Despite these moves, growth has significantly outperformed value so far this year, with the Technology and Communication Services sectors leading the way.

In this environment, European equities were again ahead of the pack during the month and are the standout asset class year-to-date. Wall Street was buoyed by strong earnings with most stocks reporting Q1 results ahead of expectations. In the Technology sector, a social media company, Microsoft, and Alphabet results were all above market forecasts. Despite strong GDP numbers, China equities – especially offshore – lagged over doubts about whether the economic rebound will be sustained.

Market Outlook

The Fund was down (in EUR, gross of fees) over the course of April, underperforming the MSCI AC World Index.

Stock selection as well as sector allocation created a burden over the course of the last month. Pet Economy was the only theme that contributed positively to overall performance, while all other themes owned had a negative impact. From a sector perspective, the overweight to Utilities and Health Care contributed well, while the underweight in Consumer Staples and the overweight to Materials created a burden.

Top contributors from a single stock perspective have been a company which design, manufactures, and markets surgical systems (Health Tech) which benefitted from solid Q1 earnings, a multinational power company (Next Generation Energy), and an integrated natural resource group (Infrastructure) which was rallying on mergers and acquisitions (M&A) news.

Most negative contributions from a single stock perspective resulted from a specialty chemicals company (Next Generation Energy) which suffered from rumours of socialising lithium production in Chile. A company which operates in the electronic industry and Renesas (both Next Generation Energy) have been pressured by negative news flow from the semiconductor industry.

Over the course of last year, we shifted more to the theme Energy Transition which has tailwind due to politicians worldwide focusing on speeding up the energy transition. The RePowerEU Plan just as the Inflation Reduction Act gives credit for this. Among the other parts of the portfolio, we sold stocks with very high valuations and a growth profile that extends too far into the future. Among the other themes, we realised gains in the Infrastructure area and used to proceed to increase the Digital Life theme slightly. We are keeping the portfolio in the "core area" with a focus on large cap companies.

For Allianz Life Elite Income Fund:

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

Market Review

Financial markets were relatively calm in April. Extending the theme of 2023, US economic data remained resilient as PMI numbers beat expectations. The labor market also extended its run as the unemployment rate fell to 3.5% and non-farm payrolls increased by 236,000. However, the month was not without signs of worry as banking tremors linger and inflation concerns persist. An unease surrounding the US Debt Ceiling also emerged with investors fearing a potential default, albeit an unlikely event. US headline CPI came in at 5% YoY with core inflation staying stubborn, increasing to 5.6% YoY. European and UK headline inflation numbers fell modestly, however core inflation remains sticky, coming in at 5.7% YoY and 6.2% YoY, respectively.

Core bond yields were mostly flat whilst UK gilts underperformed with higher than expected inflation numbers. U.S. 10y yields fell -5bps, whilst German and U.K. 10y yields rose +2bps and +23bps, respectively. The 2y portion moved similarly, as U.S. 2y yields fell -2bps whilst German 2y yields remained flat. U.K. 2y yields rose +34bps.

In terms of asset class performance, equities posted positive returns amidst an encouraging earnings season and economic data, with the S&P 500 and MSCI World ending the month up 1.56% and 1.80%, respectively. In credit, USD and EUR investment grade spreads tightened -3bps and -5bps, respectively. USD high yield credit spreads tightened -3bps, whilst EUR high yield credit spreads widened +7bps.

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