Market Review and Outlook

August 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

In August 2023, a selloff in global equity markets reversed some of its previous month's gains as reflected by the 2.55% mom decline in the MSCI World Index. The drop was triggered by heightened volatility, which stemmed from the weaker – than – expected recovery from China as well as stresses in their property market. Consequently, the Chinese Shanghai Composite Index fell 5.20% mom with setbacks reported at some of their largest property developers, e.g. Country Garden and Evergrande, which served to highlight the weaknesses permeating the Chinese real estate market. On its economic front, its August manufacturing Purchasing Manager's Index (PMI) was still a contractionary reading at 49.7 albeit above the previous month's reading and consensus' expectations. Its retail sales momentum appeared to be weaker as it only grew +2.5% yoy in July versus +3.1% yoy in June and was below consensus growth expectation of +4.0% yoy. The weakness was also echoed by its inflation reading, which contracted 0.3% yoy in July 2023, its first contraction since February 2021. To curtail further deflationary concerns, the People's Bank of China (PBOC) lowered its 1 – year Medium – Term Lending Facility Rate to 2.50% in August 2023 from 2.65% in July 2023 and its 1 – year Prime Loan Rate to 3.45%. In US, the Dow Jones Index fell by 2.36% mom as Fitch downgraded the US government's credit rating to AA+ from AAA. However, US exhibited considerable resilience with regards to its economic data for the month under review. The country's July unemployment rate was stable at 3.5%, -0.1 ppt yoy and flat qoq with the average hourly earnings rate growing by +4.4% yoy, which was above consensus estimates. Its July retail sales was also robust growing +0.7% mom and also surpassed consensus estimates of +0.4% mom. However, US inflation worsened slightly in July to 3.2%, +0.2 ppt mom, due to food and energy price escalation. The Federal Reserve's (Fed) July Jackson Hole meeting's minutes released in August alluded that the Fed was keeping a watchful eye on inflation and that its policy was still very much data dependent. In Europe, the Stoxx 50 Index dropped 3.90% mom as the Eurozone's economic outlook remained somewhat uncertain as shown by the July Eurozone Composite PMI reading of 48.6, which was a deterioration from 49.9 reading in June and below consensus expectations. Its Inflation, though falling slightly, proved to be somewhat stubborn with the Euro Area Monetary Union Index of Consumer Prices (MUICP) All Items growing by +5.3% yoy, -0.2 ppt mom, but still above the European Central Bank's (ECB) target inflation rate.

During the month under review, Brent oil price rose +1.5% mom to USD86.86/ bbl. The hike was on the back of a 1.2m bbl/ day oil supply reduction by OPEC+, led by Saudi Arabia, which cut its supply by 1.0m bbl/ day. Crude palm oil (CPO) also buoyed by +1.8% mom to RM3860/ MT as it tracked higher soybean oil price, which was in turn driven by the hot weather.

Over in the ASEAN region, the Stock Exchange of Thailand went up by +0.63% mom as Khun Srettha Thavisin from Pheu Thai had managed to secure enough senatorial votes to become Thailand's 30th prime minister, thereby ending the country's post – general election short period of political uncertainty. The Thai GDP grew by +1.8% yoy in 2Q23 and was below consensus expectations. It was dragged by declines in government spending, public investments and exports. Apart from that, the Bank of Thailand raised its key interest rate by 25 bps to 2.25%, which was its highest rate since 2014, to allow itself some policy manoeuvring space amidst outlook uncertainty. Indonesia's Jakarta Composite Index also edged up

+0.32% mom due to its rising 2Q23 GDP growth momentum, which came in at +5.17% yoy, ahead of its 1Q23 growth of +5.03% yoy and consensus expectations. Bank Indonesia also opted to keep its 7 – day reverse repo rate steady at 5.75% for the 7th straight month. On the other hand, Malaysia's FBMKLCI took a breather after its stellar +6.01% mom surge in July 2023 by easing 0.51% mom. Its 2Q23 GDP growth of +2.90% yoy trailed its 1Q23 reading of +5.60% yoy and market expectations. Bank Negara Malaysia (BNM) attributed the moderating growth to sluggish external demand. June industrial production had also worsened by 2.2% yoy, which was below consensus expectations. However, Malaysia's July Consumer Price Index (CPI) managed to grow by +2.00% yoy, which was lower than the previous month's +2.40% yoy growth and consensus expectation of +2.10% yoy. Other than that, there were a slew of policy developments that would, over the longer term, help to steer the nation's economic growth. Among them were the National Energy Transition Roadmap (NETR) for which more details were given as Malaysia resolutely moved towards its 2050 net – zero target and the announcement of a special economic zone to be set up in Forest City, Johor to spur economic growth in Iskandar Malaysia. Despite its lackluster economic data, foreign net equity inflow during the month under review amounted to RM140.84m, which brought the YTD sum to a net outflow of RM2636.89m. Lastly, Singapore's Straits Times Index plunged 4.17% mom spurred by uncertainties encompassing China's economic recovery in the region. Its July 2023 Non – Oil Domestic Exports (NODX) contracted 20.20% yoy and 3.40% mom, which was a deterioration from the previous month and worse than market estimates.

US Treasuries (UST) weakened in August from a myriad of factors that included the surprise upside seen in US July Producer Price Index (PPI) and retail sales as well as the renewed chatters that the Fed is not likely done hiking rates based on the minutes of the Federal Open Market Committee (FOMC) meeting. Both US headline and core PPI accelerated to +0.3% mom in July (consensus: +0.2% mom) while July retail sales were up +0.7% mom (consensus: +0.4% mom). Further sell – offs were seen towards month – end following the Fed Chair Jerome Powell's much awaited speech at the Jackson Hole Symposium. Powell's speech implied that further rate hikes would be warranted if the economy continued to grow above trend and put inflation at risk. His hawkish slant left potential bond buyers sidelined.

Longer tenured Malaysian Government Securities (MGS) weakened in early August with some selling pressure following China's surprise rate cut and weaker macro data. The hawkish vibes from the FOMC minutes also did not augur well for the market. Trading started off thin as the market waited for fresh leads and the outcome of the six state elections. The results of the state elections were status quo as expected. However, bargain hunting activities returned on dips especially on the short to belly of the curve with interest from both offshore and onshore players. At the September Monetary Policy Committee (MPC), BNM maintained the Overnight Policy Rate (OPR) at 3.00% as widely expected, amid moderating domestic growth and inflation outlook.

Market Outlook

While there are nascent signs that global inflation pressures might be receding, their risks still appear quite prevalent, and some central banks may have to maintain their tightening stances for the remainder of 2023. Apart from that, we believe that investors would remain vigilant over the economic recovery in China, which is a significant contributor to global economy, bearing in mind that its recovery is supposed to help anchor the world's economic growth in the near – medium term as its western developed counterparts might still be involved trying to rein in inflation. Furthermore, there are geopolitical risks still at large such as the potential resurgence of Ukraine – Russia hostilities. In Malaysia, with the successful conclusion of the state elections and the mid – year reporting season, investors will be turning their attention towards our government's plans to spur the nation's growth and what would be in store for Budget 2024. To that end, the government has recently launched the New Industrial Master Plan 2030 (NIMP 2030), a comprehensive framework designed to catapult Malaysia's manufacturing sector into the Fourth Industrial Revolution.

For equities, we opt to maintain our investment ethos by focusing on fundamentally sound opportunities over longer term horizons. That said, we are also cognizant that volatility may still permeate the market and we would, if necessary, shift our investment stances to adapt to any new market developments. As always, we may also, at times, engage in a modicum of trading activities to capitalise on any prevailing market volatility.

In 2023, bond yield volatility in the fixed income market would likely persist due to the concerns over a potentially lengthy albeit easing inflationary environment in US and geopolitical risks. The latest market – implied rate as of early September suggests that Fed is likely to cut rates starting 2Q24 with rate cuts totalling more than a percentage point by end 2024. Locally, the MPC in September closely mirrored its July statement. The biggest takeaway, in our view, was that BNM had dropped the "slightly accommodative" phrase and highlighted that the prevailing OPR level was consistent with the current assessment of the inflation and growth prospect. Nevertheless, we are cognizant that they will continue to monitor incoming data to better appraise our domestic inflation and growth outlooks. Nonetheless, external and internal factors could still contribute to bond market volatility that may affect local yields. The declining CPI also supports the case for BNM to keep OPR steady at 3.0% for the remainder of the year. However, we will continue accumulating bonds at favourable 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?

- Despite being in a falling market, the Dividend Stability factor contributed positively during August.

What hurt?

- Global equities declined over August as stronger-than-expected US economic data dashed hopes that rates would soon be lowered.

Market Review and Outlook

Global equities declined over August as stronger-than-expected US economic data dashed hopes that rates would soon be lowered. Continued signs that momentum in China's economy was stalling also undermined sentiment, with the nation seeing further troubling developments in its Real Estate sector. In general, developed markets outperformed emerging ones. At a sector level, energy companies were a rare bright spot, while Utilities were the weakest. US equities advanced over July, with the S&P 500 Index touching its highest level since January 2022 in the closing days of the month. Shares were boosted by hopes of a soft landing given a further fall in the US headline inflation rate as well as data underlining the continued resilience of the US economy. The start of the earnings season was generally positive, albeit news at a company level was mixed.

US equities lost ground over August as hopes that interest rates may soon be cut were dashed by hawkish statements from the US Federal Reserve (Fed) policymakers. The broad-based S&P 500 Index recorded its first monthly drop since February, while it was the worst month since December 2022 for the tech-heavy Nasdaq. In other news, President Joe Biden signed a presidential order restricting US investment in three sectors in China: semiconductors and microelectronics; quantum information technologies; and certain artificial intelligence systems.

Euro-zone equities retreated over August. Sentiment was undermined by central banks' continued hawkish stance as well as further evidence highlighting that economic momentum was weakening. Energy was the only sector to deliver meaningfully positive returns, while Consumer Discretionary was the weakest. The Italian government's decision to impose a 40% windfall tax on banks caused Italian bank stocks to plummet, although it later backtracked by capping the tax at 0.1% of total bank assets. Spain has already imposed windfall taxes on banks.

For Allianz Life Asia Multi-IncomePLUS Fund:

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

Market Review

Asia ex Japan equities lost ground over August, with almost all markets in the region posting negative returns. An underwhelming response from the Chinese authorities to the nation's slowing economic momentum weighed heavily on sentiment, as did signals from the US Federal Reserve (Fed) that US rates are likely to stay higher for longer.

The tech-heavy markets of Taiwan and South Korea declined modestly, mainly due to profit taking on artificial intelligence-related (AI-related) stocks and continuous concerns over the Chinese economy. ASEAN markets also fell overall. While Malaysia, Indonesia, and Thailand shares slid slightly, share prices fell sharply in the Philippines and Singapore. Indian shares also retreated from the record highs of recent weeks. Australian shares held up relatively well, closing the month flat.

Asian high yield spreads widened across the board in August, as non-China high yield continued to significantly outperform China high yield. Certain countries, such as Indonesia, Philippines and Sri Lanka, on the index level, were able to deliver positive total returns in an off-beta month. Sri Lanka was the outperformer as China has affirmed support to effectively address the debt issue, while Hong Kong was dragged down by negative price action on a real estate developer. Overall, the pullback in the non-China high yield space has been warranted given tight valuations. In fact, some parts of that market have actually sold off much less on a spread basis versus what the total return price action may have suggested, given the emergence of local and regional demand.

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

Within the equity sleeve, key detraction came from our holdings in China. For example, the top detractor was Ping An Insurance, a leading insurer in China. Despite a decent set of H1 results and announcements of a dividend increase, the share price was weak due to concerns on the company's exposure to China's property sector. We continue to hold the position and expect targeted support measures to take effect in the coming months.

Conversely, key contribution came from our position in a travel platform in India and a beneficiary of travel demand recovery in the country, with travel volume returning to pre-COVID levels. In longer term, we view the company as well-positioned for structural growth as India's growing middle class allocates more spending towards leisure services.

The asset allocation at the end of the month was 66.8% invested in Asian equities and 29.8% in Asian fixed income, with the remainder in cash and others.

In August, we added an insurer and a logistics software company in Australia, as well as a global bank based in Hong Kong to the portfolio. To fund this, we exited two positions in China where there are more limited share price catalysts given subdued demand due to the macro slowdown.

For the fixed income sleeve, we invest in bonds with the aim of long-term interest accrual. In August, we sold our exposure to issuers with potential credit concerns and rotated into higher quality issuers across a diverse range of countries and sectors.

At the end of the month, we held 62 equities and 58 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 2.3 years.

Market Outlook

We maintain our base case for a recovery in Asian markets with a number of macro headwinds 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.

With valuations at the current levels, weak domestic investor appetite for risk assets, and under-ownership among foreign funds, the bear case for China equities is well known. The market is giving little credit to any positive impact from the stimulus, nor from other important developments like some softening of direct Sino-US tensions and more accommodating tones from China's top leadership towards private and internet companies. We acknowledge that there will likely be continued equity market volatility, but the recovery trend should incrementally improve as more concrete government support measures unfold. The formulation and implementation of effective policy measures should result in improvements in market confidence, in our view.

For high yield credits, we prefer the ex-China issuers as projected default rates remain low with decent carry, particularly after August. Market technicals are also supportive as supply is low. For Chinese high yield credits, we prefer fundamentally-driven bottom-up selection as the sector remains prone to idiosyncratic noise. While we already saw some supportive measures from Beijing in August, we expect more detailed policies to be announced in China in the coming months, but do not expect an aggressive panacea.

For Allianz Life Amanah Dana Ikhlas:

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

Market Review

The Malaysian sovereign bond yield curve bearish steepened in August, with the long-end 15yr-30yr yields rising between 2.15bps to 6bps while the short-end and belly were marginally lower between -0.3bps to -1.75bps. The 10-year MGS yields was little changed at 3.82%. Bond market sentiment turned cautious partly on US rating downgrade by Fitch and concerns on increasing US Treasury supply, but mostly because of the strong US data which underscored the resilience of the US economy and thus, reduced expectation of a policy pivot. US Fed chairman Powell in his Jackson Hole speech reiterated that rates may need to be higher for longer to bring down inflation to its 2% goal. However, local bond yields were relatively more stable compared to US Treasury yields, which saw m-o-m movement of between -1.4bps to +20.3bps. Locally, we saw 2Q'23 GDP came in lower than expected at +2.9% YoY vs est +3.3%, and down from +5.6% in the previous quarter. 2023 growth is projected to be closer to the lower end of the forecast range of 4% and 5%. Inflation is also on a downtrend, with Malaysia's headline CPI slowed further to 2.0% YoY in July (Jun: 2.4%), thus supporting our view that no further OPR hike is expected throughout the year.

Global equity markets broadly fell in August as risk appetite was dampened by the rising yields, signs of further tightness by the Fed (uptick in US inflation and resilient macro data), even as markets continue to feel the effects from the weaker China macro data, particularly housing and manufacturing. China did unexpectedly cut interest rates by the most since 2020 to bolster the economy facing risk from weak spending but failed to bring any substantial reprieve. The KLCI was down 0.5%, mostly dragged by Axiata, Dialog, and plantations after posting uninspiring earnings. However, this was balanced by gains in Sime Darby, Mr DIY, and Tenaga. Regionally, in local currency terms, Philippines was the worst performer, sliding 6.3% mom led by decline in telecommunications and utilities. This was followed by Singapore dropping 4.2% mom led by telecommunications, technology, and real estate. Thailand was the best performer which is up by 0.6% mom helped by healthcare and financials while materials and telecommunications lagged. Indonesia gained 0.3% on materials and energy by dragged by consumer and industrial.

Market Outlook

Domestically, Domestically, 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 8.7% in 2022, the indication of domestic growth softening could lead to more stable and positive govvies yields in 2023. Global growth is also expected to slow, with the Eurozone recently entering technical recession following 2 consecutive quarters of negative GDP growth in 1Q 2023.

We expect the OPR will be maintained at this current pre-covid level of 3.00%, as we think that Bank Negara is more inclined to support growth rather than tackle inflationary pressures, and that further monetary policy actions will be data dependent. Our view remains that that interest rates are peaking, and we are in the stage of market recovery, although we expect some volatility in between. As such, we maintain our positive outlook for Malaysia fixed income market as central banks globally shift towards more accommodative monetary policy. This peaking interest rate outlook, as well as anticipation of slower global growth, would be ideal for bond yields to fall. This would bode well for the valuations of fixed income funds.

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We maintain cautiously positive on Malaysian equity markets in the near-term but remain watchful on the global economic environment. While signs of peaking interest rate hike cycle, the risk of a global economic slowdown is a key risk as we head into the next year. We have seen corporate earnings come-off again post the 2QCY season, and there is still risk that further revision downwards could be imminent. Indeed, recent GDP numbers here as well as elsewhere, globally has been less inspiring. Recent outlook of corporates guidance has also been encouraging signs of cautious have been abundant. Moving forward, we will focus on reform policies and the execution of Madani Economic and perhaps the most talked about, National Energy Transition Roadmap with its RM25bn worth of projects. Fiscal policy, with the revival of High-Speed Rail Project as well as the awards for Penang LRT and the MRT3 are also anticipated.

For Malaysian sukuk, given our view that the market has fully priced in OPR hikes and government yields already moved to pre-covid level, we will maintain our neutral to long duration stance as we find current bond yields to be attractive. We continue to overweigh corporate bonds over sovereign bonds to anchor the Fund's income as corporate bonds are less volatile and provide higher yields to buffer against potential mark-to-market losses. We prefer strong AA-rated and A-rated papers for yield pickup while our holdings in AAA and GIIs will be primed for ROI purpose. We will continue to trade opportunistically to realize profits and reinvesting into longer duration and higher yield accretive sukuk, while also considering new primary issuances with higher yields to increase returns.

For Malaysian equities, last month saw strong performance in thematic plays, in particular the property names and energy stocks on the potential revival of the High-Speed Rail and higher oil prices respectively. This was also helped by the recent net inflows by foreigners (second consecutive month). We will be looking to take profit on these names. In any case, we remain nimble in our approach, continue to have exposure towards high yielding and defensive characteristics stocks apart from the thematic stocks.

For Allianz Life All China Equity Fund and Allianz Life All China Equity Fund (USD):

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

Market Review

The Fund outperformed the benchmark in August. Stock selection was the key contributor, with positive picks in the Consumer Discretionary, Utilities, Industrials, and Information Technology sectors proving particularly helpful during the month.

At a single stock level, a top contributor was a supplier of noise vibration harshness (NVH) anti-vibration systems as well as other components such as chassis and thermal management systems to Li Auto and other Chinese car makers, as well as a US electric vehicle (EV) manufacturer. We continue to see the company as well-positioned amid a constructive longterm view on the new EV industry. The aforementioned US EV manufacturer's overseas production base expansion and development of new products such as humanoid robots should also provide further growth drivers.

Conversely, a key detractor this month was one of the largest hotel groups in China. The company's share price has been weak as domestic travel has not been as strong as the market had originally anticipated. While we believe the sell-down has been overdone, and any pick-up in business from increased tourism should benefit this name, the near-term outlook has become more challenging amidst the broad macro slowdown. We reduced the position and will continue to monitor the recovery progress of the stock.

Market Outlook

Chinese stocks fell sharply over August as attempts to stimulate economic growth from the Chinese authorities fell short of expectations. Economic data continued to highlight that economic momentum remained subdued. Additionally, there were further signs of distress in the Real Estate sector, with a developer filing for bankruptcy protection in New York, while another developer suspended trading in some of its bonds after missing an interest payment.

In response, the People's Bank of China (PBoC) reduced its main interest rate (the 1-year loan prime rate) by 10 basis points (bps) to 3.45%, its second cut of that magnitude in two months. The Chinese central bank also cut the 1-year medium-term lending facility rate by 15 bps, having already reduced it by 10 bps in June. Elsewhere, the Ministry of Finance introduced additional measures to support the country's struggling market, saying it would halve the stamp duty on stock trading in order to boost investor confidence. On the property front, top regulators issued nationwide guidance to loosen key hurdles on first-home mortgages and extend tax incentives for housing upgraders by two years. Down payment ratios have also been cut in an effort to prop up home upgrade demand.

With valuations at the current levels, weak domestic investor appetite for risk assets, and under-ownership among foreign funds, the bear case for China equities is well known. The market is giving little credit to any positive impact from the stimulus, nor from other important developments like some softening of direct Sino-US tensions and more accommodating tones from China's top leadership towards private and internet companies. We acknowledge that there will likely be continued equity market volatility, but the recovery trend should incrementally improve as more concrete government support measures unfold. The formulation and implementation of effective policy measures should result in improvements in market confidence, in our view.

We continue to focus the portfolio on areas of the market where we find structural growth tailwinds. During August, we initiated a new position in an A-share listed media advertising company, where we see scope for demand recovery in offline advertising post-COVID lockdowns last year. We also invested in a leading domestic EV player with particular strength in self-driving technology and added to the internet platforms as we see a more supportive environment in this space.

As at the end of the month, the onshore/offshore allocation was around 45% in China A-shares. On a sector level, the largest overweight remained in the Consumer Discretionary sector, while our largest underweight was in the Financials sector.

For Allianz Life Global Artificial Intelligence Fund and Allianz Life Global Artificial Intelligence Fund (USD):

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

Market Review

Global equities declined over August as stronger-than-expected US economic data dashed hopes that rates would soon be lowered. Continued signs that momentum in China's economy was stalling also undermined sentiment, with the nation seeing further troubling developments in its Real Estate sector. In general, developed markets outperformed emerging ones. At a sector level, Energy companies were a rare bright spot, while Utilities were the weakest.

While inflationary pressures are easing, central banks remain hawkish. Speaking at the Jackson Hole summit of central banks, the US Federal Reserve (Fed) chair Jerome Powell reiterated that US inflation "remains too high" and the central bank will either need to hold rates at their current level or raise them to bring inflation down to its 2% target. In contrast, the People's Bank of China (PBoC) cut its main borrowing rate, the 1-year loan prime rate for the second time in two months as data showed China was now experiencing deflation.

Oil prices continued to rise, briefly touching a 9-month high, after Saudi Arabia said it would extend its production cuts for another month. European gas prices surged amid fears of a strike by workers at liquified natural gas (LNG) facilities in Australia. While Europe does not import significant amounts of LNG from Australia, there were concerns of increased competition with Asian nations for LNG supplies.

From a sector perspective for global equities, as measured by the MSCI All Country World Index, the Energy sector outperformed as oil prices continued their rally. The Health Care sector also outperformed and was supported by tailwinds from large cap pharma. Conversely, stocks in the Utilities and Materials sectors lagged broader markets.

During the period, the Fund underperformed versus the custom benchmark (50% MSCI ACWI Index/50% MSCI World Information Technology Index). Artificial intelligence-enabled (AI-enabled) industries were the largest detractor due to stock specific hurdles. AI infrastructure and AI applications also underperformed broader markets.

Contributors

Among the top contributors was a construction and mining equipment producer. The stock rallied after the company reported earnings results on better-than-expected sales and operating margins. The company continues to be well positioned to drive earnings and free cash flow growth through an improved cost structure and a potential cyclical recovery. Further, it continues to tap into AI to help drive operational efficiencies for customers and catch equipment failure before it happens.

Our underweight position in a US tech giant was another contributor for the period. Shares pulled back on mixed earnings results, as solid results from the services segment were offset by softer-than-expected hardware sales.

Detractors

A detractor was a provider of payments hardware and software solutions for merchants and consumers. Despite releasing solid quarterly results, shares fell as growth decelerated in July. Looking forward, it continues to have a unique growth opportunity, which is supported by its merchant ecosystem, consumer financial technology capabilities that includes the highly popular mobile payment app and synergies from the acquisition of a financial technology company known for its buy now, pay later service.

Our position in a company which operates a cloud-based platform for sales and marketing solutions was one of the top detractors. Shares underperformed as the company guided down revenue expectations amid a soft sales environment over the near term. We believe the company's unique data assets and workflow solutions that leverage AI from data collection to analytics are more relevant as sales teams digitise their go-to-market motions.

Market Outlook

From a macroeconomic perspective, most major indicators pointed to the increased probability that the US economy may achieve a soft landing. Economic data indicated lower-than-expected inflation readings combined with continued resilience in the labour market and consumer spending. Although the Fed did raise rates again by 25 basis points (bps) at its late-July meeting, there was an expectation that there could be one more hike for the calendar year. However, chairman Powell and other Fed governors made clear that they expect inflation to take time to come down to their 2% target and therefore rates will need to stay higher for longer. Low unemployment and higher gross domestic product (GDP) allow the Fed greater flexibility to keep rates at higher levels. Once again, the expected recession continues to be pushed further into the future.

After the strong year-to-date equity market returns, especially for Technology stocks, volatility may increase over the coming quarters as interest rates likely stay higher for longer and as restrictive financial conditions slow economic growth. We believe earnings for many of the companies we are invested in are likely to be more resilient in the context of a slowing economy, as they are benefitting from innovations and a strong investment backdrop. Our portfolio remains aligned to our long-term perspective as AI will impact all industries and be a key driver to shareholder value creation.

The US equity markets this year have favoured companies that are poised to benefit from growing adoption of AI. Semiconductors were the recent winners along with some cloud and software providers that provided a clear business thesis around the technology going forward. For the Q2 2023 earnings reporting season, the broader topic of AI was mentioned in more than 20% of earnings calls with a significant increase on generative AI. In addition, Voya Investment Management recently conducted a study in which 300 information technology key decision makers were asked, “What technologies do you see having the greatest impact on your company in the next five years?” and the top answer was AI and machine learning. However, outside of the Technology sector, some companies have started to see slower end demand as the economy slows, so it is unclear if positive momentum from AI can carry over into the broader equity markets over an extended period.

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 edge intelligence. AI applications will be required to optimise the functionality of these new tools and technologies, of which the plug-ins are just the first step to greater customisation for enterprises and consumers. Lastly, several companies in the AI-enabled industries category have already announced GPT-related functionality added to their services to enhance customer engagement and drive greater productivity. We believe this is just the tip of the iceberg as companies become more comfortable with the technology’s potential and software applications improve to drive greater efficiencies across more business processes in time.

For Allianz Life Oriental Income Fund and Allianz Life Oriental Income Fund (USD):

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

Market Review

Asia Pacific equities lost ground over August, with almost all markets in the region posting negative returns. An underwhelming response from the Chinese authorities to the nation's slowing economic momentum weighed on sentiment, as did signals from the US Federal Reserve (Fed) that US rates are likely to stay higher for longer. Additionally, there were further signs of distress in China's Real Estate sector, with a developer filing for bankruptcy protection in New York, while another developer suspended trading in some of its bonds after missing an interest payment.

Japan's gross domestic product (GDP) grew by an annualised 6.0% in Q2, helped by resurgent car exports, which were far stronger than expected. The tech-heavy markets of Taiwan and South Korea declined modestly, mainly due to profit taking on artificial intelligence-related (AI-related) stocks and continuous concerns over the Chinese economy. ASEAN markets also fell overall. While Malaysia, Indonesia, and Thailand shares slid slightly, share prices fell sharply in the Philippines and Singapore. Australian shares held up relatively well, closing the month flat. Amid a slowing inflation rate, the Reserve Bank of Australia (RBA) kept interest rates unchanged for the second successive month. Indian shares also retreated from the record highs of recent weeks, dragged down by the Energy, Consumer Staples, and Financials sectors.

The Fund outperformed the benchmark in August. Stock selection was the primary contributor, with picks in the Information Technology sector being particularly beneficial, offsetting weaker names in the Consumer Discretionary space.

At a single stock level, a key contributor this month was Alchip, a Taiwan semiconductor company that designs sophisticated, customised chips for a global clientele with applications in growth areas such as cloud computing and data centres. Alchip has a growing project pipeline, with AI chipset customisation set to become a key growth driver. We believe Alchip offers a superior technology, and the stock has been a direct beneficiary of AI-related trends.

Conversely, a top detractor was a company from the Communication Services area in Japan. The company operates in the media space, with verticals in human resources, lifestyle, and real estate, among others. There was no specific news around this stock, though the share price was relatively weak in August after having posted strong gains earlier in the year. We continue to like this name and believe it operates in niche areas.

During the month, we took the opportunity to add to some of our Korean holdings, but the main change to positioning in recent months has been adding exposure to Japan, now a key overweight as a result of the opportunities we are finding amidst a more supportive market backdrop. Other overweight markets include Taiwan and New Zealand – given specific stocks owned in these markets – which is balanced by underweight positions in China and India.

The weighting to Energy has come down over recent months. China's strategic goal to reduce reliance on imported energy should support higher capital expenditure (capex) by upstream oil majors. However, the risk of a global slowdown and reduced demand for oil products has increased this year, warranting a less overweight position.

At a sector level, the largest position is Information Technology, primarily in technology hardware, including exposure to memory chipmakers, where valuations have been touching trough levels seen in previous down cycles. We also continue to be optimistic on 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.

Market Outlook

We maintain our base case for a recovery in Asian markets, with a number of macro headwinds appearing to have eased. So far, the 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.

We acknowledge that there will likely be continued equity market volatility across the region, but in China, the recovery trend should incrementally improve as more concrete government support measures unfold. The market is giving little credit to any positive impact from the recent stimulus, nor from other important developments like some softening of direct Sino-US tensions and more accommodating tones from China's top leadership towards private and internet companies.

The outlook in Japan remains encouraging. The impact of inbound tourism is helping to support domestic demand. We also expect that Tokyo Stock Exchange governance reforms should continue to support positive sentiment in selective 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

Asia ex Japan equities lost ground over August, with almost all markets in the region posting negative returns. An underwhelming response from the Chinese authorities to the nation's slowing economic momentum weighed heavily on sentiment, as did signals from the US Federal Reserve (Fed) that US rates are likely to stay higher for longer.

The tech-heavy markets of Taiwan and South Korea declined modestly, mainly due to profit taking on artificial intelligence-related (AI-related) stocks and continuous concerns over the Chinese economy. ASEAN markets also fell overall. While Malaysia, Indonesia, and Thailand shares slid slightly, share prices fell sharply in the Philippines and Singapore. Indian shares also retreated from the record highs of recent weeks, dragged down by the Energy, Consumer Staples, and Financials sectors.

The portfolio outperformed the benchmark in August. Stock selection was a key contributor, notably in the Health Care and Consumer Discretionary sectors. From a geographical perspective, stockpicking in China was particularly effective.

At a single stock level, a key contributor was a leading contract development and manufacturing organisation (CDMO) with a broad global portfolio. The company provides services for new drug research and development and is a preferred pick in the Health Care sector. Although the sector has been dragged down of late due to an anti-corruption campaign in the medical field, we believe high quality names like this are set to benefit and thus have been consolidating our positioning in this conviction idea.

Conversely, a leading detractor was a Southeast Asian internet player encompassing online gaming, retail e-commerce, and digital financial services. Its Q2 2023 results demonstrated a quarter-on-quarter contraction in ecommerce adjusted earnings before interest, taxes, depreciation and amortisation (EBITDA), highlighting the fiercely competitive marketplace in this space. Prior to the earnings release, we had reduced our position on the view that the share price was under near-term pressure. As such, we continue to closely monitor the position.

In August, we initiated positions in a high-quality hospital name in India, with high occupancy rates and tailwinds from an underpenetrated health care market. More broadly, portfolio activity in recent months has been to reduce the China allocation, which is now a significant underweight position. On the flip side, we have taken advantage of the recent correction in India to top up select names in this market, where we have a clearer outlook on growth.

At a sector level, the Fund is overweight in Consumer Staples, Financials, and Information Technology. This reflects bottom-up ideas expected to benefit from the region's economic rebound as well as more structural opportunities in the coming years. The largest positions in the portfolio at month-end were HDFC Bank, Taiwan Semiconductor Manufacturing Company (TSMC), and Samsung Electronics.

Market Outlook

We maintain our base case for a recovery in Asian markets with a number of macro headwinds 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.

Within the region, our preference leans more towards South Asia where we are finding a number of attractively valued structural growth stories that are less impacted by geopolitical risks. In particular, the more favourable demographics, rising consumption power, and reordering of supply chains associated with "China +1" are boosting the growth outlook across ASEAN markets and India, where we see more promising investment opportunities relative to North Asia at this juncture.

For Allianz Life Global Income Fund:

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

Market Review

Markets finished lower in August, but off the worst levels as strong earnings reports, signs of continued economic stability, and muted US Federal Reserve (Fed) Chair Powell commentary were offset by a rise in interest rates. Q2 earnings came in better than expected with 79% of S&P 500 companies reporting a positive earnings-per-share (EPS) surprise – above the 5-year average – and 64% reporting a positive revenue surprise, according to FactSet Insights. Bottom-up earnings estimates for 2023 and 2024 moved higher over the month. In tandem, Q3 gross domestic product (GDP) growth estimates saw upward revisions during the same period. Better earnings and economic data pushed interest rates higher with the 10-year US Treasury yielding 3.95% at month-end, up from 3.81% in July.

In this environment, global equity markets, as measured by the MSCI World Index, returned -2.39%.* Non-US developed equities underperformed their US counterparts and growth stocks outperformed value stocks. Global convertible securities were lower while global high-yield bonds finished higher, and new issuance rose versus last month. Global fixed income, as measured by the Bloomberg Global Aggregate Index, returned -1.37% with US exposure outperforming non-US.^

The portfolio was negatively impacted by stock and bond market weakness.

Nvidia was the top contributor to performance this month, after easily exceeding consensus estimates and forecasting another quarter of notably higher-than-expected sales guidance. Alphabet and Amazon both gained on optimism around their respective cloud capabilities, and Mastercard's stock reached all-time highs following reports of potential increases to merchant fees. A Latin American internet retailer increased after reporting strong margin performance, and a multinational oil and gas company rose in tandem with energy commodity prices. Other top contributors included several pharmaceutical companies and software providers.

Several mega-caps detracted from performance, including Apple on cautious revenue guidance and a social media company that settled lower after strong year-to-date gains. A residential solar provider declined after missing expectations and domestic economic uncertainty pressured a Chinese diversified technology stock. Two health care names lagged, including a medical device company on acquisition integration concerns and a diagnostics firm despite beating earnings estimates and raising guidance. Other detractors included several semiconductor holdings, a major US bank, and a specialty chemicals supplier.

Exposure increased the most in Consumer Discretionary, Real Estate and Communication Services, and decreased the most in Industrials, Health Care, and Financials.

Market Outlook

The likelihood of a US recession in 2023 continues to fade and headline inflation should trend lower. The pace of monetary policy tightening has already slowed, and corporate earnings estimates seem to have stabilised.

Steady employment and consumer spending, wage growth, excess savings, accumulated asset wealth, housing market improvement, and onshoring activity are potential economic tailwinds. The lagged effects of monetary policy and quantitative tightening and the durability of household balance sheets to withstand higher interest rates are key risks to growth.

Waning inflation and a currently restrictive monetary policy stance will likely influence the Fed to consider slowing the pace of interest rate hikes further or even ending their current campaign.

Corporate earnings estimates for 2023 and 2024 seem to have stabilised following better-than-expected quarterly results and upward revisions to earnings and sales projections.

If the hiking cycle is nearing an end, it 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.

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's composition has shifted compared to the past decade. Today, many securities offer higher 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 an upwardly revised USD 50-55 billion, according to market strategists.

Credit's risk/reward opportunity is compelling. High yield fundamentals are healthy, near-term refinancing obligations remain low and managements continue to prioritise debt reduction. Given these factors, defaults should remain well below historical cycle peaks. 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. 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 31 August 2023 unless otherwise stated.
* Source: MSCI, as at 31 August 2023
^ Source: Bloomberg, as at 31 August 2023
** Source: ICE Data Services, as at 31 December 2022
# Source: JP Morgan, as at 31 October 2022

For Allianz Life Thematica Fund and Allianz Life Thematica Fund (USD):

Target Fund Manager's Comment (For Allianz Thematica)

Market Review

Global equities declined over August as stronger-than-expected US economic data dashed hopes that rates would soon be lowered. Continued signs that momentum in China's economy was stalling also undermined sentiment, with the nation seeing further troubling developments in its Real Estate sector. In general, developed markets outperformed emerging ones.

While inflationary pressures are easing, central banks remain hawkish. Speaking at the Jackson Hole summit of central banks, US Federal Reserve (Fed) chair Jerome Powell reiterated that US inflation "remains too high" and the central bank will either need to hold rates at their current level or raise them to bring inflation down to its 2% target. In contrast, the People's Bank of China cut its main borrowing rate, the one-year loan prime rate for the second time in two months as data showed China was now experiencing deflation.

The US dollar strengthened as Fed policymakers signalled that US rates were likely to stay high for some considerable time – and may even move higher. The British pound initially appreciated against the euro but later relinquished most of these gains as early data for August indicated that the UK economy was now contracting. The Japanese yen remained weak, as the Bank of Japan remained more dovish.

Oil prices continued to rise, briefly touching a nine-month high, after Saudi Arabia said it would extend its production cuts for another month, but later lost ground to close August little changed. Energy stocks led the advance as oil prices gained, with the Communication Services sector also posting solid gains. In contrast, defensive sectors such as Utilities, lagged.

Market Outlook

The Fund returned negatively in August and underperformed the MSCI AC World Index.

Stock Selection has been a negative contributor to overall performance. From a theme perspective Clean Water & Land and Infrastructure have been the key positive drivers. On the other hand, Next Generation Energy detracted and has been the dominant negative driver. In August 2023, the Energy Transition related stocks underperformed the broader market as yields pushed higher and bad news from some renewables players dragged down this segment. From a sector perspective the underweight in Consumer Discretionary, Financials and Consumer Staples contributed well. Being overweight to Materials, Industrials and Utilities created negative contribution.

Top contributors from a single stock perspective have been a developer of pharmaceutical products for the treatment of serious medical conditions (Health Tech) which benefited from increased growth in its earnings; a manufacturer of highperformance insulation and building envelope technologies (Infrastructure) has been among the best performers after showing steady operational performance; and Quanta (Infrastructure) has performed well from the sector growth in general.

Negative contribution occurred from a provider of payment solutions (Digital Life) after the company reported earnings falling short of expectations. A wind energy giant (Next Generation Energy) suffered from a write down of a wind park in the US operations. A cybersecurity solutions company (Digital Life) suffered from a weak reporting and its earnings release has been weaker.

Recently, we added to Clean Water and Land after increasing our exposure to Digital Life over the course of the year. Global politicians' emphasis on accelerating the energy transition is anticipated to provide a sustained boost. The RePowerEU Plan and the Inflation Reduction Act support this momentum for Next Generation Energy theme. Intelligent Machines also experienced modest gains, while exposure to Infrastructure decreased slightly as profits were realised in H1. We are maintaining a "Core" style perspective for the portfolio.

For Allianz Life Elite Income Fund and Allianz Life Elite Income Fund (USD):

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

Market Review

Seven straight months of equity market gains finally halted in August, a month of volatility and uncertainty for investors. Bonds and equities both sold off, following a surprise U.S. sovereign credit rating downgrade by Fitch from AAA to AA+. Moreover, the subsequent Treasury Refunding Announcement of an increase in Treasury auction size and issuance, and better than expected U.S. economic data contributed to higher bond yields, as the U.S. 10yr Treasury reached a peak of 4.36% before falling back. U.S. labor market data was resilient with unemployment coming down to 3.5%. However, with labor supply expanding and wage gains moderating, the pressure for further rate hikes may be reduced.

Inflation, whilst remaining the main concern of Central Banks – as reiterated in Fed Chair Powell's speech in Jackson Hole – has retreated this year. U.S. headline inflation for July increased slightly to 3.2% YoY, as core inflation came in slightly lower at 4.7% YoY. In the Eurozone, inflation was stickier, as the headline CPI reading came in at 5.3% YoY with core staying at 5.5% YoY. In the U.K., headline CPI softened to 6.8% YoY, with core inflation remaining at 6.9% YoY.

Core bond yields fluctuated over the course of the month. U.S. 10y Treasury and U.K. 10y Gilt yields rose by +15bps and +5bps respectively, while German 10y Bund yields fell by -3bps. In the front end, U.S. and German 2y government yields fell by -1bp and -6bps respectively, while U.K. 2y Gilt yields rose by +17bps.

Equity markets suffered in August. The S&P 500 and MSCI World were down -1.59% and -2.35% respectively, while China equities continued to suffer from property sector concerns. In credit, USD and EUR investment grade spreads widened +5bps and +6bps respectively. High yield also underperformed, as USD and EUR high yield spreads widened by +5bps and +16bps respectively.

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