

# Market Review and Outlook

## March 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 +2.8% mom to close at 2,791 points for the month of March. Similarly, the Dow Jones Index increased by +1.9% mom due to containment of fear of a global banking crisis as Swiss investment bank UBS Group agreed to buy Credit Suisse. On the US' economic front, retail sales in February eased by 0.4% mom as compared to a gain of +3.0% mom in January while its February industrial production was flat mom. US S&P Composite Purchasing Managers Index (PMI) rebounded to 50.1 in February as compared to 46.8 in January. Over in Europe, the Stoxx 50 Index climbed by +1.8% mom during the same period following a higher expansionary Eurozone S&P Composite PMI reading of 52.0 in February as compared to 50.3 in January. Its industrial production gained by +0.7% mom in January as compared to a contraction of 1.1% mom in the previous month. Moreover, its January retail sales increased by +0.3% mom as compared to a decline of 2.7% mom in the previous month. Nonetheless, China's Shanghai Composite Index fell by 0.2% mom in March despite a strong Caixin China Composite PMI reading of 54.2 in February as compared to 51.1 in January. Market sentiment was hampered by the 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 March 2023 meeting.

In March, Brent oil decreased by 4.9% mom to USD79.77/bbl following fears of a global banking crisis and recession risk. Similarly, crude palm oil (CPO) price tapered by 1.3% mom to RM4,058/MT in March after a rebound from February and amidst higher CPO production in Malaysia of c.2.8% mom.

On the ASEAN front, equity markets closed the month under review with subdued performances. Malaysia's FBMKLCI declined by 2.2% mom due to foreign fund outflows from fear of a global banking crisis. March saw a monthly net foreign equity withdrawal of RM1.3b, bringing year – to – date (YTD) outflows to approximately RM1.9b. From an economic standpoint, Malaysia's January industrial production growth slowed to +1.8% yoy from a growth of +3.0% yoy in the previous month. February manufacturing PMI was slightly better, albeit contractionary, at 48.4 as compared to 46.5 a month ago. The Stock Exchange of Thailand dipped by 0.8% mom led by foreign equity outflow due to the aforementioned banking crisis fear. Its February S&P Global manufacturing PMI strengthened to 54.8 as compared to 54.5 in January. The Bank of Thailand hiked its Benchmark Interest Rate by 25bps to 1.75% in its March meeting. Indonesia's Jakarta Composite Index eased by 0.6% mom following a lower S&P Global manufacturing PMI reading of 51.2 in February as compared to 51.3 in the previous month. The Indonesian central bank kept its 7 – day repo rate stable in March at 5.75%. Similarly, the Singapore's Straits Times Index reduced by 0.1% mom following a larger industrial production decline of 11.7% mom in February as compared to a decline of 1.1% mom in January. Its February PMI reading was slightly stronger at 50.0 as compared to 49.8 in January but its Non – oil Domestic Exports experienced a decline of 8.0% mom in February as compared to a growth of 0.9% mom in January.

US Treasuries (UST) yields declined by 27 – 74bps mom in a steepening manner as the first US bank failures started from the melt down of Silicon Valley Bank, triggered a re – evaluation of whether the Fed would continue to raise rates in the near term and the possibility of a rate cut later by year – end. The 2yrs to 10yrs UST yields were at their lowest level YTD. 2yrs UST reached a low of 3.553% on 24th March before closing the month at 4.025% whereas the 10yrs UST reached a low of 3.280% on 24th March as well before closing the month at 3.468%. It was a stark contrast given that the 2yrs UST yield reached a high of 5.08% on 8th March which was the highest level since 2007 after the Fed Chairman stated that they were prepared to increase rate hikes if the economy continued to stay strong. Although the Fed did hike the rate by 25bps on 22nd March, they expressed caution on the recent banking crisis and indicated that the rate hike cycle was nearing an end. As of end – March, the market – implied expected peak stood at 4.96% in May and was pricing in at least two rate cuts by year – end.

Unlike UST, Malaysian Government Securities (MGS) yields movement were mixed as the short tenures' yields declined by 6 – 16bps mom while the long tenures' yields increased by 2 – 7bps mom. Bank Negara Malaysia (BNM) maintained the Overnight Policy Rate (OPR) at 2.75% for the second consecutive meeting on 9th March to further assess the impact of previous OPR hikes. February's inflation was marginally higher against consensus at 3.7% yoy (January: 3.7% yoy, consensus estimate: 3.6% yoy). BNM released the 2H22 Financial Stability Review Report on 30th March in which they stated that the domestic banking system remains sound and prudent while the business and household risks remain manageable.

Foreign funds raised Ringgit bond holdings by RM6.6b in March (February: +RM4.3b). Foreign shares of both MGS and MGS+Government Investment Issues (GII) rose to 36.0% (February: 34.5%) and 23.1% (February: 22.4%) respectively. Malaysia's foreign reserves expanded by USD1.2b to USD115.5b as of end-March 2023 (February: USD114.3b).

## Market Outlook

Globally, contagion from global banking troubles and recession risk remains to be the focus. In the latest summary of Economic Projection, the Federal Open Market Committee (FOMC) assumes only one more rate hike and the statement said "some additional policy firming may be appropriate". The next FOMC meeting will be held in early May 2023. As the FOMC is data dependent, subsequent data releases and communications by key members will be crucial. Locally, focus will be on the implementation of the revised Budget 2023, the upcoming earnings result season, and the six state elections in July 2023.

For equities, we would continue to adopt a prudent yet sensible posture towards our equity market's longer term growth trajectory and, where opportunities arise, would 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 recent turmoil in the banking sector following the collapse of 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 market-implied rate is pricing in at least two rate cuts by year – end. BNM in its latest assessment cited that it was necessary to assess the impact of the previous OPR hikes totaling 100bps last year on the Malaysian economy before taking any further action. Despite the improved risk – reward of MGS due to BNM policy normalisation, 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 suffered due to its defensive dividend strategy in an environment where more cyclical segments of the equity market could do better.

## Market Review and Outlook

It was a volatile month for global equities, with many markets closing March slightly higher. Shares plunged mid-month as sentiment was knocked by worries over the health of the global banking system following the collapse of two regional US lenders. As the uncertainty spread to Europe, Swiss investment bank Credit Suisse was forced into an emergency merger with rival UBS. Nevertheless, global stocks staged a late-month recovery as further falls in headline inflation rates boosted hopes that central banks may adopt a more moderate stance to raising rates. Robust Chinese economic data also contributed to the positive tone at month end.

US equities rallied overall. News that California-based start-up lender Silicon Valley Bank had collapsed rocked the market, coming just days after the failure of crypto-currency focused Signature Bank. The news sparked a flight out of smaller lenders, causing a group of well capitalised larger banks, such as JPMorgan Chase and Bank of America, to deposit USD 30 billion to prop up troubled lender First Republic Bank. Treasury Secretary Janet Yellen insisted that the banking sector was "sound" and as confidence returned, US stocks staged a late-month rally. The tech-heavy Nasdaq Composite led the gains as growth-focused stocks rallied strongly, boosted by speculation the Federal Reserve (Fed) would be less likely to raise rates to avoid further pressure on banks.

European equities rose modestly over the month (in EUR terms). In early March, the FTSEurofirst 300 Index reached its highest level in more than a year but shares subsequently fell sharply as banks came into focus following the collapse of two regional US lenders. Credit Suisse was the target of much of the negative sentiment, resulting in its enforced merger with UBS. The deal sparked outrage from bondholders as Swiss regulator Finma prioritised Credit Suisse shareholders over holders of the investment bank's Additional Tier 1 debt. Nevertheless, share prices recovered in the final days of the month, lifted by hopes that central banks may rein in their rate hikes to avoid further problems in the banking sector.

For Allianz Life Asia Multi-IncomePLUS Fund:

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

### Market Review

Equity markets in the Asia Pacific region rallied over the quarter, shrugging off the effects of the financial sector volatility in the US and Europe. The technology-heavy markets of Korea and Taiwan led the way on expectations of a stabilisation in semiconductor and memory chip demand/supply dynamics, enthusiasm around generative artificial intelligence (AI) applications, as well as hopes that the US may be close to the peak of the rate cycle.

China equities also delivered solid gains. Economic data showed that China's economy had picked up speed following the relaxation of pandemic-related restrictions. China's official purchasing managers' index (PMI) jumped to 58.2 in March, the highest level since May 2011, as the economy reopened. Elsewhere, ASEAN markets were generally mixed and lagged the broader region. Singapore was the strongest market, delivering solid gains, with Indonesia also advancing. In contrast, returns in the Philippines were flat, while equity markets declined in Malaysia and Thailand.

The Asian USD high yield credit market, as represented by the JP Morgan JACI Non-Investment Grade Custom Index, corrected by -2.31% in March. The consolidation was driven by Chinese issuers, Real Estate issuers in particular, as a large property developer was contemplating to defer a coupon on a perpetual bond but later relented. The correction was mitigated by a rally in US Treasuries which drove the 5-year benchmark yield from 4.18% to 3.57%.

The Fund return was positive in USD terms in March.

Within the equity sleeve, the top contributors came from our position in China internet platforms Alibaba and Tencent. News of Alibaba's restructuring into six distinct businesses was taken by markets as a sign that the regulatory environment for internet platforms continues to improve. With domestic consumption expected to lead the economic recovery, the outlook is also more promising for future earnings growth for the two companies.

Conversely, the top detractor over the month was a data centre REIT based in Singapore. Over the month, there were concerns on the credit quality of segments of its US customer base. We continue to hold the position. The structural outlook for data centres should be supported by the increasing demand for cloud computing and AI applications.

The asset allocation at the end of the month was 67.3% invested in Asian equities and 31.3% in Asian fixed income, with the remainder in cash.

In terms of portfolio activity, we exited our position in a petrochemical and fertiliser producer in Malaysia due to the demand downcycle. We continue to maintain a higher portfolio allocation towards China where we see stronger potential for economic growth and earnings recovery in 2023.

For the fixed income sleeve, we invest in bonds with the aim of long-term interest accrual. Turnover in March was low, we sold some of our exposure to issuers with potential medium to long-term idiosyncratic concerns while rotating into a higher quality Chinese state-owned issuer.

At the end of the month, we held 61 equities and 72 fixed income securities. The equity portfolio yield was 3.5%, and the average fixed income coupon was 5.3% with an average credit rating of BB and duration of 2.5 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. Notably in China, the policy environment should remain supportive while the nascent economic recovery takes hold – in contrast to most other parts of the world.

So far, the Asian market recovery from the low point last year has primarily been a function of improvement in valuations. 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.

Valuations for Asian high yield credits remain attractive on a historical basis and the market is expected to continue recovering over the medium to long term. We will continue to maintain a diversified portfolio focusing on interest accrual.

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

### Market Review

The Malaysian government bond curve bull steepened in March with short-dated 3-years and 5-years yields falling by -12 to -13 bps, while the 7-years onwards moved between -4 bps to +6 bps. Market turned risk off due to the US banking and Credit Suisse crisis and contagion concerns that resulted in a change in monetary outlook, as recession risk increased, and central banks became more dovish in order to manage the economy and liquidity issues. Market is not only pricing in a lower terminal rate for the US Fed Fund rate (previously at 5.6%, now down to 5.1%), but also pricing in a rate cut of more than 100bps in FY2023. As expected, US Fed hiked rate by a smaller 25bps on the basis of stronger job gains and sticky inflations and accompanied by a dovish statement. Meanwhile, BNM held the OPR at 2.75% for the second time, reiterating that its pause decision is due to the need to assess the impact of cumulative tightening in 2022. It also indicated "further normalization", suggesting the recent pause is not the end of the rate hike cycle, and maintained that further monetary policy actions will be data dependent.

Global equity markets shrugged-off the financial turmoil of Silicon Valley Bank and Credit Suisse and the risk-off sentiment in the beginning of March to rally by the end of it. Fear of the financial sector contagion dissipated further supported by positive news in China. The swift response of Central Banks in addition to the expansion of the US\$350bn Fed's balance sheet, growth and cyclical stocks rebounded following their fall for most of 2022. However, this was not reflected here, in local currency terms, as the KLCI declined 2.17% mom, being the worst performer in the region led by industrials and materials but offset by better performance of communication services and healthcare.

Commodities' performances were largely affected by the banking failure. Gold continues its outperformance, rising 7.8% in March. On the other hand, Brent oil prices fell 4.9% on recession concerns. Agriculture were unchanged as large supply in grain and soybean markets were met with low stocks and the potential recovery in demand to although palm oil declined 9.2%. Industrial metals, like equity markets, saw a rebound in the second half of the month boosted by the liquidity easing. Nickel fell 3.8%, Copper was flat (-0.1%) while Iron Ore gained 3.7%. Aluminium rose 2.0% as ingot inventories across China's eight major markets fell on seasonal destocking while helped by some recovery in demand helped prices.

### 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 in order to avoid a hard landing. This would be ideal for bond yields to fall.

Following the 100bps cumulative OPR hike in 2022 to 2.75%, and the pause in the first 2 meetings of 2023, we expect one more 25 bps hike by BNM this year to bring OPR back to pre-covid level of 3.00%. The recent Monetary Policy Statement in March reiterated the reason for its pause decision is due to the need to assess the impact of cumulative tightening in 2022 given the lag effect of monetary policy on the economy. It also indicated "further normalization", suggesting the recent pause is not the end of the rate hike cycle, and maintained that further monetary policy actions will be data dependent.

The equity outlook for Asia, as for other parts of the world, hinges on the Fed's response to the challenges of inflation and how the Russia-Ukraine conflict resolves. In particular, the outcome of China's Zero Covid-19 policy and whether it can emerge from what is hopefully a bottom of the country's economic cycle will determine if Asia can continue to outperform the world for the year. Another source of drag for economies is the diminished purchasing power of consumers due to persistent inflation that will likely lead to lower-than-expected growth from private consumption. Until global equity markets have repriced adequately to reflect the extent of economic slowdown that lies ahead, market volatility will persist.

Locally, we are cautiously optimistic on the local equity market. The month recently also had the quarterly earnings season which, unfortunately, had more misses. Generally, companies lamented margin compression as well as weaker top line. Financials were decent as most of their earnings were driven by writebacks but NIMs continue to be under pressure. Elsewhere, sectors that were relatively better were in construction, transport, consumer, and telecommunications. Materials, healthcare (rubber gloves) and technology companies saw earnings disappointment. Thus, these put earnings outlook has turned murky which suggests that there more earnings downgrade although we think these are mostly priced-in.

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 govies yields and healthy AAA and AA corporate credits. We are more inclined to invest in govies 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, after rally in January, markets were hit back with a reality check and markets have been volatile since then. Having said that, we are optimistic that things will turn around as market expectations moderate in addition to low valuations. Hence, we will look opportunistically on quality names and names that should have a meaning full recovery. Elsewhere, we also maintain our positive view on financials as they benefit from interest rate hikes although we note there are rising risks of falling asset quality and the unexpected hold in OPR rates. Besides this, we look for defensive and dividend yielders as well as recovery 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. Hence, we maintain defensive for now with a balance portfolio structure between defensive, value and growth stocks.

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

### Market Review

The Fund slightly lagged the benchmark in March. Stock selection was the main detractor as a result of relative weakness in the Financials sector.

At a single stock level, a key detractor this month was a contract research organisation (CRO) which provides clinical trial services primarily for domestic health care companies developing new pharmaceutical products. The company's latest results were slightly below expectations, mainly a result of COVID disruptions. Nonetheless, new order bookings - a good lead indicator of future earnings - remain robust.

On the other hand, a top contributor in the month was a software and internet services company. The company is benefitting from China's technology self-sufficiency drive as government agencies and state-owned enterprises, in particular, turn increasingly to domestic software providers. The stock has also been supported by positive sentiment regarding new generative artificial intelligence (AI) applications in office software.

### Market Outlook

China equities were initially quite weak before recovering in the second half of the month. Offshore equities ended the month ahead of China A-shares, thanks to a recovery in internet platform stocks.

The market movements correlated with sentiment around the macro environment. The 2023 gross domestic product (GDP) growth forecast of "around 5%" set at the National People's Congress disappointed the market. Our view is to interpret this more as a floor than a target. It is rare for China to miss growth forecasts – it has only happened four times in the last 25 years. One of those times was last year due to COVID lockdowns, and there will be determination to make sure this is not repeated.

Most recently, there has been a notable effort to reboot private sector confidence. New premier Li Qiang – effectively now the number two to president Xi Jinping – used his first press conference to focus on economic growth and an understanding of how important the private sector is to China's economy.

This was subsequently followed by a number of high profile signs of "walking the talk". These include the return of Jack Ma to China for the first time in more than a year. An iconic figure in the country, his presence at a school he founded in Hangzhou attracted widespread media coverage. Along the same lines, the CEO of Tencent, Pony Ma, was pictured having a meeting with Li Qiang. And the mayor of Beijing City visited Meituan – the food delivery giant – to praise its business and the creation of job opportunities.

Together with a cut in the reserve ratio requirement (RRR), which reinforces the supportive monetary policy environment, the message is clear. This is all about restoring the confidence of corporate leadership after the prolonged economic downturn.

The timing of this push coincides with growing evidence that China's economic recovery is proving to be uneven. While the services sector is bouncing back strongly, more broadly across consumer goods it is a mixed picture. The property sector will be a key barometer. There have been some green shoots of recovery, especially in larger cities, but confidence remains fragile.

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.

Recent portfolio activity has been to add to companies which should benefit from the economic recovery as well as improved financial market sentiment. This includes adding further to one of China's largest industrial robotics companies. Conversely, we have reduced exposure to renewables and the electric vehicle supply chain, where the risks to near-term earnings are in contrast to more positive earnings momentum in other areas.

The Fund continues to be overweight in the Consumer 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 48% in China A-shares.

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

### Market Review

It was a volatile month for global equities, with many markets closing March slightly higher. Shares plunged mid-month as sentiment was knocked by worries over the health of the global banking system following the collapse of two regional US lenders. As the uncertainty spread to Europe, Swiss investment bank Credit Suisse was forced into an emergency merger with rival UBS. Nevertheless, global stocks staged a late-month recovery as further falls in headline inflation rates boosted hopes that central banks may adopt a more moderate stance to raising rates. Robust Chinese economic data also contributed to the positive tone at month end. In general, data showed that economic activity was accelerating, particularly in China. While headline inflation rates remained on a downward path, core inflation proved far stickier. Central banks remained hawkish and continued to hike rates, although the banking crisis muddied the outlook as policymakers waited to see the impact of tighter lending conditions on confidence and growth. Commodity prices were mixed. Oil and natural gas prices continued to decline. In contrast, precious metals prices rallied. Gold, in particular, benefitted from its safe haven status given the uncertainty in the banking sector. Industrial metals prices, such as copper, closed the month little changed.

Information Technology stocks performed well in March, as measured by the MSCI World Information Technology Index and the sector's performance within the S&P 500 Index. Growth stocks broadly did well with both the Russell 1000 Growth and MSCI World Growth Indices delivering solid performance.

During the period, the Fund in US dollar terms underperformed on a net-of-fees basis versus the custom benchmark (50% MSCI All Country World Index/50% MSCI World Information Technology Index) but outperformed the MSCI ACWI Index. During the month of March, stock selection within the Information Technology sector negatively affected relative performance, while the underweight in the Financials sector was the largest single relative contributor. From a total attribution perspective, all three artificial intelligence (AI) categories were negative contributors by small margins.

#### Contributors

The Fund's overweight in Alibaba Group Holding Ltd. was a top contributor during the month. The stock benefitted from better-than-expected news around consumption acceleration in China and also the company announced it was going to split into six different entities. The split was well-received by investors.

The Fund's position in Meta Platforms Inc. was a top contributor for the second consecutive month. The stock had a strong first quarter returning 71.6%. We have been rewarded thus far for maintaining conviction in the stock despite its challenges last year. The renewed focus on cost cuts to drive margins and efficiencies, in addition to a possible ban on a competitor in the US has fueled most of the gains year-to-date and in March.

#### Detractors

The high concentration of top names in the custom benchmark was the primary driver of underperformance for the month. Combined, a US tech giant and Microsoft Corp. had an average weight of 23% in the custom benchmark. The Fund has a toehold position in the former and although Microsoft was one of the largest fund weights at an average of 4.5% for March, this was still well below the benchmark weight. As a result, these two stocks alone contributed -110 basis points (bps) of relative performance. Holding either of these stocks at even their benchmark weight would consume too much capital and not allow us to be sufficiently diversified with broad exposure to our three AI categories.

### Market Outlook

March was certainly an eventful month for equity markets. Macro pressures were elevated with high levels of stress in the US banking system due to the failure of Silicon Valley Bank, and several other small banks, and the emergency rescue of Credit Suisse in Europe. In addition, the US Federal Reserve (Fed) and the European Central Bank (ECB) moved ahead with their apparently singular focus on fighting inflation by raising rates again. Despite these pressures, equity markets delivered positive performance, especially for growth equities and the technology sector. However, the higher probability of a US recession, as a result of a tighter credit environment, will probably translate to elevated levels of volatility and higher dispersion amongst stocks going forward.

Although the Fed raised rates by 25 bps and the ECB raised by 50 bps, which was widely expected, most of the macroeconomic attention was focused on the banking system. The failure of Silicon Valley Bank, which at the time was the 16th largest bank in the US with USD 209 billion of assets at the end of 2022, exposed a lingering issue for small and mid-sized banks in which they have lost deposits to higher yielding strategies, mainly money markets, and the value of their long-term bond portfolios has decreased due to rising rates. The Fed and the US Federal Deposit Insurance Corporation (FDIC) stepped in quickly to backstop all depositors and set up other liquidity tools to hopefully limit any contagion. There is an ongoing debate amongst economists and government officials as to whether the banking issue will become a crisis and linger, or if the Fed and FDIC



has successfully mitigated some of the greater risks.

The Fed and ECB, acknowledging greater stress in the financial system, acted swiftly by implementing special credit facilities and backstop deposit withdrawals to ease the liquidity crunch and this quick action appears to have calmed markets. This allowed the central banks to continue to hike rates to fight inflation. What did change was investor sentiment that the probability that the Fed was close to pausing its hikes and cutting rates later in 2023 increased due to expectations of a sharper recession. All of these pressures resulted in growth equities performing well, while value equities and Financials underperformed with negative absolute returns.

So, what is ahead for equities? Mega-cap technology and technology related stocks led the market rally in March. The two primary drivers were lower 10-year yields, which helped valuations and continued investor interest in generative AI identifying the near- and long-term winners. There was decent breadth behind the rally as over 300 stocks in the S&P 500 had gains, but mega-cap technology was the clear winner given the magnitude of returns and the larger weighting in most core and growth benchmarks. Given the continued uncertainty within the macro environment, we believe the equity market will lack a clear direction in the medium term. However, we do see generative AI at an inflection point both in terms of its practical use cases for companies across sectors and its ability to disrupt even well-established technology (hardware and software) companies.

We continue to see growing interest in “everything AI” due to Microsoft’s USD 10 billion investment in OpenAI and numerous announcements around the release of other generative pre-trained transformer (GPT) tools from technology companies around the globe. Although we believe there is a large element of retail investor speculation in some of the smaller, unprofitable names, and that iterations of generative AI technology have existed for decades, applications such as ChatGPT and DALL-E 2 are indeed milestones, especially in the area of unsupervised machine learning and deep learning applications.

Although it did not generate many headlines, the introduction of plug-ins for ChatGPT is significant. 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 like booking specific travel itineraries or writing and executing code. The plug-ins 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 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 plug-ins 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.

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

### Market Review

Asian equity markets ended the month slightly higher, shrugging off the effects of the financial sector volatility in the US and Europe. The tech-heavy markets of Korea and Taiwan led the way, as growth-focused shares benefitted from hopes that the US may be close to the peak of the rate cycle and enthusiasm around generative artificial intelligence (AI) applications. China equities also stabilised on signs of a determined push by the government to reboot business confidence. This included an earlier-than-expected 25 basis points (bps) cut in the reserve ratio requirement (RRR). The economic recovery post-COVID so far has been mixed – while the services sector has rebounded strongly, more generally consumption appears to be picking up quite slowly.

Elsewhere, Japan equities were also slightly stronger in the month. This was despite the core inflation rate (excluding food and energy) hitting 3.5%, a level last seen in January 1982. Additionally, there are signs of increasing wage pressures, as top Japanese companies agreed to grant an average pay rise of 3.8% for the financial year that begins in April in their annual labour talks, marking the largest pay increases in a quarter of a century.

The portfolio performed in line with the benchmark in March. Stock selection in the Information Technology sector performed well, with better sentiment driven by a generative AI application and AI penetration is set to increase demand for high performance chips. This was somewhat offset by stockpicking in Health Care, with several names selling off on the back of profit taking across the sector.

At a single stock level, a leading contributor was Alchip Technologies, a Taiwan semiconductor company which designs sophisticated, customised chips for a global clientele with applications in growth areas such as cloud computing and data centres. Recent results highlighted their growing project pipeline with AI chipset customisation set to become a key growth driver. We believe Alchip offers a superior technology, making it better able to withstand near-term sector headwinds.

Conversely, a top detractor was a medical devices company in Australia. The company has established a niche in biocompatible polymers to treat skin trauma and infection. The stock was weaker following news that its chairman has sold some of the shares to purchase a property in the US. We believe it is an outstanding company led by capable management with a promising business plan.

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. In Technology, we have gradually added 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 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.

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 and Japan remain the key underweight markets. There were no changes to the portfolio names held during the month.

### Market Outlook

We maintain our base case for a recovery in Asian markets with some macro headwinds now appearing to have eased. We are, however, not yet out of the woods. Interest rates, inflation, and the path of the US dollar continue to be watchpoints at the macro level, while earnings growth, input costs, pricing power, and consumer demand remain on our radar at the micro level. Notably in China, the policy environment should remain supportive while the nascent economic recovery takes hold – in contrast to most other parts of the world.

So far the Asian market recovery from the low point last year has primarily been a function of improvement in valuations. 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.

In Japan, it is more challenging to see near-term market catalysts given the macro environment and potential future changes to the Bank of Japan (BoJ) policy stance. Having said that, the yen continues to look undervalued and we expect that returns to international investors will be supported by currency appreciation.

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

### Market Review

Asia excluding Japan equities ended the month slightly higher, shrugging off the effects of the financial sector volatility in the US and Europe. The tech-heavy markets of Korea and Taiwan led the way, as growth-focused shares benefitted from hopes of US rate cuts later in 2023 and enthusiasm around generative artificial intelligence (AI) applications. China equities also stabilised on signs of a determined push by the government to reboot business confidence. This included an earlier-than-expected 25 basis points (bps) cut in the reserve ratio requirement (RRR). The economic recovery post-COVID so far has been mixed – while the services sector has rebounded strongly, more generally consumption appears to be picking up quite slowly.

ASEAN markets were mixed but mostly ended the period higher, recovering from earlier losses in the month. Singapore and the Philippines delivered the strongest gains, with Indonesia and Thailand also advancing modestly. In contrast, Malaysian stocks ended the month slightly lower.

The Fund outperformed the benchmark in March. Key contributions came from the internet/ecommerce space. Jack Ma's high profile visit to China and Alibaba's restructuring news was welcomed by the market as a move to unlock value in its underlying business units. This development more broadly was seen as a supportive sign for the internet sector as a whole. Tencent and a consumer internet company were also contributors in this environment.

Conversely, HDFC Bank was a top detractor. HDFC is India's leading private sector bank, and we continue to view this as an exceptionally well-managed business. Even though direct linkages with failed US and European banks are limited in India, the situation has nevertheless created volatility for the sector globally.

The shape of the portfolio remains unchanged from last month. The portfolio is positioned to benefit from a stronger market in China, which is now an overweight position, as well as being overweight in India and Singapore. North Asian tech-heavy markets of Korea and Taiwan are underweight on concerns around export weakness due to destocking and recession fears.

At a sector level, the Fund is overweight in Consumer Staples, Communication Services, and Financials. This reflects where we expect to see the main driver of the region's economic rebound in the coming year. Consistent with last month, the largest active positions at month end are HDFC Bank, Samsung Electronics, and Kweichow Moutai.

### Market Outlook

We maintain our base case for a recovery in Asian markets with a number of macro headwinds now appearing to have eased. Notably in China, the policy environment should remain supportive while the nascent economic recovery takes hold – in contrast to most other parts of the world.

So far, the Asian market recovery from the low point last year has primarily been a function of improvement in valuations. 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.

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

### Market Review

Most markets closed higher in the month but the path to achieving positive returns was not linear with March ushering in the unexpected – the two largest US bank failures since 2008 and the collapse of Credit Suisse in Europe. Headlines rattled markets initially, but US investor confidence was quickly restored with the US Federal Reserve (Fed) and US government responding with decisiveness and unprecedented speed to tackle the issues facing regional banks and UBS stepping in to purchase Credit Suisse. Angst eased further in the absence of new regional bank headlines, suggesting perceived risk was not systemic, deposit flight was diminishing, and existing facilities were addressing bank liquidity needs.

The Fed raised rates by 25 basis points (bps) to 4.75-5.00% but their tone had shifted, and their statement was adjusted to incorporate less hawkish language. Correspondingly, terminal rate expectations fell, and the 2-year US Treasury yield dropped sharply.

Economic reports indicated continued growth but at a slower pace. Jobless claims remained low, consumer confidence rebounded, and Citi's Economic Surprise Index reached levels not seen in nearly a year. Meanwhile, inflation ticked lower, yet remained above the Fed's desired target.

Against this backdrop, US Treasury yields and the yield curve were extremely volatile. The 2-year yield traded below 4% just days after closing above 5% and banking headlines hit. The yield curve's (2s10s) inversion more than halved as a result after inverting the most since the early 1980s.

In this environment, global equity markets, as measured by the MSCI World Index, returned +3.09%.\* US stocks outperformed their non-US developed counterparts and growth companies outperformed value. Global convertible securities and high-yield bonds also finished higher, while new issuance for both markets slowed month-over-month. Global fixed income, as measured by the Bloomberg Global Aggregate Index, returned +3.16% with non-US exposure outperforming US.^

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

Many of the month's top contributing positions were holdings that benefitted from positive catalysts or news flow in the period. Apple advanced in anticipation of better-than-feared iPhone demand and Microsoft legged higher supported by the introduction of its next-generation core office productivity franchise. Meta and Alphabet rallied after management announced layoffs to buoy profitability. A Canadian ecommerce holding, a Danish pharmaceutical position, and a Japanese chemical company also advanced alongside multiple semiconductor stocks.

Notable detractors in the period were limited. Select Financial Services stocks declined on banking headlines, delinquency concerns weighed on a credit card company, and select energy stocks traded lower alongside crude oil and natural gas. Other laggards included a Chinese online retailer and a British plumbing and heating products distributor.

Exposure increased the most in Consumer Discretionary, Technology, and Communication Services, and decreased the most in Financials, Energy, and Materials.

### 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 just 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 Fed and 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) statement reinforces this view by replacing "ongoing increases" with "some additional policy firming may be appropriate". Additionally, terminal rate expectations have fallen with odds pointing to more than 50 bps of cuts by year-end, and 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 and is already influencing the forward price-to-earnings multiple. 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 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-cyclical, 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 March 2023 unless otherwise stated.

\* Source: MSCI, as at 31 March 2023

^ Source: Bloomberg, as at 31 March 2023

\*\* Source: ICE Data Services, as at 31 March 2023

# Source: JP Morgan, as at 31 March 2023

For Allianz Life Thematica Fund:

## Target Fund Manager's Comment (For Allianz Thematica)

### Market Review

Global equities surged over January, boosted by rising hopes of a soft landing for the global economy and optimism over China's reopening. However, fears that interest rates would need to stay higher for longer to combat sticky inflation subsequently weighed on share prices, as did the collapse of two regional US banks and the enforced takeover of Credit Suisse in March.

At a sector level, performance was bifurcated. Growth stocks surged, outperforming value clearly over the quarter, amid a growing belief that the steep rise in interest rates was coming to an end. While the Communication Services, Information Technology and Consumer Discretionary sectors surged, elsewhere sector returns were mostly muted to negative. The Financials sector lost the most over March as the banking crisis weighed on returns. Energy stocks were also among the weakest performers as oil and natural gas prices continued to fall.

The MSCI China Index delivered solid gains in Q1 2023. Stocks started the year on a strong footing as sentiment was boosted by expectations of China's economic reopening once the zero-COVID exit wave had passed. Economic data showed that China's economy had picked up speed following the relaxation of pandemic-related restrictions.

Commodity prices were mixed. Oil and natural gas prices fell back to levels last seen in late 2021, prior to the invasion of Ukraine, amid growing confidence that Europe has managed to find alternatives to Russian energy and will be able to avoid rationing and blackouts. In contrast, precious and industrial metals prices rallied.

### Market Outlook

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

Stock selection among the included themes has been a negative contributor to performance as the theme selection has contributed well. Overweight among themes like Clean Water and Land hurt slightly from an allocation perspective, just as Infrastructure. Intelligent Machines and Digital Life contributed well to overall performance in terms of theme selection from a thematic perspective.

From a sector perspective, the overweight to Materials hurt performance just like the underweight to Communication Services and Consumer Staples. The underweight to Financials has been helpful just as the underweight to Real Estate and the overweight to Information Technology.

Top contributors of the strategy from a single stock perspective have been Renesas Electronics (Next Generation Energy) and a solar panels manufacturer (Next Generation Energy) benefitted from solid economic development among their key end markets. Not owning Financials-heavyweights like two US banks has contributed positively to overall performance.

Most negative contributions from a single stock perspective resulted from the structural underweight of the index-heavyweight companies like a US tech giant, a technology conglomerate, etc. and the position in an American multinational financial services company.

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 have been very active inside the themes by focusing more on valuations to benefit from the sector rotation. This has changed the character from a growth-biased to a more balanced "core" portfolio where multiples are on average market levels.

For Allianz Life Elite Income Fund:

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

### Market Review

March was a month filled with volatility and headlines. Resilient macroeconomic data and sticky inflation took a back seat as banking sector events in the US and Europe took center stage. A regional bank scare in the US led by the collapse of Silicon Valley Bank fueled uncertainty in markets, and this was followed in Europe by the takeover of Credit Suisse by UBS in an historic deal. Rates markets were quick to react to the news, pricing in a lower US terminal rate of just under 5% (from a high of 5.7% earlier in the month), despite ongoing inflation concerns and hawkish central bank rhetoric. Economic data remained resilient, adding to the headache for central banks. US headline CPI increased to 6.0% YoY, with core inflation increasing to 5.5% YoY. The US labor market continued its strong trend, as non-farm payrolls surprised to the upside. Unemployment, however, ticked up slightly. In the Euro Area, headline inflation came in at 6.9% YoY, continuing its descent from the start of year. Core inflation however remained stubborn, increasing to 5.6% YoY.

Core bond yields fell, as we saw the largest daily move in the 2yr Treasury yield since 1982. US, German and UK 2y yields rallied -79bps, -46bps and -25bps, respectively. The 10y portion of the curve also saw rates come down meaningfully, as US, German and UK 10y yields rallied -45bps, -36bps and -34bps, respectively.

Central banks continued with rate rises despite the banking sector woes, with the ECB hiking by +50bps to 3.0%. The Fed and BoE hiked by +25bps each to 5.0% and 4.25%, respectively.

In terms of asset class performance, equities fared well despite the turmoil, as markets priced in future rate cuts from central banks, with the S&P 500 and MSCI World ending the month up +3.67% and +2.83% respectively. In credit, USD and EUR investment grade spreads widened +14bps and +18bps, respectively. USD and EUR high yield credit spreads widened +43bps and +63bps, respectively.

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