Market Review and Outlook

November 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

November was a stellar asset market performance month, with both stocks and bonds rallying very strongly. The MSCI World Index surged +9.21% mom as investors piled into rate cut bets. All 3 major US stock indexes ended the month at least +8% mom higher. The Dow Jones Index rose +8.77% mom. The disinflation narrative, coupled with a softening labour market and peak Federal Reserve (Fed) hawkishness, were the main drivers of the rally. The Fed kept rates unchanged at 5.25% to 5.50% as expected. Amongst the robust data releases included the October 2023 Retail ex – auto sector growth of +0.1% mom which outpaced consensus' expectations of a 0.2% mom decline. Inflation in the form of the Consumer Price Index (CPI) grew at a slower pace of +3.2% yoy in October, as compared to +3.7% yoy in the previous month, whilst consensus was looking forward to a moderation of +3.3% yoy. The European Stoxx 50 gained +7.91% mom despite sluggish economic data as the Eurozone Composite Purchasing Managers Index (PMI) still registered a contractionary reading at 46.5 in October, as compared to 47.2 a month ago while September Producer Price Index (PPI) Eurozone Industry Ex Construction was down 12.5% yoy, as compared to a drop of 11.5% yoy a month ago. However, October Eurozone CPI Core improved to +4.2% yoy, which was lower than the +4.5% yoy in the previous month. In China, the Shanghai Composite Index rose slightly by +0.36% mom as its retail sales in October rose +7.6% yoy, as compared to +5.5% yoy in the previous month. Its Industrial Production in October also grew +4.6% yoy, up from +4.5% yoy a month ago, while its Caixin China PMI Composite fell to 50.0 in October, as compared to 50.9 in the previous month.

The month under review saw Brent oil price ease 5.2% mom to USD82.83/barrel despite 7 OPEC+ countries announcing plans for additional voluntary production cuts in 1Q24. The quantum of the cuts, which could lower crude supplies by 700,000 barrels per day in 1H24, was below market expectations. However, crude palm oil (CPO) price rose +5.3% mom on rising shipments from Malaysia and a recent rally in soybean oil price. Exports from Malaysia climbed +10.5% mom in November.

On the ASEAN front, the Stock Exchange of Thailand fell 0.12% mom as its 3Q23 GDP of +1.5% yoy was lower than 2Q23 GDP of +1.8% yoy and below consensus expectations of +2.2% yoy. Its October S&P Global Thailand PMI Manufacturing was lower at 47.5, as compared to 47.8 a month ago. Singapore's Straits Times Index increased +0.17% mom as its October 2023 Non – Oil Domestic Exports (NODX) showed an improvement, contracting 3.4% yoy, as compared to a drop of 13.2% yoy in the previous month. Its Industrial Production in October also grew +7.4% yoy, as compared to a decline of 1.1% yoy a month ago. In Indonesia, the Jakarta Composite Index surged +4.87% mom despite its 3Q23 GDP growing at +4.94% yoy, as compared to growth of +5.17% yoy in 2Q23. Its October S&P Global Indonesia PMI Manufacturing was also lower at 51.5, as compared to 52.3 a month ago. During the month under review, Bank Indonesia elected to keep its 7 Day Reverse Repo Rate at 6.00%. Lastly, Malaysia's FBMKLCI rose +0.74% mom, building on the +1.26% mom gain in October. Foreign investors returned to being net buyers in November, with net buy flows of RM1.6bn, as compared to net sell flows of RM2.2bn in October. This brings the Year-To-Date net foreign equity outflow down to RM2.6bn. During the month, the government announced plans to cut fuel subsidies by 2H24.

Following the Fed meeting in November, the upward movement in US Treasury (UST) yields has reversed. UST rallied across the curve for the first time since March as yields declined by 49 – 60bps mom. The weaker – than – expected October non – farm payroll data (Actual: 150k, Survey: 180k, September revised to 297k) and slowing October inflation (Actual: 3.2% yoy, Survey: 3.3% yoy, September: 3.7% yoy) strengthened the market's view that the Fed was done with its interest rate hiking cycle and will pivot towards an easing stance in 2024. Compared to last month, market expectations of another 25bps hike faded, the expected quantum of rate cuts next year increased to more than 100bps and is expected to start in May 2024.

Malaysian Government Securities (MGS) rallied across the curve as yields declined by 19 – 29bps mom. The 3yr Government Investment Issues (GII) government bond auction during the early part of the month saw a weak bid-to-cover ratio (BTC) of only 1.5x. On the other hand, the 7yr GII auction towards the end of November saw a whopping BTC of 3.3x which is almost the highest BTC YTD being the last Islamic auction for the year. On 5th December, Fitch Ratings maintained Malaysia sovereign rating at 'BBB+' with a stable outlook.

Market Outlook

Investors have seemed to ignore the geopolitical risks emanating from the Middle East which serve to further intensify ongoing concerns regarding the Ukraine – Russia conflict and focus instead on the increasing conviction that the 18-month rate hike cycle could be in the rearview mirror. However, upcoming economic data, such as the US Jobs report and US CPI, could influence the next FOMC rate decision in mid-December. Thus, it is conceivable that global markets would remain volatile in the near – medium term. Domestically, investors would be keeping watch on the implementation of our government's policy plans to drive growth and on the subsidy rationalizations that should take place over 2024.

For the equity asset class, our investment approach continues to be focused on fundamentally sound investments over long term horizons. In the near term, we believe that the implementation of government policies will have material impact in selected domestic sectors and we will be putting more emphasis on these 'thematic' sectors. Finally, we may also at times, engage in a modicum of trading activities to capitalise on any prevailing market volatility.

Bond market volatility in the fixed income market will persist. Expectations of a higher – for – longer interest rate environment in the US and increased concerns over the escalation of geopolitical tensions have contributed to the persistently strong US dollar. However, the Ringgit has displayed signs of improvement against the US dollar in November driven by prospects of a potential conclusion to the US rate tightening cycle. The MPC statement on 2nd November highlighted that the current monetary policy stance remains supportive of the economy and is consistent with the current assessment of the inflation and growth prospects, suggesting that the Overnight Policy Rate (OPR) would remain unchanged. Going into 2024, the MPC mentioned that inflation is expected to remain modest but it is also the Government's intention to review price controls and subsidies in 2024, which will affect the outlook for inflation and demand conditions. 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?

- The Fund strongly outperformed the defensive customised benchmark which lagged during a historical strong month for equity markets and risk assets.

What hurt?

- The Fund lagged global equity markets as measured by MSCI World Index. The underperformance is rather contained during a historically strong month for equity markets. High Yield and Value stocks were ahead of the markets.

Market Review and Outlook

Global equities surged over November, recording their best monthly returns since November 2020 when news of an effective COVID-19 vaccine broke. The rally was driven by a growing belief that interest rates had peaked in the US and Europe, with economic data suggesting that a soft landing was the most likely outcome. At a sector level, Information Technology, Real Estate and Consumer Discretionary led the advance, while Energy was the exception, recording negative returns.

US stocks soared over November, with the S&P 500 Index recording its largest monthly gain since July 2022, buoyed by hopes of a soft landing for the US economy. In particular, sentiment was lifted by a larger-than-expected drop in US inflation and private sector job creation, which fuelled hopes that US interest rates had peaked and that the Federal Reserve (Fed) will embark on multiple rate cuts in 2024.

European equities rallied strongly over November, delivering their strongest monthly return so far this year, as inflation and interest rate expectations dropped. Real Estate and Information Technology were the top two sectors, with Industrials also delivering double-digit gains. Energy was the only sector to end the month lower.

For Allianz Life Asia Multi-IncomePLUS Fund:

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

Market Review

Asia Pacific ex Japan equities joined the global advance spurred by falling US interest rate expectations and the weaker US dollar. Korea and Taiwan led the way as heavy-weight technology stocks such as Taiwan Semiconductor Manufacturing Company (TSMC) and Samsung Electronics posted double-digit gains in the month. Australian shares also delivered solid gains despite the Reserve Bank of Australia (RBA) hiking interest rates by 0.25% to 4.35%, marking its first increase since June. Chinese equities moved slightly higher but trailed the region as investors remained wary given the ongoing problems in the country's property market and overall economic outlook. A muted quarterly earnings season also dampened investor sentiment. The International Monetary Fund (IMF) nevertheless upgraded its forecast for the Chinese economy, highlighting the impact of more potent government stimulus. Elsewhere, India and ASEAN markets advanced, but Thailand remained the weakest market as growth continued to fall short of expectations, with Q3 gross domestic product (GDP) growth of just 1.5% on a year-on-year basis.

In November, US Treasuries made a remarkable turnaround with the 10-year yield dropping from 4.93% to 4.33%. This was driven by weak nonfarm payrolls data, lower-than-expected inflation numbers and generally weaker-than-expected economic releases. Together with a dovish Federal Open Market Committee (FOMC) policy statement, this was enough to convince markets that the end of the rate hike cycle was near. Fears of a lack of demand for high US Treasury supply also proved to be unfounded. In Asia, there was a slew of positive news including a potential whitelist of 50 Chinese property developers to be provided support, further measures for banks to provide unsecured loans to beleaguered developers and more bond buybacks by issuers. These positive developments led to a strong rebound in high yield markets, with the JP Morgan Asia Credit Index (JACI) High Yield rising by 4.71%.

Market Outlook

Across Asia Pacific, we are expecting some of this year's macro headwinds to ease as we move into the new year. 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. In China, the outlook remains quite uncertain. On the one hand, the government is taking actions to ramp up policy support, which should help provide a floor to the economic outlook. However, investor confidence remains fragile. In the rest of Asia, there have been some encouraging signs in the important technology sector, where previous overcapacity in the semiconductor supply chain has increasingly been absorbed. Overall, regional valuations remain at reasonable levels.

We remain sanguine on Asian credits for the rest of the year and indeed 2024. With greater conviction that the peak in US policy rates has been reached, investor sentiment towards credits as an asset class will continue to improve. The performance of Asian credit markets will still be driven by corporate earnings supported by a constructive policy backdrop in the long term. We have seen a stark turnaround in the earnings of sectors such as Gaming that were badly impacted by the pandemic, while for the other sectors, Q3 earnings have been marginally weaker but in line with expectations. Nonperforming loans (NPLs) across the broader economy remain low for Asian banks. Chinese government policy has turned more supportive in November and we expect to see more policy measures announced over the next few quarters. In the short term, credit market demand and supply is becoming more supportive. Credit supply has been very low for this year and in fact negative for high yield. With Treasury yields stabilising, demand is likely to return to credits and outpace supply. There has also been a slew of bond buybacks from stronger issuers and these developments point to a supportive technical balance for the market in 2024.

For Allianz Life Amanah Dana Ikhlas:

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

Market Review

The Malaysian sovereign bonds yield richer for the month, fell by 19-29 bps across the curve, fully recovering all the losses in October, buoyed by UST rally as markets have started to become more fixated with rate cuts. The 10-year MGS yields fell by 29bps to 3.806%. Malaysia's headline CPI for October eased a tad to 1.8% YoY (Sep: 1.9%), the lowest in 2.5 years, primarily due to lower increases in Food & Non-alcoholic Beverages at 3.6% YoY (Sep: 3.9%) while other key categories saw flat to small changes. BNM kept OPR steady at 3.00% in Nov's MPC meeting as widely expected, and the MPC statement has retained the same wordings on the assessment of monetary policy stance, indicating that the current level of the OPR "remains supportive of the economy and is consistent with the current assessment of the inflation and growth prospects". Interestingly, a new paragraph was dedicated to the Ringgit, explaining that the recent FX weakness had been due to higher US interest rate and strong USD, and to manage FX volatility risks, BNM will continue to provide liquidity to ensure the orderly functioning of the local FX market (instead of rate hike, implicitly). Hence, OPR is expected to be maintained at 3.00% into 2024 as a clearer sign of an extended pause in the OPR given in the statement. On the currency front, the Malaysia Ringgit ("MYR") stronger against US Dollar ("USD") by 2.11% to closed at 4.6625 from 4.7632 a month ago. Meanwhile, local corporate bond deals remain robust, suggesting investors' interest for strong credits remains strong in local market.

Global financial markets rallied in November, with stocks also rose alongside fixed income driven by market expectations of a soft-landing scenario, lower US bond yields and the weaker USD. Investor have now shifted to a "US goldilocks" economy with US bond yields decline some 60bps while the DXY finished 3.0% lower. Following the somewhat dovish FOMC, softness in labour market and inflation, markets are now expecting 100bps rate cut by end 2024. Investors poured back into their equity favourites such as information technology, being a rate cut play. This is seen in rises in tech heavy Korea and Taiwan for example. However, China continues to lag on weak economic data while weak expectations from consumer related names further dampened sentiment, and more importantly for investors, lack of catalytic policies. Closer to home, Malaysia gained but at a moderate 0.7%. Broadly, utilities, healthcare and technology were the main gainers wile energy, telecommunications and transportation were at the bottom. However, it was outdone Indonesia and Philippines that gained 4.87% and 4.18% respectively in local currency terms. Thailand was the sole decliner by 0.12%.

Market Outlook

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. 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.

We maintain cautiously positive on Malaysian equity markets moving forward on the back of the economic recovery and the thematic plays such as green energy and revival of infrastructure projects. Furthermore, we think political considerations are behind us and look forward to structural reforms and policy initiatives. However, although inflation has softened recently, we remain wary of the coming economic slowdown. Following the Budget 2023, we see recent initiatives on reform policies and execution of Madani Economy and National Energy Transition Roadmap ("NETR"), it was reported that Malaysia has secured RM63bn of proposed investments mainly in the tech sector. These should provide the catalysts to drive economic growth. While these are longer-term as well as "big picture" initiatives, we remain watchful on opportunities on sectors or companies that benefit from these directions.

For Malaysian sukuk, given our view that the market has fully priced in OPR hikes, we will maintain our neutral to long duration stance as we find current bond yields to be attractive. We continue to monitor sovereign bond yields for opportunities to increase our exposure in GIIs at attractive entry level for trading opportunities. While we intend to increase exposure in GII, we maintain overweight position in corporate sukuk for yield pick-up as we expect our holdings in corporate sukuk will continue to anchor the Fund's income in corporate bonds' coupons. Meanwhile 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 Allianz Life Amanah Dana Ikhlas:

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

For Malaysian equities, we maintain our longer-term positive stance on Malaysian equity markets, but we remain watchful on pressure on global growth for the coming year. This could lead to further downward revisions in corporate earnings, a key risk. In view of this, we maintain our broader asset allocation range and remain nimble. Having said that, the recent environment has also allowed us to be mildly positive and increased our equity exposure albeit moderately. In the same vein, in preparation for next year, we may look to increase our exposure to growth-type names given the interest rate hike expectations. Nonetheless, our emphasis remains on thematic plays such as construction and utilities.

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

Positive stock selection in the Consumer Discretionary sector was the key contributor in November.

At a single stock level, a key contributor was PDD Holdings, an ecommerce business focused on low price items – a sign of the times in China as consumers trade down in the depressed economic environment. The stock rallied strongly following exceptional results from its Temu platform. After the share price surge, PDD's market cap ended the month higher than Alibaba.

Conversely, one of the leading detractors was a packaged frozen food supplier. The company previously benefitted from strong "cook-at-home" demand during the COVID lockdowns, as well as subsequently seeing a rebound in restaurant orders. Latest quarterly results were in line with expectations, with the company demonstrating strong cost control. The recent share price pullback reflects overall weak consumer sentiment and market concerns over the likelihood of some near-term sales pressure.

Market Outlook

China equities recovered modestly in November, led by offshore markets as internet platforms reported quarterly results which have generally been ahead of market expectations. At a macro level, a stronger China currency and some thawing in US-China relations also contributed to market gains.

In terms of the currency, the recent sharp rally in US bond yields, and subsequent weakening of the US dollar, has brought some welcome relief to the People's Bank of China (PBoC). For much of the past three months, the PBoC had been signalling that the pace of the yuan depreciation had been too rapid. And this, in turn, had contributed to higher interbank rates at a time when the PBoC would typically have wanted to keep rates lower to support growth.

The yuan/US dollar spot rate strengthened by around 2.5% in November. This easing of currency pressure gives the PBoC more flexibility to guide down interbank rates and to use other tools, such as cuts in the reserve ratio requirement (RRR), to provide a more supportive monetary policy setting.

In terms of geopolitics, last month's meeting between Presidents Xi Jinping and Joe Biden has appeared to put a floor under the US-China relationship, at least for the time being. In China, the summit was hailed as "positive, comprehensive and constructive", with the People's Daily declaring that "San Francisco should become a new starting point for stabilising Sino-US relations". While the Xi-Biden meeting will likely do little to alter the basic shape of US-China relations, it should help restore a sense of predictability and lessen the risk of dangerous misunderstandings.

The main issue weighing on markets continues to be that the recent economic stabilisation remains fragile. In particular, the property slump is not yet resolved. With property being by far the largest component of total household assets, the ongoing weakness is contributing to subdued overall consumption. While market valuations are generally quite depressed, and therefore provide some downside support, it is likely that greater confidence in the economic outlook is needed to act as a catalyst for a significant market advance.

During November, portfolio activity was focused on adding to preferred stocks in the semiconductor supply chain and industrial automation space. Conversely, we trimmed exposure to Consumer Staples where we see risks of earnings weakness.

As at the end of the month, the onshore/offshore allocation was around 42% in China A-shares, slightly lower than the benchmark weighting. At a sector level, the largest overweight was in Consumer Discretionary, while our largest underweight was in Financials.

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 surged over November, recording their best monthly returns since November 2020 when news of an effective COVID vaccine broke. The rally was driven by a growing belief that interest rates had peaked in the US and Europe, with economic data suggesting that a soft landing was the most likely outcome.

Headline inflation rates continued to fall in the US and Europe. As anticipated, the US Federal Reserve (Fed) left interest rates on hold at its November meeting and, for the most part, investors viewed the latest comments from Fed Chair Jerome Powell as dovish. The European Central Bank (ECB) continued to stress that the battle against inflation was far from over but, with headline inflation almost back at the ECB's target, expectations for a rate cut in the spring grew. Conditions in China's property market deteriorated further, though the International Monetary Fund (IMF) raised its forecasts for Chinese economic growth in 2023 and 2024, citing the impact of government stimulus.

Oil prices declined amid downbeat estimates for oil demand in 2024 given a slowing global economy. Natural gas prices, meanwhile, were pressured by mild weather, elevated output and high storage. Gold traded at 6-month highs, rising above USD 2,000 a troy ounce for the first time since May, bolstered by falling US interest rate expectations and dollar weakness.

From a sector perspective for global equities, as measured by the MSCI All Country World Index, the Information Technology and Real Estate sectors had the strongest returns, which was supported by the declining interest rates easing financial conditions. Conversely, stocks in the Energy sector lagged as energy commodity prices declined. The Consumer Staples sector also lagged broader markets.

During the period, the Fund outperformed on both gross- and net-of-fees basis versus the custom benchmark (50% MSCI ACWI Index/50% MSCI World Information Technology Index). The backdrop was conducive for growth stocks, as financial conditions eased, and as markets priced a higher probability of a soft-landing or a no-landing scenario. Amid this backdrop, artificial intelligence-enabled (AI-enabled) industries, AI infrastructure and AI applications outperformed the custom benchmark

Contributors

The top contributor for the period was Shopify Inc., a leading commerce platform that enables merchants to display, manage, market and sell their products through various channels. Shares rallied after the company reported better-than-expected earnings results, which was helped by improved gross payments volume and cost restructuring undertaken since July 2022. Looking forward, Shopify should continue to benefit from the secular adoption of ecommerce through its full suite commerce platform that services both small merchants and larger corporations. The company's use of AI is proliferating across its products, which should help its merchant customers truly optimise their businesses through more personalised selling and marketing, workflow automation and leveraging the power of AI chatbots.

Our position in a provider of payments hardware and software solutions for merchants and consumers was the top contributor over the period. Shares rallied as the company executed on cost cutting initiatives that led to better-than-expected operating income. Also, management re-introduced guidance numbers and provided long-term profitability and growth targets, which were well-received by investors. Looking forward, the company continues to have a unique growth opportunity, which is supported by its merchant ecosystem, consumer financial technology capabilities that includes the highly popular cash app, and synergies from the acquisition of a payment platform.

Detractors

The top detractor for the period was a provider of cloud-based applications that simplifies and automates financial processes for small- and mid-sized businesses (SMBs). Although the company reported solid quarterly earnings results, shares were lower as management pared forward expectations as small business spending softened. We remain constructive on its growth outlook, as the company remains a category killer for accounts payable automation for SMBs and is in early days of cross-selling recently acquired assets. The company also has a distribution edge over competitors, given its channel partnership with top financial institutions and accounting firms.

Our position in a commerce media platform was among the top detractors over the period. It provides digital advertising solutions that enable digital commerce operators to find, engage and convert prospective customers. Although the company reported solid Q3 results, management brought down expectations amid a difficult macro backdrop and other revenue challenges. Looking forward, the company's longer-term trajectory appears underappreciated, given its robust advertising technology backbone and strong data relationships. Its retail media platform should help drive future growth as the segment is experiencing continued momentum, helped by new customer wins and share

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)

New Buys and Sells

During the period, new purchases in the Fund included a solar photovoltaic modules producer. The company is working aggressively to deploy AI and automation to continue to drive down manufacturing costs and improve product efficiency. Its recent pullback in valuation represented an attractive reward to risk. The Fund also initiated a position in a provider of design and engineering software. AI is playing a transformative role in its products and business operations. By leveraging AI, the company is empowering its customers, optimising its processes and enhancing its customer service, positioning itself for continued success in the design and engineering software industry. We also purchased a new position in an ultra-luxury goods conglomerate. The company is leveraging AI across its value chain, from product development and supply chain management to marketing and customer service.

We also made a few exits during the period. While we like a data analytics company on a longer-term basis, we sold the name as the recent appreciation in shares leaves less upside to our near-term price targets. We exited the remaining stub position in a semiconductor company, as shares had achieved our near-term price targets. We also sold the remaining stub position in a payroll and human resources software company, as its growth may be facing near-term hurdles.

Market Outlook

The overall macroeconomic landscape became more complicated in recent months. Although gross domestic product (GDP) and employment data point to resiliency, tensions in the Middle East created some additional risks. With inflation coming down but still above central bank targets, policymakers are likely inclined to maintain their restrictive stance. Monetary policy is characterised by long and variable lags as it works through the economy and the financial system. The Fed's recent posture of a policy interest rate that is "well into restrictive territory" with the "risks of under- and over-tightening are becoming more balanced" can provide a glide path for inflation to normalise and for a soft-landing scenario to materialise. However, the debate whether the US can avoid a mild recession in 2024 can create additional volatility over the coming months.

The recent pullback in yields especially with 10-year US Treasuries is more supportive for longer-duration growth equities. Recently, the equity market is showing signs of broadening out beyond mega cap technology stocks, as interest rates appeared to have peaked, and the Fed might be done tightening as inflation comes down. Following a strong H1 2023 recovery for equities, especially for mega cap technology stocks, H2 has been more volatile. Q3 earnings numbers have mostly met to slightly exceed consensus expectations, but stock reactions have been more mixed. Innovative companies that delivered on their earnings with strong fundamentals have been rewarded as growth remains scarce. We remain focused on companies with earnings profiles that can be more resilient in the context of a slowing economy and a more volatile market environment, while aligning the portfolio to our long-term conviction that 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. The broader topic of AI continues to be mentioned more on corporate earnings calls with a significant increase on generative AI. In addition, Voya 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.

The developments around generative AI technology and large language models further demonstrate that 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 generative pre-trained transformer-related (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 ex Japan equities joined the global advance spurred by falling US interest rate expectations and the weaker US dollar. Korea and Taiwan led the way as heavy-weight technology stocks such as a semiconductor company and a manufacturing conglomerate posted double-digit gains in the month. Japan also posted strong gains. The Bank of Japan (BoJ) governor Kazuo Ueda signalled that there was still some way to go to sustainably achieve the 2% inflation target, with the risk that Japanese wage growth could falter in 2024. Japanese inflation nevertheless climbed to 3.3% for October from September's 3%.

Elsewhere, Australian shares delivered solid gains over November. This was despite the Reserve Bank of Australia (RBA) hiking interest rates by 0.25% to 4.35%, marking its first increase since June. India and ASEAN markets also advanced. Chinese equities moved slightly higher but trailed the region as investors remained wary given the ongoing problems in the country's property market and overall economic outlook. A muted quarterly earnings season also dampened investor sentiment. The International Monetary Fund (IMF) nevertheless upgraded its forecast for the Chinese economy, highlighting the impact of more potent government

The Fund outperformed the benchmark in November. Stock selection was a key driver, with positive relative contributions from positions in Taiwan, Japan and New Zealand. At a sector level, the key contribution was from Technology stocks.

At a single stock level, a key contributor this month was Mainfreight, a New Zealand-based company providing freight, warehousing, and logistics services. We believe Mainfreight is an exceptionally well-managed business with a highly competitive service and customer-focused culture. Its share price had previously been weak on concerns over the impact of slowing global economic growth. A strong set of results, however, combined with bullish outlook comments, triggered a strong rally which has continued into the early days of December.

Conversely, a top detractor was Galaxy Entertainment, a casino operator in Macau. The stock performed well earlier in the year when China eased travel restrictions post the COVID-19 lockdowns, but has subsequently pulled back as the macro environment has weakened. Galaxy used the slow pandemic period to upgrade its properties and to streamline operations, and now runs a leaner business. As such, we believe the stock will recover as the Chinese economy stabilises.

Overall, the main change to positioning throughout the year has been adding exposure to Japan as a result of the opportunities we are finding amidst a more supportive market backdrop. At the beginning of the year, the allocation to Japan was around 25%. This has now been increased to around 39% compared to the benchmark weight of 34%. Other key overweight markets include Taiwan and New Zealand, an outcome of specific stocks owned in these markets. This is balanced by underweight positions in India, Hong Kong/China, and Australia.

At a sector level, the main change has been increasing exposure to Information Technology – from 29% to 36% during the year. Many of the holdings are related to the semiconductor supply chain, where there are signs that demand/supply dynamics are improving. We also continue to be optimistic on the long-term outlook for the Health Care sector, especially in the biotech space. Offsetting this is limited exposure to Financials, where for a long time we have not found many stock level opportunities.

Market Outlook

Across Asia Pacific, we are expecting some of this year's macro headwinds to ease as we move into the new year. The outlook in Japan remains encouraging. The impact of inbound tourism is helping support domestic demand. We also expect that Tokyo Stock Exchange (TSE) governance reforms should continue to support positive sentiment and improve capital efficiency 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.

In China, the outlook remains quite uncertain. On the one hand, the government is taking actions to ramp up policy support which should help provide a floor to the economic outlook. However, investor confidence remains fragile. In the rest of Asia, there have been some encouraging signs in the important technology sector, where previous overcapacity in the semiconductor supply chain has increasingly been absorbed. Overall, from a regional standpoint, valuations remain at reasonable levels.

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 joined the global advance spurred by falling US interest rate expectations and the weaker US dollar. Korea and Taiwan led the way as heavy-weight technology stocks such as Taiwan Semiconductor Manufacturing Company (TSMC) and Samsung Electronics posted double-digit gains in the month. India and ASEAN markets also advanced. Thailand remained the weakest market as growth continued to fall short of expectations, with Q3 gross domestic product (GDP) growth of just 1.5% on a year-on-year basis.

Chinese equities moved higher in local terms, but trailed the global average as investors remained wary given the ongoing problems in the country's property market and overall economic outlook. A muted quarterly earnings season also dampened investor sentiment. The International Monetary Fund (IMF) nevertheless upgraded its forecast for the Chinese economy, highlighting the impact of more potent government stimulus. Talks between China's President Xi and US President Biden at the APEC meeting raised hopes of stabilisation in US-China relations.

The portfolio outperformed the benchmark in November. Stock selection was a key driver, with positive relative contributions from positions in China and Taiwan. At a sector level, the key contribution was from Technology stocks.

At a single stock level, a key contributor was an ecommerce company focused on low price items – a sign of the times in China as consumers trade down in the depressed economic environment. The stock rallied strongly following exceptional results from its ecommerce platform. After the share price surge, the company's market cap ended the month higher than Alibaba.

In contrast, a key detractor was a Chinese bank. The share price pulled back for macro-related reasons. Partly this is related to expectations that the US rate cycle may have peaked, and therefore there may be more pressure on margins going forward. In addition, the weaker economic environment in China has led to concerns about the potential deterioration of asset quality going forward. We maintain an underweight position in banks given the challenging operating conditions.

The main change in portfolio positioning over the course of the year has been to increase the allocation to India. At the beginning of 2023, India portfolio exposure was around 18%. At the end of November, it had risen to 25%, significantly overweight compared to the benchmark level of 18%. This trend continued last month with the inclusion of a new property company, which the portfolio manager met onsite during a recent visit to India.

The main source of funding has been from China, where macro conditions continue to weigh on market sentiment. At a sector level, Technology continues to be a dominant position with heavyweight names such as Samsung Electronics, TSMC and SK Hynix being among the portfolio's largest holdings.

Market Outlook

Across the Asia region, we are expecting some of this year's macro headwinds to ease as we move into the new year. 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.

In China, the outlook remains quite uncertain. On the one hand, the government is taking actions to ramp up policy support, which should help provide a floor to the economic outlook. However, investor confidence remains fragile. In the rest of Asia, there have been some encouraging signs in the important technology sector, where previous overcapacity in the semiconductor supply chain has increasingly been absorbed. Overall, regional valuations remain at reasonable levels.

For Allianz Life Global Income Fund:

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

Market Review

US equity, US convertible security, and US credit markets finished higher in November, aided by a strong finish to earnings season and several economic data points that suggested continued US expansion. Additionally, US Treasury yields declined on speculation that the fed funds rate peaked following reports inflation slowed further. Correspondingly, the narrative around monetary policy easing in 2024 gained traction and rate cut odds were pulled forward. These factors positively influenced investor sentiment, driving demand for both risk assets and safe haven investments.

In this environment, global equity markets, as measured by the MSCI World Index, returned +9.38%.* Non-US developed equities narrowly outperformed their US counterparts, and growth stocks outperformed value stocks. Global convertible securities and high-yield bonds both finished higher, and primary market activity accelerated. Global fixed income, as measured by the Bloomberg Global Aggregate Index, returned +5.04% with non-US exposure outperforming US.^

The portfolio was positively impacted by broad stock and bond market strength.

Top contributors to performance generally benefitted from an improved macro backdrop including signs of persistent economic growth, easing financial conditions, US dollar weakness, and lower interest rates. Additionally, strength in many positions were fundamentally driven. Nvidia exceeded estimates and raised guidance, several companies reported margin expansion, and a software holding benefitted from favourable industry outlooks. Other top contributors were a semiconductor manufacturer that announced a dividend increase, a multinational food processor, Microsoft, Apple, and Amazon.

Top detractors included a satellite issuer that missed earnings estimates, a chemical supplier that reduced revenue guidance, and a payments software provider that provided a cautious outlook. A Chinese ecommerce company declined after cancelling a spin-off of its cloud business, and a casino operator fell after reporting market headwinds in Asia. Other laggards included a supermajor oil company, a media and entertainment issuer, and an aerospace manufacturer.

Exposure increased the most in Industrials, Financials, and Consumer Discretionary, and decreased the most in Energy, Consumer Staples, and Health Care.

Market Outlook

Coming into 2023, many strategists anticipated a US economic recession. Instead, economic growth has exceeded expectations with Q3 real gross domestic product (GDP) expanding at the fastest pace since 2021. 2023's momentum should carry over into 2024, but conflicting factors make it difficult to predict a path with certainty. Economic tailwinds include low unemployment, steady consumption, government spending, waning inflation, an end to the rate hike cycle, and inflecting earnings. Economic headwinds include restrictive monetary policy, quantitative tightening, less savings, manufacturing sector weakness, and US/international political risks, among others.

Changes in any of these conditions will likely influence investor sentiment, causing equity market volatility over the course of the year. Corporate bonds and convertible securities should be better positioned to weather market volatility given current market dynamics, which in some respects are more favourable today than they were exiting 2022. Consequently, today's market outlook resembles 2023's with mid to high single-digit returns possible by year-end 2024 for corporate bonds, convertible securities, and equities.

US high yield's current yield of 8.5% and total return opportunity look compelling for 2024. Credit fundamentals are stable, near-term refinancing obligations remain low, and management teams continue to prioritise debt reduction. Given these factors, defaults should remain well below historical cycle peaks. The market's attractive total return potential is a function of its deep discount to face value and increased coupon, which also serves to cushion downside volatility. Notably, after recording an annual decline, the high-yield market has historically delivered two consecutive years of positive returns in six of seven cases**, and forward 12- and 24-month return projections based on the current market yield have been consistent with mid to high single digits#. Investment grade corporate bond's risk/reward opportunity is also compelling. Rising interest rates remain a key risk, however the investment opportunity has improved on the back of higher coupons and yields, and a positive fundamental outlook. The asset class trades at a significant discount to par, offering attractive total return potential and downside cushioning.

US convertible securities should continue to provide benefits to investors, including an attractive asymmetric return profile and potentially lower volatility relative to the equity market. The shift in the universe's composition exiting 2022 remains largely unchanged heading into 2024. Many securities offer higher current yields and exhibit defensive characteristics given

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

lower deltas and closer proximities to bond floors. This dynamic may allow for greater downside protection if equity volatility rises. If the prices of underlying stocks advance, convertible securities could be positioned to participate in the upside. Lastly, higher financing costs should continue to drive increased convertible new issuance, which could potentially double on a year-over-year basis (per market strategists) with terms remaining squarely in the lender's favour.

US equity valuations reside near long-term averages. Visibility around 2025 earnings, US dollar and Treasury market stabilisation, and an end to the rate hike cycle could be positive developments for stocks. Bouts of equity market volatility will present opportunities for active managers to take advantage of better prices in attractive investments.

A covered call options strategy could also benefit from elevated or rising equity volatility by collecting premiums that translate into attractive annualised yields.

Collectively, these three asset classes can provide a steady source of income and a compelling "participate-and-protect" return profile.

The Fund is a client solution designed to provide high monthly income, the potential for capital appreciation, and less volatility than an equity-only fund.

All data are sourced from Allianz Global Investors dated 30 November 2023 unless otherwise stated.
* Source: MSCI, as at 30 November 2023
^ Source: Bloomberg, as at 30 November 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 surged over November, recording their best monthly returns since November 2020 when news of an effective COVID-19 vaccine broke. The rally was driven by a growing belief that interest rates had peaked in the US and Europe, with economic data suggesting that a soft landing was the most likely outcome. At a sector level, Information Technology, Real Estate, and Consumer Discretionary led the advance, while Energy was the exception, recording negative returns.

Headline inflation rates continued to fall in the US and Europe. As anticipated, the US Federal Reserve (Fed) left interest rates on hold at its November meeting and, for the most part, investors viewed the latest comments from Fed Chair Jerome Powell as dovish. The European Central Bank (ECB) continued to stress that the battle against inflation was far from over but, with headline inflation almost back at the ECB's target, expectations for a rate cut in the spring grew. Conditions in China's property market deteriorated further, though the International Monetary Fund (IMF) raised its forecasts for Chinese economic growth in 2023 and 2024, citing the impact of government stimulus.

Given the sharp fall in US interest rate expectations, the US dollar weakened over the month, with the US dollar Index, which measures the dollar against a basket of currencies, trading at its lowest level since early August. In contrast, the British pound strengthened against the euro and the Japanese yen as, while UK inflation fell, it remained elevated compared with its peers.

Oil prices declined amid downbeat estimates for oil demand in 2024 given a slowing global economy. Natural gas prices, meanwhile, were pressured by mild weather, elevated output, and high storage.

Market Outlook

The Fund returned positively (in EUR, gross of fees) in November, outperforming the MSCI AC World index. Over the course of the year the Fund gained, falling short of the performance of MSCI World. The overweight to Industrials created a benefit to the portfolio as industrial stocks benefited from the news flow regarding macroeconomic improvements after market participants became more constructive about a potential soft-landing scenario again after the negative news around housing and construction markets over the course of autumn. The communication from central banks has been supportive as well since inflation pressure seems to ease, reducing the necessity for further rate hikes. Being underweight to Consumer Stapes and Communication Services helped too. Stock selection has been a performance contributor among Industrials, Health Care, and Information Technology.

From a thematic point of view, the best contributors have been themes like Clean Water and Land, Intelligent Machines and Digital Life which did well over the course of November. Having said that, the largest area of underperformance came from the Infrastructure and Pet Economy. Furthermore, we are currently seeing is kind of a perfect storm for the Next Generation Energy theme which we expect to ease over the course of the next year. Rising yields lead to massive consequences for equity markets to bond proxies like Utilities which lost their valuation premium to the broader markets. Higher funding costs undercut affordability on larger ticket items as well as construction markets, electric vehicle (EV) transition and new renewable projects. This is displayed by the underperformance of stock selection in the theme Next Generation Energy. From a single stock perspective, positive contribution has been witnessed by Palo Alto Networks (Digital Life) and a provider of cyber security platform to protect enterprise and prevents attacks on endpoints (Digital Life). Negative contributions came from the structural underweight of a technology conglomerate (Digital Life), and a cyber security solutions company (Digital Life).

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

November marked a significant upswing for both fixed income and risk assets, recording the strongest month for the Bloomberg Global Aggregate since 2008. This surge was primarily fueled by growing optimism for a soft landing, as inflation cooled and most central banks did not hike rates. Positive Fedspeak further bolstered market confidence, as markets moved to price in rate cuts by Q2 2024. Meanwhile, the U.S. economy remained resilient, with the US Q3 GDP seeing an upward revision to +5.2%- annualized growth – however, there were underlying concerns as retail spending fell and jobless claims rose modestly.

U.S. headline and core inflation dropped to 3.2% YoY and 4.0% YoY respectively – owing to a notable drop in energy prices and retail discounts in some categories. In the Euro Area, lower energy prices led to a fall in headline inflation, to 2.4% YoY, as core inflation also fell to 3.6% YoY given weak demand and waning supply challenges. The UK also witnessed a downside-surprise as headline and core inflation fell to 4.6% YoY and 5.7% YoY respectively.

Government bond yields rallied strongly during month, rebounding from a period of poor performance. In the front end, U.S. 2Y Treasury, German 2Y Bund and U.K. 2Y gilt yields rallied -41bps, -20bps and -18bps, respectively. U.S. 10Y Treasury, German 10Y Bund and U.K. 10Y gilt yields rallied -60bps, -36bps and -34bps, respectively. Notably before November, 10Y Treasuries had experienced six consecutive months of losses.

Equity markets likewise benefitted from expectations of a soft landing and a risk-on spirit, with the S&P 500 and MSCI World posting +9.13% and +9.43% returns respectively. However, China equities continued to face challenges with the Hang Seng and CSI 300 trading down -0.16% and -2.11% respectively as fiscal stimulus seemed to have a muted impact. In credit, USD and EUR investment grade spreads tightened -22bps and -11bps, respectively. High yield outperformed, with USD and EUR high yield spreads tightening -67bps and -51bps, respectively.