Market Review and Outlook

September 2023

The content of this document is supplementary to the Monthly Fund Factsheets.

For the following funds:

Allianz Life Master Bond Fund ("MBF")
Allianz Life Master Equity Fund ("MEF")
Allianz Life Master Dividend Fund ("MDF")
Allianz Life Master Dana Ekuiti ("MDE")
Allianz Life Master ASEAN Plus Fund ("AMAF")
Allianz Life Managed Fund ("MF")
Allianz Life Equity Fund ("EF")
Allianz Life Dynamic Growth Fund ("DGF")
Allianz Life Equity Income Fund ("EIF") Allianz Life Bond Fund ("BF")
Allianz Life Dana Padu ("DP")
Allianz Life ASEAN Plus Fund ("AAF")

Market Review

In September 2023, global equity markets continued its decline, with the MSCI World falling by 4.45% mom as hawkish central banks signalled their 'higher for longer' stance and equities fell in the face of higher bond yields. In US, the Dow Jones Index fell by 3.50% mom as the Fed left its target rate range unchanged at 5.25-5.50%, though the latest projections showed one further rate hike this year, alongside a slower – than – expected pace of policy easing throughout next year. A US government shutdown was avoided following a last-minute deal, but it only ensured funding until mid-November. Its July retail sales was up +0.6% mom as compared to +0.7% mom the previous month. However, US inflation worsened in August to 3.7%, +0.5 ppt mom, mainly due to energy price escalation. In Europe, the Stoxx 50 Index dropped 2.85% mom as the August Eurozone Composite PMI reading of 46.7 was a deterioration from the 48.6 reading in July. Its inflation continues to fall to 4.5% yoy in September, dropping -0.8 ppt mom. In China, the Chinese Shanghai Composite Index fell slightly by 0.30% mom as their real estate distress remained in focus, with Evergrande being a recurring concern. On its economic front, its September manufacturing Purchasing Manager's Index (PMI) improved to 50.2 as compared to 49.7 in the previous month. Its retail sales momentum continued to gain momentum, growing +4.6% yoy in August versus +2.5% yoy in July. Its inflation reading of 0.1% yoy was slightly higher than the contraction of 0.3% yoy in July 2023. The People's Bank of China (PBOC) kept its 1 – year Medium – Term Lending Facility Rate at 2.50% and its 1 – year Prime Loan Rate at 3.45%. However, PBOC lowered the reserve requirement ratio for most banks by 25 basis points, which brings down the weighted average RRR for banks to 7.4% after the reduction.

During the month under review, Brent oil price rose +9.7% mom to USD95.31/bbl as oil supply is expected to remain tight as Russia and Saudi Arabia have extended production cuts to the end of the year. Crude palm oil (CPO) fell by 4.4% mom to RM3689/MT as palm oil stock levels at major importing countries are now above historical levels, and thereby providing less incentive for future restocking activities.

Over in the ASEAN region, the Stock Exchange of Thailand fell 6.04% mom due to continued heavy foreign selling. Its August S&P Global manufacturing PMI fell to 48.9 as compared to 50.7 in July. The Bank of Thailand unexpectedly raised its key interest rate for an 8th straight meeting, by 25 bps to 2.50%. Indonesia's Jakarta Composite Index declined by 0.19% mom despite its higher S&P Global manufacturing PMI reading of 53.9 in August as compared to 53.3 in the previous month. Headline inflation rose to 3.3% in August from 3.1% in July. Bank Indonesia kept its policy rate unchanged at 5.75%, where it has been since January 2023, during its September meeting. Malaysia's FBMKLCI also fell 1.91% mom after also easing 0.51% the previous month. July industrial production improved to +0.7% yoy, after registering a decline of 2.2% yoy in the previous month. Other than that, the government also reaffirmed the 12th Malaysia Plan in September, which remains supportive of the construction sector's prospects and energy transition. Foreign net equity inflow continued for the 3rd consecutive month, amounting to RM673.9m, which brought down the YTD sum to a net outflow of RM1963.1m. Lastly, Singapore's Straits Times Index fell slightly by 0.49% mom as its August 2023 industrial production plunged 12.1% yoy, sharper than the 0.9% yoy drop the previous month. Its August 2023 Non – Oil Domestic Exports (NODX) contracted 3.8% mom, as compared to a drop of 3.4% mom in the previous month.

US Treasuries (UST) yield curve steepened mom as yields continued to rise for the fifth straight month as the Fed signals that rates would stay higher for longer while the rising oil prices also led UST yields to multiyear highs. As widely expected, the Fed left the policy rate unchanged at 5.25% – 5.50% at the 20th Sept FOMC meeting. 12 of 19 Fed officials expect another 25bps hike this year but the bigger takeaway is that policymakers now expect fewer rate cuts than previously anticipated in 2024 partly due to the strong labor market. The Fed expects inflation to fall below 3% next year before returning to their 2% target by 2026 and the benchmark rate to be 5.1% by end – 2024 from 4.6% in the last projection in June. Following the Fed's decision, UST yields rose to their highest level in more than a decade. The 30yr UST weakened the most, up 49bps mom to close at 4.70%.

Malaysian Government Securities (MGS) yields were up by 11 – 17bps mom across the curve. As widely expected, Bank Negara Malaysia (BNM) left the policy rate unchanged as well at 3.0% at the 7th Sept Monetary Policy Committee (MPC) meeting. The biggest takeaway is that BNM dropped the "slightly accommodative" phrase, suggesting that the current overnight policy rate (OPR) is consistent with the current inflation and growth outlook, thus supportive of the economy. Most economists expect the OPR to stay pat at 3.0% for the remainder of the year. Meanwhile, August Consumer Price Index (CPI) came in within expectation at +2.0% yoy (July and consensus: +2.0% yoy).

Market Outlook

Global markets should remain volatile in the near term due to the continued ongoing concerns on interest rate hikes and economic data. In the US, investors will keep an eye on the economic outlook and the potential for a US government shutdown. Even though the Fed opted to maintain interest rates at the current target range of between 5.25% and 5.50%, the Fed noted that they needed to see "more progress" on inflation before they can conclude additional interest rate hikes will not be necessary. The Fed's updated long-term economic projections are calling for one more rate hike before the Fed could potentially reach its terminal rate for the current cycle. In Malaysia, investors will be turning their attention towards our government's plans to spur the nation's growth and what would be in store for Budget 2024 on 13th October.

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

Bond yield volatility in the fixed income market will likely persist due to the higher for longer rates environment amid the strong labour market in the US. The latest market – implied rate as of early October shows that the Fed is unlikely to cut rates until 3Q24. Locally, BNM's MPC statement in September suggests that the OPR is consistent with the current inflation and growth outlook and thus remains supportive of the economy. Nevertheless, we are cognisant that they will continue to monitor incoming data to better appraise our domestic inflation and growth outlooks. Furthermore, external and internal factors could also still contribute to bond market volatility that may affect local yields. The declining CPI also supports the case for BNM to keep OPR steady at 3.0% for the remainder of the year. However, we will continue accumulating bonds at favourable valuations while prioritising good quality names.

For Allianz Life Global High Payout Fund:

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

What helped?

- In a weak market environment, the Fund could do better than global equity markets as measured by MSCI World Index. The allocation towards Value- and High Yield stocks could help the Fund to perform better than equity markets.

What hurt?

- The Fund lagged behind its customised benchmark. Dividend Growth stocks were also weaker in September.

Market Review and Outlook

Global equities retreated as more resilient-than-expected economic data reinforced central bank messages that interest rates would need to be kept at higher levels for a considerable length of time to bring down inflation. Japanese and UK equities defied the broader market decline, but elsewhere returns were mostly negative. At a sector level, Energy stocks fared the best, gaining as oil prices rallied. In contrast, Information Technology was the weakest sector, with a semiconductor foundry warning that the recent boom in artificial intelligence interest was not sufficient to offset a broader slowdown in demand.

US stocks retreated over September, suffering their worst monthly decline of 2023. Sentiment was undermined by signals from Federal Reserve (Fed) policymakers that interest rates are likely to stay high for an extended period of time. Speaking at the Jackson Hole summit of central bankers, Fed chair Jerome Powell reiterated that US inflation remains "too high", meaning the central bank needs to either hold interest rates at their current level or raise them to bring inflation down to its 2% target.

Euro-zone equities retreated over September, undermined by the European Central Bank's (ECB) continued hawkish stance and by concerns over the outlook for the euro-zone economy. The Italian government raised its fiscal deficit projections for this year to 5.3% of GDP, citing the ballooning costs from a tax incentive scheme which offered Italians a 110% tax credit for house renovations to enhance energy efficiency.

For Allianz Life Asia Multi-IncomePLUS Fund:

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

Market Review

Asia Pacific equities slid in September as sentiment was knocked by worries that US rates would stay higher for longer. A stronger tone to the US dollar also weighed on returns in USD terms. China and Hong Kong equities declined. While economic data in China remained weak, it showed a modest improvement compared with recent months. The techheavy markets of Taiwan and South Korea also fell, with semiconductor stocks negatively affected by news that Taiwan Semiconductor Manufacturing Company (TSMC) had warned that the recent boom in artificial intelligence interest was not sufficient to offset a broader slowdown in demand.

Australian shares retreated, as the Reserve Bank of Australia kept rates on hold but emphasised that further monetary tightening may be needed while inflation may have passed its peak. ASEAN markets mostly lost ground, although returns in the Philippines and Singapore were positive. Likewise, Indian equities advanced, with the BSE Index hitting a record high mid-month. India's economy remains robust, with the S&P Global India composite purchasing managers' index (PMI) indicating one of the strongest expansions in economic activity in over 12 years.

Asia High Yield credit delivered positive returns for September, mainly led by high yield sovereigns – Sri Lanka and Pakistan. Sri Lanka posted a strong balance of payment position given improving tourism and remittance inflows, subdued import demand, and suspended external debt obligations while in Pakistan, the Governor highlighted that the State Bank of Pakistan has successfully met all the quantitative benchmarks outlined in the ongoing International Monetary Fund (IMF) programme. Hong Kong credits staged a rebound following profit taking in the previous month while India high yield credits continued to fare well given the lack of supply and a rather solid domestic growth story. They continue to attract incremental demand from investors looking for diversification in Asia.

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

Within the equity sleeve, the top detractor came from our position in TSMC, the leading chip foundry globally and a key performance contributor in previous months. After the strong performance rally linked to Artificial Intelligence (AI) applications, its share price declined on concerns surrounding the macro environment outlook and soft global consumer electronics demand.

Conversely, top contribution came from our position in a private sector lender in India. The bank is well positioned to benefit from accelerating credit demand in India, particularly within the retail and SME (small and medium-sized enterprises) space with its successful acquisition of a multinational investment bank and financial services company's India consumer business.

The asset allocation at the end of the month was 65.2% invested in Asian equities and 29.4% in Asian fixed income, with the remainder in cash and others.

Portfolio activity in the equity sleeve focused on further reducing our exposure to companies in China where we are relatively more cautious on the macro outlook. We added the leading hydropower provider in India to the portfolio as we see renewable energy policy tailwinds as a key growth driver.

For the fixed income sleeve, we invest in bonds with the aim of long-term interest accrual. In September, we reduced our exposure to weaker issuers in the portfolio while repositioning to bonds from stronger issuers offering better value.

At the end of the month, we held 59 equities and 54 fixed income securities. The equity portfolio yield was 2.8%, and the average fixed income coupon was 5.2% with an average credit rating of BB+ and average duration of 2.2 years.

Market Outlook

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

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

For high yield credits, we prefer ex-China issuers as the projected default rate remains low with decent carry. Market technicals are also supportive as supply is low. For Chinese high yield credits, we prefer fundamentally driven bottom up selection as the sector remains prone to idiosyncratic noise. Since August, we have seen a stream of supportive measures announced by Beijing. We continue to expect further supportive measures to be gradually rolled out over the next few months.

For Allianz Life Amanah Dana Ikhlas:

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

Market Review

The Malaysian sovereign bond yield increased by 10-15 bps over the month of September on the back of the sharp rise in major global yields as bond sentiment turns cautious on hawkish US Federal Reserve, which reiterated its higher for longer interest rate outlook. In its Sept FOMC meeting, the US Fed delivered a hawkish pause as expected, and indicated a possible further hike in November as well revising its dot plot higher next year alongside higher economic forecasts. Meanwhile, locally, the BNM maintained its OPR at 3% in its September MPC meeting and will likely remain steady at this level throughout 2023. On corporate bond yield movement, corporate bonds outperformed the govvies as yields were less volatile and only moved between -4bps to +2bps month-on-month.

September continued from last month's gloomy market performance on risk-off sentiment. The Fed's higher for longer narrative dampened the outlook and led the stronger dollar and US yields. China showed some positive macro data and supportive policy but proved inadequate. Elsewhere, oil prices rallied on supply concerns. Closer to home, the KLCI fell 1.9% to 1,424 pts but relatively outperformed global markets bring year-to-date performance to a decline of 4.8%. Regionally, on a month-on-month basis and local currency terms, Philippines the only market in green and therefore best performer for the month, up 2.4%. Thailand tumbled 6.0%, Singapore down 0.5% and Indonesia fell 0.2%. In currencies, the USD continued to strengthen which led the DXY Index up 2.5% mom. An unchanged PHP was the best performer in the region while all regional currencies depreciated against the USD, SGD (-1.1%), MYR (-1.2%), IDR (-1.5%) and THB tumbled 4.0%. Net foreign selling was seen across the region except for Malaysia, as it saw the third consecutive month of net inflows of US$143m, bringing year-to-date to net outflow of US$442m.

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, with the Eurozone recently entering technical recession following 2 consecutive quarters of negative GDP growth in 1Q 2023.

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

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, we remain wary on the risks of inflation and the coming economic slowdown. Certainly, the "higher-for-longer" also has implication in equity markets. Indeed, recent GDP numbers here as well as elsewhere has been less inspiring. In any case, we remain nimble in our approach as markets have rallied in recent times, perhaps helped by the recent foreign fund flows, and pertaining to the polls. Nevertheless, we continue to be focused on the recovery and structural theme.

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. Current volatility has resulted in sovereign bond yields to be at YTD-high, providing with opportunity 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 Malaysian equities, it has seen somewhat of a correction in recent weeks given the macro and global monetary backdrop. Performance had mainly been focused on selected sectors e.g., property and reverse trades that had been sold down due to rising interest rates. However, moving forward, we think the next expectations are of the revival in infrastructure projects as well as initiatives under the New Energy Transformation Roadmap (NETR). On this front, we are looking at thematic plays e.g., green energy initiatives, public infrastructure projects, etc. Other sector we are keen includes, energy, and selected consumer. All in all, we maintain a balanced approach with the portfolio structure into both growth and defensive sectors to navigate market volatility while remaining nimble.

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

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

Market Review

The Fund underperformed the benchmark in September. Stock selection was the key detractor, with picks in the Consumer Discretionary, Information Technology, and Industrials sectors proving particularly detractive during the month.

At a single stock level, a top detractor was a premium electric vehicle (EV) automaker. China represents a 26 million car market – similar in size to the US, Europe, and Japan combined – and we believe the company is well-positioned to gain market share and develop competitive products in the areas of sports utility vehicles (SUVs), pure EV, and autonomous driving technology. In addition, it has demonstrated strong executive leadership during the market downturn. The share price was soft in September on general market weakness and profit taking after having delivered solid gains in the summer months.

Conversely, a key contributor this month was Citic Securities, a large full-service brokerage house in China. Citic Securities operates across diverse business segments including research, asset management and underwriting. The company is a key beneficiary of ongoing financial reforms in China, especially reforms related to initial public offerings (IPOs) given its investment banking capabilities. In a month where policy turned more supportive and implied looser credit conditions ahead, our holding in Citic Securities benefitted.

Market Outlook

Chinese equities declined over September. While economic data remained weak, it showed a modest improvement compared with recent months. In addition, there was growing optimism that a series of stimulus measures from Beijing could bolster China's economic recovery. The People's Bank of China (PBoC) maintained its key rate, the 1-year loan prime rate, at 3.45% but reduced banks' reserve requirement ratio by 25 basis points (bps). The Chinese central bank also said it would step up policy adjustments and implement monetary policy in a "precise and forceful" manner to support the economy.

The official manufacturing purchasing managers' index (PMI) rose to 50.2 in September, up from 49.7 in August, indicating factory activity was growing. Exports and imports pleasingly beat forecasts. China also edged out of deflation, a topic that has been concerning the market over the last few months, with the consumer price index (CPI) rising 0.1% on an annual basis in August. Nevertheless, problems in the property sector continued, as a real estate developer cancelled an investor meeting aimed at restructuring its debt, due to an official investigation.

We believe that initial signs are emerging as evidence that targeted support measures are helping to stabilise the property sector, shore up local government financing, and stimulate private sector investment. We maintain our assessment of modest policy easing (ie, no bazooka-style stimulus) and will carefully gauge the policies' implementation and effectiveness in moderating the current cyclical downturn. Our ambition remains to identify attractive stocks with more sustainable growth models and to overlay this with a robust portfolio construction discipline. As market sentiment stabilises and confidence returns, we expect that stocks underpinned by a resilient secular growth outlook will again outperform.

During September, we continue to adjust in the portfolio and focus on positions we have medium to long-term conviction in. For example, within the property-related area, we exited a government-backed property developer and a building materials company, and focused on post-completion exposure as we expect to be better-positioned for the broader sector recovery. We added further to the home appliance, and home furnishing positions, as well as a leading property agent in China. In the auto-related sector, we initiated positions in an EV maker and a transmission gear producer that is used in both EV and industrial robotics.

As at the end of the month, the onshore/offshore allocation was around 44% in China A-shares. On a sector level, the largest overweight remained in the Consumer Discretionary sector, while our largest underweight was in the Financials sector.

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

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

Market Review

Global equities retreated as more resilient-than-expected economic data reinforced central bank messages that interest rates would need to be kept at higher levels for a considerable length of time to bring down inflation. Japanese and UK equities defied the broader market decline, but elsewhere returns were mostly negative. At a sector level, Energy stocks fared the best, gaining as oil prices rallied. In contrast, Information Technology was the weakest sector, with a semiconductor foundry warning that the recent boom in artificial intelligence (AI) interest was not sufficient to offset a broader slowdown in demand.

While surveys of economic activity suggested that the US economy may be stagnating, data for Europe and China showed some modest improvement. The US Federal Reserve (Fed) kept rates on hold, while the European Central Bank (ECB) raised rates. Policymakers in developed markets reinforced the message that, while we may be near peak rates, borrowing costs will be held at this level for a considerable time. It was a different story in some emerging economies, with Brazil cutting rates for the second time this cycle, while Poland unexpectedly slashed rates by 75 basis points (bps). In contrast, Turkey's central bank raised rates by 500 bps.

Oil prices continued to move higher amid fears of tightening supply as Saudi Arabia and Russia extended their production cuts. Brent crude reached a peak of above USD 95 a barrel, its highest level in at least ten months. Natural gas prices also rose but elsewhere commodity prices generally eased amid fears of slowing global growth.

From a sector perspective for global equities, as measured by the MSCI All Country World Index, the Energy sector was the only sector with positive returns and was helped by the rally in oil prices. The Financials sector also outperformed and was supported by tailwinds from insurance and banks. Conversely, stocks in the Information Technology and Real Estate sectors lagged broader markets.

During the period, the Fund underperformed on a gross- and net-of-fees basis versus the custom benchmark (50% MSCI ACWI Index/50% MSCI World Information Technology Index). A number of events during the period were challenges for growth stocks. This included upward pressure on real rates, a softer consumer from depleted savings, and continued labour tightness. Amid this environment, AI-enabled industries, AI infrastructure and AI applications underperformed the custom benchmark.

Contributors

Among the top contributors was a provider of automobile and property insurance and reinsurance services. Shares outperformed as the company continues to benefit from higher insurance premiums and the higher interest rate environment, which is a tailwind for net investment income. Looking forward, we believe the company's technology advantages are enabling it to move ahead of the industry. This includes the usage of telematics, analytics and advanced underwriting models to retain better drivers and shed those that pose a higher level of risk. As the rest of industry reprices, we believe it is positioned to profitably grow its policy counts driven by its leading brand and distribution advantages.

Our underweight position in a US tech giant was a relative contributor due to its significant weighting in the benchmark. It had an average 4.5% weight in the benchmark, while the Fund had a small average weight of 0.2%. Shares pulled back from recent highs following news of China banning the use of its smartphone by government officials.

Detractors

The top detractor for the period was Shopify Inc., a leading commerce platform that enables merchants to display, manage, market and sell their products through various channels. Although the stock had strong year-to-date returns, shares experienced profit taking over the month. Expectations were elevated as Shopify announced an integration with Amazon Prime in the prior month that should be beneficial for gross merchandise volume. Looking forward, Shopify should continue to benefit from the secular adoption of electronic commerce 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 business through more personalised selling and marketing, workflow automation and leveraging the power of AI chatbots.

Another detractor was a provider of payments hardware and software solutions for merchants and consumers. Shares fell as the company announced the CEO departure of the commercial solutions segment, which represents the company's non-cash application ecosystem. Its co-founder is stepping in again as CEO during the interim and ensuring continuity. Looking forward, the company continues to have a unique growth trajectory, which is supported by its merchant ecosystem, consumer fintech capabilities that includes a highly popular cash app, and synergies from a peer acquisition.

New Buys and Sells

During the period, new purchases in the Fund included an identity and access management company, which appears to have improved its execution and increasingly benefitting from developments in AI. Another new holding is a medical device company focused on the design and development of continuous glucose monitoring (CGM) systems for people with diabetes and healthcare providers. It utilises AI in the sensors to ensure accuracy and reliability of their CGM products. Lastly, the Fund also added a leading provider in the emerging category of vector search. Vector search provides the foundation for implementing semantic search for text or similarity search for images, videos or audio. Integration of vector search and generative AI can greatly enhance the accuracy of the AI's output.

The Fund sold its position in an online networking service for medical professionals given disappointing execution against its growth targets and we redeployed proceeds in other ideas.

Market Outlook

From a macroeconomic perspective, recent economic data reinforced the view that US economic growth remains resilient, as the labour market remains tight, and consumer spending continues to demonstrate resilience. While recent inflation data was slightly stickier than expected, inflation around the world remains on a downward trajectory and needs to stay on this trend in order to meet the targeted levels for central banks. At the recent September Federal Open Market Committee (FOMC) meeting, the Fed kept interest rates steady, which was in line with expectations. Although the Fed did not increase rates, the committee gave themselves the option to increase rates further should conditions warrant it. The FOMC's interest rate projection was slightly more hawkish than expected with the Summary of Economic Projections (SEP or dot plot) indicating committee members are forecasting fewer rate cuts during calendar year 2024 than the prior forecast. Monetary policy is characterised by long and variable lags as it works through the economy and the financial system. Hence, the Fed's posture of maintaining rates "higher-for-longer" should provide a path for inflation to normalise. Monetary policy is likely to remain tight until inflation gets brought down to the Fed's 2% target.

After the strong year-to-date equity market returns, especially for technology stocks, volatility may increase over the coming quarters as interest rates likely stay higher for longer and as restrictive financial conditions slow economic growth. We believe earnings for many of the companies we are invested in are likely to be more resilient in the context of a slowing economy, as they are benefitting from AI innovation and a strong investment backdrop. Our portfolio remains aligned 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. For the Q2 earnings reporting season, the broader topic of AI was mentioned in more than 20% of earnings calls with a significant increase on generative AI. In addition, Voya 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 Pacific equities slid in September as sentiment was knocked by worries that US rates would stay higher for longer. A stronger tone to the US dollar also weighed on returns. In this environment, Hong Kong/China equities declined over the month. While Chinese economic data remained weak, it showed a modest improvement compared with recent months and signs of stabilisation. The tech-heavy markets of Taiwan and South Korea also fell, with semiconductor stocks negatively affected by news that a semiconductor company had warned that the recent boom in artificial intelligence (AI) interest was not sufficient to offset a broader slowdown in demand. ASEAN markets mostly lost ground too, and Australian shares retreated over the month, as the Reserve Bank of Australia (RBA) kept rates on hold but emphasised that further monetary tightening may be needed.

On the positive side, the Japanese equity market slightly increased over September, outperforming other developed markets. The Bank of Japan's (BoJ's) continued dovish stance, coupled with reports that prime minister Fumio Kishida had instructed his cabinet to develop a new economic package to alleviate the impact of inflation through increased wages and investments, supported value stocks, in particular. Indian equities also advanced during the month, with the BSE Index hitting a record high mid-month.

The Fund underperformed the benchmark in September. Key detraction came from our underweight in the Financials sector. Stock picks in the Information Technology and Consumer Discretionary sectors also detracted, offsetting stronger performing names in the Industrials space.

At a single stock level, a key detractor this month was Galaxy Entertainment, a casino operator in Macau, with businesses spanning gaming, hotel, food & beverage, retail, and construction. Galaxy is viewed as a key beneficiary of China's relaxation of travel restrictions. Its resort hotel properties and related facilities were upgraded during the pandemic to incorporate more family-oriented entertainment to attract tourists other than hard-core gamblers. Furthermore, Galaxy used the slow pandemic period to streamline operations and now runs a leaner business. We think Galaxy will continue to recover as the Chinese economy stabilises.

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

During the month, we took the opportunity to exit a Japanese technology company involved in manufacturing equipment for flat panel displays, semiconductors, and other electronic components, replacing it with a leading Japanese financial services company with a global footprint. This coincides with the main change to positioning throughout the year, which has been adding exposure to Japan, now a key overweight as a result of the opportunities we are finding amidst a more supportive market backdrop. Other overweight markets include Taiwan and New Zealand, given specific stocks owned in these markets – which is balanced by underweight positions in China and India.

At a sector level, the largest position is Information Technology, primarily in technology hardware, including exposure to memory chipmakers, where valuations have been touching trough levels seen in previous down cycles. We also continue to be optimistic on the long-term outlook for the Health Care sector, especially in the biotech space. Although the sector has been volatile due to policy concerns and geopolitical risks, underlying businesses continue to perform well.

Market Outlook

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

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

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

For Allianz Life Total Return Asian Equity Fund:

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

Market Review

Asia ex Japan equities slid in September as sentiment was knocked by worries that US rates would stay higher for longer. A stronger tone to the US dollar also weighed on returns. In this environment, China and Hong Kong equities declined over the month. While Chinese economic data remained weak, it showed a modest improvement compared with recent months and signs of stabilisation. The tech-heavy markets of Taiwan and South Korea also fell, with semiconductor stocks negatively affected by news that Taiwan Semiconductor Manufacturing Company (TSMC) had warned that the recent boom in artificial intelligence (AI) interest was not sufficient to offset a broader slowdown in demand. ASEAN markets mostly lost ground too.

Positively, Indian equities advanced during September, with the BSE Index hitting a record high mid-month. India's economy remained robust, with the S&P Global's India composite purchasing managers' index (PMI) indicating one of the strongest expansions in economic activity in over a decade.

The portfolio underperformed the benchmark in September. Stock selection was a key detractor, notably in Financials and Consumer Staples sectors. From a geographical perspective, stockpicking in China and India were the key areas of detraction.

At a single stock level, a leading detractor was a dominant convenience store operator locally. The premise here was that the business will continue to benefit from the Thai consumption recovery and also the return of tourism, especially visitors from China.

Conversely, a key contributor was a contract development and manufacturing organisation (CDMO) with a broad global portfolio. The company provides services for new drug research and development and is a preferred pick in the Health Care sector. Although the sector has been dragged down of late due to an anti-corruption campaign in the medical field, we believe high quality names like it are set to benefit. In particular, the company has benefitted from the growing popularity of glucagon-like peptide 1 (GLP-1), which has boosted its growth outlook meaningfully in coming years.

In September, we initiated a position in one of Thailand's largest banks with a strong deposit funding base and exited a duty-free store operator in China. More broadly, portfolio activity in recent months has been to reduce the China allocation, which is now a significant underweight position. On the flip side, we have taken the opportunity to increase our India exposure, as we have a clearer outlook on growth in India than in China at this juncture.

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

Market Outlook

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

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

For Allianz Life Global Income Fund:

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

Market Review

Markets finished lower in September as the US Federal Reserve (Fed) projections indicated interest rates may stay elevated through next year due to strong economic activity. US Treasury yields rose sharply as a result. Better-thanexpected weekly jobless claims, industrial production, and retail sales suggested gross domestic product (GDP) growth was accelerating, while inflation continued to moderate. The Fed left its benchmark rate unchanged but forecasted another hike before year-end and less easing than anticipated in 2024. These factors in combination influenced investor sentiment, weighing on both risk assets and investment grade bonds.

In this environment, global equity markets, as measured by the MSCI World Index, returned -4.31%.* Non-US developed equities outperformed their US counterparts, and value stocks outperformed growth stocks. Global convertible securities and high-yield bonds both finished lower, and primary markets were active. Global fixed income, as measured by the Bloomberg Global Aggregate Index, returned -2.92% with US exposure outperforming non-US.^

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

Top detractors were among holdings that significantly aided year-to-date performance, including Nvidia Corp., Apple Inc., Amazon.com Inc., and Microsoft Corp. Taiwan Semiconductor moved lower on supply constraint concerns related to artificial intelligence (AI) chips. A Canadian ecommerce platform fell on consumer spending fears, and two software positions lagged after providing cautious guidance. Other detractors included a major aerospace manufacturer and a residential solar energy company.

Portfolio holdings having a notably positive impact on performance were limited to an automotive technology company that announced a strategic partnership, and Shell PLC which reached 2023 highs alongside higher energy prices. Many other positions advanced but their combined impact on performance was not material.

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

Market Outlook

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

Steady employment and consumption and US fiscal policy remain economic tailwinds. Prolonged restrictive monetary policy and quantitative tightening are key risks to growth.

Waning inflation will likely influence the Fed to consider slowing the pace of interest rate hikes further or even ending their current campaign.

Corporate earnings estimates for 2023 and 2024 have stopped falling due to better-than-expected quarterly results and upward revisions to earnings and sales projections.

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

US convertible securities should continue to provide benefits to investors, including an attractive asymmetric return profile and lower interest rate sensitivity relative to core fixed income. After a challenging 2022, the universe's composition has shifted compared to the past decade. Today, many securities offer higher yields and most exhibit defensive characteristics given lower deltas and closer proximities to bond floors. This dynamic may allow for greater downside protection if equity volatility rises in 2023. If the prices of underlying stocks advance, convertible securities are positioned to participate in the upside. Higher financing costs will serve to benefit new issuance which could reach an upwardly revised USD 50-55 billion, according to market strategists.

US high yield's risk/reward opportunity is compelling. Credit fundamentals are healthy, near-term refinancing obligations remain low and managements continue to prioritise debt reduction. Given these factors, defaults should remain well below historical cycle peaks. With the market trading at a deep discount to face value, high-yield bonds offer attractive total return potential. 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#.

All data are sourced from Allianz Global Investors dated 30 September 2023 unless otherwise stated.
* Source: MSCI, as at 30 September 2023
^ Source: Bloomberg, as at 30 September 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 equity markets witnessed minor price losses in Q3. The UK and Japan were the only countries to record moderate price gains, while prices in the other markets declined. For stocks from the US and the eurozone, it was the weakest quarter in a year. The market is gradually beginning to understand the need to keep interest rates elevated for some time in order to bring inflation back within the target range. This had an effect on investor confidence, especially in light of the anticipated initial interest rate cuts. Further indications of slowing economic momentum in China also held back market performance.

At sector level, Energy stocks were the big winners, thanks to the strong rise in oil prices, while Utilities were the worst performers. Industrials were significantly impacted by economic concerns. Sustained higher interest rate levels not only call into question the current valuation level of equities, but they also make fixed-interest securities appear to many investors as an alternative source of returns. On the one hand, valuation adjustments are possible, while on the other hand, areas may emerge in which companies continue to enjoy above-average success, thanks to structural growth factors. Such a differentiated environment provides active investors with opportunities to benefit from robust trends at selected companies.

Market Outlook

The Fund underperformed the global equity markets throughout Q3. In a market characterised by volatility and economic concerns, certain parts of the portfolio found themselves under increased pressure. Infrastructure contributed positively to performance over Q3, helped in no small way by the solid development of innovative building materials companies such as Owens Corning and a manufacturer of high-performance insulation and building envelope technologies. The Digital Life theme managed a successful turnaround.

The structural underweight in the tech mega caps adversely affected relative performance to the benchmark index during the year, but in Q3 this proved helpful and made a positive contribution. Furthermore, the broad positioning (cloud computing, cyber security, digital finance) within the theme also had an impact and made a positive contribution to performance despite weak coverage by a digital payment service provider. On the broad market, economic concerns were widespread on consumer sectors, which are currently underweighted in the portfolio, and this also supported the Fund's relative performance.

The "Energy of the Future" theme in particular performed poorly and led to adverse effects in the past quarter. This was due to weaker corporate reports on semiconductor stocks with exposure to the energy transition and corporate reports from the renewable energies segment. While semiconductor companies reported underutilisation of new production facilities, corporate reports from the solar and wind sectors also disappointed. An industry leader among wind farm developers caused a stir at the end of August with billion-dollar write-downs on US wind projects. On the one hand, confidence was also affected by increased costs and interest rates here. On the other hand, offshore wind farms remain a novelty in the US and the supply chain has not yet been established, leading to delays and tight service capacities. We view as temporary the current weakness in the renewable energy sector. The current elevated interest rate level naturally leads to cautious investment behaviour, both among private investors and commercial providers. We believe, however, that this does not call into question the structural tailwind provided by planned transformation programmes such as the Inflation Reduction Act and the RePowerEU Plan, which is why we continue to view the theme in a positive light going forward.

Q3 saw an increase in the portfolio's exposure to "Digital Life", thus confirming its position as the largest theme in the portfolio. The themes "Smart Machines" and "Clean Water and Land" also recorded moderate gains, while exposure to "Energy of the Future" and "Pet Economy" declined in the last quarter. As an active manager, we continue to focus on individual stockpicking within the themes.

Looking ahead to the rest of 2023 and 2024, we still view the portfolio as very well positioned. There are clear indications of an impending economic downturn in the US, which is reflected in a more defensive positioning of the portfolio. Compared to the broad equity market, the portfolio's valuation level is significantly lower. The portfolio continues to enjoy a high degree of diversification. Current market turmoil offers potential both on a thematic and individual stock basis to build exposure to some important themes.

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

Bonds and equities sold off in September on the back of a "hawkish pause" from the US Federal Reserve. Following messaging from the Fed that rates may be higher-for-longer, traders pushed back their projections for interest rate cuts and bond markets in particular suffered. In the Eurozone, the ECB raised its deposit rate by +25bps to 4.0% as the fight to dampen inflation continued. On the political front, the US narrowly avoided a government shutdown as lawmakers secured an unexpected short-term government funding deal.

Inflation continued its moderation trend, although oil prices rose again in September. U.S. headline inflation for August increased to 3.7% YoY, though core inflation came in lower at 4.3% YoY. In the Euro area, headline inflation for August slightly came down to 5.2% YoY whilst core inflation decreased modestly to 5.3% YoY. In the U.K., headline inflation decreased to 6.7% YoY, with core inflation coming down further to 6.2% YoY.

Government bond yields sold off fairly significantly with the exception of the U.K.. U.S. 10y Treasury, German 10y Bund and U.K. 10y Gilt yields rose by +46bps, +38bps and +8bps, respectively. In the front end, U.S. and German 2y government yields rose by +18bps and +23bps respectively, while U.K. 2y Gilt yields fell by -25bps.

Equity markets fell again in September after August marked an end of seven straight months of gains. The S&P 500 and MSCI World were down 4.77% and 4.28% respectively, while China equities continued to suffer from property sector concerns. In credit, USD investment grade spreads widened by +3bps while EUR investment grade spreads tightened by -1bp. High yield performance was also bifurcated, as US high yield spreads widened by +22bps and EUR high yield spreads tightened by -9bps.

During the month, the PIMCO GIS Income Fund returned -1.46% after fees (in USD, for the Institutional class, Accumulation share), bringing YTD '23 performance to 2.66%.