Market Review and Outlook

July 2022

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

For the following funds:

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

Market Review

For equities, the MSCI World Index rose +7.9% mom to close at 2,746 points for the month of July. Similarly, the Dow Jones Index, propelled by solid earnings from technology and oil companies, increased by +6.7% mom as it reversed last month's loss as it seemingly looked past concerns surrounding high inflation and recession risks. On the US' economic front, retail sales in June increased by +1.0% mom as compared to a decrease of 0.3% mom in May. Its May industrial production grew slower at 0.2% mom versus an increase of +1.1% mom in the previous month. US S&P Composite PMI growth weakened to 52.3 in June as compared to 53.6 in May. Over in Europe, the Stoxx 50 Index gained +7.3% mom during the same period despite a lower Eurozone S&P Composite PMI reading of 52.0 in June as compared to 54.8 in May. Its May retail sales rose +0.2% mom after contracting by 1.3% mom in the previous month. Nonetheless, its industrial production growth grew by +0.8% mom in May as compared to an increase of +0.4% mom in the previous month. Conversely, China's Shanghai Composite Index fell 4.3% mom in July despite an improvement in Caixin China Composite PMI reading of 55.3 in June as compared to 42.2 in May. After cutting its 1-year Loan Prime Rate twice in December 2021 and January 2022 to bolster its economic growth, the People's Bank of China kept it stable at 3.70% in its July 2022 meeting. After a reduction of the 5-year Loan Prime Rate in May 2022, it was also kept stable in its July 2022 meeting.

In July, Brent oil declined further by 4.2% mom to USD110.01/bbl amid concerns on lower demand for gasoline amidst a rising rate environment to combat inflation as well as global recession fears. Crude palm oil (CPO) price also dipped by 14.4% mom to RM4,355/MT after Indonesia lifted its export ban and on the back of concerns that demand may be stifled by high prices.

On the ASEAN front, equity markets closed the month under review with positive performances. Malaysia's FBMKLCI rose by +3.3% mom, partially reversing its 8.0% mom loss in June. July saw net foreign inflows of RM124m, bringing YTD inflows to approximately RM6.2b. From an economic standpoint, Malaysia's May industrial production growth weakened to +4.1% yoy compared to a growth of +4.6% yoy in the previous month. June manufacturing PMI strengthen to 50.4 as compared to 50.1 a month ago. Indonesia's Jakarta Composite Index gained +0.6% mom despite a lower S&P Global manufacturing PMI reading of 50.2 in June as compared to 50.8 in the previous month. The Indonesian central bank held its 7 - day repo rate stable at 3.5% in its June meeting, unchanged since February 2021. Similarly, the Stock Exchange of Thailand increased by 0.5% mom despite a declining S&P Global manufacturing PMI reading of 50.7 in June as compared to 51.9 in the previous month. The Bank of Thailand kept its Benchmark Interest Rate at 0.50%, unchanged since May 2020. Singapore's Straits Times Index surged 3.5% mom despite an 8.5% mom drop in industrial production growth in June as compared to an increase of +10.9% mom in May. Its June PMI reading was also slightly weaker at 50.3 as compared to 50.4 in May and its Non-oil Domestic Exports grew +3.7% mom in June as compared to a growth of +3.2% mom in May.

US Treasury (UST) rallied in July and ended the month lower by 17-36bps mom after the Fed authorized its second consecutive 75bps interest rate hike in July in a bid to stem the swelling inflation mainly arising from the surge in food and fuel prices. This took the benchmark overnight borrowing rate up to a range of 2.25%-2.50%, which was the highest level since December 2018. US CPI surged 9.1% yoy in June 2022 (May 2022: 8.6% yoy) beating the consensus estimate of 8.8%, which was the largest yoy jump since December 1981. US GDP contracted again in 2Q2022 by 0.9% qoq (survey: +0.4% qoq) after the 1.6% qoq decline in 1Q2022 which brings the US economy to a technical recession. Fed's Chairman, Powell however opined that the US economy is not in a recession as central bank has been raising rates to control inflation and the labour market in general remained tight.

Malaysian Government Securities (MGS) yields were mostly lower by 25-42bps mom, largely tracking the UST movements. In the latest World Economic Outlook Update published on 26 July, the International Monetary Fund (IMF) slashed Malaysia's economic growth forecast for 2022 from 5.6% to 5.1%, which is lower than Bank Negara Malaysia's (BNM) estimated GDP growth range of 5.3%-6.3%. The lowered growth projection considered factors that could hamper global trade, including exposure to the ongoing Russia-Ukraine war, global inflation, tighter monetary policies and geopolitical tensions, among others. Malaysia's CPI for June 2022 increased by 3.4% yoy which exceeded consensus expectations of 3.2% yoy and May 2022 figure of 2.8% yoy. The increase was largely due to food inflation which rose 6.1% yoy in June.

Foreign funds net sold Ringgit bond holdings with net outflows of RM3.5b (June: -RM4.1b), bringing YTD outflows to RM6.8b. Foreign share of both MGS and MGS+MGII lowered to 35.5% (June: 36.5%) and 23.3% (June: 23.9%) respectively. Malaysia's foreign reserves climbed marginally by USD0.2b to USD109.2b as of end-July 2022 (June: USD109.0b).

Market Outlook

Globally, markets are expected to alternate between risk-off and risk-on as investors digest the upcoming Fed policy rates and conditions of the economies. The volatility is compounded by the swings in commodity prices due to geopolitical concerns on the Russian-Ukraine conflict and its impact on commodity prices, global inflation and interest rates. Locally, investors will be keeping an eye on Malaysia's 2Q22 GDP and July's CPI figures, as well as the 2Q results season. Investors would also be monitoring newsflows on the possibility of an early 15th General Election in 2022.

For equities, we would continue to adopt a prudent yet sensible posture towards our equity market's longer term growth trajectory and, where opportunities arise, would direct monies into fundamentally good investments. That said, during this period of nascent economic recovery, we would be partial towards robust growth sectors but should remain watchful for any changes in market environment which might necessitate a realignment of investment direction. We might also at times assume a degree of trading bias to take advantage of any market volatility.

Locally, bond yields are expected to remain volatile in tandem with the UST yield movements. Although US has entered into a technical recession, the markets continued to remain jittery over the potential aggressive Fed rate hike path as global inflation remains elevated due to still high commodity prices and supply disruption. The Fed indicated that it is still committed to achieving its targeted inflation rate of approximately 2.0% and economic data will be scrutinized heavily to determine the next rate hike. On the other hand, local monetary policy is expected to remain accommodative to support sustainable economic growth in an environment of price stability as BNM reassured that economic developments and inflationary conditions will be monitored continuously and any rate hike would be done in a measured and gradual manner. Further OPR hike(s) could happen in 2H22, after BNM kickstarted its policy normalization cycle by 25bps during the Monetary Policy Committee (MPC) meeting in May 2022 followed by a second consecutive OPR hike in July to 2.25%.

We think the risk-reward of MGS has improved with the Ringgit rates market well priced for BNM normalisation but we are mindful of the bond market volatility arising from both external and internal fronts, which would impact local yields. The risk remains if domestic inflation surprise on the upside and foreign portfolio outflow accelerate. We would maintain our strategy to accumulate bonds at favourable valuations skewing towards 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 performed better than its customised benchmark.

What hurt?

- In a strong environment, the Fund lagged behind global equity markets.
- Sustainable dividend stocks with an attractive valuation suffered in July and retreated from an otherwise strong year-to-date performance for this segment.

Market Review and Outlook

Global equities rebounded strongly over July, posting their best monthly gains since late-2020. Slowing economic growth raised hopes that inflation would moderate, meaning interest rate hikes would be less aggressive than had been feared. In general, developed market stocks outperformed emerging market stocks. Climate change fears were reinforced when the northern hemisphere was hit by an intense heatwave. Europe, in particular, faces a difficult outlook as attempts to build up gas storage levels ahead of winter were dashed when Russia slashed gas supply through its Nord Stream 1 pipeline to just 20% of capacity. Both Germany and Japan are reportedly considering reversing decisions to shut nuclear power stations.

US equities surged over July, recording their strongest monthly returns since November 2020. Sentiment was supported by speculation that signs of slowing economic growth would mean the Federal Reserve (Fed) would likely rein in the pace of interest rate hikes later this year. Growth stocks outperformed value shares. Many high-profile tech companies delivered reassuring Q2 results which indicated they were faring better than many had feared given the backdrop of higher inflation and rates.

European equities rallied strongly over July (in EUR terms), posting their strongest monthly gains since November 2020, as sentiment was lifted by better-than-expected gross domestic product (GDP) data for Q2. Denmark and Sweden led the advance with France also posting solid gains, but Italian equities lagged due to the resignation of prime minister Mario Draghi following the unravelling of Italy's national unity coalition government. EU nations reached broad agreement to reduce gas usage by 15% but Russia cut gas supply through the Nord Steam 1 pipeline to just 20% of capacity, further derailing hopes that Europe could build up gas storage ahead of the winter.

For Allianz Life Asia Multi-IncomePLUS Fund:

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

Market Review

Equity markets in Asia ex Japan delivered mixed returns in July. On the one hand, markets were boosted by hopes that slowing global growth would reduce inflationary pressures and lessen the need for aggressive rate rises. On the other hand, the overall regional returns were dampened by declines in China and Hong Kong. The weakness was partly due to the regulatory uncertainty among tech companies, resurgence of COVID-19 cases in several cities, concern on the mortgage suspension in the property sector, and the disappointment on the potential gross domestic product (GDP) growth target this year. Elsewhere, Taiwan and Korea bounced back in July after the weakness in semiconductors last month. Australia equities also rallied. Within ASEAN, Indonesia, Malaysia, Philippines, and Singapore equities advanced over the month, while Thailand declined as the baht slumped to a 6-year low.

The Asian USD high yield credit market, as represented by the JP Morgan JACI Non-Investment Grade Index, corrected by -2.44% in July. The market was initially weak on general risk aversion but rebounded later in the month due to news of more Chinese government support for the property sector. There was also a broad rebound outside of Chinese issuers due to cheap valuations. For the month, credit spreads widened from 965 basis points (bps) to 1,069 bps, while 5-year US Treasury yields provided some support by decreasing from 3.04% to 2.68%.

Within the equity sleeve, the main detraction came from our China positions. In particular, the top single stock detractor over the month was a property management services company in China. The stock was impacted by the broader concerns on China's housing market, especially on the financials of some private property developers. We retain our holding in the company given its strong cash position in the balance sheet and stable positive cash flows generated by the property management fees.

On the positive side, the top contributor was Makemytrip, an online travel booking platform in India. With the COVID situation stabilising, the company reported a strong recovery in bookings from domestic travel resumption. We continue to see Makemytrip as a beneficiary of regional reopening. Its strategic partnerships, such as with an online payments company, should further strengthen its market position.

The asset allocation at the end of the month was 67.6% invested in Asian equities and 30.3% in Asian fixed income, with the remainder in cash.

In terms of equity portfolio activity, in July we exited positions that may face demand weakness as a result of the slowing macro environment. This includes a textile company in Taiwan and a cement supplier in China. We added to selective companies in China where valuations have come down to attractive levels and are well positioned for growth recovery.

For the fixed income sleeve, we invest in bonds with the aim of long-term interest accrual. In July, some bonds matured and we invested in Indian and Macau-based issuers to diversify the portfolio further.

At the end of the month, we held 58 equities and 88 fixed income securities. The equity portfolio yield was 3.1% and the average fixed income coupon was 5.4% with an average credit rating of BB+ and duration of 2.5 years.

Market Outlook

We remain in extremely uncertain times with low visibility around future economic and geopolitical developments globally. However, notwithstanding the challenging macro environment, our base case scenario is to be cautiously optimistic on the market outlook.

In particular, although China GDP growth this year will very likely fall short of the target of "around 5.5%", there should be an economic rebound in H2. While the US Federal Reserve and most other central banks, are focused on combatting inflationary pressures – and, in doing so, taking action which will dampen economic activity – in contrast, China's policy stance remains accommodative. This should create a more supportive environment for equities, especially with valuations below longer-term average levels.

Elsewhere, we also believe that the sharp pullback in regional Asian markets has resulted in a number of stocks coming back to attractive levels.

We expect the market to be bifurcated with most of the volatility driven by distressed Chinese property developers while other issuers remain more stable. Valuations are cheap and we should see more differentiation between issuers. The Chinese property sector now accounts for a smaller percentage of the Asian high yield index than before and the impact on the overall market is expected to be less significant than in the past.

For Allianz Life Amanah Dana Ikhlas:

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

Market Review

The Malaysian bond market saw a recovery over the month of July, tracking falling global bonds yields amidst increasing recessionary fears. The govvies curve bull flattened with yields down by 5-46bps across the board, led by long tenures as investors continued to add duration. The rally in domestic bonds were due to the falling global bond yields amidst growing recessionary fears. BNM hiked OPR by 25 bps in July as widely expected and reiterated that rate normalization will be continued at a measured and gradual pace to support a sustainable economic growth, while acknowledging the increased risk of a global slowdown due to elevated cost pressures and supply chain disruptions. US Fed also expectedly raised its Fed Fund Rates by another 75bps, while ECB hiked its rates by a larger than expected 50 bps. Meanwhile, local corporate bonds also moved in tandem with the govvies, with yields down 3-42 bps over the month.

Global equity markets staged a rebound in the second half of July as investors deemed the Fed has signaled that the tightening policy may have peaked, and recession risks could be priced-in after a torrid June. Elsewhere, China pledged to support the economy and while the US retail sales came in better-than-expectations. Despite the pledge, China and Hong Kong were the were amongst the few that was in negative territory on profit taking, new regulatory fines on internet-based companies and rising domestic issues e.g., mortgage suspension and subdued politburo outlook. In addition, amid the rising risk of recession, the US Fed hiked its interest rates by 75bps (+225bps year-to-date).

Oil prices continue to decline further in July to close at US$110/bbl lower 5.0% mom. Brent again saw pressure on weaker recession fears and demand concerns from China due to renewed Covid-19 issues. It did however remain above US$100 with news that the OPEC+ may hold or raise only slight production for September. Similarly, CPO declined 22% mom to RM4,022 as Indonesia reduced its export levy to zero.

Similarly, other commodity prices were weaker amid the stronger US$. Steel, iron ore and copper fell 19.0%, 11.3%. and 3.8% respectively. On the contrary, nickel and aluminum gained 4.1% and 2.8% respectively. Precious metals e.g., gold and silver prices fell 2.3% and 0.4% respectively despite the rising inflation. Although these commodities being synonymous as a hedge against inflation, the aggressive policy by central banks are capping prices.

Market Outlook

We expect the local bond market to continue to see some strengthening in the next 6 months as market adjusted to a less hawkish hikes by BNM than initially expected and recession concerns grow over the US and other developed market economies. Supply and energy disruptions from the Ukraine-Russian war and China zero-Covid lockdowns measures in major industrious regions continue to hamper economic activities in developed economies while fueling inflation despite rate hikes by its central banks. Recession concerns have seen the long-end US Treasury yields dropped while short-end yields rise on interest rates hikes to see an inversion on the curve which is normally taken as an indicator of rising market expectations of a potential recession in the US. Additionally, given the flush liquidity in the domestic banking system, this will continue to lend support to the local bond market as yield pickup remains decent as compared to the low yielding fixed deposits and money market funds.

On monetary policy, following the 50bps of cumulative OPR hike in May and July 2022, we expect just one more 25 bps hike by BNM in September to bring OPR to 2.50% for the rest of the year. The emphasis on a measured and gradual pace of OPR increases by BNM is an indication that the central bank is likely to adopt a more accommodative hike in 2022 to ensure it does not derail the domestic economic recovery amidst a volatile global economic scenario.

The equity outlook for Asia, as for other parts of the world, hinges on the Fed's response to the challenges of inflation and how the Russia-Ukraine conflict resolves. For Asia in particular, the outcome of China's Zero Covid-19 policy and whether it can emerge from what is hopefully a bottom of the country's economic cycle will determine if Asia can continue to outperform the world in the 2H2022. With such backdrop of persisting volatility, we are neutral on Asian equities. Given the hawkish tone set by the Fed, the rest of Asia ex-Japan except for China, will likely press on the path of policy tightening. The impact of this path will be closely watched over the next 12 months as the risk of recession and corporate failures rise with rising borrowing costs and inflation. Another source of drag for economies is the diminished purchasing power of consumers due to persistent inflation that will likely lead to lower-than-expected growth from private consumption. Until global equity markets have repriced adequately to reflect the extent of economic slowdown that lies ahead, market volatility will persist. Locally, we are cautiously optimistic on the local equity market. We are on the view that Malaysia economic recovery theme will continue despite rising threat of inflation and interest rate. However, rising cost and margin pressure are risks to earnings in 2H2022, but corporates should likely be able to absorb these shocks to some extent.

For Malaysian sukuk, we believe our preference for corporate bonds (which are less volatile and provide higher yields compared to govvies) and strong credit selection will continue to protect our portfolio. We prefer strong AA-rated and A-rated papers for yield pickup and potential long-term upgrade. We will look to gradually increase duration by increasing sukuk exposure but still maintain our underweight duration bias on the back of increasing DM recessionary fears amidst a hawkish global central banks' monetary policy outlook. We will continue to trade opportunistically and will also look into new primary issuances that offer higher yields, as well as bonds in the secondary market that has oversold.

For Malaysian equities, while we are in a capital preservation mode with higher cash levels, we may look to add into growth-oriented stocks as trading position in this bear-market rally. This is on the back of investors' expectations of peak inflation which has shifted the momentum back from value. We are however comforted that corporate earnings have stayed somewhat resilient, but we do foresee margin compression moving forward due to the expected slowdown. Having said that, valuations have come-off substantially albeit not at depressed level of yet. Elsewhere, we also maintain our positive view on financials as they benefit from interest rate hikes although we note there are rising risks of falling asset quality. Besides this, we look for recovery plays such as some of the construction names that have been positive in the news flow front, notwithstanding the restructuring of the toll highway concessions.

For Allianz Life All China Equity Fund:

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

Market Review

The Fund slightly outperformed the benchmark in July. The main contributor was stock selection in the Consumer Discretionary and Information Technology sectors. This was partially offset by weakness in the Materials sector, as a number of electric vehicle (EV) related names saw some profit taking. The overall allocation effect was small as a result of the close-to-benchmark sector allocations.

At a single stock level, a key contributor was an automotive electronics products company. The company makes smart cockpit displays which link in-vehicle "infotainment" to other aspects of smart driving technology such as high-precision sensors. We expect the company to benefit both from the long-term trend towards autonomous driving, as well as increasing EV-related orders.

On the other hand, an EV separator manufacturer detracted. Separator is one of the main components of EV batteries. The company reported in-line results during the month, and we see the share price weakness as reflecting short-term market disappointment that the quarterly figures did not beat expectations.

Market Outlook

Continuing their very different performance from other global markets, July saw a period of consolidation for China equities. After a strong recovery in Q2, China A-shares declined by around 5% in July (USD terms). Offshore equities were slightly weaker.

The main concern weighing on markets is the expected strength of the economic recovery in H2. The Politburo, the main decision-making body in China, held their latest quarterly meeting at the end of the month and implicitly acknowledged that the target of 5.5% gross domestic product (GDP) growth in 2022 will not be met.

The key risks at the moment relate to COVID policies and the property market. In terms of COVID, we do not expect a repeat of the extensive Shanghai lockdowns earlier in the year. While the current approach of more targeted restrictions is restricting a full recovery in household consumption, it is at least allowing manufacturing supply chains to reopen.

The most urgent issue currently relates to property. With many developers having halted construction work to conserve cash, this has angered households that bought housing in advance. And it has also undermined the wider system of pre-sales, which account for the majority of all new housing sales.

We expect the central government to step in to address the problem and provide reassurance. However, government action will likely need to be handled in a way that avoids the embarrassment of being seen to bail out developers, who are viewed as the cause of excessive speculation and leverage in the sector.

The main change in portfolio positioning in July was selectively adding to quality growth stocks where we have increasing conviction in growth prospects and where valuations look more attractive after the market pullback. This includes areas such as renewable energy and domestic consumption. Conversely, we reduced exposure to banks. It would not be surprising if a degree of "national service" is required from stronger financial institutions to help absorb losses in China's smaller banks given the extended period of economic weakness.

As at the end of the month, the onshore/offshore allocation is close to benchmark with around 51% in China A-shares. The largest overweight sector positions are Industrials and Consumer Discretionary, and the largest underweight is Financials.

For Allianz Life Global Artificial Intelligence Fund:

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

Market Review

July saw a sharp rebound in global equity markets as the MSCI ACWI Index returned 6.6%, most of which occurred post the July 27 Federal Open Market Committee (FOMC) meeting through month-end. Every sector within the ACWI universe had positive returns in July, led by Consumer Discretionary and Information Technology. Growth stocks handily outperformed value stocks within the global universe. US stocks led the advance with a 9.2% return in the S&P 500 Index, while international stocks were up 3.4%, as measured by the MSCI ACWI ex USA Index. At the July 27 meeting, the US Federal Reserve (Fed) raised the Fed fund rates by another 75 basis points (bps), the second consecutive raise of this magnitude, and chairman Powell reiterated the Fed's focus on fighting inflation being the top priority. Although there were many prognostications, the rally appeared to be based on investors gaining confidence that measures of inflation may be on a course to temper (in particular, food and oil prices began to moderate in July) and weak economic growth indicators, such as negative Q2 gross domestic product (GDP) growth of 0.9%, may contribute to a more dovish Fed.

Information Technology and related stocks outperformed the broader market during the period. Several notable mega-cap tech-related companies reported solid quarterly earnings results which supported their strong performance over the month. Additionally, previously beaten down, secular growers bounced off their lows as market-based interest rates moderated. A US tech giant reported better-than-feared results as the company is weathering supply chain challenges and consumer demand appears relatively stable. Semiconductors also outperformed the broader groups as analysts brought down their earnings estimates as part of a healthy reset to expectations. Telecom and Media underperformed amid lacklustre subscriber additions during their quarter earnings reports.

During the period, the Fund in USD outperformed on a gross of fees basis versus the custom benchmark (50% MSCI All Country World Index/50% MSCI World Information Technology Index).

Contributors

Our position in electric vehicle (EV) maker, Tesla, was one of the top contributors. Shares gained after the company reported solid Q2 earnings results and management provided constructive commentary on demand and production capacity. The results show Tesla is ramping production in its Texas and Berlin facilities while generating material scaling benefits from the Shanghai and Freemont factories. We believe the world is now embracing EVs and the move towards sustainable transport has reached an inflection point. We also believe that Tesla is positioned to lead this transition given its lead over the competition and continued rapid innovation.

Our position in solar power solutions provider, Enphase, was also among the top contributors. Shares surged after the company reported Q2 sales and earnings results that handily beat analysts' estimates. In addition, the management provided a robust outlook for growth in the coming quarter, as European demand has surged as customers on the continent look to accelerate their shift away from natural gas amid geopolitical tensions with Russia. We believe that the company remains a key beneficiary of increasing residential solar installations, backup storage systems, and expansion of smart monitoring systems.

Detractors

Our position in a China-based internet commerce and infrastructure company was one of the top detractors. Shares pulled back following strong gains in the prior period. Later in the month, the company took steps to establish a primary listing in Hong Kong that could include opportunities for investors in mainland China to buy shares directly for the first time. We continue to see a favourable risk/reward for the company shares, given our expectation for steady growth and profitability together with attractive valuation. We believe that the company, despite the regulatory changes, still has very compelling long-term opportunities to solve customer problems and deliver unique experiences leveraging artificial intelligence (AI).

Our position in a social networking platform operator was also among the top detractors. During the period, the company reported disappointing quarterly revenue results, and management provided sales guidance for the current quarter that was below consensus estimates. The company noted consolidation of advertising budgets amid macroeconomic uncertainties as a headwind. Despite the disappointing monetisation trends, user growth and engagement remained strong on the platform. We remain constructive on the long-term opportunities for the company to continue growing its audience and innovate on both its user experience and advertising platforms. The company's games, maps, and video features are innovations that we believe will be strong monetisation drivers in the future.

Purchases and Sales

During the period, we exited our position in another social media platform, as our checks suggested the company has continued to see erosion in its North America engagement metrics that makes a sustained turnaround less likely. Moreover, the announcement of a new CEO, and the founder stepping away from the business, suggests there may be a bigger reset to its turnaround initiatives that may take time to yield positive results. We chose to step away from the position at this time given these concerns.

Market Outlook

Markets have rebounded over the last several weeks as investors anticipate peaking inflationary pressures and the potential for the Fed to pivot on monetary policy. The outlook for moderating inflationary pressures coincides with weakening of various economic growth measures and data. At their meeting in late July, the Fed reiterated their resoluteness in returning inflation back to the 2.0% target rate even at the risk of a recession. We believe the market has digested the most aggressive phase of tightening monetary policy and is in a bottoming phase. However, we anticipate further deterioration in economic data which we expect to contribute to rising volatility and dispersion among stocks.

Through the Q2 earnings season, most companies have reported inline to better-than-expected sales and profits. Most companies have noted the challenging macro backdrop, and have adjusted their sales outlooks, along with offering plans, to pull operating levers that could preserve their earnings power as/should conditions further weaken. Sentiment into earnings was decidedly negative so investors have been encouraged by corporations' execution amid the uncertainty and modest actions taken to date.

We believe we are still in the early phases of a negative earnings revision cycle, which is likely to persist over the next several months. Relative to prior recessions, we anticipate a relatively average earnings revision cycle as supply/demand conditions roiled by the pandemic, and unprecedented stimulus appear to be well along in self-correcting. That said, we think companies that have built resilient business models, along with cultures of strong execution, can outperform those less prepared as macroeconomic conditions deteriorate.

The market's performance over the last few weeks has been led by growth stocks, with value and defensive segments underperforming on a relative basis. Looking ahead, we continue to expect growth to outperform value amid moderating economic growth. We believe the market will continue to favour those companies with more durable sales/earnings growth outlooks as well as strong balance sheets. As such, we have consolidated the portfolio over the past several months into holdings that align with our expectations. Additionally, we have selectively added to some cyclical, commodity-sensitive holdings where we believe structural supply constraints are underappreciated by the market. In this environment, we believe individual company execution and, therefore, stock selection will be most critical.

While we navigate through this volatility, we remain focused on investing in companies driving innovation and change. Concerns regarding interest rate policy, inflationary pressures, and a host of other macro uncertainties have contributed to the market's year-to-date swoon. The market reaction to these concerns is understandable. However, as we look at the ascendency of some of the largest companies in the world over the past 25+ years, we believe the single largest driver of their success has been their ability to innovate. We remain encouraged that the pace of technological innovation continues to advance at an accelerating pace driven by the adoption of AI. As such, our focus remains on identifying the companies across sectors we believe can leverage the ongoing innovation cycle to drive long-term shareholder value.

AI infrastructure outlook

We expect healthy demand for the ongoing build-out of AI infrastructure in the coming years. As AI training progresses past the pilot stage, the next phase will be about the new types of processing and storage needed to deploy AI from the cloud to billions of edge devices. We continue to believe the global rollout of 5G will accelerate going forward, and the resulting higher bandwidth will enable the collection of more data from billions of mobile and Internet of Things (IoT) devices. Within AI Infrastructure, we maintain a constructive view on the semiconductor space over the longer term, despite the near-term down-cycle pressures. Looking forward over the next few years, we believe demand in many end markets will remain attractive and drive broad growth across the semiconductor industry.

AI applications outlook

We are seeing AI get embedded into an increasing number of software applications and systems to help make more intelligent decisions. AI is helping to drive higher levels of automation, better recommendations, faster decision-making, and significant cost savings. As AI continues to advance, we expect software and apps to offer even more personalised services, made possible through an increased understanding of user behaviour and search patterns, allowing companies to deliver more human-centric experiences in real-time. Smart assistants will begin to move from passive to proactive interactions by anticipating the user's needs rather than simply waiting for instructions. AI and machine learning will continue to automate mundane tasks and complicated analyses to free up employees to focus more time and attention on creative and strategic tasks. The recent introduction of quantum cloud computing could lead to significant breakthroughs in AI and machine learning in the coming years as researchers design new algorithms to exploit the exponentially faster computing power. We are just beginning to see AI become a part of more applications, which could potentially create an even bigger market opportunity than past IT transformation eras.

AI-enabled industries outlook

We are seeing more companies begin to leverage AI to drive innovation. Many of our portfolio holdings in the Automotive, Consumer, Health Care, and Finance sectors are already seeing the early benefits from AI, which is allowing them to introduce unique products and services enabling them to outperform their industry peers. We expect to see more industries roll out AI projects across more of their operations to accelerate their digital transformation. We believe companies will continue to adopt AI technologies such as facial recognition for identification and fraud detection, autonomous vehicles and robots for transportation and logistics, robotic process automation (RPA) and virtual digital workers to automate repetitive office tasks, predictive maintenance powered by IoT to minimise maintenance costs and equipment down time, and augmented and virtual reality (AR/VR) to create engaging experiences and entertainment.

Overall, we continue to believe we are at the very early stages of massive disruptive change brought about by advancement in AI and its deployment. We believe that these changes will drive meaningful growth for companies that are able to take advantage and drive disruption within their respective industries. While it is expected at times that markets may question the underpinnings of this growth, we believe the compounding effect from AI disruption will create long-term shareholder value. We believe that stockpicking will be imperative to capturing the benefits of this opportunity, especially in an environment characterised by disruption and change.

For Allianz Life Oriental Income Fund:

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

Market Review

On balance, equity markets in Asia advanced modestly over July, boosted by hopes that slowing global growth would reduce inflationary pressures and lessen the need for aggressive rate rises. Most markets in the region rallied. However, overall regional returns were dampened by declines in China where equity performance was impacted by concerns on the strength and sustainability of the economic recovery. China's gross domestic product (GDP) grew 0.4% year-on-year in Q2, well below forecasts and compared to a year-on-year expansion of 4.8% in Q1.

Elsewhere, Korea was one of the strongest markets, helped by a rebound in Tech stocks. Taiwan also posted solid gains, despite a resurgence in COVID cases which caused disruption to supply chains. ASEAN markets also gained with Singapore leading the rally. Sentiment in Japan was lifted by the Bank of Japan's (BoJ's) confirmed commitment to ultra-low interest rates. In addition, Japan's ruling Liberal Democratic Party increased its share of seats in the nation's upper house election, boosting hopes of policy continuity with the focus likely to remain on lifting economic growth.

Market Outlook

The Fund outperformed the benchmark during the month. The main contributor was positive stock selection in China/Hong Kong. As well as portfolio holdings performing well, relative performance also benefitted from not holding the large China internet platforms.

At a single stock level, a top contributor was Lasertec, a Japanese technology company which provides inspection machines for semiconductor and flat panel production. The company has a specific technology niche and a dominant market position focused on mask inspection machines. The stock had been weak in H1 in line with other companies in the semiconductor value chain. We continue to have a high conviction view on the company's long-term outlook and added further to our holding over the last month.

Conversely, a detractor was Akeso, a China biotech company specialising in oncology drug development. There was no stock-specific news. We view the recent pullback as a period of consolidation after strong performance in Q2. Akeso has a strong pipeline of oncology-related products and with the company entering into commercialisation phase, the investment thesis has also been somewhat de-risked.

Portfolio activity last month was focused on adding to stocks which have been, in our view, unfairly punished in the market weakness. For example, we added to shipping names where we believe leverage to improving freight rates is underappreciated. We continue to have an overweight allocation to the Technology sector but have become more selective in our approach. As well as Lasertec, for example, we also added to Alchip Technologies, a semiconductor design house which makes application-specific chips used mainly in high-performance computing and data centres.

From a geography perspective, the portfolio is overweight in Taiwan – albeit at a lower level compared to earlier in the year – with underweight exposures in Japan and India. From a sector perspective, other than Technology, the portfolio is also overweight in Energy, Industrials and Health Care, balanced by limited holdings in Financials and Communication Services.

Notwithstanding the challenging macro environment, our base case scenario is to be cautiously optimistic on the market outlook. In particular, although China GDP growth this year will very likely fall short of the target of "around 5.5%", nonetheless there should be an economic rebound in H2. While the US Federal Reserve and most other central banks are focused on combatting inflationary pressures – and, in doing so, taking action which will dampen economic activity – in contrast, China's policy stance remains accommodative. This should create a more supportive environment for equities, especially with valuations below longer-term average levels.

We remain relatively cautious on the near-term outlook in Japan. The deteriorating outlook for the global economy combined with the higher rate environment remains a headwind. And higher commodity and energy prices will increase costs and squeeze margins, especially for downstream manufacturers. Having said that, the weaker Japanese yen clearly makes certain companies and sectors more competitive relative to global peers. Elsewhere, we believe that the pullback in regional Asian markets has resulted in a number of stocks coming back to attractive valuation levels.

For Allianz Life Total Return Asian Equity Fund:

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

Market Review

On balance, equity markets in Asia advanced modestly over July, boosted by hopes that slowing global growth would reduce inflationary pressures and lessen the need for aggressive rate rises. Most markets in the region rallied. However, overall regional returns were dampened by declines in China where equity performance was impacted by concerns on the strength and sustainability of the economic recovery. China's gross domestic product (GDP) grew 0.4% year-on-year in Q2, well below forecasts and compared to a year-on-year expansion of 4.8% in Q1.

Elsewhere, Korea was one of the strongest markets, helped by a rebound in Technology stocks. Taiwan also posted solid gains, despite a resurgence in COVID cases which caused disruptions to supply chains. ASEAN markets also gained with Singapore leading the rally. The Monetary Authority of Singapore (MAS) unexpectedly tightened monetary policy in July, its second surprise move this year, as inflation climbed to 6.7% in June, its highest level since 2008.

The Fund lagged the benchmark during the month. The key factor was security selection in China where Property and Financials stocks detracted.

Indeed, at a single stock level, the top detractor over the month was a Chinese property company. The stock was impacted by the broader crisis of confidence in the China housing market. Prospective property purchasers have turned more cautious towards buying from private developers. As a result, this is likely to lead to more cashflow pressure for property companies. Given the deteriorating environment, we significantly reduced the position size of the holding.

Conversely, the top contributor was HDFC Bank. The company reported a good set of results during the month, demonstrating ongoing loan growth and continued strong management of asset quality. With a high level of capital and underlying profitability, we view this as an exceptionally well managed bank. In addition, we see the merger with mortgage lender HDFC Ltd, announced in early April, as an opportunity to increase exposure to the fast-growing housing segment as well as providing cross-sell opportunities.

Portfolio activity was limited in July. We selectively added to China stocks where we see potential for growth recovery. This includes a leading online travel agency. Although the timing of China's opening-up is uncertain, we see significant pent-up consumer demand and have positioned the portfolio to benefit when this comes through. Conversely, we reduced exposure to China Real Estate and Financials. It would not be surprising if a degree of "national service" is required from stronger financial institutions to help absorb losses in China's smaller banks given the extended period of economic weakness.

At the end of the month, from a geographical perspective, the portfolio has an overweight position in Southeast Asia. The largest relative position is in Singapore where we have positions in stocks with potential for positive cash flow generation and which should be resilient in the challenging macro environment. At a sector level, the Fund is overweight Financials, Consumer Staples and Energy, whilst being underweight Industrials and Utilities.

Market Outlook

We remain in extremely uncertain times with low visibility around future economic and geopolitical developments globally. However, notwithstanding the challenging macro environment, our base case scenario is to be cautiously optimistic on the market outlook.

In particular, although China GDP growth this year will very likely fall short of the target of "around 5.5%", there should be an economic rebound in H2. While the US Federal Reserve (Fed), and most other central banks, are focused on combatting inflationary pressures – and, in doing so, taking action which will dampen economic activity – in contrast, China's policy stance remains accommodative. This should create a more supportive environment for equities, especially with valuations below longer-term average levels.

Elsewhere, we also believe that the sharp pullback in regional Asian markets has resulted in a number of stocks coming back to attractive levels.

For Allianz Life Global Income Fund:

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

Market Review

Risk assets and investment grade bonds rebounded in July with the US Federal Reserve (Fed) raising its benchmark policy rate by 75 basis points (bps) for a second consecutive month to a target rate of 2.25% to 2.50%. Markets also digested a slew of Q2 financial reports, and thus far, results and outlooks have been mixed. Some high-profile technology, consumer and communications companies delivered reassuring results, indicating firms were operating better than feared in spite of a strong dollar, weakening macro data points and a softening advertising market, among other headwinds. On the other hand, many big box retailers remain challenged by rising inventories and costs, slowing demand and shifting sales. Against this backdrop, the yield curve (2s10s) inverted with the long end falling sharply on concerns that tighter monetary policy would stifle growth.* Reports of slower home sales, subdued consumer sentiment and economic contraction supported this narrative, whereas continued labour market strength, consumer balance sheets and consumption conflicted it.

In this environment, global equity markets, as measured by the MSCI World Index, returned +7.94%^ with US stocks outperforming their non-US developed counterparts. Global convertible securities and high-yield bonds also advanced while new issuance remained negligible. Global fixed income, as measured by the Bloomberg Global Aggregate Index, returned +2.13% with US exposure besting non-US.**

The portfolio rebounded in July, participating in the strength across risk assets and investment grade credit with nearly all holdings positively contributing to performance in the period. Technology exposure, including semiconductor, cybersecurity and financial technology, was a source of strength. Apple (technology hardware) surpassed top-line and bottom-line projections and Microsoft (software) provided better-than-expected sales guidance. Shares of Wells Fargo (banking) rose after reporting rising net investment income and loan volume. The portfolio also benefitted from gains in Alphabet (internet services), which exceeded advertising sales estimates, and Amazon (ecommerce), which topped sales expectations. Lastly, Canadian National Railway (freight), profiting from record revenues, advanced alongside a waste management company.

A limited number of holdings settled lower for the month and their combined impact on performance was negligible. Notable individual detractors were concentrated in non-US markets with exposure to airline operations, retail banking and ecommerce.

Allocations to Technology and Materials increased due to new purchases in the semiconductor and chemical industries, respectively. Allocations to Financials, Health Care, Consumer Discretionary, Industrials and Energy decreased.

Market Outlook

The market outlook remains uncertain given a number of ongoing concerns: US recession, slowing earnings momentum, aggressive monetary policy tightening, an inverted yield curve and elevated inflation. We address each risk below.

Economy: The US entered a recession in H1. Continued labour market strength, steady consumption and stable consumer balance sheets favour a resumption of growth over the remainder of 2022.

Earnings: Revenues and earnings results are expected to be mixed, impacted by slower demand, currency headwinds, changing consumer habits and the Ukraine crisis. Margin pressures and inventory build-up could also hamper earnings growth. Corporate pricing power and operating leverage are potential offsetting factors.

Fed: Additional hikes are expected given elevated inflation measures. Low unemployment supports this view. However, a slower pace of tightening and/or shorter hike cycle may be appropriate if inflation slows and economic indicators soften further.

Yield curve: The yield curve (2s10s) inverted in July with a higher short end reflecting needed monetary policy tightening to curb inflation.* After peaking near 3.48% in mid-June, the 10-year US Treasury yield declined to 2.64% at the end of July on lower inflation expectations.*

Inflation: Inflation expectations, such as the 5-year breakeven rate, have fallen. Commodity price weakness, price discounting, normalising supply chains and rising financing costs should reduce inflation pressures. Prices for services however could be stickier due to a shift in consumer spending. In the near term, markets will be focused on the slope of inflation's descent.

Against this backdrop, risk assets sold off sharply in H1. The S&P 500 Index fell more than 20% from peak to trough#, and convertible securities and high-yield bonds finished H1 lower at -20% and -14%, respectively.* Weakness was not isolated to just risk assets, however. Safe haven investments such as investment grade credit and 10-year US Treasuries had one of their worst starts to a year, falling -14% and -11%, respectively, for the same period.*

While caution may still be warranted, there are several constructive factors worth highlighting. First, examining the past four rate hike cycles, the S&P 500 Index gained +15.3% on average from initial hike to last hike. Second, equity valuations have improved. The S&P 500's forward price-to-earnings multiple fell more than 5 turns to 15.8x in June from 21.4x in December, undercutting its long-term average of 16.4x (since September 1995), and price-to-free cash flow multiple (LTM) fell further below its long-term average. Lastly, corporate liquidity could lead to shareholder friendly activities such as stock buybacks and increased dividends. Corporations could also use liquidity to spur organic growth or for mergers and acquisitions (M&A) purposes to boost future sales and profits. Any one of these observations including emerging signs of peak Fed hawkishness and a more stable interest rate environment could help equities find a bottom in the future.

Convertible securities should continue to provide benefits to investors, including an attractive asymmetric return profile and a low correlation to core fixed income. Today, the asset class exhibits more defensive characteristics given the market's lower delta and closer proximity to the bond floor. This dynamic should allow for greater downside protection if equity volatility persists. If underlying equities strengthen from here, convertible securities are positioned to participate in the upside.

Credit's risk/reward opportunity is compelling after a historic start to the year. In addition to a favourable technical backdrop (due to a less active primary market following record new issuance in 2020 and 2021), high-yield credit statistics and fundamentals are healthy, near-term refinancing obligations remain very low and managements continue to prioritise debt reduction. With respect to high-grade corporates, rising interest rates remain a key risk. That said, the investment opportunity has improved on the back of sharply higher yields coupled with a positive fundamental outlook. Both markets trade at a deep discount to face value, offering attractive total return potential and higher spreads that compensate for noted risks.

All data are sourced from Allianz Global Investors dated 31 July 2022 unless otherwise stated.
* Source: BofA Merrill Lynch, as at 31 July 2022
^ Source: MSCI, as at 31 July 2022
** Source: Bloomberg, as at 31 July 2022
# Source: FactSet, as at 31 July 2022

For Allianz Life Thematica Fund:

Target Fund Manager's Comment (For Allianz Thematica)

Market Review

Global equities rebounded strongly over July, posting their best monthly gains since late 2020. Slowing economic growth raised hopes that inflation would moderate, meaning interest rate hikes would be less aggressive than had been feared. In general, developed market stocks outperformed emerging market stocks. Climate change fears were reinforced when the northern hemisphere was hit by an intense heatwave. Europe, in particular, faces a difficult outlook, as attempts to build up gas storage levels ahead of winter were dashed when Russia slashed gas supply through its Nord Stream 1 pipeline to just 20% of capacity. Both Germany and Japan are reportedly considering reversing decisions to shut nuclear power stations. Global bonds rallied strongly over July as growing recessionary fears caused investors to dial back their interest rate expectations.

Central banks continued to tighten monetary policy to combat accelerating inflation. The European Central Bank (ECB) raised rates by 50 basis points (bps) to zero, ending eight years of negative borrowing costs. The US Federal Reserve (Fed) hiked rates by 75 bps, taking them to a range of 2.25% to 2.5%. Japan and China remained the sole bastions of easy monetary policy. The US dollar remained strong for much of the month but weakened towards month-end as weaker-than-expected US economic data caused a reassessment of the Fed's tightening path. As a result, the Japanese yen staged a late-month rally. In contrast, the euro fell against most major currencies, touching parity with the US dollar for the first time since 2002. Commodities remained under downward pressure, although gas prices surged, particularly in Europe where Russia further reduced supply.

Market Outlook

The Fund outpaced the performance of the MSCI AC World index over July. The theme selection created a positive outcome while stock selection also contributed well. From a theme perspective, Next Generation Energy and Clean Water and Land benefitted most after President Biden's "build back better" programme passed the Senate. This programme is heavily linked to renewing the US water system and fastening the transformation to renewable energy. The themes Intelligent Machines and Digital Life also benefitted from the risk-on trade which created a favourable environment for risky assets. Health Technology and Pet Economy slightly lagged. The Infrastructure theme, which remains the strongest contributor year-to-date, came under pressure as rising recession fears led to setbacks in basic material prices, which in turn harmed the producer companies held in the theme.

The Next Generation Energy theme is back to being the largest theme exposure in the portfolio. Record droughts throughout Europe, flooding in Australia, record-high temperatures in India in April, and burning woods all over the world are precursors that global climate is changing dramatically, showing us the consequences of global warming. Climate change and its associated risks to economic growth and environmental damage create a major concern for our economic welfare. Scientists warn that time is running out to contain greenhouse gas emissions and prevent disastrous global warming. All these occur in times when the world is confronted with record-high energy prices and energy scarcity in several regions of the world. These all are evidence that it is high time to shape the transformation of the energy system with commitment, determination – and not least with the help of sustainable energy generation, innovative storage solutions and more sustainable consumption. To accelerate the clean energy transition, more investments in innovative solutions are needed, in parallel to the capital required to develop new frontier technologies that will reach marketability and help ensure a smooth transition to create a more sustainable future. There is broad consensus that to reach the maximum warming target of 1.5°C, the redirection of financial flows towards more sustainable investments need to gather even more momentum.

The good news is that investments in renewable energy have already been growing rapidly worldwide. With programmes such as the European Commission's REPowerEU Plan, the recently passed Inflation Reduction Act in the US that according to US President Joe Biden "makes the largest investment ever in combatting the existential crisis of climate change", these investments will grow even further. As diverse as the pathways to support energy transition are along the entire value-chain, there are equally numerous possibilities to invest in enablers and beneficiaries of the energy transition process, to participate in the growth prospects arising from changing energy consumption patterns, and the resulting new demand dynamics. We look at companies that provide solutions to cleaner energy generation, efficient energy storage and sustainable energy consumption along the value chain.

For Allianz Life Elite Income Fund:

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

Market Review

Markets rebounded across the board in July, with the MSCI World up +7.86% and the US 10-year Treasury yield rallying 36bps, as investor sentiment improved after one of the most trying first halves of a year on record for most financial assets. Positive financial asset returns were largely driven by the prospect of a slower pace of monetary policy tightening from leading central banks, as economic data weakened and some inflation drivers slowed.

In the US, softer data led to markets pricing a less hawkish policy path from the Federal Reserve, with Q2 GDP coming in at -0.9%, the second quarter in negative territory. Fed Chair Powell recognized the weakening of economic data, but affirmed that combatting inflation remained a priority. In this spirit, the Fed delivered a second +75bps rate hike. The ECB hiking cycle commenced, with a larger than expected +50bps move seeing the ECB exit its negative interest rate policy that had been in place since 2014. The ECB also launched the Transmission Protection Instrument, its new bond purchase scheme aimed at preventing financial fragmentation within the Eurozone. Both the Fed and ECB signaled they would take a data-driven meeting-by meeting approach, declining to provide forward guidance.

In commodities, a deal reached between Russia and Ukraine to allow grain shipments to resume from Ukraine's Black Sea portshelped the Bloomberg Grains Index fall -3.06%. Oil also saw a pullback with WTI crude down -4.35% and Brent -1.53%, encouraging hopes of an easing in inflation. However, European natural gas was hit by major supply constraints, with the Nord Stream 1 pipeline operating at just 20% of capacity. This led to European nations agreeing to a deal on gas usage cuts.

Expectations for less aggressive monetary policy tightening helped rates markets recover some ground, while an anticipated growth slowdown saw curves flatten. On the month, 2Y US, UK and German yields fell -7bps, -14bps and -37bps to 2.88%, 1.70% and 0.26%, respectively. 10Y US, UK and German yields fell -36bps, -37bps and -52bps to 2.65%, 1.86% and 0.81%, respectively.

Improved sentiment was reflected in corporate credit markets as high yield credit outperformed investment grade, with USD and EUR high yield spreads -100bps and -58bps tighter, respectively, while USD and EUR investment grade spreads tightened by -11bps and -31bps, respectively.