Market Review and Outlook

November 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

Arising from expectations of easing global inflation momentum, both equity and fixed income asset classes enjoyed good runs in November 2022. Equities as an asset class continued to ride on its uptrend with the MSCI World Index surging +6.8% mom in November 2022. The Dow Jones Index rose by +5.7% mom despite the Federal Reserve raising the Fed Fund Rate by 0.75 ppt to 4.0%. This positive market sentiment was brought about by the easing of October 2022 US inflation which was +7.7% yoy and below consensus expectation. In fact, it was inflation that had been propelling the rapid response in tightening monetary policies. Thus, the easing of its momentum could suggest that global inflation might have peaked and that the global rate hike impetus might therefore soon peter out. However, it should be noted that a November 2022 preliminary reading of the S&P Global US Composite Purchasing Managers Index (PMI) was still contractionary at 48.0. In Europe, the Stoxx 50 Index rocketed +9.6% mom even though the Euro Area Monetary Union Index of Consumer Prices (MUICP) was still high at +10.0% yoy during the month under review. However, as it showed a slight 0.6 ppt mom reduction, it could suggest that inflationary pressures might be easing. Apart from that, the S&P Global Eurozone Composite PMI had an October reading of 47.3 which, while still contractionary, was ahead of consensus expectations. Similarly, China's Shanghai Composite Index also ballooned +8.9% mom as policymakers eased some of their zero – Covid policy control measures towards the end of the month which included shortening the required quarantine periods. Such move had sparked hopes of future easing of Covid control measures which would herald a more complete reopening of its economy. That said, China's economy did not fare so well in November as evinced by its Composite PMI which fell to 47.1 from 49.0 a month ago. To maintain economic growth, the People's Bank of China (PBOC) kept its 1 – year and 5 – year Loan Prime Rates at 3.65% and 4.30% respectively. In addition, the PBOC had also decided to cut the Required Reserve Ratio (RRR) by 0.25 ppt from 5 December 2022 onwards to grant greater support to the real economy. Furthermore, the PBOC and the China Banking and Insurance Regulatory Commission (CBIRC) issued a 16 – step guideline which encouraged commercial banks to provide more financing support to shore up the country's real estate sector.

During the month under review, Brent crude oil price fell 9.9% mom to USD85.43/ bbl due to demand concerns as China imposed a new series of Covid lockdowns amidst fears of continuing conflict in Ukraine and slowing global economy. On the other hand, crude palm oil (CPO) price edged up +3.4% mom on the back of higher soybean prices which were buoyed by anticipation of higher blending quotas under US Environmental Protection Agency (EPA) guidelines.

The ASEAN equity market largely mirrored its developed peers and enjoyed similar trajectories. Singapore's Straits Times Index raced up by +6.4% mom predicated on expectations that inflation was near peaking and that rate hikes would moderate in the future. This helped to mask some negative economic data such as its October 2022 Non – Oil Domestic Exports (NODX) crashing by 5.60% yoy, which underperformed consensus expectations and also measured poorly against its previous month's growth of +3.10% yoy. That said, its October 2022 headline inflation did ease to +6.70% yoy which was not as bad as its September's +7.50% yoy reading and was also better than consensus expectations. The Malaysian FBMKLCI leapt by +1.9% mom with the resolution of the 15th General Election (GE15) and improving global market sentiments. From an economic standpoint, Malaysia enjoyed a series of positive economic data with 3Q22 GDP growth at +14.20% yoy and September 2022 Industrial Production growing at +10.80% yoy, which were both ahead of consensus expectations. In addition, October 2022 Consumer Price Index (CPI) grew by +4.00% yoy which was an improvement over the +4.50% yoy reading for September 2022. The continued positive growth prospects for the Malaysian economy, coupled with the balance of risk to the inflation outlook in 2023 being tilted to the upside, Bank Negara Malaysia's (BNM) Monetary Policy Committee (MPC) increased the Overnight Policy Rate (OPR) for the fourth time in 2022 by 0.25 ppt to 2.75%. Combined with the removal of political uncertainty after the conclusion of GE15, the Ringgit strengthened to RM4.4460: USD1.00 in November 2022 from RM4.7280: USD1.00 in October 2022. Nevertheless, foreign net equity outflow of RM281.2m continued during the month, bringing the YTD total to a net inflow of RM5.5b. In Thailand, the Stock Exchange of Thailand inched up +1.7% mom due to several positive developments such as lessened concerns over interest rate hikes, a recovery in 3Q22 corporate earnings, improving tourist arrivals and lower Covid – 19 infection cases. It reported 3Q22 GDP growth of +4.50% yoy which was +2.00 ppt qoq and in – line with consensus expectations. On the other hand, the Jakarta Composite Index fell by 0.2% mom as Bank Indonesia (BI) raised its key interest rate for the third consecutive time by 0.50 ppt to 5.25%, as it sought to curtail inflation while supporting its Rupiah. Indonesia's October 2022 CPI was +5.71% yoy and BI, in its Annual Budget Plan, had unveiled its target to lower CPI to +3.61% yoy in 2023. Other than that, Indonesia's 3Q22 GDP chalked a growth of +5.72% yoy which was slightly ahead of consensus expectation and may encourage BI to continue its monetary policy tightening course.

On the fixed income front, as mentioned above, the Fed approved a 75bps hike in the November meeting for the 4th straight time to 3.75% – 4.00% range. Federal Reserve officials postured that the central bank should soon moderate the pace of interest – rate increases, suggesting they were leaning toward a reduced 50bps hike in December. The November post – meeting statement from the Federal Open Market Committee (FOMC) read, "In determining the pace of future increases in the target range, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments." The minutes noted that the ultimate terminal rate is probably higher than officials had previously thought. On 30 November, Powell cemented expectations that the Federal Reserve would step down from its aggressive pace of tightening in December and presented a case for achieving lower inflation without tipping the economy into a deep recession. The USD pulled back after a fresh batch of economic data showed business activity in the US continued to contract and unemployment applications rose more than expected. The weaker than expected CPI, both headline and core, pushed back Fed rate hike expectations and prompted a rally in US Treasury (UST) yields. The UST yield curve shifted lower by 39 – 49bps mom as the 2yrs UST fell 39bps to 4.05% and the 10yrs UST fell 44bps to 3.61%.

Malaysian Government Securities (MGS) yields initially came under pressure in thin trading volume in the wake of GE15 – related impasse as investors awaited greater clarity on the political front. However, as the dust settled with the announcement of the 10th Prime Minister on 23 November, positive risk sentiments picked – up from onshore and offshore investors with a rally seen in both equity and bonds space. Yield movements were mostly lower by 19 – 42bps mom in a flattening bias except for the 3yrs MGS which rose 2bps to 3.81%. The 10yrs MGS declined 27bps to 4.10%. Meanwhile, as shown above, the MYR strengthened against the USD as the USD came under pressure due to softer than expected October US CPI followed by weaker PPI, while the MYR also strengthened following the successful appointment of the new Prime Minister. To recap, BNM raised the OPR by 25bps to 2.75% in November MPC which is the fourth consecutive 25bps hike this year and a year – to – date increase of 100bps to control inflationary pressure.

Foreign funds net sold Ringgit bond holdings with net outflows of RM1.0b (October: -RM6.3b), bringing YTD outflows to RM8.9b. Foreign share of MGS declined marginally to 34.4% (October: 34.8%) while foreign share of MGS+MGII remained unchanged at 22.3% (October: 22.3%). Malaysia's foreign reserves expanded by USD4.5b to USD109.7b as of end-November 2022 (October: USD105.2b), which is the first monthly increase since July 2022.

Market Outlook

On the global scene, investors would be keenly monitoring the Fed's upcoming FOMC meeting on 15 December 2022 for any perceived signs that its pace of monetary policy tightening could be reined in. They would also be keeping watch on global inflation levels, commodity prices, potential Covid – 19 related disruptions and geopolitical tension in Ukraine. Locally, investors would be keeping vigil over the stability of the newly formed Unity government especially on the upcoming vote of confidence to be tabled in the upcoming Parliamentary sitting on 19 December 2022. The potential signing of a coalition agreement amongst the parties of the Unity government may somewhat mitigate that risk.

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. In the near term, we would await the policy direction and Budget 2023 from our new Unity government. As always, we may engage in a modicum of trading activity to capitalize on any market volatility.

Bond yields will remain volatile in tandem with the UST yield movements, but we expect the local risk sentiments to improve post-GE15. In US, rates will likely reach a "somewhat higher" level than officials estimated in September 2022, when the median projection was for 4.6% next year. Although the moderation of the pace of rate increases may come as soon as the December FOMC meeting, Fed Chairman Powell stated that the timing of that moderation was far less significant than the questions of how much further the Fed would need to raise rates to control inflation, and the length of time it would be necessary to hold policy at a restrictive level. On the other hand, BNM has maintained its assessment that the current monetary policy stance is accommodative and supportive of economic growth. They have added that the MPC is not on any pre-set course and any rate hike would be done at a measured and gradual pace.

We are of the view that the risk – reward of MGS has improved with the local yields market priced for BNM normalization. Still, we are also mindful of the bond market volatility arising from both external and internal fronts, which would impact local yields. We would however 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?

- In a strong market rebound, the Fund could perform better than global equity markets as well as the customised benchmark.

What hurt?

- Most defensive stocks with stable dividend characteristics lagged in a rebound driven by cyclicals sectors.

Market Review and Outlook

Global equities closed November sharply higher, recording their first back-to-back monthly gains since mid-2021, as signs that inflationary pressures may be lessening sparked hopes that central banks may become less aggressive in raising rates. Sentiment was also lifted by speculation that China may start to ease its strict zero-COVID policy. In general, emerging markets outperformed developed markets.

US stocks moved higher over November, ending the month on a strong note as US Federal Reserve (Fed) Chair Jerome Powell suggested it may be appropriate to slow the pace of US rate rises. The broad-based S&P 500 Index outperformed the tech-heavy Nasdaq Index as value shares outpaced growth-oriented companies. The US mid-term elections failed to deliver the anticipated red wave of Republican wins: while the Republicans regained control of the House of Representatives by a narrow margin, the Democrats retained control of the Senate. Former President Donald Trump announced he would be running in the 2024 presidential elections, despite a disappointing performance from many of the candidates he had backed.

November was another strong month for European equities. The FTSEurofirst 300 Index closed the month at a six-month high as sentiment was lifted by hopes that central banks would be less aggressive in raising rates. Speculation that China may be easing its strict zero-COVID policy also boosted stocks.

For Allianz Life Asia Multi-IncomePLUS Fund:

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

Market Review

Asian equity markets rebounded sharply in November as growing hopes that China would ease its zero-COVID policy boosted markets across the region. Markets were also lifted by signs that inflationary pressures may be diminishing.

China equities recovered in November, reversing the trend of previous months. Offshore equities were particularly strong with the MSCI China Index rising by almost 30% in November. While there has been much comment on issues such as the outcome of the Party Congress and social unrest in response to the prolonged lockdowns, China equities have instead reacted to expectations that two of the darkest storm clouds – COVID and property – may at last be showing signs of starting to clear. Elsewhere, Taiwanese shares rebounded as investors piled back into semiconductor stocks. Indian equities also rose, closing the month at a record high in local currency terms although the monthly gains lagged those in China. ASEAN markets underperformed the broader region as investors rotated out of Southeast Asia and into China, Taiwan and South Korea. The Philippines and Singapore posted solid gains, but Malaysia, Thailand and Indonesia were laggards.

The Asian USD high yield credit market, as represented by the JP Morgan JACI Non-Investment Grade Custom Index, rose by 17.41% in November. Chinese property bonds in particular, soared after Beijing announced a 16-point plan for boosting the real estate market. Sentiment was further lifted when the securities regulator lifted a ban on share sales, allowing property firms to raise funding in the local market for the first time in several years.

The Fund return was positive in USD terms in November. In contrast to previous months, China and Hong Kong equities led the way with strong returns.

Within the equity sleeve, the top contributor over the month was Trip.com, a leading travel booking platform in China. The stock rallied on reopening expectations and announcements of COVID policy relaxation in China. We continue to like Trip.com as a beneficiary of travel resumption and reopening in China and regional Asia.

Conversely, the top detractor was an automotive conglomerate in Indonesia. Investors took profit on the stock over November after a positive set of Q3 results driven by strong sales growth and contract wins in its mining business segment. With a leading market position and diversified business exposure, we view the company as a proxy to economic recovery in Southeast Asia.

The asset allocation at the end of the month was 68.6% invested in Asian equities and 30.8% in Asian fixed income, with the remainder in cash.

In terms of portfolio activity in November, we initiated a position in a retail bank in India leveraging its digital capabilities for market share gain. We exited our position in an acoustic components company in China due to order suspensions of one of its key products.

For the fixed income sleeve, we invest in bonds with the aim of long-term interest accrual. In November, we reduced exposures to two bonds as the issuers repurchased the bonds at attractive levels.

At the end of the month, we held 56 equities and 72 fixed income securities. The equity portfolio yield was 3.2% and the average fixed income coupon was 5.2% with an average credit rating of BB and duration of 2.5 years.

Market Outlook

Interest rate moves continue to be a dominant influence in global markets. In the US, the Federal Reserve (Fed) implemented its fourth successive 75-basis point (75-bp) rate hike in November. However, hopes have grown that future rate increases may be smaller after inflation data in the US and eurozone for November was lower than forecasted.

COVID and property policies, as opposed to interest rates and inflation, remain the key influences on the economy and stock market in China. While there has been much comment on the outcome of the Party Congress and social unrest in response to the prolonged lockdowns, COVID and property may at last be showing signs of starting to clear. On COVID, there has been a steady trickle of news that increasingly suggests, to all intents and purposes, China is on a de facto path towards opening up. On property, Real Estate was the strongest performing sector in the China A-share market last month. The catalyst has been a decisive shift in policy to ease the funding pressures of cash-strapped developers.

Although the macroeconomic backdrop remains challenging, we maintain our base case for recovery within the Asian regional markets. The sharp pullback this year has resulted in a number of stocks coming back to attractive valuations, and the regional Asian market as a whole is trading below longer-term average levels.

On the fixed income side, we expect more loosening measures to be announced by China in the near to medium term, gradually reopening the country and also providing more support to the property sector. The market should see more credit differentiation in the medium term and market valuations as a whole remain reasonable.

For Allianz Life Amanah Dana Ikhlas:

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

Market Review

The Malaysian government bond market started the month of November slightly higher in the short-end following the 25bps OPR hike in early November, while the rest of the curve was little changed. That week also saw the FOMC hike the Fed Fund rate by 75bps as expected. Local sentiment was cautious leading up to the General Elections, with investors staying sidelined. Post-general elections, markets reacted negatively to the hung parliament election results, but the sell-off was reversed after the resolution of the election gridlock with the appointment of Anwar Ibrahim as the new Prime Minister. Govvies' curve bull flattened with yields lower by 1-43bps MoM, with the long-end outperforming the short-end. The somewhat dovish US FOMC minutes, which reaffirmed expectations of slower pace of US Fed Fund Rate hikes going forward, also supported the rally in the local govvies. Meanwhile, corporate bonds mirrored the govvies, with yields lower between 3-14bps MoM.

Global equity markets rallied in November on expectations of an end to an aggressive monetary policy, on the back of easing US CPI as well as helped by China's re-opening hopes. The month had a risk-on mood, the strengthening of currencies and the rotation to laggards. Asian indices broadly outperformed its western counterparts with currencies a key factor as the DXY slid 5.0%. The weaker oil prices perhaps helped narrow the trade deficit on import dependent countries. The Baht was the best performer gaining 8.4% followed by the Ringgit (+6.0% to RM4.4460), Sing dollars (+4.0%) and the Peso (+2.6%). The Rupiah relatively underperformed staying flat (-0.8%). Commodities were mixed during the month. Oil prices fell 9.9% mom to US$85/bbl on concerns of weak macroeconomic data points. On the contrary, metals rallied on the optimism of China's re-opening news, driven by nickel (+23.1%), iron ore (+20.0%), copper (+7.6%) and aluminium (+6.1%). Similarly, precious metals were better following the weaker USD as gold rose 8.3%. CPO were up 4.4% mom to RM4,158/tonnes on expectations of better exports ahead of the Lunar New Year in addition to concerns of falling production.

The KLCI closed higher (+1.9% mom) to 1,489 pts helped by the conclusion of the General Election 15 (GE15) with the appointment of the PM to head a coalition unity government after several days of uncertainty. Market was broadly driven by gains in energy, property, technology and telecommunications. Malaysia was however the only net foreign outflow perhaps partly due to the GE15 of foreign selling US$61m bringing down the year-to-date net foreign buying to US$1.4bn. Thailand, Philippines and Indonesia had net foreign buying of US$847m, US$99m and U$45m respectively.

Market Outlook

As the outlook for Malaysia economy is improving with 2022 GDP is expected to grow between 5.5% - 6.5%, we expect that the local fixed income market to remain resilient despite headwinds from global tightening cycle. The Malaysia economy is expected to surpass government's growth forecast following such strong 3Q2022 GDP data. As a result, the local bond market remained stable after Bank Negara Malaysia (BNM) recently hiked the Overnight Policy Rate (OPR) by another 25bps in November 2022, meeting market consensus of OPR to be at the 2.75% level by end-2022.

The local bond market has priced in fully the additional 25bps hike by year end, judging from the historical yield spread between the OPR vs MGS 10-Year. Therefore, we have seen no knee-jerk reaction post OPR hike and we continue to see local bond market remains steady. It is worth to note that during the recent MGS/GII auctions, a relatively healthy bid to cover ratios have been recorded, confirming that liquidity in the MYR bond market remains ample.

In equities, the rising risk of a recession will likely keep markets volatile. Besides coping with consequences of weak external demand, we will see the rising interest rates affecting companies with exposure to high debt levels. The Fed has reiterated the commitment to bring inflation under control and this raises the risk of recession in the US and Europe, likely in 2023, we believe. While the risk of a systemic debt crisis, in this part of the world, is low in our view and discount rates have somewhat stabilize, the downside risks to corporate earnings estimates and gross domestic product (GDP) in the coming quarters have risen. Indeed, rate expectations are now more priced, but the potential for more persistent inflation and a significant recession is not reflected in valuations yet. For the local market, recent corporate earnings have been within expectations mainly driven by re-opening themes. Equity market performance did had shown a rebound after expectations of less pace of interest rate hikes which put investors in risk-on mode. However, we are still wary on the global macroeconomic risks and the ongoing monetary policy tightening albeit moderating. The heightened risk of recession and corporate earnings risks will be continuing to be headwinds for the local market. Perhaps more importantly, the outcome and political stability will be a key risk moving into 2023. With limited fiscal headroom, there is a risk of negative surprise that would be detrimental to corporate earnings with the introduction of one-off taxes or windfall taxes in the past. All-in-all, we believe market sentiment may stay volatile as markets battle between to price-in the peak interest rate cycle, the global economic slowdown and the improving sentiment on the monetary policy side (or rather the lack of it).

For Malaysian sukuk, we believe our preference for corporate bonds and strong credit selection will continue to protect our portfolio. We will start to look for attractive entry level for govvies for trading opportunities but continue to overweight corporate bonds over sovereign bonds to anchor the Fund's income in corporate bonds' coupons as they are less volatile and provide higher yields to buffer against potential mark-to-market losses in the event of a turnaround in sovereign bond yields. 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 high cash levels, we may look to add into growth-oriented stocks as trading position in this bear-market rally. 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 although 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. Hence, we maintain defensive for now with a balance portfolio structure between defensive, value and growth stocks. We are also holding higher cash levels going into the new year.

For Allianz Life All China Equity Fund:

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

Market Review

The Fund lagged the benchmark in November. Stock selection was the main detractor with some weakness in the Information Technology and Industrials sectors, partially offset by strong performance in Financials stockpicking. In the market recovery, there was significant sector divergence – for example, there was almost a 50% difference between the best performing sector (Real Estate) and the worst performing sector (Information Technology) during the month.

This difference was exacerbated by the latest quarterly reporting season, with a number of stocks being impacted as a result of weak management guidance on the near-term outlook. This guidance was not unexpected given the uncertain macro environment – for the majority of holdings we did not adjust our growth expectations. The share price weakness therefore mainly reflects a further derating of stocks rather than a structural change in fundamentals. This has led to many holdings coming back to attractive levels with price earnings to growth ratio (PEG) well below 1x.

At a single stock level, two holdings in the electric vehicle (EV) space – a manufacturer of high-tech equipment as well as a manufacturer of paper packaging materials and lithium battery isolation film – detracted. Both companies pulled back on concerns of a demand slowdown. During the month, it was also announced that the latter's chairman was part of an anti-corruption investigation. The investigation relates to a small, legacy part of the business and is not related to their core EV operations. As such, we believe the stock has been unfairly punished.

On the other hand, a leading contributor was the Bank of Ningbo. This is a city commercial bank which should benefit from the faster pace of economic development in the Yangtze Delta region. It also has very little exposure to property developers and mortgages. Financials overall were one of the strongest sectors last month following a previous period of weakness.

Market Outlook

China equities recovered in November, reversing the trend of previous months. Offshore equities were particularly strong with the MSCI China Index rising by almost 30% in November.

To borrow a phrase, "it's the economy, stupid" has been the primary market focus. While there has been much comment on issues such as the outcome of the Party Congress and social unrest in response to the prolonged lockdowns, China equities have instead reacted to expectations that two of the darkest storm clouds – COVID and property – may at last be showing signs of starting to clear.

On COVID, there has been a steady trickle of news that increasingly suggests, to all intents and purposes, China is on a de facto path towards opening up. The tone of coverage in China's media has changed – the official wording now refers to "optimisation" of COVID policies, which among other things involves changing the narrative to play down the risks of COVID and playing up the need for vaccination, especially among the elderly. What has been especially notable is how policies are being eased despite COVID cases in China running at their highest levels since the initial outbreak (and above the levels during the peak of the Shanghai lockdown).

Real Estate was the strongest performing sector in the China A-share market last month. The catalyst has been a decisive shift in policy following the Party Congress to ease the funding pressures of cash-strapped developers. The China securities regulator also announced the lifting of a multi-year ban on equity raising by A-shares and Hong Kong-listed H-shares property companies.

We interpret this as more of a risk management exercise, with the main purpose being to facilitate the completion of already pre-sold homes – we still view property as a sector in gradual but structural decline, especially given demographic changes. But nonetheless, by easing the acute financial stress and starting the process of rebuilding confidence (as well as homes), this also removes one of the obstacles to a macro recovery.

In this environment, the Fund is overweight in both the Consumer Discretionary and Consumer Staples sectors, with particular exposure to "opening up" beneficiaries such as China's largest online travel portal as well as the country's premier duty-free store operator. Elsewhere, we trimmed exposure to the EV supply chain, where we see few catalysts for near-term performance, and added selectively to companies that will benefit from improved sentiment towards the property space.

As at the end of the month, the onshore / offshore allocation is close to benchmark with around 49% in China A-shares.

For Allianz Life Global Artificial Intelligence Fund:

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

Market Review

Global equities closed November sharply higher, recording their first back-to-back monthly gains since mid-2021, as signs that inflationary pressures may be lessening sparked hopes that central banks may become less aggressive in raising rates. Sentiment was also lifted by speculations that China may start to ease its strict zero-COVID policy. US stocks ended the month on a strong note as the US Federal Reserve (Fed) chair Jay Powell suggested it may be appropriate to slow the pace of US rate rises. The broad-based S&P 500 Index outperformed the technology-heavy Nasdaq Index as value shares outpaced growth-oriented companies. As widely expected, the Fed implemented its fourth successive 75-basis point (75-bp) rate hike, taking rates to a range of 3.25% to 4.0%. At a sector level, Materials stocks led the market advance, with Industrials also outperforming the broader market. In contrast, Consumer Discretionary companies lagged due in part to weak returns from Tesla. Growth-focused stocks were notable laggards following disappointing results from several high-profile companies.

Information Technology and related stocks underperformed the broader market during the period. At the industry level, semiconductors were among the best performers as a company that designs, develops and markets three dimensional (3D) graphics processors and related software reported revenues above consensus expectations and a semiconductor equipment manufacturer guided for strong long-term growth at its investor day. A mega-cap social media company was also a top performer as investors expect the company's widespread job cuts to help lower expenses. In hardware, a tech giant underperformed following reports of a hiring freeze and cuts in smartphone production due to reduced demand and production disruptions in China. In entertainment, shares of an entertainment and media enterprise company slumped after the company missed revenue expectations but recovered somewhat on news of the return of the well-respected former CEO.

During the period, the Fund in US dollar underperformed the custom benchmark (50% MSCI All Country World Index/50% MSCI World Information Technology Index). It was a challenging period for the strategy, as on a broader allocation basis, stock selection within the Communication Services sector and Software and Services space was a significant detractor, primarily due to weak forward guidance on earnings and reduced growth expectations for these names.

Contributors

Our position in ON Semiconductor Corp. was a top contributor during the period. The company's chip solutions are used in power and data management applications with key end markets being the automotive, industrial and communications segments. The company reported solid quarterly financial results that beat expectations, driven by growth in its core auto and industrial segments. We believe ON is favourably positioned through the cycle with less consumer end-market exposure and a focus on secular growth end markets.

Our position in Microchip Technology was also a top contributor after the company reported quarterly financial results that beat expectations across revenues, earnings and margins. Management raised revenue guidance for the next two quarters in contrast to its peers' more conservative outlooks. Microchip is a global supplier of microcontroller and analog products/solutions that target a broad range of embedded applications across a number of industries. We believe the company is well positioned to benefit from strong secular growth in the automotive and internet of things (IoT) end markets.

Detractors

Our position in ZoomInfo Technologies, which operates a cloud-based platform for sales and marketing teams in the US and internationally, was one of the top detractors. During the period, the company beat on its Q3 earnings but guided down for Q4 due to elongated sales cycles. ZoomInfo and other software companies have been revising down guidance for Q4 and in some cases 2023. We believe the company's unique data assets and workflow solutions that leverage artificial intelligence (AI) from data collection to analytics are more relevant as sales teams digitise their go-to-market motions.

Our position in electric vehicle (EV) maker, Tesla, was also a top detractor. Shares have been under pressure as investors worry that CEO Elon Musk's purchase of and involvement in Twitter continues to be an unwelcome distraction. We believe Tesla can drive continued profit margin improvements as input costs decline, new factories ramp up production and software revenues increase. In our view, 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.

Purchases and Sales

During the period, we exited our position in a company that develops internet applications software as the company has suffered from some execution issues due to the integration of its acquisition of an identity management platform. We also exited our position in a provider of technology and social media services after previously reducing the position due to challenges to its advertising business model. While it has shown strength in user growth and engagement with anti-reflective

(AR) lenses, we believe the company needs to improve monetisation on a more sustained basis for earnings and cash flows to grow.

We initiated a position in a company which designs, manufactures and markets construction, mining and forestry machinery. The company has been investing aggressively in machine learning and automation for years and has used the technology to streamline its own supply chain and logistics network. In addition, it has been increasingly using the technology to help customers and partners operate more efficiently and drive better business outcomes.

Market Outlook

Equity markets finished November with strong gains following a positive October. The major news for the month came with the October US consumer price index (CPI) number coming in below expectations. This was the first positive (lower) sign that inflation has peaked and started to retreat. This was followed up by an October US producer price index (PPI) number that was also lower than expectations. After the lower-than-expected US CPI report, the equity markets saw a surge in performance and the Fund outperformed its benchmark by a meaningful amount over the subsequent two days. However, this was not enough to overcome the weak Fund performance earlier in the month as a handful of portfolio companies gave more conservative guidance for next quarter and shares traded off sharply. The last day of the month saw another surge in equity markets after Fed chairman Powell confirmed that the pace of rising interest rates could slow over the coming meetings. US equity markets responded positively despite Powell re-affirming that the Fed needs to see a string of data points that demonstrate inflation is receding as current inflation levels are still a long way from the 2% target.

The market's reaction was an indication of the degree to which company-specific fundamentals and news are being drowned out by macro-related factors and Fed speak, in our opinion. Even the smallest hint that inflation and rate hikes may be subsiding creates positive equity price momentum. The Fund's outperformance during these types of days gives us some optimism that the portfolio may perform better once the macro picture is clearer and investor focus shifts back to company fundamentals. While the Fed's inflation fight is far from over and a necessary one to ensure long-term economic stability, we believe the Fed's policy of front-loading rate hikes is nearing an end and a pause of rate hikes is likely in 2023. This will shift investor focus on company fundamentals and earnings outlooks, which is where our bottom-up strategy may start to reflect the growth of our portfolio holdings.

However, the economic picture in the US and globally still remains complicated. On the one hand, US employment remains above trend, consumer spending is holding up relatively well, corporate balance sheets remain healthy and supply chain constraints are easing. Commodity prices are mixed depending on the category, but most metal prices have fallen in 2022 and oil prices are closer to pre-Russian/Ukraine crisis levels, providing relief on input prices. Most agriculture products remain elevated for the year though. On the other hand, this very strength and resiliency of the US economy may require the Fed to maintain tighter financial conditions for longer to reduce inflationary pressures.

We believe that the equity market correction is close to running its course and is in the bottoming process given the economic backdrop and the Fed's campaign to fight inflation. While this fight against inflation is necessary to ensure the long-term stability of the economy and corporate profits, the near-term impact is painful for financial assets. With equity valuations now pricing in higher for longer interest rates, the next step is working through slower business conditions and earnings trajectory over the next 12 months. The positive news is that investors have been expecting downward earnings revisions for most of 2022 in growth stocks, but we may still have several more quarters to go. This negative earnings revision cycle will likely result in more short-term volatility over the coming months but is a necessary step to build the foundation for sustained recovery and growth.

AI infrastructure outlook

Over the long term, we expect healthy demand for the ongoing build-out of AI infrastructure as AI progresses from the pilot stage to mass deployment. For semiconductor companies, Q3 quarterly earnings results were relatively mixed with the outlook for the rest of the year and early 2023 more conservative. As expected, consumer personal computer (PC) demand and gaming activity was weaker given demand was pulled forward due to the pandemic restrictions and stimulus-driven spending. However, semiconductors have broadly been positive quarter-to-date, which may reflect a bottoming out process and better differentiation amongst winners and losers given end market exposure (for example, PC versus automotive versus advanced AI, etc.). Valuations are still at reasonable levels, and we maintain a constructive view on the space over the long term given the many secular growth drivers of cloud, 5G, IoT, edge computing, electric and autonomous vehicles, and leading-edge manufacturing.

AI applications outlook

Entering Q3 earnings season, software had been viewed as an area of "safety" in terms of their Q2 results and outlook relative to other tech-related groups, especially in areas such as cyber and network security, which were viewed as the type of applications companies could not afford to skip. However, as reporting got underway, software companies reported mixed financial results and reductions in their growth outlook, due mostly to macro uncertainty. Of course, there were company-specific fundamental challenges in some cases. The result was what we view as a somewhat extreme reaction, mainly driven by a valuation decrease, due to the reduced outlook for growth, but also extended sales cycles and closing times for deals. The key looking forward is how the macro situation unfolds and if further negative revisions will be needed as we progress through 2023. We believe the long-term fundamentals are intact as these companies are key infrastructure and application areas of the AI ecosystem. Given the moderation in growth, we will continue to assess the near-term impact of the macro situation and the long-term risk/reward profile.

In the longer term, 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 adoption continues to grow, 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. 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.

AI-enabled industries outlook

AI-enabled industries will most likely receive a net boost from the Inflation Reduction Act with renewable energy related names set to be long-term beneficiaries. If we are entering an economic slowdown, AI-related investments in areas such as productivity enhancement and automation, for example, should help companies better navigate the choppy environment. 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.

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 stock-picking 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

Asian equity markets rebounded sharply in November as growing hopes that China would ease its zero-COVID policy boosted markets across the region. Markets were also lifted by signs that inflationary pressures may be diminishing, particularly in the US, with the US dollar falling over the month amid speculations that the US Federal Reserve (Fed) may start to be less aggressive in raising rates.

In this environment, North Asian markets were especially strong, reversing the relative underperformance of previous months. In addition to the policy easing in China, Taiwan and Korea benefitted from improved performance in the technology hardware space. It was also another strong month for Australian stocks, which closed November at the highest level in almost seven months. ASEAN markets generally underperformed the broader region as investors rotated out of Southeast Asia. Japan equities rose modestly, despite a challenging macro backdrop. Japan's economy unexpectedly contracted in Q3 with gross domestic product (GDP) shrinking by an annualised 1.2%, and Q2 earnings results were generally weaker than expected as a result of higher input cost pressures.

The Fund outperformed the benchmark during the month. Stock selection within the Information Technology sector was the primary contributor from a sector standpoint. Materials and Health Care were other top contributing sectors. From a geographical standpoint, Japan, Taiwan and Hong Kong were particularly beneficial after having been detractors last month.

Lasertec Corp in Japan was again a top contributor in November. The company provides inspection machines for semiconductor and flat panel production and has a specific technology niche focused on mask inspection machines where it has a leading global position. The share price recovery was supported by good quarterly results and strong order backlog. It joins Taiwanese semiconductor company Alchip Technologies at the top of the list.

Conversely, Mainfreight, a New Zealand-based company providing freight, warehousing and logistics services, was a top detractor. Despite the recent weakness, we believe this is an exceptionally well-managed business with a highly competitive service and customer-focused culture.

The main change to portfolio positioning in the month was adding to Japan. Weakness in the currency along with select stock ideas where we see unique growth drivers and attractive stock price valuations have led to more conviction ideas in this market.

At the sector level, Information Technology, Energy and Health Care continue to be the main portfolio overweights. In Technology, we have added exposure to memory chipmakers where valuations are now touching trough levels seen in previous down cycles. In Energy, we see higher oil and gas prices resulting in significantly improved cash flows and dividends. We continue to be optimistic on the long-term outlook for the Health Care sector, especially in the biotech space. Although the sector has de-rated due to policy concerns and geopolitical risks, underlying businesses continue to perform well.

From a geographical perspective, the Fund is most overweight in New Zealand and Hong Kong – a by-product of specific stocks owned in these markets. India, Japan, and China are the key underweight markets. We continue to look for opportunities to add to conviction stocks which have been, in our view, unfairly punished in the market volatility and rotation.

Market Outlook

Interest rate moves continue to be a dominant influence in global markets. In the US, the Fed implemented its fourth successive 75-basis point (75-bp) rate hike in November. However, hopes have grown that future rate increases may be smaller after inflation data in the US and eurozone for November was lower than forecasted.

COVID and property policies, as opposed to interest rates and inflation, remain the key influences on the economy and stock market in China. While there has been much comment on the outcome of the Party Congress and social unrest in response to the prolonged lockdowns, COVID and property may at last be showing signs of starting to clear. On COVID, there has been a steady trickle of news that increasingly suggests, to all intents and purposes, China is on a de facto path towards opening up. On property, Real Estate was the strongest performing sector in the China A-share market last month. The catalyst has been a decisive shift in policy to ease the funding pressures of cash-strapped developers.

Although the macroeconomic backdrop remains challenging, we maintain our base case for recovery within the Asian regional markets. The sharp pullback this year has resulted in a number of stocks coming back to attractive valuations, and the regional Asian market as a whole is trading below longer-term average levels.

For Allianz Life Total Return Asian Equity Fund:

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

Market Review

Asian equity markets rebounded sharply in November as growing hopes that China would ease its zero-COVID policy boosted markets across the region. Markets were also lifted by signs that inflationary pressures may be diminishing.

China equities recovered in November, reversing the trend of previous months. Offshore equities were particularly strong with the MSCI China Index rising by almost 30%. While there has been much comment on issues such as the outcome of the Party Congress and social unrest in response to the prolonged lockdowns, China equities have instead reacted to expectations that two of the darkest storm clouds – COVID and property – may at last be showing signs of starting to clear. The tone of coverage in China's media has changed – the official wording now refers to "optimisation" of COVID policies, which among other things involves changing the narrative to play down the risks of COVID and playing up the need for vaccination, especially among the elderly.

Elsewhere, Taiwanese shares rebounded as semiconductor stocks recovered some of the lost ground. Indian equities also rose, closing the month at a record high in local currency terms. ASEAN markets underperformed the broader region as investors rotated out of Southeast Asia. The Philippines and Singapore posted solid gains, but Malaysia, Thailand and Indonesia were laggards.

The Fund outperformed the benchmark in November. In contrast to previous months, North Asian markets led the way with strong returns from China, Taiwan and Korea. The Fund's underweight position in China was offset by good stock selection, and there were other notable relative contributions from India, Taiwan and Singapore stocks.

At a single stock level, a top contributor this month was a Chinese commercial bank. Having previously been very weak in response to the challenging macro environment, the stock benefitted from signals of greater policy easing in China. This remains one of our preferred banks with its strong retail franchise and high levels of return on equity providing differentiation from peers.

Conversely, last month's leader HDFC Bank was a top detractor as it gave up some of its prior gains. HDFC is the leading private sector bank in India, and we continue to view this as an exceptionally well-managed bank. In addition, we see the merger with mortgage lender HDFC Ltd as an opportunity to increase exposure to the fast-growing housing segment, as well as providing cross-sell opportunities.

The main portfolio activity during the month was to reduce exposure to Singapore, typically seen as a more defensive market, and to add to positions in China. Given the changes to zero-COVID and property policies, we see potential for a further recovery in China markets and have added to existing consumer, internet, and financial holdings there. Along with HDFC Bank, heavyweight companies Samsung Electronics and TSMC remain the largest portfolio positions – we see good potential in both stocks as overcapacity in memory chips and semiconductors is worked through in coming months.

Market Outlook

Interest rate moves continue to be a dominant influence in global markets. In the US, the Federal Reserve (Fed) implemented its fourth successive 75-basis point (75-bp) rate hike in November. However, hopes have grown that future rate increases may be smaller after inflation data in the US and eurozone for November was lower than forecasted.

COVID and property policies, as opposed to interest rates and inflation, remain the key influences on the economy and stock market in China. While there has been much comment on the outcome of the Party Congress and social unrest in response to the prolonged lockdowns, COVID and property may at last be showing signs of starting to clear. On COVID, there has been a steady trickle of news that increasingly suggests, to all intents and purposes, China is on a de facto path towards opening up. On property, Real Estate was the strongest performing sector in the China A-share market last month. The catalyst has been a decisive shift in policy to ease the funding pressures of cash-strapped developers.

Although the macroeconomic backdrop remains challenging, we maintain our base case for recovery within the Asian regional markets. The sharp pullback this year has resulted in a number of stocks coming back to attractive valuations, and the regional Asian market as a whole is trading below longer-term average levels. In this environment, the portfolio continues to focus on stocks demonstrating quality and growth characteristics.

For Allianz Life Global Income Fund:

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

Market Review

Risk assets and the bond market rallied sharply on positive news in November. The key event was the October consumer price index (CPI) report, which was softer than expected. Although the November Federal Open Market Committee (FOMC) decision – a fourth consecutive 75 basis points (bps) rate increase – and the post-decision press conference were interpreted as hawkish, the language added to the FOMC statement opened the door for a less hawkish stance in the future. Chair Powell's speech on the last day of the month further supported that view. Together these developments may have reduced the tail risk of a much higher terminal rate in 2023, pressuring the US dollar, Treasury yields, and equity volatility. In addition, consumer spending and the labour market remained resilient, and the Q3 earnings season was better than feared. All these factors boosted investor appetite for both stocks and bonds.

In this environment, global equity markets, as measured by the MSCI World Index, returned +6.95%.^ US stocks underperformed their non-US developed counterparts and all sectors advanced. Global convertible securities and high-yield bonds also gained, both led by non-US issues. Convertible new issuance picked up while high-yield primary market activity remained subdued. Global fixed income, as measured by the Bloomberg Global Aggregate Index, returned +4.71% with non-US exposure outperforming US.**

The portfolio continued to rebound in November, participating in the strength across risk assets and investment grade credit with most holdings positively contributing to performance in the period.

The top individual contributors were balanced between US and non-US issuers. Microsoft (software) outperformed on easing currency headwind fears with the dollar significantly weakening during the month. Semiconductor holdings rebounded after de-rating caused many industry participants to reach compelling longer-term risk-reward levels. An automobile manufacturer (auto manufacturing) continued to outperform, and AstraZeneca's (biopharmaceutical) stock further strengthened after reporting better-than-expected sales. A China-based express delivery company that is gaining market share recovered the prior month's decline. Other contributors included aerospace and insurance companies and a chemical company whose board authorised a new USD 5 billion share repurchase programme.

Top individual detractors included Apple (consumer electronics), which traded lower on concerns linked to China production delays, and an ecommerce company despite record sales over the holiday shopping weekend. Select managed care, pharmaceutical, and distribution positions underperformed within Health Care, and concerns of slower carrier spending weighed on a communications equipment holding. Other laggards were exposed to the entertainment, software, and cable & satellite TV industries.

Netting new purchases and complete sells over the period, Financials, Technology, and Materials exposures increased, whereas Health Care, Consumer Discretionary, and Energy decreased.

Market Outlook

The market outlook remains uncertain given global slowdown concerns, declining earnings momentum, global central bank tightening, inverted yield curves, rising interest rates and elevated inflation. We address each risk below.

Economy: Financial conditions have tightened, and housing, manufacturing and consumer sentiment have weakened. On the other hand, a strong labour market, healthy consumer balance sheets and steady consumption indicate a resumption of gross domestic product (GDP) growth.

Earnings: Revenue growth will largely hinge on pricing power resiliency and any impact from normalising demand, a strong dollar and inventory markdowns. Earnings estimates could fall further as forecasts for slower sales and margin contraction offset gains from operating leverage.

US Federal Reserve (Fed): Terminal rate estimates have moved above 5.0% but the pace of hikes could step down as early as December's Federal Open Market Committee (FOMC) meeting as the Fed begins to factor in the coming effects of 375 basis points (bps) of cumulative rate increases and multiple inverted yield curves.

Yield curve and interest rates: Yield curve inversions (10-year minus 3-month) prior to the last four recessions peaked on average around -50 bps. If this repeats, the 10-year yield could rise further.

Inflation: Inflation's trajectory will largely depend on wages, housing/rents and services, which have been sources of upward pressure. The 1-year breakeven rate and economist forecasts indicate inflation should fall sharply over the next year. After peaking, markets will be focused on inflation's rate of descent and where the measure ultimately settles.

While caution is still warranted, there are several constructive factors worth highlighting. Valuations have improved with the S&P 500's forward price-to-earnings multiple declining to 15.15x (September) compared to its long-term average of 16.37x (since September 1995), and price-to-free cash flow multiple (LTM) falling further below its long-term average. With the fed funds rate quickly approaching the terminal rate, Fed hawkishness will be increasingly constrained. This dynamic could also lead to more subdued US Treasury and the US dollar markets which have been headwinds for equities. 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.

US 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 30 November 2022 unless otherwise stated.
* Source: BofA Merrill Lynch, as at 30 November 2022
^ Source: MSCI, as at 30 November 2022
** Source: Bloomberg, as at 30 November 2022

For Allianz Life Thematica Fund:

Target Fund Manager's Comment (For Allianz Thematica)

Market Review

Global equities had the first streak of back-to-back monthly gains this year with a gradual upward trend punctuated with a sharp rally on the final day of the month. The month-end strength came after a speech from US Federal Reserve (Fed) chair Jerome Powell in which he suggested it may be appropriate to slow the pace of interest rate increases. The more buoyant tone to equities comes after commodities prices, factory gate prices and inflation expectations have all begun to slide from their record levels in recent weeks, suggesting inflationary pressures may start to ease as we move into the new year.

It was a broad-based rally with each GICS sector recording positive returns. At a sector level, Materials stocks led the market advance, with Industrials also outperforming the broader market by a sizeable margin. In contrast, Consumer Discretionary companies lagged. Meanwhile, the Energy sector was held back by falling oil prices. Growth-focused stocks were notable laggards following disappointing results from several high-profile companies and several announcements regarding job cuts in the Technology sector.

Geographically, the China markets stood out for their strong recovery, especially offshore equities. The rally picked up momentum through the month as there were signs of an easing of COVID policies and more support for the property sector, which have both weighed heavily on the macro environment. Europe was another strong area last month.

Year-to-date, US equities have generally been very resilient. To give some sense of the extreme dispersion in markets, the top 10 strongest S&P 500 constituents year-to-date have each returned more than 70% and the bottom 10 have each fallen by more than 50%.

Market Outlook

The overweight in Materials which is based on the themes Infrastructure and Next Generation Energy has been the largest contributor, while the overweight in Industrials was supportive as well in an overall constructive market environment. Slight detraction to performance occurs from on underweight in sectors like Financials or Real Estate. On a single stock basis, CNH Industrials (Clean Water and Land), a mining and metals company (Infrastructure) and Antofagasta (Next Generation Energy) contributed positively. Stock Selection in the Information Technology has been quite weak due to weaker reporting that has been issued by a cyber security technology company bringing the entire sector under pressure. Therefore, other cyber security related names were weaker as well. The weaker reporting is rather an effect of too high estimates as the basic need and structural supporting trends for cyber security are still valid. We already started last year to adapt the portfolio to a changing market environment and exited high growth companies, so-called long duration assets. We believe that the new themes of "Infrastructure" and "Intelligent Machines" should be able to cope better in the current environment and provide positive impulses. In addition, the portfolio has been largely cleansed of stocks with very high valuations and a growth profile that extends too far into the future. This has changed the character from a growth-biased to a more balanced "core" portfolio. We continue to see selective reasons for optimism again. We will therefore continue to follow developments very closely and keep the cautionary stance until then.

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

Market Review

Markets rebounded in November as investors embraced dovish comments by central bankers and downside inflation surprises. The main positive catalyst was the lower than consensus US and Euro Area inflation prints, potentially signaling a long-awaited peak and leading markets to pare back expectations for future rate hikes. This was complemented by Fed Chair Powell's speech where he indicated that the Fed could start moderating the pace of rate hikes "as soon as the December meeting". US headline CPI increased by 7.7% YoY, with Core CPI coming in at 6.3% YoY. In the Euro Area, headline inflation came in at 10.0% YoY, falling for the first time in 17 months. The UK, however, experienced an increase of 11.1% YoY.

Core bond yields rallied overall as markets were encouraged by the turning of the tides in US and Euro Area inflation prints. US, German and UK 10y yields rallied by -44bps, -21bps and -35bps to 3.61%, 1.93% and 3.16% respectively. US 2y yields rallied by -17bps to 4.31%, whereas German and UK 2y yields increased by +19bps and +1bp to 2.11% and 3.26% respectively. The move in yields left the US Treasury 2s10s curve at its most inverted level in 40 years, with both the German and UK curves also inverted.

Turning to China, there were signs of a shift away from its zero-Covid policy, albeit gradually – leading to a large rebound in Chinese assets. Risk assets broadly rallied, with the S&P and MSCI World up 5.6% and 6.8% respectively over the month. In credit, USD and EUR IG spreads tightened -23bps and -32bps respectively. High yield credit also rallied, with USD spreads tightening -16bps and EUR spreads tightening -79bps.

During the month, the PIMCO GIS Income Fund returned 3.67% after fees (in USD, for the Institutional class, Accumulation share), bringing YTD '22 performance to -7.49%.