

Market Review and Outlook

October 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 by +7.1% mom to close at 2,548 points for the month of October. Similarly, the Dow Jones Index surged +14.0% mom as investors digested the better than expected quarterly corporate earnings and the cautious optimism that the Federal Reserve might be ready to begin easing up on the aggressive pace of interest rate increases as it tries to tame inflation. On the US' economic front, retail sales in September was flat mom as compared to a gain of +0.3% mom August. Its September industrial production was up +0.4% mom compared to a drop of 0.2% mom in the previous month. US S&P Composite Purchasing Managers' Index (PMI) improved to 49.5 in September as compared to 44.6 in August. Over in Europe, the Stoxx 50 Index gained +9.0% mom during the same period despite a lower Eurozone S&P Composite PMI reading of 48.1 in September as compared to 48.9 in August. Its industrial production growth gained +1.5% mom as compared to a drop of 2.3% mom in the previous month. Nonetheless, its August retail sales fell 0.3% mom as compared to a rise of +0.3% mom in the previous month. However, China's Shanghai Composite Index fell by 4.3% mom in October following a deterioration in Caixin China Composite PMI reading of 48.5 in September as compared to 53.0 in August. Market sentiment was hampered by soft economic data and the new Covid measures which caused concerns over its economic recovery. After further cuts in August 2022 for its 1-year and 5-year Loan Prime Rates, the People's Bank of China kept it stable at 3.65% and 4.30%, respectively, in its October 2022 meeting.

In October, Brent oil rose +7.8% mom to USD94.83/bbl as OPEC+ cuts output by 2 million barrels per day from November. Crude palm oil (CPO) price increased +16.0% mom to RM3,858/MT due weather concerns that could impact output and higher exports to India as they stock up ahead of the Diwali festival.

On the ASEAN front, equity markets closed the month under review with mixed performances. Malaysia's FBMKLCI jumped +4.7% mom driven by the pre-election rally following the dissolution of parliament and a return of interest in glove players. October saw the third monthly net foreign equity outflow for 2022, amounting to RM594m, bringing YTD inflows to approximately RM6.0b. From an economic standpoint, Malaysia's August industrial production growth rose +13.6% yoy from a growth of +12.5% yoy in the previous month. However, September manufacturing PMI weakened to 49.1 as compared to 50.3 a month ago. Indonesia's Jakarta Composite Index rose +0.8% mom due to a higher S&P Global manufacturing PMI reading of 53.7 in September as compared to 51.7 in the previous month. The Indonesian central bank further raised its 7 - day repo rate by another 50bps in its October meeting to 4.75%. Similarly, the Stock Exchange of Thailand gained +1.2% mom. Its September S&P Global manufacturing PMI increased to 55.7 as compared to 53.7 in August. Singapore's Straits Times Index eased by 1.2% mom due to a flat industrial production growth in September, as compared to an increase of +2.0% mom in August. Its September PMI reading was slightly weaker at 49.9 as compared to 50.0 in August and its Non-oil Domestic Exports fell 4.0% mom in September, almost similar to the decline of 3.9% mom in August.

US Treasury (UST) yields continued their upward trend for a third straight month in October as the yield curve rose 14-38bps mom in a steepening manner. This came after the September inflation data came in higher than expected at 8.2% yoy (August: 8.3% yoy, survey: 8.1% yoy), signalling that the fight against inflation in the US was indeed far from over, which then led to expectations that Fed would continue to hike rates by 75bps in the November and December FOMC meetings. While Fed did approve a 75bps hike in the November meeting for the 4th straight time to 3.75% to 4.00% range, Chairman Powell hinted at a change in policy ahead as Fed could potentially instead have smaller rate hikes towards a higher peak. He also said the goal was to bring rates to a level that is “sufficiently restrictive” to bring inflation back down to the Fed’s 2% goal over time.

Malaysian Government Securities (MGS) yields movement were however mixed as the 3 to 7yrs MGS yields rose 2-13bps mom while the 10 to 30yrs MGS yields declined 3-4bps mom. Yields trended higher mainly by tracking the US yield movement which led to heightened market volatility. As expected, Bank Negara Malaysia (BNM) raised the Overnight Policy Rate (OPR) by 25bps to 2.75% which was the fourth consecutive 25bps hike this year and a year-to-date increase of 100bps.

Foreign funds net sold Ringgit bond holdings with net outflows of RM6.3b (September: -RM0.4b), bringing YTD outflows to RM7.9b. Foreign share of both MGS and MGS+Malaysian Government Investment Issue (MGII) declined to 34.8% (September: 35.9%) and 22.3% (September: 23.1%) respectively. Malaysia’s foreign reserves contracted by USD0.9b to USD105.2b as of end-October 2022 (September: USD106.1b).

Market Outlook

Globally, all eyes will be on the Fed’s monetary policy and inflation data and its impact on commodity prices, global inflation, bond yields and global interest rates. In the US, focus will be on the upcoming mid-term elections. Locally, investors will look out for the MPC meeting, the release of Malaysia’s 3Q22 GDP numbers, the 3Q22 earnings report season, updates on 5G and foreign labour situation. On top of that, investors will be monitoring the voters’ sentiment during the election campaign period to determine the likely outcome of 15th General Election on 19 November.

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, the perceived election risk could keep investors on the sidelines and keep the market range bound. In the event of any market volatility, we will assume a degree of trading bias to take advantage of the situation.

Locally, bond yields are expected to remain volatile in tandem with the UST yield movements. Fed forecasts that rates would reach a target range of 4.5% to 4.75% in 2023. Citing high inflation and the tight labour market, Fed Chairman Powell however said the peak interest rate might need to go higher than previously thought, which suggests that Fed may need to raise rates above 5% to tame inflation. On the other hand, BNM maintained its assessment that the current monetary policy stance is accommodative and supportive of economic growth. They added that the Monetary Policy Committee (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 Ringgit rates market well 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. The risk remains if domestic inflation surprises on the upside and foreign portfolio outflow accelerates. 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 cyclical sectors.

Market Review and Outlook

Global equities rallied strongly over October, lifted by hopes that central banks may soon start to scale back the size of their interest rate hikes given the deteriorating economic outlook. Risk appetite was also boosted when ex-chancellor Rishi Sunak became UK prime minister, marking an end to Liz Truss' unfunded spending plans. Chinese equities fell, however, after President Xi Jinping tightened his grip on power at the Communist Party's 20th National Congress, appointing a senior leadership team that was filled with loyalists who are focused more on national security and strict zero-COVID policies than on economic growth or supporting markets.

US equities rebounded, with the S&P 500 Index recording its first monthly increase since July, amid growing hopes that the US Federal Reserve would soon start to ease back the rate at which it is raising rates. The tech-heavy Nasdaq Index lagged the broader S&P 500 Index as growth stocks were hit by a wave of disappointing news from high-profile companies. In contrast, value shares rallied strongly. Smaller US companies also outperformed their larger counterparts by a sizeable margin over the month.

European equities rallied strongly over October (in EUR terms). Sentiment was lifted by hopes the deteriorating economic outlook may cause the European Central Bank to be less aggressive in raising rates. There was also relief over the UK government's U-turn over short-lived prime minister Liz Truss' unfunded spending plans. A drop in European gas prices further helped sentiment, although the European Union remained split on whether to impose an energy price cap. Germany, in particular, came under fire from other nations less able to afford to emulate its plans for an EUR 200 billion protective shield for its citizens and businesses.

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

Market Review

Asian equity markets declined in October. It was a particularly challenging month for China equities, with most of the weakness coming towards the end of the month after the Party Congress and the US' newly imposed export controls aimed at restricting China's access to semiconductors. The China A-shares market outperformed offshore indices, which are more affected by geopolitical factors and have greater exposure to higher global rates and tightening global liquidity. The key driver of China A-shares continues to be ongoing weak domestic economic conditions. These typically have the greatest influence on domestic retail investors who dominate market turnover. The two biggest factors weighing on economic activity are COVID-19 policies and the housing market. Although COVID-19 restrictions in mainland China remain tight, there have been more policy actions on the property side including lower mortgage rates and some easing of previous curbs on property transactions.

Outside of China, South Korean stocks advanced but Taiwanese shares sold off, dragged lower by a semiconductor manufacturer which is an index heavyweight. ASEAN markets outperformed the broader region with most markets, other than Singapore, delivering positive returns.

The Asian USD high yield credit market, as represented by the JP Morgan JACI Non-Investment Grade Custom Index, corrected by -9.20% in October. This was driven by poor sentiment in Chinese property issuers which started the previous month and was exacerbated by weak market liquidity.

In such an environment, the Fund return was negative in USD terms in October. Within the equity sleeve, the main detraction came from our China holdings.

On a single stock level, the top detractor was Trip.com, a leading booking travel platform in China. The stock has been an outperformer year-to-date and faced profit taking in October along with the broader market sell-off. We continue to like Trip.com as a beneficiary of travel recovery in the region, as well as reopening in China.

Conversely, the top contributor was Worley, an energy company in Australia. The company's expansion into renewables and decarbonisation projects has helped deliver higher margins and new contract wins. Elevated oil prices should also support more project expansions by major upstream oil companies.

The asset allocation at the end of the month was 66.6% invested in Asian equities and 32.0% in Asian fixed income, with the remainder in cash.

Portfolio activity for the equity sleeve was limited in October. We continue to focus on high quality dividend and growth opportunities across regional Asia.

For the fixed income sleeve, we invest in bonds with the aim of long-term interest accrual. In October, we mainly sold our exposure to an issuer with potential idiosyncratic concerns.

At the end of the month, we held 55 equities and 73 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 2.7 years.

Market Outlook

Economic data continues to indicate that the global economic backdrop is deteriorating. Activity in the US services sector has dropped sharply as rising prices and higher borrowing costs have hit demand, while manufacturing activity is now below the important 50 threshold that separates expansion from contraction. Eurozone economic growth has also slowed amidst the energy crisis and high inflation.

In China, investors who had hoped to see more signs of policy action post the Party Congress, especially regarding the zero-COVID approach, have been disappointed so far. Although there have been glimpses of opening up, such as the decision in Hong Kong to end mandatory hotel quarantine for inbound travellers, the restrictions remain tight in mainland China. This was reflected in the China A-shares market last month with consumer-related stocks seeing significant weakness.

Despite this challenging backdrop, 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 be focused towards stocks with earnings visibility and resilient earnings streams. The portfolio has an overweight position to Southeast Asia, notably Singapore, Thailand, and the Philippines, and is underweight North Asia – primarily China, Taiwan, and Korea.

On the fixed income side, we continue to expect policy measures to support the Chinese property sector. The market should see more differentiation with stronger issuers outperforming distressed issuers. Market valuations, as a whole, remain reasonable.

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

Market Review

The Malaysian sovereign bond market weakened amidst a continued rout in global bond in Oct led by rising yields in US Treasuries. In the local front, the dissolution of parliament on Oct 10 for GE15 after the tabling of Budget 2023 on Oct 7 provided some volatilities in the local market. The market was also defensive in the run-up to two key policy meetings by the US Fed and Bank Negara in early November where expectations are for another hike by both policy makers. As a result, the MGS yield rose 12-45 bps across the curve against the US Treasuries 14-62 bps jump. The MGS 10-year reached a high of 4.565% amidst the external and internal volatilities. Meanwhile, locally, corporate bonds saw muted trading as bidding interest dried out amidst the volatilities that saw more defensive positioning while offers grew.

Global equity markets rebounded in October after falling sharply in the prior month. A weaker-than-expected US job openings suggests a cooling US labor market which raises hopes for a pivot by the Fed. The rally was however softened by the US's new restrictions on China's US semiconductor technology and the attention towards the China's 20th Party Congress. Expectations of an end to the Covid Zero policy in China was dashed, leading to Taiwan and China being the main decliners for the month. The KLCI also recovered by 4.7% mom at 1,460pts mostly led by glove stocks while plantation and transport were also higher. Technology, healthcare and construction underperformed. Budget 2023 was also announced, although days after tabling, the Parliament was dissolved paving way for an election. Within the region, in local currency terms, the Philippines was the best performer, gaining 9.1%, rebounding after a sizable drop last month. Utilities and financials were the outperformers while consumer discretionary dragged on. Thailand edged up 1.1% driven by energy, real estate, consumer staples and consumer discretionary while IT and telecommunications underperformed. Indonesia was slightly up by 0.2% led by financials and consumer staples but trailed by telecommunications and energy. Singapore was the only decliner by 1.2% led by consumer discretionary and financials while IT, industrials and real estate underperformed. In net foreign flows, Philippines continues to see net selling, this time -US\$11m, which brings the year-to-date of US\$1.2bn outflow. Malaysia saw another net outflow of US\$128m (RM0.6bn) albeit lower (Sep: -RM1.6bn) which brings year-to-date net inflow to US\$1.5bn (RM5.7bn). Foreigners bought US\$227m in Thailand, bringing year-to-date to US\$4.7bn. Indonesia saw a record US\$730m net inflow which brings year-to-date to US\$5.6bn, the largest net buying thus far within the region.

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.

Moving forward, 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. Within the same vein, we think the anticipation of a Fed pivot is premature. 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 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 govies 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, we maintain our capital preservation mode to better weather through the near-term volatility. Domestically, added risks are outcome of the General Election (GE15). Nonetheless, we are comforted that corporate earnings have stayed somewhat resilient, but we do foresee margin compression moving forward due to the expected slowdown. In the near-term, we are likely to focus on quality names with characteristics of resilient to inflation and margins be it through cost efficiency or demand inelastic. Having said that, share prices and valuations have come-off substantially albeit not at depressed level of yet. 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.

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

Market Review

The Fund lagged the benchmark in October. Stock selection was the main detractor with weakness in the Financials and Consumer Discretionary sectors, partially offset by stronger performance in Energy due to stockpicking.

In the weak market conditions, there was significant sector divergence – for example, there was more than a 20% difference between the best performing sector (Information Technology) and the worst performing sector (Communication Services) during the month. It was also notable how large caps lagged. This is likely a reflection of fund flow as opposed to fundamentals – a combination of foreign investors selling and domestic investors in mainland China avoiding stocks with high levels of foreign ownership.

At a single stock level, a city commercial bank detracted. It 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. There was no recent company news to explain the share price weakness this month – in fact Q3 results were solid – and this continues to be one of our preferred holdings in the Bank sector.

On the other hand, a top contributor was a leading biotech company with a focus on oncology. The company has a strong product pipeline and is moving to the commercialisation phase which helps de-risk the growth outlook. The strong share price performance partly reflects a recovery in the China biotech sector overall after a period of severe weakness. In addition, the company's H1 results saw better-than-expected sales of key drugs.

Market Outlook

It was a challenging month for China equities, with most of the weakness coming towards the end of the month after the Party Congress concluded. The China A-shares market was weak but still outperformed offshore indices that are more impacted by geopolitical factors, as well as being exposed to higher global rates and tightening global liquidity.

The key driver of China A-shares market in particular continues to be ongoing weak domestic economic conditions. These typically have the greatest influence on domestic retail investors who dominate market turnover. The two biggest factors weighing on economic activity are COVID policies and the housing market.

Investors who hoped to see more signs of policy actions post the Congress, especially regarding the zero-COVID approach, have been disappointed so far. Although there have been glimpses of opening up, such as the decision in Hong Kong to end mandatory hotel quarantine for inbound travellers, the restrictions remain tight in mainland China. This was reflected in the China A-shares market last month with consumer-related stocks seeing significant weakness.

So far, there have been more policy actions on the property side including lower mortgage rates and some easing of previous curbs on property transactions. However, with the housing market still under pressure, we expect further policy initiatives, including state-owned banks providing additional financing to private companies, so that the construction of pre-sold properties can be completed.

A further development last month was the US Department of Commerce's announcement of a swathe of tough new restrictions controlling the export of some technologically advanced chips and chipmaking equipment to China.

The outcome will be very different company to company. For example, while some China semiconductor equipment manufacturers may be severely impacted as they are unable to source US-produced components going forward, other companies will benefit as China accelerates its push for greater self-sufficiency in semiconductors. In the portfolio, we added selectively to stocks that we expect to benefit from this focus on increasing domestic production.

In this environment, a key portfolio position continues to be overweight in the Consumer Discretionary sector. We see potential for "opening up" beneficiaries such as travel and tourism to recover, as well as pent-up consumer demand following the extended period of lockdowns. Conversely, the portfolio is underweight in Financials, particularly the larger banks, where we see risks of deteriorating asset quality.

As at the end of the month, the onshore/offshore allocation is close to benchmark with around 54% in China A-shares.

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

Market Review

Global equities rallied strongly over October, lifted by hopes that central banks may soon start to scale back the size of their interest rate hikes given the deteriorating economic outlook. Chinese equities fell, however, after President Xi Jinping tightened his grip on power at the 20th National Congress of the Chinese Communist Party. US equities rebounded, with the S&P 500 Index recording its first monthly increase since July, amid growing hopes that the US Federal Reserve (Fed) would soon start to ease back the rate at which it is raising rates. The technology-heavy Nasdaq Index lagged the broader S&P 500 Index as growth stocks were hit by a wave of disappointing news from high-profile companies. In contrast, value shares rallied strongly. Smaller US companies also outperformed their larger counterparts over the month. The Communication Services and Consumer Discretionary sectors lagged, due in part to weak returns from a technology conglomerate, a social media company and an ecommerce giant.

Information Technology and related stocks underperformed the broader market during the period, driven by underperformance in mega-cap technology shares, such as the aforementioned social media company and technology conglomerate, as investors were disappointed with earnings and the companies' increased level of expenses. A US tech giant outperformed, driven by strong computer and wearables revenue as the stock remains a safe haven in this volatile market. Information technology services stocks were boosted by two payment processors, which reported strong payment volumes despite fears of slowing macroeconomic conditions. Entertainment stocks also outperformed with a streaming entertainment service company adding more subscribers than expected and announcing a new advertising-supported subscription plan.

During the period, the Fund in USD underperformed 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 an oil and gas technology and services provider was one of the top contributors. The company reported quarterly financial results that beat expectations for revenue and earnings, driven by growth across all divisions. Management's Q4 revenue guidance was above estimates, and we see longer-term tailwinds as the industry expands following several years of underinvestment. We are also constructive on the company's plans to expand beyond the traditional exploration and production (E&P) sector to leverage its expertise into the alternative energy domain.

Our position in a popular gaming platform for youth and young adults was also a top contributor during the period. Shares rallied after the company reported September metrics, showing strong growth in daily active users and engagement hours, as well as better-than-expected bookings. Using the company's design tools, developers build their own immersive experiences within the platform that have attracted over 55 million users. The company currently employs artificial intelligence (AI) and machine learning for a wide range of uses including automating translation, connecting players by language, and moderating content. We believe the company's international expansion may continue to drive robust growth over the coming years.

Detractors

Our position in electric vehicle (EV) maker, Tesla, was one of the top detractors during the period. The company reported mixed quarterly financial results with revenue missing expectations, but earnings slightly ahead, as it continues to deal with supply chain shortages. 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.

The Trade Desk was also a top detractor as digital advertising spending is slowing along with the macro economy. The company held an analyst day where management highlighted connected TV (CTV), shopper marketing, and their identity strategy as core growth drivers. More of the world's leading brands are signing major new or expanded long-term agreements with The Trade Desk as it continues to invest to drive future growth in key areas such as identity, CTV, retail media, and supply chain optimisation. We remain positive on The Trade Desk seeing the company as the leading independent programmatic advertising buying platform across digital channels. The company has a leading position in CTV, which is expected to be among the fastest growth areas in advertising technology.

Purchases and Sales

During the period, we exited our position in a mining company. While we have been impressed with the company's leveraging of AI in driving efficient operations of mines and to streamline many of its processes, we are concerned that the near-term macroeconomic environment for copper faces challenges as global growth slows. We have moved our exposure in

commodity-related end markets from the company into Albemarle, which also has a strong AI investment profile, but is exposed to the growth in lithium that is critical in batteries for EVs and energy storage.

We initiated a position in a global payments technology company. As one of the largest payments companies, it collects vast quantities of data about consumer behaviour. The company has built out a large AI development team and built one of the largest AI infrastructures to make sense of the vast amount of data it sees every day. In addition, the company leverages AI to optimise the flow of payment processing through its network of partners, as well as to ensure the security of its infrastructure. We initiated a position at this time as shares have seen a meaningful correction due to market pressures and concerns regarding regulatory actions.

Market Outlook

Equity markets were volatile in October but finished the month in positive territory. After the S&P 500 and other equity markets saw large declines year-to-date in price-to-earnings (P/E) valuations as investors priced in rising rates and the increasing probability of a recession, the attention turned to earnings reports and forward guidance from companies. Although some mega cap technology names reported disappointing earnings, there were a large number of earnings beats in other sectors that showed more resilience to inflation and the softening macro environment. Over 1,500 US companies, including half of the S&P 500, released earnings during the month, and over 70% reported surprises/beats. The S&P 500 Equal Weight Index outperformed the cap-weighted S&P 500 Index by a healthy margin. We believe this was the primary driver of positive market performance for October, but expect continued volatility and a high level of uncertainty around earnings going forward until the macro picture becomes clearer.

The economic picture in the US and the global economy remains complicated. US employment stayed above trend, and consumer spending in services is strong. Commodity prices were up slightly in October, but still well off their highs of the summer, and supply chain constraints eased as evidenced by a significant decrease in shipping rates and reduction in port congestion. On the other hand, labour markets remain tight, adding to inflationary pressures, and the housing market has begun a major slowdown, which could spill over into the broader economy.

All of these bring us to the Fed and the interest rate policy, which continues to dominate the market. There was no significant change to the expectation of a 75-basis point (75-bp) raise in early November. In fact, higher-than-expected core consumer price index (CPI) figures during the month cemented this view. However, during the month, several Fed officials hinted that it might be prudent to slow down rate increases to better gauge the effect of tighter monetary policy. The pace of increases to the Fed funds rate in 2022 is the fastest in history, and 30-year mortgage rates are already at their highest spreads to equivalent US Treasuries on record. Although clearly not a pivot in Fed policy, it was a recognition of the lag in gauging the interest rate policy effects and concerns about financial market liquidity conditions. Most investors are now expecting a 50-bp increase at the last Federal Open Market Committee (FOMC) meeting of the year, followed by a smaller increase or even a pause to begin 2023.

Meanwhile, although slightly decreasing versus the EUR and being roughly flat against the JPY, the USD remained strong against major currencies, which was good for the US consumer as it makes imports cheaper, which in turn moderates inflationary pressures. However, many US multinational companies saw revenue challenges from currency translation. For the rest of the world, a strong US dollar creates hurdles as many global commodities, such as oil, are priced in dollars, which adds to inflationary pressures in local terms.

The other significant news was around China with the completion of the 20th National People's Congress and new semiconductor restrictions implemented by the Biden administration. The Congress did not produce any surprises in terms of President Xi's election or major policy initiatives, but investors were surprised at the degree to which loyalists were placed in positions of power at the expense of reformists. This effectively eliminated any expectation for near-term easing of the zero-COVID policy that has hampered China's economy over the last few years.

As for the US chip restrictions on China, there were two major components: 1) restrictions on Chinese companies' access to more advanced chips used in AI and supercomputing functions and the semiconductor production equipment used to manufacture them, and 2) additional Chinese companies on the "unverified" list for export restrictions. Historically, the US has attempted to keep China two generations of technology behind, but with these new restrictions, it is clear that the US's aim is to further inhibit China's ambitions to be a leader in the semiconductor industry. We believe the new restrictions may cause additional price volatility in the industry as investors digest the effects on individual companies. This could indirectly impact the entire semiconductor industry, but we expect the greatest negative effects to be confined to Chinese-listed names.

Overall, it was a busy month of macro and stock specific news. We were encouraged to see positive earnings reports across a broad swath of sectors showing the resiliency in parts of the US economy to absorb higher interest rates and tighter financial conditions. Markets are likely to remain volatile in the near term as the market digests the path of Fed policy and slowdown in economic growth as we head into 2023. With P/E multiples contracting significantly year-to-date, valuations are starting

to look more attractive, although earnings estimates are only modestly coming down for next year, which is the next step in the bottoming process for equity markets.

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, quarterly earnings results have thus far been weak as consumer personal computer (PC) demand and gaming activity have slowed significantly, given demand was pulled forward due to the pandemic restrictions and stimulus-driven spending. We believe the majority of our semiconductor holdings have unique products and intellectual property that should insulate their earnings better, but we do not expect a bottoming in the sector overall until early 2023. Valuations have pulled back significantly to reasonable levels, but the new China related chip restrictions and unexpected weakness in enterprise spending have created additional headwinds. We maintain a constructive view on the space over the long term given the many secular growth drivers of cloud, 5G, internet of things (IoT), edge computing, electric and autonomous vehicles, leading-edge manufacturing, etc.

AI applications outlook

Spending on cloud and cyber security related applications appears to be more resilient and should weather a downturn better. On the flip side, the weakening in advertising spending puts pressure on the top line revenue growth for social media related companies, and the pressure may continue until there is greater economic clarity. 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. 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 stockpicking will be imperative to capturing the benefits of this opportunity, especially in an environment characterised by disruption and change.

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

Market Review

Asian equity markets declined in October. It was a particularly challenging month for China equities, with most of the weakness coming towards the end of the month after the Party Congress and the US's newly imposed export controls aimed at restricting China's access to semiconductors. The China A-shares market outperformed offshore indices, which are more affected by geopolitical factors and have greater exposure to higher global rates and tightening global liquidity.

In this environment, Taiwan equities also sold off, dragged lower by an index heavyweight – a leading semiconductor company. On the other hand, Australian stocks rallied, closing the month at a six-week high. The Reserve Bank of Australia (RBA) raised rates by a smaller amount than had been expected and marked a slowdown from earlier 50-basis point (50-bp) increases. South Korean stocks also advanced. In Japan, the equity market rose on hopes that the US Federal Reserve (Fed) would slow down aggressive interest rate hikes given the deteriorating economic outlook. ASEAN markets outperformed the broader region with most markets other than Singapore delivering positive returns.

The Fund outperformed the benchmark during the month. Stock selection drove excess returns, with Energy and Health Care sectors being top contributors from a sector standpoint, and China and Japan being particularly beneficial from a geographical standpoint. Hong Kong and Taiwan were weaker markets.

Last month's bottom contributor, Lasertec Corp in Japan, rose to the top of the list in October. 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.

Conversely, a top detractor was a Taiwanese semiconductor company, Alchip Technologies. The stock was impacted by the US Department of Commerce's announcement of tough new restrictions controlling the export of some technologically advanced chips and chipmaking equipment to China. These announcements exacerbated weak semiconductor demand in a slowing global environment. We believe Alchip offers superior technology and should be able to withstand near-term headwinds.

The main change to portfolio positioning in the month was to reduce the extent of underweight in China. 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.

Along with Health Care, the other significant overweight positions are in Energy and Technology. In Energy, we see higher oil and gas prices resulting in significantly improved cash flows and dividends. In Technology, we have recently started to add exposure to memory chipmakers where valuations are now touching trough levels seen in previous down cycles.

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 including "opening up" beneficiaries. 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

Economic data continues to indicate that the global economic backdrop is deteriorating. Activity in the US services sector has dropped sharply as rising prices and higher borrowing costs have hit demand, while manufacturing activity is now below the important 50 threshold that separates expansion from contraction. Eurozone economic growth has also slowed amidst the energy crisis and high inflation.

In China, investors who hoped to see more signs of policy actions post the Party Congress, especially regarding the zero-COVID approach, have been disappointed so far. Although there have been glimpses of opening up, such as the decision in Hong Kong to end mandatory hotel quarantine for inbound travellers, the restrictions remain tight in mainland China. This was reflected in the China A-shares market last month with consumer-related stocks seeing significant weakness.

Despite this challenging backdrop, 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 be focused towards stocks with earnings visibility and resilient earnings streams. The portfolio has an overweight position to Southeast Asia, notably Singapore, Thailand, and the Philippines, and is underweight North Asia – primarily China, Taiwan, and Korea.

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

Market Review

Asian equity markets declined in October. It was a particularly challenging month for China equities, with most of the weakness coming towards the end of the month after the Party Congress and the US's newly imposed export controls aimed at restricting China's access to semiconductors. The China A-shares market outperformed offshore indices, which are more affected by geopolitical factors and have greater exposure to higher global rates and tightening global liquidity. The key driver of China A-shares continues to be ongoing weak domestic economic conditions. These typically have the greatest influence on domestic retail investors who dominate market turnover. The two biggest factors weighing on economic activity are COVID-19 policies and the housing market. Although COVID-19 restrictions in mainland China remain tight, there have been more policy actions on the property side including lower mortgage rates and some easing of previous curbs on property transactions.

Outside of China, South Korean stocks advanced but Taiwanese shares sold off, dragged lower by the index heavyweight Taiwan Semiconductor Manufacturing (TSMC). ASEAN markets outperformed the broader region with most markets other than Singapore, delivering positive returns.

The Fund outperformed the benchmark in October. The decision to relocate from China to Southeast Asia markets in previous months paid dividends. Another key contributor was security selection, especially in the Financials sector. This was partially offset by stock selection within Information Technology, with the sector as a whole facing headwinds.

At a single stock level, a top contributor this month was HDFC Bank again, the leading private sector bank in India. Despite growing recessionary fears globally, domestic credit demand has remained robust in India. 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 as an opportunity to increase exposure to the fast-growing housing segment, as well as providing cross-sell opportunities.

Conversely, a leading detractor over the month was a Chinese white liquor producer. Despite recent underperformance, we believe that the company should benefit from an ongoing consumption upgrade trend in China. Recent launch of an ecommerce platform presents a potential new future growth driver for the business.

Portfolio activity in the month was to slightly reduce China exposure given the ongoing economic weakness. We added to two conviction positions - Samsung Electronics – where we see valuations pricing in the trough of the memory chip cycle – and HDFC Bank in India. Overweight Financials is the biggest relative sector position, with holdings in Singapore, India, and Indonesia set to benefit from the higher rate environment.

Market Outlook

Economic data continues to indicate that the global economic backdrop is deteriorating. Activity in the US services sector has dropped sharply as rising prices and higher borrowing costs have hit demand, while manufacturing activity is now below the important 50 threshold that separates expansion from contraction. Eurozone economic growth has also slowed amidst the energy crisis and high inflation.

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

Market Review

Risk assets rebounded in October, paring some of September's losses, while core bonds remained under pressure. Aside from the labour market, which remained robust, economic data continued to show signs of deterioration. Another hotter-than-expected inflation report lifted US Treasury yields and the 3-month/10-year yield curve inverted for the first time since early 2020.* Thus far, corporate earnings for Q3 have come in ahead of expectations with 68% of companies topping projections, surpassing estimates by 3.4%. Under the surface, results have been bifurcated with notable dispersion among industries and issuers, underscored by disappointing financials and outlooks from several mega-cap companies. Most management provided toned-down guidance citing a number of headwinds.

In this environment, global equity markets, as measured by the MSCI World Index, returned +7.18%.^ US stocks outperformed their non-US developed counterparts and all sectors advanced. Global convertible securities and high-yield bonds also gained and primary market activity was subdued. Global fixed income, as measured by the Bloomberg Global Aggregate Index, returned -0.69% with non-US exposure holding up better than US.**

The portfolio rebounded in October, participating in the strength across risk assets with most holdings positively contributing to performance in the period.

The top individual contributors were broad-based with exposure to Energy, Consumer Discretionary, Health Care, Technology and Financials. An oilfield services company (Schlumberger) and a Canadian integrated energy stock traded higher on the back of or in anticipation of better-than-expected results. Porsche AG (luxury car manufacturer) reported a solid set of financials and UnitedHealth (managed care) topped estimates and raised guidance. Consumer electronics (Apple) and software exposures were also sources of strength alongside global payment processors (MasterCard) and a US bank (Wells Fargo) that surpassed expectations.

Individual detractors included Amazon (ecommerce), which reduced Q4 revenue guidance, and a social media company that provided a weaker sales outlook and above-consensus capital expenditure (capex) projections. Other portfolio laggards were exposed to transport logistics, electric terminals, ecommerce, cellular towers, uranium production, semiconductors and investment banking, among others.

Netting new purchases and complete sells over the period, Real Estate, Technology and Utilities exposures increased whereas Energy, Consumer Discretionary, Health Care and Materials 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 31 October 2022 unless otherwise stated.

* Source: BofA Merrill Lynch, as at 31 October 2022

^ Source: MSCI, as at 31 October 2022

** Source: Bloomberg, as at 31 October 2022

For Allianz Life Thematica Fund:

Target Fund Manager's Comment (For Allianz Thematica)

Market Review

Global equities rallied strongly over October, lifted by hopes that central banks may soon start to scale back the size of their interest rate hikes given the deteriorating economic outlook. Risk appetite was also boosted when ex-chancellor Rishi Sunak became UK prime minister, marking an end to Liz Truss' unfunded spending plans. Chinese equities fell, however, after President Xi Jinping tightened his grip on power at the 20th National Congress of the Chinese Communist Party, appointing a senior leadership team that was filled with loyalists who are focused more on national security and strict zero-COVID policies than on economic growth or supporting markets.

Market Outlook

The Fund slightly outperformed the MSCI AC World index. The theme selection created a positive impact for the portfolio just as stock selection did. Our cautious view by keeping some liquidity had a negative impact on performance over the recent month. From a theme perspective, Infrastructure and Clean Water and Land benefitted most over the recent month, as cyclical companies benefitted from a general risk on trade. Health Tech and Next Generation Energy were overall pressured. The Next Generation Energy theme has been weaker after some profit-taking led by decent performance over the recent months. The underweight in sectors like Communication Services has been positive, just as the overweight in sectors such as Materials and Utilities. We have 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.

For Allianz Life Elite Income Fund:

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

Market Review

Following a challenging September, markets had more reason for optimism in October, fueled by rumblings of central bank pivots and a stabilization of the UK markets after the arrival of a new Prime Minister. Dovish Australian and Canadian central bank meetings surprised investors with lower-than-expected rate hikes, and shortly after month end, the Fed also communicated that it would soon be ready to slow the pace of hikes even if the terminal rate could end up higher than previously expected. In the UK, financial conditions stabilized as the government U-turned on the poorly received mini-budget, and UK markets responded positively with gilts, credit, equities and the pound sterling bouncing back.

Global inflation prints remained elevated. In the US, headline CPI increased by 8.2% YoY, with Core CPI hitting a high of 6.6% YoY. In the Euro Area, headline inflation came in at 10.7% YoY, justifying a continuation of the hiking path. Lastly, in the UK, inflation rebounded after a slight pull back last month, increasing by 10.1% YoY.

Core bond yields moved higher across the board with the exception of the UK, as markets recovered from the fiscal policy induced sell-off. On the month, US and German 2y yields rose +20bps and +18bps to 4.48% and 1.93% respectively, as UK 2y yields rallied by -95bps to 3.25%. US and German 10y yields rose +22bps and +3bps to 4.05% and 2.14% respectively, as UK 10y yields rallied by -58bps to 3.51%.

Risk assets broadly rallied despite a tech sector sell-off, with the S&P 500 leading the charge, up +8.1% over the month. MSCI World also rallied by +7.1%, but EM equities told another story with MSCI EM down -3.1% over the month, mostly affected by the deteriorating market sentiment in China. On China, the highly anticipated 20th Party Congress took place, and as expected, President Xi secured an unprecedented third term, tightening his grip on power as challenges from the property sector and Zero COVID policies continued.

In credit, USD investment grade spreads were flat, whereas EUR IG spreads tightened by -5bps. High yield credit rallied in line with other risk assets, where USD and EUR high yield spreads tightened by -88bps and -26bps respectively.

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