Market Review and Outlook

January 2023

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

For the following funds:

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

Market Review

For equities, the MSCI World Index began the year positively, surging +7.0%% mom to close at 2,785 points for the month of January. Similarly, the Dow Jones Index gained +2.8% mom due to improved investor sentiment, based on moderating inflation data, that the Fed could pull off a soft-landing scenario as opposed to a much-feared deep recession. On the US' economic front, retail sales in December eased by 1.1% mom compared to a decline of 0.6% mom in November. Its December industrial production fell by 0.7% mom as compared to a drop of 0.2% mom in the previous month. US S&P Composite Purchasing Managers Index's (PMI) worsened to 45.0 in December as compared to 46.4 in November. Over in Europe, the Stoxx 50 Index rose +9.7% mom during the same period, helped by an improved Eurozone S&P Composite PMI reading of 49.3 in December as compared to 47.8 in November. Its industrial production also was up +1.0% mom in November as compared to a contraction of 2.0% mom in the previous month. Its November retail sales also gained 0.8% mom as compared to a decline of 1.8% mom in the previous month. Similarly, China's Shanghai Composite Index increased by +5.4% mom in January following an improvement in Caixin China Composite PMI reading of 48.3 in December as compared to 47.0 in November. Market sentiment was boosted by the reopening of the Chinese economy as the government eased its zero-Covid policy. 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 January 2023 meeting.

In January, Brent oil fell slightly by 1.7% mom to USD84.49/bbl as concerns of a recession outweighed the reopening of the China economy. Crude palm oil (CPO) price plunged by 10.8% mom to RM3,720/MT amid concerns on higher CPO production and a possible slowdown in imports by India in the coming months due to high vegetable oil stocks in that country.

On the ASEAN front, equity markets closed the month under review with mixed performances. Malaysia's FBMKLCI fell by 0.7% mom as investors await some policy direction from the new unity government and due to persistent foreign selling. January saw the 5th consecutive month of net foreign selling of RM201m. From an economic standpoint, Malaysia's November industrial production growth rose +4.8% mom as compared to a growth of +4.6% yoy in the previous month. However, its December manufacturing PMI weakened slightly to 47.8 as compared to 47.9 a month ago. The Stock Exchange of Thailand advanced by +0.2% mom as China's loosening of its zero-Covid policy will benefit the tourism sector in Thailand. Its December S&P Global manufacturing PMI improved to 52.5 as compared to 51.1 in November. The Bank of Thailand hiked its Benchmark Interest Rate by 25bps to 1.50% in its January meeting. Indonesia's Jakarta Composite Index fell by 0.2% mom despite a higher S&P Global manufacturing PMI reading of 50.9 in December as compared to 50.3 in the previous month. The Indonesian central bank further raised its 7 - day repo rate by 25bps in its January meeting to 5.75%. Similarly, the Singapore's Straits Times Index gained +3.5% mom following an industrial production rise of +3.2% in December as compared to a decline of 1.2% mom in November. Its December PMI reading was slightly weaker at 49.7 as compared to 49.8 in November but its Non-oil Domestic Exports experienced a smaller decline of 3.3% in December as compared to a decline of 9.2% mom in November.

For fixed income, US Treasuries (UST) rallied in January across the curve by 32 - 38bps mom following some weak US economic data. December 2022 hourly wage growth slowed to +4.6% YoY (November: +5.1%, survey: +5.0%). Institute of Supply Management (ISM) Services dropped to 49.6 (November: 56.5, survey: 55.0) which was the first time since May 2020 that it fell below the 50 threshold. Retail sales continued to fall in December by 1.1% mom (November: -0.9%, survey: -0.6%) which was the largest monthly decline since December 2021. As widely expected, the Fed raised the rate by 25bps to bring the target rate to 4.5% - 4.75%. While the Fed gave little indication that it was nearing the end of the hiking cycle, the surprising January strong jobs report (January 2023 NFP: +517k, December: +223k, survey: +189k) raised the possibility that Fed may need to raise rates to a higher peak than previously expected.

Malaysian Government Securities (MGS) yields continued to rally in January by 15 - 34bps mom across the curve following the stronger UST and easing December inflation numbers. Malaysia's inflation eased to 3.8% YoY in December (November: 4.0%, survey: 3.9%) largely due to the slower increase in the food and non-alcoholic segment. Bank Negara Malaysia (BNM) unexpectedly maintained the Overnight Policy Rate (OPR) at 2.75% during the month as they cited the need to assess the impact of the cumulative past OPR adjustments, given the lag effects of the monetary policy on the economy. BNM's assessment of Malaysia's growth and inflation outlook remained largely unchanged as they expect growth in 2023 to moderate amid a slower global economy while headline and core inflation will remain elevated amid the lingering demand and cost pressures.

Market Outlook

Globally, key focus will remain on economic data, such as inflation, unemployment data and the pace of interest rate hikes going forward. Fortunately, inflation has been trending steadily lower over recent months, allowing the Fed to take its foot off the gas and opt for smaller rate hikes. However, inflation rates are still way above its 2% long term target. Locally, focus will be on the new policy direction of the new government and the revised Budget 2023 scheduled to be tabled on 24 February 2023.

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, economic data and the upcoming February quarterly reporting season. As always, we may engage in a modicum of trading activity to capitalize on any market volatility.

For fixed income, bond yield volatility will likely persist in 2023 as the combined effects of the pace and magnitude of interest rate hikes stemming from inflationary pressures remain. While we expect more rate hikes in the US, the quantum of increase would likely be lesser. BNM in its latest assessment in January maintained that the current monetary policy stance is accommodative and supportive of economic growth.

The risk-reward of MGS has improved with the Ringgit rates market priced for BNM policy normalisation. Still, we are mindful of the bond market volatility arising from external and internal fronts, which could 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 bounce, the Fund performed better than its customised benchmark.

What hurt?

- The Fund underperformed the global equity markets. The Fund suffered from its dividend strategy in an environment where Growth and Tech names could outperform.

Market Review and Outlook

Global equities rallied strongly over January, boosted by rising hopes of a soft landing for the global economy. Despite continued hawkish statements from major central banks, a further easing in inflationary pressures contributed to the positive tone, as did optimism over China's reopening. European equities, in particular, were helped by natural gas prices falling to levels last seen prior to Russia's invasion of Ukraine.

US stocks advanced strongly over January as further signs that inflationary pressures were easing boosted hopes that the US Federal Reserve (Fed) may be nearing its terminal interest rate. For the broad-based S&P 500 Index, January was the best month since October, while the growth-focused Nasdaq Index posted its strongest monthly gains in six months. The start of the earnings season was mixed, although restructuring and cost cutting measures mean that US companies are now in a more resilient position to withstand a slowdown in growth.

European equities started 2023 on a robust footing, with the FTSEurofirst 300 Index touching a nine-month high. Sentiment was lifted by growing hopes that the region may avoid a recession given the fall in energy costs and China's zero-COVID pivot. Consumer Discretionary, Information Technology, Real Estate and Financials stocks were among the strongest performers, while laggards included those in defensive sectors, such as Health Care and Utilities, as well as Energy companies.

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 over January with sentiment lifted by growing optimism over China's reopening and by a further easing in inflationary pressures in major economies. A weaker tone to the US dollar was also supportive for the region. It was a broad-based advance with only India in negative territory.

China indices hit five-month highs, amid growing optimism that the economy would rebound once the current COVID-19 exit wave has passed. Economic data for January was stronger than expected, despite high infection levels. Elsewhere, shares in Taiwan and South Korea delivered double-digit gains, supported by a recovery in Technology stocks. ASEAN markets lagged the broader region, dragged down by small declines in Malaysia, Indonesia, and Thailand. In contrast, Singapore and the Philippines gained. Shares in Singapore traded around nine-month peaks after the city state's annual inflation rate eased to 6.5% in December, the lowest level in seven months.

The Asian USD high yield credit market, as represented by the JP Morgan JACI Non-Investment Grade Custom Index, rose by 7.04% in January. Sentiment was strong, and Asian high yield bonds continued to climb higher led by the Chinese property sector. Towards the end of the month, there were credit concerns on a large Indian group but the correction in bond prices was limited to the group.

The Fund return was positive in USD terms in January.

Within the equity sleeve, the top contributor over the month was Taiwan Semiconductor Manufacturing Company (TSMC), the leading semiconductor foundry globally. The stock recovered on expectations that excess inventory levels in semiconductors and memory chips will be digested in coming months, leading to stronger pricing power. TSMC is a core holding in the portfolio for its technology and market leadership.

Conversely, the top detractor within the equity sleeve was Reliance Industries, an Indian energy conglomerate. Share price performance in January reflected the broader market decline in India. We continue to like the longer-term structural growth outlook for the company with its expansion into ecommerce and digital services by leveraging its telecommunications subscriber base and physical retail network.

The asset allocation at the end of the month was 67.3% invested in Asian equities and 31.2% in Asian fixed income, with the remainder in cash.

In terms of portfolio activity in January, we initiated companies into the portfolio that we expect will benefit from China's consumption recovery. This includes an automobile distributor with a fast-growing network, and an on-demand logistics company under an ecommerce platform.

For the fixed income sleeve, we invested in bonds with the aim of long-term interest accrual. In January, we invested in more Chinese and Macau credits that were poised to benefit from China's pivot in its zero-COVID policy. We also adjusted our exposure within the Indonesian space.

At the end of the month, we held 63 equities and 74 fixed income securities. The equity portfolio yield was 3.0%, and the average fixed income coupon was 5.3% with an average credit rating of BB and duration of 2.5 years.

Market Outlook

We maintain our base case for a recovery in Asian markets with a number of macro headwinds now appearing to have eased. The abrupt change in China's COVID policies coupled with a broader pivot towards a more pro-growth agenda makes an economic recovery more likely. Expectations are for 5%+ gross domestic product (GDP) growth in China in 2023.

So far, the market recovery in Asia excluding Japan has been driven primarily by valuations, which are supportive as they remain below longer-term average levels. Earnings revisions have started to trend up too. We expect this trend to continue, which should also nudge the market higher.

Despite the strong rebound in Asian high yield credits over the last few months, valuations are still attractive on a historical basis. Driven by supportive policy measures from China, we continue to expect the market to rise further due to tightening credit spreads and high interest accrual.

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 yields continued its rally in January with yields down by circa 20-38bps, spurred by BNM's surprise OPR hold as opposed to market consensus of a 25bps hike. The pause was for BNM to assess the impact of the prior cumulative 100bps hike over the past year. The downtrend in yields also tracked the falling global bond yields amidst expectation of a less hawkish US Fed on the back of cooler inflation in the US. Locally, govvies auctions continued to be well-demanded, with strong bid-to-cover ratio of 2.1x, 2.8x and 3.4x for 10-year GII, 15-year MGS and 5-year GII in January. Meanwhile, corporate bonds also were well demanded and staged a strong rally over the month as yields fell 5-27bps over the month.

Global equity markets were in euphoria for the month, as US inflation data cooled for the third month in a row, in addition to the positive sentiment following China's re-opening theme. Growth stocks rebounded and regionally, North Asia were top gainers. The Fed further slowed down its rate hike pace to 25bps and indicated that the terminal interest rate may be under 5%, implying a dovish shift in monetary policy. However, this was in contrast in Asean, as fund inflows were dominated in North Asia. The KLCI was the worst performer in the region, falling 0.67% dragged by financials, healthcare, and plantations. Decliners were joined by Indonesia, which slipped 0.16%, dragged by energy and financials but materials and consumer discretionary were better. Singapore was the top performer (+3.52%) led by telecommunications, technology, and industrials while consumer staples dragged. This is followed by Philippines (+3.45%) as financials, consumer staples gained while utilities and telecommunications underperformed. Thailand notched up a tad (+0.17%) driven by information technology, healthcare and energy but dragged by real estate, utilities, and consumer discretionary. The performance was also mirrored in terms of fund flows, as Indonesia and Malaysia saw net foreign selling of US$204m and US$81m (RM380m) respectively while Thailand and Philippines had US$545m and US$122m net inflows respectively.

Market Outlook

We expect the recovery in Malaysia's fixed income market to continue in 2023, as central banks around the world have peaked on interest rate hikes and are signalling a shift towards more accommodative monetary policy. Inflation in Malaysia is also expected to moderate, leading to less pressure on the central bank to raise interest rates.

With Malaysia GDP growth expected to be 4.00% in 2023, down from 8.70% in 2022, the indication of domestic growth softening could lead to more stable and positive MGS yields in 2023. Any slowdown in economic growth caused by the recent spate of hikes could manifest in 2H2023, prompting central banks to become more accommodating and abandon their restrictive stance in order to avoid a hard landing. This would be ideal for bond yields to fall.

Following four consecutive 25bps rate hikes beginning in April to 2.75%, we anticipate another 25 bps hike by BNM in 2023 to bring the OPR level to 3.00%, as we believe the OPR hike cycle is nearing its end. This would restore OPR to its pre-Covid level. The end of the central bank hiking cycle in 1H2023 would present a more positive dynamic to yield movements globally, positively impacting MGS yields to trend lower. Nonetheless, potential challenges to our baseline estimates include a higher terminal Fed funds rate, which may have an influence on regional rates, including Malaysian yields. As a result of the Fed's previous rate hikes, the market anticipates a terminal rate between 5.00% - 5.20%. However, if achieving price stability in the US remains a priority, the Fed could be forced to implement additional rate hikes that would increase the predicted terminal rate. This would pose a risk to the upside for MGS yields as the effect would echo throughout the global market.

The equity outlook for Asia, as for other parts of the world, hinges on the Fed's response to the challenges of inflation and how the Russia-Ukraine conflict resolves. Recently, the US August CPI numbers did not provide good news for equity markets as the service sector remained sticky. For Asia in particular, the outcome of China's Zero Covid-19 policy and whether it can emerge from what is hopefully a bottom of the country's economic cycle will determine if Asia can continue to outperform the world in the 2H2022. With such backdrop of persisting volatility, we are neutral on Asian equities. Given the hawkish tone set by the Fed, the rest of Asia ex-Japan except for China, will likely press on the path of policy tightening. The impact of this path will be closely watched over the next 12 months as the risk of recession and corporate failures rise with rising borrowing costs and inflation. Another source of drag for economies is the diminished purchasing power of consumers due to persistent inflation that will likely lead to lower-than-expected growth from private consumption. Until global equity markets have repriced adequately to reflect the extent of economic slowdown that lies ahead, market volatility will persist. Locally, we are cautiously optimistic on the local equity market. We are on the view that Malaysia economic recovery theme will continue despite rising threat of inflation and interest rate. However, rising cost and margin pressure are risks to earnings in 2H2022, but corporates should likely be able to absorb these shocks to some extent.

For Malaysian sukuk, we will continue to trade opportunistically and realise profits, while also considering new primary issuances with higher yields to increase returns. As the outlook improves, we will consider extending duration from present neutral positions with preferred investments into attractive govvies yields and healthy AAA and AA corporate credits. Last but not least, we are more inclined to invest in govvies in 2023 after staying on the sidelines in 2022 due to rising global sovereign yields. As rates appear to have reached peak and central banks are anticipated to become more accommodating in 2023, we believe that government bond yields are likely to decline in 2023, allowing for advantageous trading positioning.

For Malaysian equities, after rally in January, markets were hit back with a reality check as corporate earnings have turned out to be tepid which we think will further be reduced. Having said that, we are optimistic that things will turn around as market expectations moderate in addition to low valuations. Hence, we will look opportunistically on quality names and names that should have a meaning full recovery. 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 and the unexpected hold in OPR rates. 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.

Asset allocation-wise, we are more positive on sukuk and will look to increase our sukuk allocation.

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 January. Stock selection was the main detractor with weakness in Information Technology and Consumer Discretionary, partially offset by a positive contribution from Financials.

At a single stock level, a key detractor was China's dominant yeast producer with a market share of over 60%. There was no stock-specific news in January and the relative price weakness is mainly a reflection of rotation away from stable, defensive earnings in the market recovery. Over last year, the company's margins have been under some pressure due to higher raw material costs, especially molasses. As these cost pressures ease, we expect the company will see a recovery in growth momentum.

On the other hand, a leading contributor in the month was a provider of automotive electronics products. The company makes smart cockpit displays which link in-vehicle "infotainment" to other aspects of smart driving technology such as high-precision sensors. The electric vehicle (EV) space overall saw a recovery during the month, following a sustained period of weakness related to concerns on slower EV demand. In the longer term, we expect the company should benefit both from the structural trend towards autonomous driving, as well as increasing EV-related orders.

Market Outlook

China equity market had a strong start to the year, continuing the recovery which began at the end of October 2022. It was a broad-based advance with all sectors in the MSCI China All Shares Index in positive territory in January.

The key catalyst has, of course, been the abrupt change in COVID policies. While the initial spread of COVID was chaotic, infection rates have now peaked with estimates suggesting that around 80% of the population (over 1 billion people) have been infected. In the big cities at least, there were clear signs of a return to normalcy over Chinese New Year holidays, with restaurants packed, queues forming outside luxury goods stores and traffic volumes recovering strongly.

After three years of depressed sentiment, the end of COVID policies should trigger significant pent-up consumer demand. While Chinese households did not benefit from large state handouts in the same way as many Western counterparts, nonetheless savings rates have increased significantly during the COVID years.

As such, China's economic recovery is likely to accelerate quickly. The 2023 gross domestic product (GDP) growth target will only be announced in March, but expectations are for at least 5% in the coming year.

This economic rebound is aided by government policy that is now firmly focused on supporting growth. One of the biggest factors driving the recovery will be the property sector. Rhetorically, the regulatory stance on property had already shifted to a more supportive position back in late 2021. But it was only in November last year when regulators matched their rhetoric with decisive policy action in support of both property developers and property buyers. Average mortgage rates at historical low levels (around 4.3%) should also support a rebound in property activity.

A further change to government policy recently has been the vote of confidence for private enterprise. As well as support for property developers, there have been other notable announcements relating to internet platforms. These include the first approvals for new foreign online games to be released in China since June 2021. A financial technology company has been given approval for a RMB 10.5 billion (USD 1.5 billion) capital raise. These measures have contributed to the growing sense that the regulatory crackdown on the internet space has eased.

Recent portfolio activity has been to add to companies which should benefit from the economic recovery, including areas such as industrial automation. The Fund continues to be overweight in the Consumer Discretionary and Consumer Staples sectors, with domestic consumption expected to lead the economic recovery. Conversely, we are underweight in Financials, with limited exposure to the large state-owned banks where profitability will likely be impacted by a deterioration in loan book credit quality.

As at the end of the month, the onshore / offshore allocation is close to benchmark with around 47% 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 rallied strongly over January, boosted by rising hopes of a soft landing for the global economy. Despite continued hawkish statements from major central banks, a further easing in inflationary pressures contributed to the positive tone, as did optimism over China's reopening. European equities, in particular, were helped by natural gas prices falling to levels last seen prior to Russia's invasion of Ukraine. The yield on the 10-year US Treasury bond closed January near 3.5%, a decline of around 30 basis points (bps) over the month, having traded as low as 3.3% mid-month. Recessionary fears faded somewhat over the month as easing inflation raised hopes that the terminal level of interest rates may be lower than previously expected. The International Monetary Fund (IMF) upgraded its economic forecasts for 2023 and beyond, citing China's zero-COVID pivot, US' support for green investment and lower recessionary risk in Europe as reasons for the improved outlook. Nevertheless, central banks remained hawkish with further rate hikes expected at the start of February. Commodities were mixed. Natural gas prices tumbled, reaching levels last seen prior to the invasion of Ukraine, helped by relatively mild winter weather in Europe and above-normal storage levels for this time of year. In contrast, oil prices closed the month roughly unchanged. Industrial metals prices, such as copper and iron ore, rallied on hopes of a rebound in China's economy once the current COVID exit wave has passed.

Information Technology and related stocks delivered positive performance to start 2023 and outperformed the broader equity market. At the industry level, semiconductors and application software were some of the strongest performers, along with systems software and interactive media. Most companies continued to provide conservative outlooks for 2023, and Q4 2022 earnings reports were mixed. However, positive investor sentiment around expectations that the US Federal Reserve (Fed) may soon pause its rate hikes, and perhaps even lower rates in H2, provided a boost for long duration growth equities.

During the period, the Fund in US dollar outperformed on a gross of fees and net of fees basis versus the custom benchmark (50% MSCI All Country World Index/50% MSCI World Information Technology Index). During January, stock selection within the Consumer Discretionary and Information Technology sectors contributed to relative performance, while stock selection in the Communication Services and Health Care sectors were the biggest relative detractors. All three of our artificial intelligence (AI) categories were contributors to relative performance with AI-enabled industries as the top contributor.

Contributors

Our position in Tesla Inc. was the top contributor during the period. After a difficult 2022, the stock appeared to move beyond distractions around Elon Musk's purchase of Twitter, Inc. as the company reported better-than-expected earnings and delivered a record 405,000 vehicles in Q4. The company also announced that Cybertruck deliveries should begin this year.

Our position in a company which runs an ecommerce platform for home furniture and home furnishing accessories was also a top contributor during the period. It announced a 10% workforce reduction and provided a better-than-expected outlook on sales momentum.

Detractors

Our position in ZoomInfo Technologies Inc., which operates a cloud-based platform for sales and marketing teams globally, was one of the top detractors. During the month, there were further concerns on extended sales cycles leading to slower user growth and several price target cuts from sell-side analysts. We believe the company's unique data assets and workflow solutions that leverage AI from data collection to analytics are more relevant as sales teams digitise their go-to-market motions and the low penetration rate for its potential customer base, is a long-term positive.

Our overweight position in Elevance Health, Inc. was another top detractor during the period. Elevance operates as a comprehensive health benefits company with service areas spanning health, life, dental and vision. They are maintaining competitive pricing relative to peers thanks to investments in areas such as virtual care, AI assistance and health monitoring devices. During the period, the company beat on earnings, but gave slightly more conservative guidance for the year.

Purchases and Sales

We initiated a position in an ecommerce company during the month. It provides a commerce platform and other services that enables merchants to display, manage, market and sell their products through various channels. The company leverages AI in numerous ways to help its merchant customers optimise their businesses through personalised selling, targeted marketing, optimised timing of emails, automated workflows and the AI-powered chatbots. The combination of the compression in valuation in shares along with strategic cost cutting and price increases, which should improve profits and revenue growth, is why we initiated a position at this time.

During the month, we exited the following positions.

- A video game developer and a cyber security company. We chose to exit both companies due to execution issues and we were not fully satisfied with management's characterisation of why results had fallen short of prior guidance.
- A technology conglomerate. We exited the company as it has been facing challenges in its video sharing segment due to competition from peers with short-form video platforms.
- A semiconductor company. We exited the company due to slowing in both its personal computer (PC) and data centre business segments, and lack of visibility for a recovery in the PC market.
- An energy technology company. We exited the company as we believe the current quarter may be one of transition due to risk of slower solar installations owing to weather, impact of higher interest rates, and clearing inventory as it upgrades its stationary storage offering.

Market Outlook

Welcome to 2023! While the equity markets and the Fund have started the year on a strong note, we expect elevated volatility amid the various macro cross currents and believe there will be a further reset in earnings expectations. Given the uncertainty of this backdrop, we have focused on upgrading the quality of the portfolio and consolidating positions into our highest conviction ideas. We have reduced exposure to companies that may not be able to grow profitable in the face of tighter financial conditions. Based on these changes, we believe the portfolio is more balanced and better positioned to weather an economic downturn, but also participate in market recoveries.

From a macro perspective, inflation expectations continue to moderate, giving investors greater confidence that peak inflation has passed, allowing the Fed to slow the pace of rate hikes at the next Federal Open Market Committee (FOMC) meeting. In addition, economic activity continues to slow and has raised the prospect that the Fed may need to lower rates in the latter part of 2023 to combat a recession. Meanwhile, the US labour market remained strong in January and numerous Fed officials publicly stated that rates will probably need to go above 5% and stay there to truly extinguish high inflation. We believe that until there is further clarity as the year progresses, market volatility will remain.

Outside the US, the European Union (EU) is still expected to go into a recession in the coming months, but it may prove shallower than originally thought. Similar to the Fed, the European Central Bank (ECB) has committed to bring down inflation despite the risk of adverse economic consequences. China remains a wild card for the global economy. There are concerns that although the most recent wave of COVID outbreaks has passed, there could be intermittent waves of cases as other economies have experienced, creating potential issues around supply chains and manufacturing capacity for some global companies. In addition, there are fears that China's reopening may re-ignite inflation, especially for commodity and input prices.

Equity valuations remained in a tight range for now as the US 10-year yield declined meaningfully during the month. The positive news is that investors have been expecting downward earnings revisions for most of 2022 in growth stocks. As companies have started to report Q4 2022 earnings, the blended year-over-year's earnings per share growth rate is now below the forecasted rate at the end of 2022. We expect further negative earnings revisions, but believe a focus on companies with improving margins and cash flow strength will be rewarded. This negative earnings revision cycle will likely contribute to more short-term volatility in addition to the macro uncertainty over the coming months, but is a necessary step to build the foundation for sustained recovery and growth.

AI infrastructure outlook

As expected, consumer PC demand and gaming continued to weaken as demand was pulled forward due to the pandemic restrictions and stimulus-driven spending. However, semiconductor stocks had a strong start to the year despite some headline earnings disappointments and were one of the key contributors to the performance of the AI infrastructure category. We believe some of this outperformance was driven by negative expectations already priced in during 2022 and positive sentiment outside of consumer PC and gaming such as advanced logic chips, automotive and news related to ChatGPT for which the underlying generative pre-trained transformer-based technology requires significant processing power. Valuations are somewhat elevated, but 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, Internet of Things (IoT), edge computing, electric and autonomous vehicles, as well as leading-edge manufacturing.

AI applications outlook

January saw strong performance in the Communication Services sector as well as in the software and services subsector, which are major components of our AI applications category. We are cautiously optimistic that many of the names in the category are in the process of bottoming as normalisation in interest rates should bring greater clarity to top line growth expectations and companies have begun to announce layoffs with a goal of preserving margins and cash flow. 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. Advances in machine learning, such as generative AI tool ChatGPT, will continue to automate mundane and repetitive tasks 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

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 transformation, and the release of ChatGPT and DALL-E 2 has created enthusiasm around the variety of use cases for generative AI across a wide range of companies. We expect to see an increasing number of industries roll out AI projects across most of their operations to accelerate their digital evolution. AI-enabled industries was the top relative performing category for the Fund and a wide range of stocks contributed.

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

For Allianz Life Oriental Income Fund:

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

Market Review

Asia Pacific equity markets rebounded sharply over January, with sentiment lifted by growing optimism over China's reopening and by a further easing in inflationary pressures in major economies. A weaker tone to the US dollar was also supportive for the region. It was a broad-based advance with only India in negative territory.

China indices hit 5-month highs, amid growing optimism that the economy would rebound once the current COVID-19 exit wave has passed. Economic data for January was stronger than expected, despite high infection levels. Elsewhere, shares in Taiwan and South Korea delivered double-digit gains, supported by a recovery in Technology stocks. Australia stocks closed near a 9-month high despite inflation rising to 7.8% in Q4 2022. Japanese equities delivered solid gains but lagged the rest of the region. Although core inflation reached 4.0% in December, a 41-year high, the Bank of Japan (BoJ) maintained its loose monetary policy setting.

The Fund outperformed the benchmark in January. Positive stock selection in Japan, South Korea, and India was partially offset by a weaker contribution from stockpicking in Taiwan and China. At the sector level, stockpicking in Technology and Health Care, the portfolio's largest sector positions, added value.

At a single stock level, a top contributor was Koh Young Technology, a Korean company that manufactures three-dimensional (3D) inspection machines for use in electronics assembly and semiconductor manufacturing. The stock had been weak for much of 2022 on concerns about softening demand in the semiconductor space. However, a solid set of quarterly results towards year end amid increasing demand for 3D inspection equipment due to global supply chain shifts from Europe and North America, notably in automotive electronics, boosted the stock. Finally, Koh Young is awaiting approval from Food and Drug Administration (FDA) for its surgical robotics in Q4 2023, which could represent a new growth driver for its business.

Conversely, a top detractor was Alibaba from China's internet/ecommerce industry. We initiated Alibaba during the month amid growing evidence that the industry's regulatory pressure has peaked and likewise, valuations have troughed. This area has experienced a sharp relief rally that started in late October 2022. We continue to favour Alibaba on a more positive 2023/2024 outlook amidst economic normalisation, with a strong rebound expected in ecommerce driven by beauty, cosmetics, and food delivery categories. Its cloud business should also see growth reacceleration.

At the sector level, the shape of the portfolio has changed little over the month, with Information Technology, Energy, and Health Care remaining the main portfolio overweights. In Technology, one area where we have gradually added exposure is memory chipmakers of which valuations have been 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 also continue to be optimistic on the long-term outlook for the Health Care sector, especially in the biotech space. Although the sector has been volatile due to policy concerns and geopolitical risks, underlying businesses continue to perform well.

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 and Japan remain the key underweight markets. During the month, we added to China exposure, especially in stocks which should be beneficiaries of the country's reopening.

Market Outlook

We maintain our base case for a recovery in Asian markets with a number of macro headwinds now appearing to have eased. The abrupt change in China's COVID policies coupled with a broader pivot towards a more pro-growth agenda makes an economic recovery more likely. Expectations are for +5% gross domestic product (GDP) growth in China in 2023. So far, the market recovery in Asia excluding Japan has primarily been a function of improvement in valuations. These remain below longer-term average levels and should continue to provide support until there is more evidence of a pick-up in corporate earnings.

Japan equities have not participated to the same extent in the wider market rebound, although returns have to some extent been supported by the stronger yen. We continue to expect some further currency appreciation. The domestic economy should also be supported by a rebound of inbound tourism, especially with China's reopening well under way.

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 over January with sentiment lifted by growing optimism over China's reopening and by a further easing in inflationary pressures in major economies. A weaker tone to the US dollar was also supportive for the region. It was a broad-based advance with only India in negative territory.

China indices hit five-month highs, amid growing optimism that the economy would rebound once the current COVID-19 exit wave has passed. Economic data for January was stronger than expected, despite high infection levels. Elsewhere, shares in Taiwan and South Korea delivered double-digit gains, supported by a recovery in Technology stocks. ASEAN markets lagged the broader region, dragged down by small declines in Malaysia, Indonesia, and Thailand. In contrast, Singapore and the Philippines gained. Shares in Singapore traded around nine-month peaks after the city state's annual inflation rate eased to 6.5% in December, the lowest level in seven months.

The Fund outperformed the benchmark in January. Key contributions came from China, especially the overweight position in Alibaba, which benefitted from signs of an easing of regulatory pressure as its financial technology subsidiary was finally allowed to raise capital. Positions in large cap tech hardware names such as Samsung Electronics and Taiwan Semiconductor Manufacturing Company (TSMC) also performed well, with expectations that excess inventory levels in semiconductors and memory chips will be digested in coming months, leading to stronger pricing power.

Conversely, HDFC Bank in India was a top detractor. 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 in the month was to increase the China allocation, adding to areas such as domestic tourism (duty free store operator) and financial services (fund supermarket) which should benefit from the stronger macro and market environment. To fund these purchases, we trimmed positions in regional financials where the tailwinds from the rising rate environment are likely to ease as we get closer to the peak of the rate cycle.

As a result of this activity, the Fund is now slightly overweight in China. Singapore is also in an overweight position although we have reduced exposure in recent months, given that the market has been more resilient during last year's volatility and may lag in a more risk-on environment. Conversely, Taiwan and Korea are underweight positions.

At a sector level, the Fund is overweight in both Consumer Staples and Consumer Discretionary. This reflects where we expect to see the main driver of the region's economic rebound in the coming year. The largest active positions at month-end are HDFC Bank, Samsung Electronics and Kweichow Moutai.

Market Outlook

We maintain our base case for a recovery in Asian markets with a number of macro headwinds now appearing to have eased. The abrupt change in China's COVID policies coupled with a broader pivot towards a more pro-growth agenda makes an economic recovery more likely. Expectations are for +5% gross domestic product (GDP) growth in China in 2023.

So far, the market recovery in Asia excluding Japan has been driven primarily by valuations, which are supportive as they remain below longer-term average levels. Earnings revisions have started to trend up too. We expect this trend to continue, which should also nudge the market higher.

For Allianz Life Global Income Fund:

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

Market Review

Markets rallied in January as the soft-landing narrative gained steam. Further evidence of moderating inflation cemented odds of a slower rate hike pace and Q4 earnings results have been better than feared. Layoff and corporate cost-cutting announcements, easing input price pressures, supply chain improvements, and a weaker US dollar cushioned cautious management outlooks. Continued labour market strength and steady consumption offset weak economic data points and supported a soft-landing scenario which was also underpinned by China's reopening. Against this backdrop, US Treasury yields fell and most asset classes advanced, partially fuelled by pessimistic sentiment and positioning heading into 2023.

In this environment, global equity markets, as measured by the MSCI World Index, returned +7.08%.* US stocks underperformed their non-US developed counterparts, and all sectors advanced apart from Health Care. Global convertible securities and high-yield bonds also finished higher, both led by US issues. Convertible new issuance slowed while high-yield primary market activity increased. Global fixed income, as measured by the Bloomberg Global Aggregate Index, returned +3.28% with non-US exposure marginally outperforming US.^

The portfolio moved higher in January, participating in the strength across risk assets and aided by gains in investment grade corporate bonds. Most holdings positively contributed to performance in the period.

Top individual contributors included a luxury car manufacturer – a top detractor in December – and a UK-based multinational financial services company. Apple advanced ahead of its earnings release and semiconductor stocks based in the Netherlands and Taiwan traded higher with their peer group. An ecommerce giant and a technology conglomerate rallied after both companies announced layoffs to buoy profitability. Other outperformers benefitting the portfolio included a US bank, a British food processor reporting strong sales, a French automation and energy management company expected to benefit from strong pricing, easier volume comparisons, and an improving backlog.

Notable detractors were among the portfolio's stronger performers in 2022 and included a managed health care company that topped earnings estimates and reaffirmed its 2023 outlook and selected pharmaceutical holdings. Positions in Financial Services, Health Care, Power Generation, and Clean Energy Storage also underperformed.

Netting new purchases and complete sells, exposures to Industrials, Technology, and Materials increased, while Communication Services, Health Care, Financials, and Consumer Discretionary decreased in the period.

Market Outlook

In 2022, the key uncertainty was inflation and how aggressively the US Federal Reserve (Fed) would respond. This year, the key uncertainty shifts to economic growth and its effect on corporate sales, margins, and profitability.

Macro data, earnings expectations, and investor sentiment/positioning, among other factors, could impact the market's path over the course of the year. Tail risks such as increasing inflation rates, sharply higher interest rates, further aggressive Fed tightening, and continued zero-COVID policies could recede, although recession fears may persist.

US economic growth largely hinges on the resiliency of the consumer and labour markets, the impact of aggressive tightening thus far, and the Fed's stance throughout the year. If a recession were to occur, it could be one of the most widely anticipated in history.

The 2023 earnings estimate for the S&P 500 may be too high according to some strategists, but some projections of sub USD 200 may also be too low. Healthy corporate and consumer balance sheets could mitigate earnings risk.

After a historic string of hikes in 2022, monetary policy has entered a restrictive phase and Fed hawkishness has become increasingly constrained as the fed funds rate quickly converges with the terminal rate. Inverted spread levels suggest further aggressive tightening is less probable unless the long end of the yield curve moves sharply higher. Regardless, a slower pace enables the Fed to assess the effect of their campaign on inflation's descent. Macro data throughout the year will dictate the central bank's path going forward.

Multiple yield curves are inverted as rate hikes prop up the short end and expectations of lower future inflation suppress the long end. While inversions are useful for predicting recessions, they are less useful for determining their onset and severity.

Inflation (consumer price index) peaked in June 2022 and has declined for six consecutive months. The Fed and many economists and strategists anticipate inflation falling materially over 2023. Going forward, markets will be monitoring where the measure ultimately settles relative to the Fed's longstanding target of 2%.

Against this macro and micro backdrop, equity volatility could persist in 2023. However, in the near-to-intermediate term, the technical setup is favourable from a historical perspective. Examining the previous four yield curve inversions (10-year minus 2-year), the S&P 500 Index rallied on average for 17 months, gaining 28.8%. Furthermore, pessimism among individual investors was elevated throughout 2022 – the first year in the history of the AAII Sentiment Survey that bullish sentiment was below its historical average every week of the year. This tone is being reflected in current positioning with investor cash levels reaching the loftiest levels since 2001. Usually, these data points have been contrarian indicators. In addition, the market is a discounting mechanism, which means stock prices tend to trough before earnings bottom as forward projections take on greater relevance. For long-term investors, volatility may provide opportunities to allocate at more attractive entry points.

US convertible securities should continue to provide benefits to investors, including an attractive asymmetric return profile and lower interest rate sensitivity relative to core fixed income. After a challenging 2022, the universe looks vastly different compared to the past decade. Today, many securities offer high yields and most exhibit defensive characteristics given lower deltas and closer proximities to bond floors. This dynamic may allow for greater downside protection if equity volatility rises in 2023. If the prices of underlying stocks advance, convertible securities are positioned to participate in the upside. Higher financing costs will serve to benefit new issuance which could reach USD 45-50 billion, according to market strategists.

Credit's risk/reward opportunity is compelling after a historic 2022. High-yield credit statistics and fundamentals are healthy, near-term refinancing obligations remain low and managements continue to prioritise debt reduction. As a result, defaults may increase but not significantly, trending towards historical averages. 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 macro risks. Notably, there are no instances of the high-yield asset class producing back-to-back negative annual returns and forward 12- and 24-month return projections based on the current yield have been consistent with mid to high single digits.

All data are sourced from Allianz Global Investors dated 31 January 2023 unless otherwise stated.
* Source: MSCI, as at 31 January 2023
^ Source: Bloomberg, as at 31 January 2023

For Allianz Life Thematica Fund:

Target Fund Manager's Comment (For Allianz Thematica)

Market Review

Equity markets have started the year where they ended 2022, rallying on hopes that inflation has peaked, central banks are about to pivot, and the global economy is doing a lot better than feared. The International Monetary Fund (IMF) upgraded its economic forecasts for 2023 and beyond, citing China's zero-COVID pivot, US' support for green investment and lower recessionary risk in Europe as reasons for the improved outlook

Despite continued hawkish statements from major central banks, a further easing in inflationary pressures contributed to the positive tone, as did optimism over China's reopening. European equities were helped by natural gas prices falling to levels last seen prior to Russia's invasion of Ukraine. Within the equity space, it has been a broad-based market advance with nine of 11 sectors globally seeing gains. Consumer Discretionary stocks led the way, defying fears over rising costs of living.

Regionally, China has led the way as the macro storm clouds have started to clear. The abrupt change in COVID policies should release pent-up consumer demand, and more decisive action to support cash-strapped property companies will help further buoy consumer sentiment. Europe's relatively high exposure to China through its multi-nationals has also provided a helpful kickstart to the year.

In the US, many of the beaten-up tech stocks have rallied strongly. An electric vehicle (EV) maker, for example, was up 40%. More broadly as a sign of the risk-on environment, bitcoin rose by 31% in January, meme stocks such as a movie theatre chain were also up more than 30%, and the SPAC Index was up 20%.

Market Outlook

The Fund was up over the course of January, continuing its positive development over the course of H2 2022. Stock selection among the included themes has been the largest contributor to positive performance, as the theme selection has been a minor burden. Overweight among themes like Health Tech and Next Generation Energy hurt from an allocation point of view but contributed well overall due to successful stockpicking which underscores our fundamental approach. Infrastructure and Intelligent Machines benefitted from the solid fundamental trends for the overall theme topped up with successful stockpicking. Clean Water and Land slightly underperformed as a theme which could not pick up from positive stockpicking.

From a sector perspective, the structural underweight in index heavyweight tech stocks like a US tech giant, the aforementioned EV maker and an ecommerce leader has been a positive contributor. This overcompensates for a slightly weaker development of the tech sector overall where layoffs and growth concerns still weigh on the sentiment.

The Health Tech theme benefitted from solid performance like a medical device company specialising in orthodontic treatment which reported further positive earnings. Materials has been the best contributor which is represented by companies like a lithium producing company or Lundin Mining which mines copper. Both companies provide critical materials for a successful energy transition. Over the course of last year, we shifted more to the theme Energy Transition which has tailwind due to politicians worldwide focussing on speeding up energy transition. The REPowerEU plan just as the Inflation Reduction Act gives credit for this.

Among the other parts of the portfolio, we sold 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 where multiples are on average market levels. 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

Markets posted a strong start to the year, with multiple tailwinds, including softening inflation, a reopening in China, and positive GDP figures helping offset recession concerns. Certain macroeconomic data suggested a resilient economy, with the U.S. labor market remaining tight with a fall in the unemployment rate to 3.5%. Meanwhile, inflation came down in the US and the Euro Area, spurring a bright start to 2023 across stocks and bonds. Central Banks remained cautious and data dependent, but markets priced in that rate hikes may soon moderate, especially in the US. US headline CPI increased by 6.5% YoY, its slowest pace in a year while core CPI increased by 5.7% YoY, in line with market expectations. In the Euro Area, headline inflation came in at 8.5% YoY, a noticeable decrease from 10.1% in November, supported by decreasing energy prices.

Core bond yields fell with inflation easing and the possibility of slowing central bank hikes. U.S., German and U.K. 10y yields rallied by -37bps, -28bps and -34bps, respectively. Yields at the front end also rallied, albeit at a slower pace. U.S., German and UK 2y yields rallied by - 22bps, -9bps and -10bps, respectively.

Multiple developed market countries showed signs of nearing the end of their hiking cycles, led by the Bank of Canada which signaled a pause in tightening after their hike of +25bps during the month. On the other hand, the ECB and BoE appeared to be continuing on their rate hiking trajectory, as inflation remained relatively stickier. In Asia, the BoJ left policy unchanged, having recently widened their bandwidth on yield curve control.

In terms of assets class performance, equities rallied, as we saw the S&P and MSCI World up +6.3% and +7.0%, respectively. Chinese assets extended their gains as re-opening of the Chinese economy continued. In credit, USD and EUR investment grade tightened by -13bps and -16bps, respectively. In high yield, USD and EUR spreads tightened by -51bps and -56bps, respectively over the month.