Market Review and Outlook

June 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 the month under review, global equity markets rebounded strongly with the MSCI World Index jumping +5.93% mom as US inflation, which had been stubbornly high, showed signs of moderating. The US’ Dow Jones Index rose by +4.56% mom as the concern regarding a debt ceiling deadlock evaporated with the Democrats and Republicans agreeing to have legislation suspending the debt ceiling and limiting government spending. This bipartisan move was well received by investors and helped to assuage fears of a government default. US May 2023 Consumer Price Index (CPI) fell to 4.0%, -0.9 ppt mom, showing commendable improvement from its high of 9.1% in June 2022. That said, the easing of inflation came against a backdrop of rising unemployment, which grew +0.3 ppt mom to 3.7% in May 2023, slightly ahead of the market’s expectations. Apart from that, its S&P Global US Composite Purchasing Managers’ Index (PMI) was still expansionary in May 2023 with a reading of 54.3, +0.9 mom. The Federal Open Market Committee (FOMC), which convened in mid – June 2023, had opted to leave interest rates unchanged to allow assessment of additional information and its implication for monetary policy. However, this was somewhat akin to a hawkish pause as the FOMC had warned that there could be more rate hikes coming later in the year as evinced by the ‘dot plot’ which would suggest that their median expectation should be for a rate of 5.6% by the year’s end. Over in Europe, the Stoxx 50 Index also rallied +4.29% mom, despite the European Central Bank (ECB) taking a diversionary stance vis-à-vis its US counterpart’s pause by raising its main rate by 25 bps to 3.5%. The preliminary May 2023 Core CPI for the Eurozone was +5.3% yoy, -0.3 ppt mom which was better than consensus expectations. However, the Eurozone Manufacturing PMI recorded a contractionary May 2023 reading of 44.8, worse than the previous month’s 45.8. That said, its May 2023 Services PMI reading was robust with an expansionary reading. From a labour market perspective, the Eurozone’s April 2023 unemployment rate remained stable at 6.5%, flat mom, steadily improving from the Covid – 19 era peak of 8.6% in August 2020. On the other hand, China’s Shanghai Composite Index declined by 0.08% mom on the back of fading expectations of a strong reopening rally, as shown by its May 2023 industrial production which grew by +3.5% yoy versus +5.6% in the previous month and by its June 2023 manufacturing PMI which recorded a reading of 49.0, its third consecutive contractionary result. To bolster growth, the People’s Bank of China (PBOC) cut its benchmark lending rates for the first time in 10 months. The 1 and 5 – year Prime Loan Rates were both lower by 0.1 ppt each to 3.55% and 4.20% respectively.

In June 2023, Brent oil edged up +3.1% mom to USD74.90/ bbl as Saudi Arabia, a member of the Organisation of the Petroleum Exporting Countries (OPEC), chose to cut production by 1m bbl/ day for at least a month starting in July 2023 as part of an effort by OPEC+ producers to support oil prices. Crude palm oil (CPO) had also surged +15.2% mom to RM3751/ MT as soybean oil prices jumped on dry weather concerns and a United States Department of Agriculture (USDA) report showing soybean planted areas in the US would be lower than expected.

On the ASEAN front, Malaysia’s FBMKLCI eased 0.75% mom amidst mixed economic data. April industrial production contracted 3.3% yoy after experiencing a +3.1% yoy growth in the previous month but CPI improved to +2.8% yoy, -0.5 ppt mom, better than consensus estimates. The net foreign equity outflow in June 2023 amounted to RM1348.3m, +85.2% mom, which brought its YTD total to RM4192.3m (1H22 recorded a net foreign equity inflow of RM6082.6m). To revitalise the Malaysian equity market, the Prime Minister announced various measures which included a reduction in stamp duty for trading listed shares on Bursa Malaysia to 0.10% from 0.15% starting in July 2023, promotional efforts to woo more sophisticated investors and the streamlining of the initial public offering (IPO) process.

The Stock Exchange of Thailand fell 1.98% mom due to political uncertainty post its general election in May 2023. The political landscape appeared to be in a state of flux during the month under review as the incumbent government was most likely going to be displaced by the opposition parties, Move Forward Party and Pheu Thai. However, the uncertainty could only be resolved in July when a new coalition is formed and Prime Minister is elected. Having said that, the ushering in of a new political coalition could give rise to policy uncertainties in the near – medium term. Despite reporting softer economic data, Singapore's Straits Times Index closed the month +1.49% mom higher. Its May 2023 industrial production fell 10.8% yoy and 3.9% mom, as it underperformed consensus estimates. Its May 2023 Non – Oil Domestic Exports (NODX) also contracted 14.6% mom which was worse than its +2.7% mom growth in April 2023 and consensus expectations of a 7.7% mom contraction. Lastly, the Jakarta Composite Index also rose by +0.43% mom as Bank Indonesia kept its policy rate unchanged at 5.75% during its June meeting, which was considered instrumental in its monetary stance to control core inflation within its 3.0% ± 1.0% target for 2023.

The global bond market saw another volatile month in June. US Treasuries (UST) weakened further with yields rising by 20 – 48 bps mom in a flattening manner. In the light of re – emerging hawkish vibes emanating from stronger – than – expected US 1Q23 GDP, persistent inflation in the US and the heightened probability of more rate hikes, this led to the sell – off in USTs. As mentioned earlier, during June FOMC, the Federal Reserve officials left interest rates unchanged, skipping an increase after raising rates 10 times in a row since March 2022. In their policy statement, the Fed said that they were giving themselves time to assess how the economy was reacting to what has been a rapid campaign to slow demand and wrestle fast inflation under control. However, the policymakers also predicted in their economic forecasts that they might raise interest rates even further to 5.6% by the end of 2023. The Fed chairman mentioned that the process of getting inflation down would be gradual, and given how much rates have already risen, stretching out into a more moderate pace would be appropriate.

In June, the Malaysian Government Securities (MGS) yield movements showed signs of weakness in tandem with UST movements. Coupled with the weaker MYR levels against the USD of late, market players were also seen reducing positions before the quarter ended. Mom, the MGS yield curve flattened as yields shifted higher between 10 bps to 15 bps for tenures 10 – year and below, while the 15 – year MGS and above were mostly unchanged due to poor liquidity. The 10 – year MGS closed 15 bps higher at 3.85%. At the Monetary Policy Committee (MPC) meeting on 6 July, Bank Negara Malaysia (BNM) maintained OPR at 3.0% as expected. The statement signals a moderation in domestic growth momentum following a strong first quarter outturn. Meanwhile, headline and core inflation are projected to trend lower in the second half of 2023, broadly within expectations. Risks to the inflation outlook remain highly subject to the degree of persistence in core inflation, changes to domestic policy on subsidies and price controls, as well as global commodity prices and financial market developments.

Foreign funds raised Ringgit bond holdings by RM5.2b in June (May: +RM3.0b). Foreign share of MGS dropped marginally to 35.9% (May: 36.0%) while foreign share of MGS + Government Investment Issues (GII) rose to 23.4% (May: 23.2%). Malaysia's foreign reserves shrunk by USD1.3b to USD111.4b as of end-June 2023 (May: USD112.7b).

Market Outlook

Though we are heartened by nascent signs of recovery, we are cognisant of the myriad risks that still permeate the global and domestic economies. While we acquiesce that the Fed did pause its rate hike momentum in its most recent FOMC meeting, we note the meeting also alludes to more rate hikes to come over 2H23 as per its statement released. On top of that, there are still other concerns such as the geopolitical risk stemming from the Russia – Ukraine conflict, the potential reemergence of new Covid outbreaks and the fizzling of China's economic reopening impetus. On the domestic front, several states will soon undergo state elections, but their results should not likely have any immediate effect on the stability of our federal government and in this regard, we eagerly await the rollouts of their plans to spur the economy.

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 channel monies into fundamentally good investments. There may be times when caution demands that we adjust our stance to adapt to perturbations in the market environment which may necessitate an investment direction shift. In addition, there may also be times when we could engage in a modicum of trading activity to take advantage of any prevailing market volatility.

In 2023, bond yield volatility in the fixed income market will persist due to the sticky inflationary data, uncertainty over the pace of global interest rate tightening and geopolitical risks. The FOMC dot plot for June 2023 shows the median rate at the end of 2023 at 5.6% versus 5.1% in March 2023, while the market implied rate indicates no rate cut by year-end. That would amount to two more quarter – point rate increases over the Fed's four remaining meetings this year. Locally, BNM in its July MPC statement said that its monetary policy stance was slightly accommodative and remains supportive of the economy.

They see limited risks of future financial imbalances and remain vigilant to ongoing developments. They will continue to monitor incoming data to make an informed the assessment of the outlook of domestic inflation and growth. The MPC will also ensure that the monetary policy stance remains conducive to sustainable economic growth amid price stability. External and internal factors could still contribute to bond market volatility that may affect local yields. However, we will continue accumulating bonds at favorable valuations while prioritising good quality names.

For Allianz Life Global High Payout Fund:

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

What helped?

- In a positive market environment, the Fund could outperform global equity markets as measured by FTSE All World Index. The Fund could also outperform its customised benchmark.

What hurt?

- Stocks with strong dividend stability attributed could not outperform in a risk-on market recovery during June.

Market Review and Outlook

Global equities started the month on a strong footing, buoyed by relief that the bill to raise the US debt ceiling had been passed by Congress. While the positive tone evaporated mid-month as central banks indicated that they still had some way to go in the fight against inflation, equity markets rallied once more towards month-end, buoyed by encouraging inflation data. Japanese equities continued to outperform, with major indices touching fresh 33-year highs. US indices also posted solid gains. In general, European shares lagged other markets.

US equities delivered solid gains over June, with the rally broadening out from artificial intelligence-related and technology stocks. Stocks were initially boosted by news that policymakers had agreed a last-minute deal to raise the debt ceiling, avoiding the threat of a US default. By mid-month, US equities had entered an official bull market, defined as a rise of at least 20% from a recent trough, and the rally continued with the S&P 500 Index and the Nasdaq Composite Index closing June at their highest levels since early 2022.

Euro-zone equities advanced moderately over the month (in EUR terms), as investors balanced concerns over slowing economic growth and the European Central Bank's continued hawkish stance against signs that inflation may be easing. Consumer Discretionary and Financials stocks were among the strongest performers while Communication Services was the only sector to record negative returns over the month.

For Allianz Life Asia Multi-IncomePLUS Fund:

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

Market Review

Asia Pacific equities advanced over June, helped by strong returns out of the Japan and India markets and a recovery in Chinese stocks. However, the headline figures mask some of the market's disappointments during the month over the size of stimulus measures in China amidst continued weak economic data highlighting the extent of the slowdown. Nevertheless, Chinese Premier Li Qiang indicated the nation was still on track to reach its annual growth target of around 5%, with the pace of growth expected to pick up.

Australian shares closed only modestly higher, with the Reserve Bank of Australia unexpectedly raising interest rates by 25 basis points. Elsewhere, the tech-heavy markets of Taiwan and Korea delivered more muted performance in June following their AI-driven surge during the previous month. Returns in ASEAN markets retreated slightly with overall economic activity easing and some signs of decelerating inflation.

Asian high-yield staged a solid rebound this month with +3% of total return, driven partially by better global risk sentiment and partially by hopes of further stimulus from China in the first half of the month. While other countries continue to deliver steady performance throughout the month, China high-yield had a volatile month again, up more than 6% in the first half of June on the back of stimulus hopes, while giving back 80% of this return in the second half as hopes faded. The star of the month was high-yield sovereign, with both Sri Lanka and Pakistan up +20% month-on-month, driven by respective developments on the debt restructuring / liquidity management side. Apart from High Yield Sovereign, Conglomerates and Oil & Gas also performed quite well while Financials, Real estate and Infrastructure underperformed.

In this environment, the Fund return was positive in USD terms in June.

Within the equity sleeve, key contribution came from our holdings in China and Hong Kong. For example, the top contributor was a property conglomerate in Hong Kong. Its share price was boosted by news of a potential takeover offer as well as further central government support for China's property sector. We used the strong share price performance to take some profit.

Conversely, the top detractor was a leading domestic skincare and cosmetics company in China. The stock was impacted by concerns of slower-than-expected consumption recovery. We continue to like the company's market share gain profile in China, where it targets mass and upper-mass consumers. Its multi-channel operation capability, particularly its strong online presence, is another area of strength that helps support growth prospects.

The asset allocation at the end of the month was 67.2% invested in Asian equities and 31.1% in Asian fixed income, with the remainder in cash.

Key portfolio activity in the past two months has been adding to the North Asian markets of Taiwan and Korea on signs of recovery for technology hardware and semiconductors. For example, in June we added a semiconductor component maker in Taiwan specialising in chip thermal technology. On the other hand, we exited our position in a hotel and entertainment operator in Australia.

For the fixed income sleeve, we invest in bonds with the aim of long-term interest accrual. Turnover was low for June with the key activity being a switch from a maturing bond to a new paper by the same issuer.

At the end of the month, we held 62 equities and 66 fixed income securities. The equity portfolio yield was 2.9%, and the average fixed income coupon was 5.2% 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. So far, the Asian market recovery from the low point last year has primarily been a function of an improvement in valuations. Nevertheless, these remain below longer-term average levels and should continue to provide support until there is more evidence of a pick-up in corporate earnings.

Looking ahead, we expect the Asian credit markets to continue to be driven by macro data and central bank decisions out of the US, as well as local developments such as policy direction from China and geopolitical headlines. We continue to like the long-term risk reward ratio of Asian High Yield credits, and we will continue to maintain a diversified portfolio focusing on 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 sovereign bond yield curve bearish flattened in the month of June, as the short-end and belly yields increased between 10-15bps while 15-year onwards increased between 1-6bps over the month. The yield increase tracked the uptrend in global bond yields as bond sentiment dampened due to hawkish central banks globally, with RBA, BOC and ECB raised rates by 25bps in June. Meanwhile, despite keeping the Fed Fund Rate unchanged in its June 2023 meeting, the US Federal Reserve' rate outlook was hawkish as reflected in its higher dot plot of 5.625% for 2023 (March dot plot: 5.125%). The expected timing of a potential rate cut was also pushed forward to 2024. Meanwhile, corporate bonds yields were better performers, with yield increase in a smaller quantum in the short-end, and flattish in the belly, while the long-end yields were down.

Concerns of the US debt ceiling intensified causing downward pressure in equity markets in May. Headlines mostly centred on the bill to lift the US$31trn debt ceiling, had numerous deadlocks ahead of the 5 June deadline. The month already started weaker on concerns of the economic recovery especially on sluggish data points coming out from China in addition to the persisted sell-off in US regional banks. However, one theme that dominated the global markets was the hype on AI which pushed technology sector higher. This led technology-centric indices higher e.g., Nasdaq (+5.8%), Taiwan (+6.4%) and Korea (+3.0%). On the flipside, weaker-than-expected macro data, geopolitical issues and absence of stimulus dampened Hong Kong and China in addition to a decline in commodities. Closer to home, the KLCI joined the decline within the region (-2.0% mom) although not the worst. Investors were mostly focused on the corporate earnings season, which was largely disappointing. Focus was then likely shifted to the upcoming state-elections (Selangor, Penang, Negeri Sembilan, Kedah, Kelantan, and Terengganu). Financials and industrials mostly dragged the index with only a handful that had gains. Within the broad sectors, Healthcare was the top performer for May, amongst the few sectors, mainly by the glove players on better sales volume and higher utilization giving indications that the sector has somewhat stabilized. Utilities and construction saw gains during the month.

Market Outlook

Domestically, inflation in Malaysia is also expected to moderate, leading to less pressure on the central bank to raise interest rates. With Malaysia GDP growth expected to be 4.00% in 2023, down from 8.7% in 2022, the indication of domestic growth softening could lead to more stable and positive govvies yields in 2023. Global growth is also expected to slow, with the Eurozone recently entering into technical recession following 2 consecutive quarters of negative GDP growth in 1Q 2023.

Despite the slowing global growth outlook, most central banks have been hinting on the importance to prioritize price stability given the still elevated (albeit moderating) inflation, over economic growth. The narrative of higher interest rate for longer is back, with the recent Fed Fund Rate dot plot at much higher-than-expected level of 5.625% for 2023 (March dot plot: 5.125%), and pushing forward the timing of a potential rate cut to 2024. This change in Fed Fund Rate outlook has also resulted in some houses revising their OPR outlook to another 25bps hike in 2023 due to the potential widening of interest rate differentials, as well as the weakening MYR.

While this is a possibility, we opine that the OPR will be maintained at this current pre-covid level of 3.00%, as we think that Bank Negara is more inclined to support growth rather than tackle inflationary pressures, and that further monetary policy actions will be data dependent. Our view remains that that interest rates are peaking, and we are in the stage of market recovery, although we expect some volatility in between.

As such, we maintain our positive outlook for Malaysia fixed income market as central banks globally shift towards more accommodative monetary policy. This peaking interest rate outlook, as well as anticipation of slower global growth, would be ideal for bond yields to fall. This would bode well for the valuations of fixed income funds.

We maintain cautiously positive on Malaysian equity markets moving forward on the back of the economic recovery and the follow through of re-opening activities. We have increased our equity (equivalent) exposure (with a target of 5% net increase) as value has emerged amidst the sell down, however, we remain wary on the risks of inflation and the pressure on global growth. We remain nimble in our approach as markets have rallied in recent times despite the increased risk of recession in the US – as data points have indicated. Nevertheless, we continue to be focused on the recovery and structural theme.

For Malaysian sukuk, given our view that the market has fully priced in OPR hikes and government yields already moved to pre-covid level, we will maintain our neutral to long duration stance as we find current bond yields to be attractive. We continue to overweight corporate bonds over sovereign bonds to anchor the Fund's income as corporate bonds are less volatile and provide higher yields to buffer against potential mark-to-market losses. We prefer strong AA-rated and A-rated papers for yield pickup while our holdings in AAA and GIIs will be primed for ROI purpose. We will continue to trade opportunistically to realize profits and reinvesting into longer duration and higher yield accretive sukuk, while also considering new primary issuances with higher yields to increase returns.

For Malaysian equities, stocks markets have been volatile, with recent stock movements centered within the selected sectors and reverse trades that previously had been derated following the rising interest rates. Therefore, we believe it is crucial to position our portfolios to keep pace with inflation, cope with hawkish monetary policies and cautiously take advantage of longer-term trends. We will continue to adopt a balanced approach with the portfolio structure into both growth and defensive sectors to navigate market volatility while remaining nimble. We will look opportunistically on quality names that have been oversold as well as defensive and dividend yielders. Elsewhere, the rise in OPR bodes well for a key theme for financials as this expands NIMs. Other sector we are keen includes materials, energy, and selected consumer.

For Allianz Life All China Equity Fund:

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

Market Review

The Fund outperformed the benchmark in June. Stock selection was the key contributor, with selection effects in the Industrials, Materials and Financials sectors proving particularly helpful during the month.

At a single stock level, a top contributor was an automotive components manufacturer. The company has strong ties with top automakers such as Li Auto and other Chinese car makers, as well as a US electric vehicle (EV) manufacturer by supplying noise vibration harshness (NVH) anti-vibration systems and other components such as chassis and thermal management systems. We initiated the position in the company as we continue to have a constructive long-term view on the EV industry. The aforementioned US EV manufacturer's overseas production base expansion and development of new products such as humanoid robots should also provide further growth drivers.

Conversely, a key detractor this month was a contract research organisation (CRO) that provides services for new drug research and development. Overall, the CRO industry has been challenged by weaker earnings visibility as the funding environment has become more constrained and research and development (R&D) investment more selective. While we used to like the company given its strong backlog of new projects, we have trimmed the position in view of the near-term challenge.

Market Outlook

June proved to be a roller coaster period for investors in China. Chinese equities rebounded over the first half of the month, boosted by growing expectations of further fiscal and monetary support. However, shares later gave back some of these gains as data highlighted the extent of the slowdown and its effects on Chinese companies, with industrial profits dropping 18.8% from a year earlier in the first five months of 2023. Nevertheless, Chinese premier Li Qiang indicated that the nation was still on track to reach its annual growth target of around 5%, with the pace of growth expected to pick up.

Indeed, the People's Bank of China (PBoC) took steps to stimulate the economy, cutting the 1-year loan prime rate, its key lending rate, by 10 basis points (bps) and the 5-year loan prime rate, a key rate for mortgages, was also lowered by 10 bps. The market seems to expect further easing measures to keep liquidity sufficient, although expectations are for more limited and targeted stimulus compared to past economic downturns.

Jitters in the housing market continue to point to a fragile recovery. Overall, we believe that while property has been instrumental to China's economic success, it is now set for a period of structural decline. From a long-term perspective, China needs to wean itself off the housing sector and look towards a more diversified set of future growth drivers in technology and a more modern and self-sufficient manufacturing base. We do not take the view that the property downturn represents a systemic risk – as we believe resources will be mobilised to prevent this by lowering mortgage rates, some easing of previous curbs on property transactions, and direct financing support to developers.

It is worthwhile to note that the national mortgage rate in China is already at its lowest level in over a decade, implying increased affordability and accessibility for the average Chinese homebuyer. Yet, new home prices fell for the first time in four months in May, and the value of home sales by property developers was also down from a month earlier.

The question remains whether this is the end of China's recovery, or merely a soft patch. Our view is the latter. As such, while equity markets may have been overly optimistic about the recovery earlier this year, markets may now be in danger of being overly pessimistic. China clearly wishes to orchestrate a more gradual, stable recovery this time around, especially in the areas of infrastructure and real estate. As such, we will need to see ramped-up consumer spending as a key growth driver, and so far activity has been muted relative to the high expectations in the early days of reopening. We continue to believe that the trend will pick up with time.

In recent weeks, it is encouraging that China has actively reengaged with prominent figures from the West eg, US secretary of state Antony Blinken's visit to the mainland, Bill Gates meeting with president Xi Jinping in Beijing, Elon Musk's meetings with top officials, and premier Li's first overseas visits in Germany and France since taking up this position. More recently, US treasury secretary Janet Yellen announced her intentions of travelling to China in the next month. These interactions send a strong message that China is not looking to decouple entirely with the rest of the world. Toning down the Sino-US geopolitical tensions would be an important market driver and one that is currently not reflected in valuations.

Portfolio activity in June was mainly focused on taking advantage of volatile market conditions to tighten up position sizes of existing holdings. We did initiate a new holding in the cyber security industry, where we see a potential re-rating story, thanks to rising demand for network security across government, telecommunications, cloud computing and other commercial applications.

As the market finds its footing, we believe that quality and growth names should deliver. Any improvement in liquidity and supportive policies would back up these views and lead to a more fundamentally-driven equity market.

Correspondingly, the Fund continues to be overweight in both 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.

As at the end of the month, the onshore/offshore allocation is close to benchmark with around 51% 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 started the month on a strong footing, buoyed by relief that the bill to raise the US debt ceiling had been passed by Congress. While the positive tone evaporated mid-month as central banks indicated that they still had some way to go in the fight against inflation, equity markets rallied once more towards month-end, buoyed by encouraging inflation data. Japanese equities continued to outperform, with major indices touching fresh 33-year highs. US indices also posted solid gains. In general, European shares lagged other markets. Hopes that central banks may ease up on raising rates were dashed when Canada and Australia unexpectedly increased borrowing costs in early June. While the US Federal Reserve (Fed) decided to keep rates on hold at its June meeting, central banks in Europe continued to tighten monetary policy. In contrast, the Bank of Japan (BoJ) kept rates at -0.1%, while the People's Bank of China (PBoC) cut its main policy rate for the first time in almost a year in the face of waning economic momentum. Inflation rates generally eased, with the UK a notable exception. Oil prices rose modestly, boosted by news that Saudi Arabia was to cut production. In contrast, natural gas prices jumped as concerns about lower supplies outweighed ample gas storage levels and weaker demand. Gold prices eased slightly, but prices for industrial metals, such as copper, rallied, touching a 6-week high.

Information Technology stocks delivered solid performance during the period, as measured by the MSCI World Information Technology Index and the sector's performance within the S&P 500 Index. Growth stocks broadly did well with the Russell 1000 Growth delivering solid performance and outperforming value stocks. After several months of mega-cap stocks leading what was overall a lacklustre US equity market, June saw better breadth as both the S&P 500 Equal Weight Index and Russell 2000 Index outperformed the S&P 500 Index.

During the period, the Fund delivered an outperformance on a net-of-fees basis versus the custom benchmark (50% MSCI ACWI Index/50% MSCI World Information Technology Index). The Fund benefitted from solid stock selection as sector allocation was a slight detractor. Stock selection within Consumer Discretionary was the top contributor, while the sector overweight allocation to Communication Services was the top relative detractor. Artificial intelligence (AI) infrastructure and AI-enabled industries were contributors, while AI applications were a detractor.

Contributors

Our position in electric vehicle (EV) producer Tesla Inc. was the top contributor over the period. Shares were strong during the month due to a combination of factors, including relatively solid sales in May, less price discounting during Q2 2023, incremental Inflation Reduction Act (IRA) credits, and agreements with some of its EV rivals to use the Tesla charging network.

A video game development software provider was another contributor. At a tech giant's annual worldwide developers conference, a partnership to help bring the company's apps and games to the latter's new spatial computing platform was announced. Shares were also supported by the company's newly launched AI marketplace that features curated solutions to accelerate AI-driven game development and gameplay enhancements.

Detractors

Our position in cloud-based communication platform Twilio Inc. was the largest detractor of relative returns. Shares were down in June on profit taking after strong performance in the prior month due to interest from an activist investor.

Another detractor was a next generation end-point and threat intelligence security provider. After strong performance in the month of May as several cyber security companies reported better-than-expected results, shares saw some profit taking in the last few weeks of June.

Market Outlook

As we reach the halfway point of 2023, the Fed has largely followed the expected script in continuing to raise rates, but the US economy has remained resilient as have corporate earnings, fuelling the debate of a hard versus a soft landing. Overall, we still believe there may be greater volatility to come given uncertainty over Fed interest rate policy for H2, mixed business sentiment and slowing economic growth, and whether a recession will actually happen, and if so the duration and depth.

On the macroeconomic front, the Fed raises rates by a combined 75 basis points (bps) in H1 to bring the fed funds rate to a 5-5.25% range. Despite pausing at their June meeting, subsequently Fed officials have been hawkish in their belief that rates may need to go higher. Although core inflation has come down substantially from last year, it remains well above the 2% target. Giving the Fed greater flexibility to fight inflation has been the remarkable resilience of the US economy. Manufacturing activity has started to turn down, but the services sector and job market remain strong. It was feared back in March that tightening credit conditions as a direct result of the banking stress would pressure US business activity and spending to a greater degree, but this has not materialised yet and the aftershocks from the regional banking failures appear to have dissipated for now.

From a corporate earnings perspective, the results have been mixed, but better than expected. For the S&P 500 Index, 69% and 79% of companies reported stronger-than-expected Q4 2022 and Q1 2023 earnings, respectively. An important caveat was that expectations had already been guided down previously and results have come in better than the conservative guidance.

The real story has been the resilience of corporate earnings and rise in equity valuations as interest rates begin to normalise. Using price-to-earnings (P/E) as a proxy, valuations for the S&P 500 ended 2022 well below 2019 levels. However, despite elevated rates and tightening financial conditions in H1, valuations have expanded modestly. P/Es are still below 2019 levels, and we believe earnings expectations are reasonable, but this could change as we get into 2024, depending on the state of the US economy.

The primary narrative in US equity markets recently has been “all things AI” and which companies are best poised to benefit from growing interest in the technology. Semiconductors were the recent winners along with some cloud and software providers that provided a clear business thesis around the technology going forward. For the Q2 2023 earnings reporting season, the broader topic of AI was mentioned in more than 20% of earnings calls, with a significant increase of discussions on generative AI. In addition, Voya recently conducted a study in which 300 information technology key decision makers were asked, “What technologies do you see having the greatest impact on your company in the next five years?” and the top answer was AI and machine learning. However, outside of the Technology sector, some companies have started to see slower end demand as the economy slows, so it is unclear if positive momentum from AI can carry over into the broader equity markets over an extended period.

What is the implication for investors in the Fund? The developments around generative AI and generative pre-trained transformer (GPT) technology are a further demonstration that long-term demand for companies within AI infrastructure should remain strong given the computing requirements for training complex AI models and subsequent inference needed for edge intelligence. AI applications will be required to optimise the functionality of these new tools and technologies, of which the plug-ins are just the first step to greater customisation for enterprises and consumers. Lastly, several companies in the AI-enabled industries category have already announced GPT-related functionality added to their services to enhance customer engagement and drive greater productivity. We believe this is just the tip of the iceberg as companies become more comfortable with the technology’s potential and software applications improve to drive greater efficiencies across more business processes in time.

For Allianz Life Oriental Income Fund:

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

Market Review

Asia Pacific equities advanced over June, helped by strong returns out of the Japan and India markets and a recovery in Chinese stocks. However, the headline figures mask some of the market's disappointments during the month over the size of stimulus measures in China amidst continued weak economic data highlighting the extent of the slowdown. Nevertheless, Chinese premier Li Qiang indicated that the nation was still on track to reach its annual growth target of around 5%, with the pace of growth expected to pick up.

Japanese equities outperformed other developed markets in local currency terms. The TOPIX hit fresh 33-year highs, driven by solid corporate earnings, ongoing yen weakness and strong overseas demand for Japanese shares. Meanwhile, the Bank of Japan (BoJ) maintained its accommodative stance despite increasing price pressures across the economy, citing high uncertainty in the outlook. Indian equities similarly advanced over the month, with the BSE Sensex Index hitting an all-time high as the country's economy attracted strong overseas interest.

Elsewhere, the tech-heavy markets of Taiwan and Korea delivered more muted performance in June following their artificial intelligence-driven (AI-driven) surge during the previous month. Returns in ASEAN markets retreated slightly with overall economic activity easing and some signs of decelerating inflation. Australian shares closed only modestly higher, with the Reserve Bank of Australia (RBA) unexpectedly raising interest rates by 25 basis points (bps).

The Fund outperformed the benchmark in June. Stock selection was the primary driver, with Information Technology and Industrials picks proving particularly helpful during the month.

At a single stock level, a top contributor was Koh Young Technology. Headquartered in Korea, Koh Young is a global leader in inspection equipment for consumer and auto electronics. We have high conviction in this name and believe future growth potential from AI-based smart factory solutions should help shift the market's perception of Koh Young from a hardware maker to more of a software company.

Conversely, a key detractor this month was Lasertec Corp in Japan, which provides inspection machines for semiconductor and flat panel production. The company has a specific technology niche focused on mask inspection machines where it has a leading global position. There was little in the way of news flow on Lasertec over the month, and the stock remains a high conviction holding within the portfolio.

The main change to positioning in recent months has been adding exposure to Japan, now a key overweight as a result of the opportunities we are finding amidst a more supportive market backdrop. Other overweight markets include Taiwan and New Zealand – a by-product of specific stocks owned in these markets – which is balanced by underweight positions in India and China.

At a sector level, the largest position is Information Technology, primarily in technology hardware, including exposure to memory chipmakers, where valuations have been touching trough levels seen in previous down cycles. Other notable sector positions include Energy, where 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.

Market Outlook

Within the region, the last few months have been a rather volatile period for investors. Financial markets in China are clearly losing confidence in the economic recovery. While the future pace of growth remains uncertain, the slowdown makes it more likely that there will be further policy support, though expectations are for more limited and targeted stimulus compared to past economic downturns. Nevertheless, valuations should provide some downside cushion.

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

For Allianz Life Total Return Asian Equity Fund:

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

Market Review

Asia ex Japan equities advanced moderately over June. Chinese equities rebounded over the first half of the month, boosted by growing expectations of further fiscal and monetary support. However, shares later gave back some of these gains as data highlighted the extent of the slowdown and its effects on Chinese companies, with industrial profits dropping 18.8% from a year earlier in the first five months of 2023. Nevertheless, Chinese premier Li Qiang indicated that the nation was still on track to reach its annual growth target of around 5%, with the pace of growth expected to pick up.

Indian equities advanced over the month, with the BSE Sensex Index hitting an all-time high as the country's robust economy attracted strong overseas interest. Returns in other Southeast Asian markets retreated slightly with overall economic activity easing and some signs of decelerating inflation. Elsewhere, the tech-heavy markets of Taiwan and Korea delivered more muted performance in June following their artificial intelligence-driven (AI-driven) surge during the previous month.

The portfolio underperformed the benchmark in June. Stock selection was a key detractor, notably in the Information Technology and Energy sectors, more than offsetting positive selection effects in the Financials area.

At a single stock level, a top detractor was a Korea-based petrochemicals and alternative energy company. Its share price sunk on the back of an unexpected rights issue, with the intention to raise capital for new business initiatives, mainly in the low carbon space, and pay down debt. Nevertheless, we continue to see long-term earnings growth potential in the business and see the green tech and electric battery businesses as important growth drivers.

Conversely, a leading contributor was HDFC Bank, India's leading private sector bank. We continue to view HDFC Bank as an exceptionally well-managed business. In addition, we see the upcoming 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.

Portfolio activity in June included exiting a Korean mobile services platform and initiating two Taiwanese technology names, one in the electronic displays and paper business, and another in the semiconductor space. More broadly, activity in recent months has been to reduce the China allocation, which is now a significant underweight position. Our preference is for Southeast Asian markets such as Singapore and Thailand, as well as India, where we have greater confidence in the outlook for corporate earnings growth.

At a sector level, the Fund is overweight in Consumer Staples, Communication Services and Financials. This reflects both where we expect to see the main driver of the region's economic rebound as well as more structural opportunities in the coming years. The largest active positions at month-end were HDFC Bank, Taiwan Semiconductor Manufacturing Company (TSMC) and Samsung Electronics.

Market Outlook

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

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

For Allianz Life Global Income Fund:

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

Market Review

Markets finished higher in June on better-than-expected economic data, waning inflation, and a pause in interest rate hikes. Durable goods orders and consumer confidence exceeded forecasts, gross domestic product (GDP) growth was revised higher, and housing industry statistics such as home sales, housing starts and building permits topped estimates. In addition, weekly jobless claims remained subdued and headline inflation readings declined month-over-month. At June's Federal Open Market Committee (FOMC) meeting, the US Federal Reserve (Fed) left interest rates unchanged – the first time in 11 meetings – at a range of 5% to 5.25%. Chair Powell later remarked that further increases are likely necessary to bring inflation back to the Fed's 2% target. In response, odds of a quarter point rate hike at July's FOMC meeting rose and US Treasuries settled lower.

In this environment, global equity markets, as measured by the MSCI World Index, returned +6.05%.* Non-US developed equities underperformed their US counterparts and value stocks modestly underperformed growth. Global convertible securities advanced and new issuance slowed month-over-month. Global high-yield bonds also finished lower and new issuance lagged the prior period. Global fixed income, as measured by the Bloomberg Global Aggregate Index, returned -0.01% with US exposure underperforming non-US.^

The portfolio advanced in the month, driven by strength in equities, convertible securities, and high-yield corporate bonds.

Fund performance was aided most by Apple, which introduced its newest innovation – VisionPro, and Oracle, which is expected to benefit from acquisition synergies. A software convertible security issuer outperformed following a strong quarterly result and favourable outlook, an electric vehicle (EV) manufacturer that announced charging partnerships with multiple automakers traded higher, and Amazon was supported by an improved consumer outlook. A British food processor and an Italian online betting company focused on increasing market share rebounded after underperforming in May. Other top contributors included Microsoft, Meta, and a semiconductor stock on continued artificial intelligence-related (AI-related) optimism.

The top detractors consisted of Alphabet and Salesforce, both of which consolidated strong gains in May. An Israel-based automotive technology company continued to trade range bound, and a biotechnology convertible issuer underperformed despite receiving an accelerated approval. Holdings with exposure to memory and data storage, managed care, and pharmaceuticals also detracted from performance.

Exposure increased the most in Health Care, Technology, and Industrials, and decreased the most in Financials, Consumer Staples, and Communication Services.

Market Outlook

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

Steady employment and consumer spending, wage growth, excess savings, accumulated asset wealth, housing market improvement, and onshoring activity are potential economic tailwinds. The lagged effects of monetary policy and quantitative tightening and the durability of household balance sheets to withstand higher interest rates are key risks to growth.

Inflation indicators, including consumer and business expectations, point to further cooling. Waning inflation and a currently restrictive monetary policy stance will likely influence the Fed to consider slowing the pace of interest rate hikes further or even ending their current campaign.

Corporate earnings estimates for 2023 and 2024 seem to have stabilised following better-than-expected Q1 results and upward revisions to earnings and sales projections.

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

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

Credit's risk/reward opportunity is compelling after a historic 2022. High-yield fundamentals are healthy, near-term refinancing obligations remain low and managements continue to prioritise debt reduction. Given these factors, defaults should remain well below historical cycle peaks. Notably, there are no instances of the asset class producing back-to-back negative annual returns** and forward 12- and 24-month return projections based on the current yield have been consistent with mid to high single digits#. 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. US Treasuries will continue to play an important role, providing reliable income, counter-cyclicality, and principal protection. After an outsized move in rates, US Treasuries should be better positioned to provide portfolio diversification benefits going forward.

All data are sourced from Allianz Global Investors dated 30 June 2023 unless otherwise stated.
* Source: MSCI, as at 30 June 2023
^ Source: Bloomberg, as at 30 June 2023
** Source: ICE Data Services, as at 31 December 2022
# Source: JP Morgan, as at 31 October 2022

For Allianz Life Thematica Fund:

Target Fund Manager's Comment (For Allianz Thematica)

Market Review

Global equities started the month on a strong footing, buoyed by relief that the bill to raise the US debt ceiling had been passed by Congress. While the positive tone evaporated mid-month as central banks indicated that they still had some way to go in the fight against inflation, equity markets rallied once more towards month-end, buoyed by encouraging inflation data.

Japanese equities continued to outperform, with major indices touching new 33-year highs. US indices also posted solid gains. In general, European shares lagged other markets. Hopes that central banks may ease up on raising rates were dashed when Canada and Australia unexpectedly increased borrowing costs in early June. While the US Federal Reserve (Fed) decided to keep rates on hold at its June meeting, central banks in Europe continued to tighten monetary policy. In contrast, the Bank of Japan kept rates at -0.1%, while the People's Bank of China cut its main policy rate for the first time in almost a year in the face of waning economic momentum. Inflation rates generally eased, with the UK a notable exception.

At a sector level, Consumer Discretionary, Industrials and Materials stocks rallied the most, while defensive sectors, such as Consumer Staples and Utilities, trailed. Communication Services was another laggard in June, having been one of the strongest sectors in May. In contrast to the prior month, there was little difference in the performance of growth stocks versus value ones.

Market Outlook

The Fund was up over the course of June. For the first half of the year, the fund gained in value. Stock Selection has been a positive contributor to overall performance. From a theme perspective, Next Generation Energy and Infrastructure have been the key positive drivers. On the other hand, Digital Life and Pet Economy slightly detracted. From a sector perspective, the underweight in Consumer Staples and Communication Services contributed well just like the overweight of Industrials did. Being overweight to Utilities and Health Care created negative contribution just as the underweight in Consumer Discretionary.

Top contributors from a single stock perspective have been an equipment rental company (Infrastructure) which benefitted from sound industry trends. Align Technologies (Health Tech) recovered over the course of June after the shares suffered following the quarterly results. Negative contribution occurred from the underweight to index heavyweight stocks like a technology company that designs graphics processing units, an electric vehicle manufacturer and Apple where the Fund is structurally underweight compared to its benchmark.

Over the course of this year, we increased our exposure to Digital Life and Energy transition. We expect continuous tailwind due to politicians worldwide focusing on speeding up the energy transition. The RePowerEU Plan just as the Inflation Reduction Act give credit for this. Digital Life theme remains the largest theme in the portfolio due to solid growth trends. Intelligent Machines and Health Technology also saw modest increases, while exposure to Infrastructure and Clean Water declined slightly over the first half of the year as some accumulated gains were realised. We are keeping the portfolio in the "Core" area from a style perspective.

For Allianz Life Elite Income Fund:

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

Market Review

The month of June left investors with plenty to ponder, as conflicting economic signals persisted. We saw bifurcated equity and bond markets to end the first half of the year. Signs of moderating inflation failed to stop bond yields from rising as the US economy remains resilient amidst a hawkish pause by the Fed. Non-farm payrolls for May came in much higher than expected, causing a sharp rise in Treasury yields. Although the number for June, released in early July, meaningfully disappointed expectations. US headline CPI fell to 4% YoY, though core CPI only decreased modestly to 5.3% YoY. Eurozone headline inflation fell to 6.1% YoY as core inflation declined slightly to 5.3% YoY. In the UK, inflation proved to be the stickiest, with headline inflation staying put at 8.7% YoY and core inflation edging up to 7.1% - which pushed UK gilt yields even higher.

Core bond yields rose, particularly in the front-end, as expectations for central banks terminal rates broadly rose, with UK gilts underperforming in particular. US, German and UK 2y yields rose +49bps, +48bps and +93bps, respectively. The 10y portion rose to a lesser extent, with US, German and UK 10y yields up +19bps, +11bps and +20bps, respectively.

In terms of asset classes, equity markets wrapped up the first half of the year with a strong performance led by the NASDAQ and the Japanese Nikkei Index. In credit, USD and EUR investment grade spreads tightened -14bps and -9bps, respectively. High yield outperformed this month, with USD and EUR high yieldspreads tightening -69bps and -40bps, respectively.