Allianz

Market Review and Outlook

July 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 July 2023, Brent oil surged +13.5% mom to USD85.56/bbl due to expectations of tightening global supply and increasing demand for the rest of the year. Saudi Arabia is expected to extend a voluntary oil output cut of 1 million barrels per day for another month to include September, while the US may have to start replenishing their Strategic Petroleum Reserve. Crude palm oil (CPO) also rose +1.1% mom to RM3792/MT, driven by supply disruption on the back of the Black Sea grain corridor deal breakdown, strong demand and rising premiums of soybean and sunflower oils.

On the ASEAN front, Malaysia's FBMKLCI surged +6.01% mom, helped by a net foreign inflow of RM1414.5m in July, reversing an outflow of RM1348.3m in June. Its May industrial production rebounded by +4.7% yoy, after contracting 3.3% yoy in the previous month. June CPI also improved to +2.4% yoy, -0.4 ppt mom, in line with consensus estimates. To boost the

Malaysian economy, PM Dato Seri Anwar Ibrahim unveiled a RM5b plan for an economic reset in a Madani Economy Framework while the Minister of Economy, YB Rafizi Ramli launched the National Energy Transition Roadmap (NETR) on 27th July 2023. The Stock Exchange of Thailand rose +3.52% mom despite the ongoing political uncertainty post its general election in May 2023. Its June S&P Global manufacturing PMI fell to 53.2 as compared to 58.2 in May. Singapore's Straits Times Index closed the month +5.24% mom higher mirroring gains in the US which had benefitted from the release of encouraging economic data. From an economics standpoint, its June 2023 industrial production fell 4.9% yoy but rose 5.0% mom. Its June 2023 Non – Oil Domestic Exports (NODX) contracted 15.5% mom, as compared to a drop of 14.7% in the previous month. Lastly, the Jakarta Composite Index also rose by +4.05% mom as Bank Indonesia kept its policy rate unchanged at 5.75% for the 7th consecutive meeting during its July meeting. Bank Indonesia deemed the current monetary policy stance consistent with keeping inflation within its 2.0 – 4.0% target range for the remainder of 2023. Headline inflation fell to 3.5% in June from 4.0% in May. Its S&P Global manufacturing PMI reading of 52.5 in June was higher than the 50.3 in the previous month.

US Treasuries (UST) weakened further in July as most UST yields reached year – to – date highs in the first week of July after the strong private – sector employment data. Private sector jobs surged by 497k in June, well ahead of the 267k in May and the 220k estimate. Yields declined slightly after that as US inflation in June cooled further to its lowest point since early 2021 with CPI decelerating to 3.0% yoy (May: 4.0% yoy, consensus: 3.1% yoy) while core CPI eased to 4.8% yoy (May: 5.3% yoy, consensus: 5.0% yoy). As widely expected, FOMC on 26th July 2023 raised its policy rate by a quarter point to 5.25% – 5.50% to bring it to the highest level in more than 22 years. Chairman Powell left open the possibility of further hikes which he said would depend on incoming data. With the next FOMC meeting on 19 – 20th September 2023, Powell's remarks at the Jackson Hole in late August could shed more light on the Fed's future interest rate path. Fitch Ratings on 1st August downgraded the US debt rating from AAA to AA+, citing fiscal deterioration over the next 3 years and repeated last minute debt ceiling negotiations that threaten the government's ability to pay its bills.

The Malaysian Government Securities (MGS) yields were largely stable in July despite the broad increase in global bond yields following Fed's rate hike. MGS were traded ranged bound, given the lack of domestic catalysts. Malaysia's inflation eased further in June 2023 to 2.4% yoy (May: 2.8% yoy, consensus: 2.4% yoy), which is the lowest level in 2023.

Foreign inflows accelerated to RM11.3b in July (June: +RM5.2b, YTD: +RM32.4b) despite the relatively weak MYR which resulted in the foreign share of MGS increased to 36.6% (June: 35.9%) while foreign share of MGS + Government Investment Issues (GII) rose to 24.0% (June: 23.4%). Malaysia's foreign reserves expanded by USD1.5b to USD112.9b as of end-July 2023 (June: USD111.4b).

Market Outlook

With no FOMC meeting in August and thus no imminent rate adjustments within the month, investors will probably keep a close eye on other economic data, such as payroll figures to ascertain if the Fed could be resuming its rate hike trajectory in September. Furthermore, we believe that investors' scrutiny would also extend to the economic indicators and the stances of other central banks around the world. In a relatively low-inflation environment which is in stark contrast to its western peers, the People's Bank of China will continue to be pressured to support the Chinese economy while keeping a close eye on policy impact on currency and capital flows. In Malaysia, all eyes will be on the upcoming election in the 6 states as well as the August result reporting season.

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 time where 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 where 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 likely persist due to the concerns over a potentially lengthy albeit easing inflationary environment and geopolitical risks. The latest market – implied rate as of early August indicates a 40% chance of a quarter – point hike by year end and rate cuts totalling more than a percentage point next year. Locally, we heartened by BNM's Monetary Policy Committee's (MPC) posture which remains slightly accommodative and supportive of the economy amidst ensuring growth sustainability as well as price stability. Nevertheless, we are cognizant they will continue to monitor incoming data to better appraise our domestic inflation and growth outlooks. Despite MGS's improved risk – reward, external and internal factors could still contribute to bond market volatility that may affect local yields. However, we will continue accumulating bonds at favourable 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 perform in line with global equity markets as measured by FTSE All World Index. The Fund could outperform its customised benchmark.

What hurt?

- Stocks with purely strong Dividend Stability attributes could not outperform in a risk-on market environment during the past month.

Market Review and Outlook

Global equities rallied over July, buoyed by further signs of cooling inflation and hopes of a soft landing for the US economy. The promise of additional stimulus measures from the Chinese authorities to boost the nation's stagnating economy further lifted sentiment, particularly in emerging markets. Energy stocks led the advance as oil prices gained, with the Communication Services sector also posting solid gains. In contrast, defensive sectors such as Utilities, Health Care and Consumer Staples lagged.

US equities advanced over July, with the S&P 500 Index touching its highest level since January 2022 in the closing days of the month. Shares were boosted by hopes of a soft landing given a further fall in the US headline inflation rate as well as data underlining the continued resilience of the US economy. The start of the earnings season was generally positive, albeit news at a company level was mixed.

Eurozone equities closed July modestly higher. The region was hit by extreme weather, with southern Europe experiencing record high temperatures (leading to devastating wildfires) while northern Europe saw torrential rain and gales. Political risk also returned to the region. The Dutch coalition government collapsed after failing to reach agreement over immigration. In Spain, the general election failed to deliver the expected swing to far-right parties, resulting in a period of uncertainty where the largest parties will try to establish a working coalition. Real Estate was the standout sector, while Consumer Staples, Health Care and Utilities all closed the month lower.

For Allianz Life Asia Multi-IncomePLUS Fund:

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

Market Review

Asia ex Japan equity markets advanced over July. Despite continued evidence of a slowdown in China's economy, sentiment was lifted by hopes of further stimulus measures from the Chinese authorities. Speculation that US interest rates may have peaked and that the US economy may experience a soft landing also helped.

A late-month rally helped both onshore and offshore Chinese equities to close July sharply higher, with the Politburo pledging to step up policy measures to boost economic growth. Additionally, China's housing and urban development minister admitted the property sector needs more effective measures to bring more confidence into this critical sector and the overall economy. The hope of policy support overshadowed weakness across the reported economic data, such as a weak Q2 gross domestic product (GDP) growth rate and a low purchasing managers' index (PMI) print in July.

The tech-heavy markets of Taiwan and South Korea also gained, although semiconductor stocks were held back by news that Taiwan Semiconductor Manufacturing Company (TSMC) had lowered its outlook for 2023. ASEAN markets moved higher, buoyed by signs of easing inflationary pressures and the prospect of further stimulus from the Chinese authorities. Similarly, Indian equities continued their upward trajectory, hitting new all-time highs before retreating slightly as mixed corporate results pressured key sectors of the stock market.

Excluding the China Real Estate sector, the Asian high yield credit market closely tracked the rally in other developed high yield markets in July. Gaming issuers from Macau performed well as gaming revenues continued their strong rebound post COVID reopening. Sentiment for Macau was further supported as the credit rating of an integrated resort developer and operator was upgraded and the issuer was elevated from the high yield to investment grade sector. Indian renewables delivered a steady and positive return this month, underpinned by a few positive developments in the industry, as well as solid earnings releases. At the sectoral level, the sole negative contributor was the Chinese Property sector as concerns mounted on potential defaults earlier in the month. The Politburo meeting towards the end of the month provided reprieve to the sector and triggered a strong rebound, but not enough to prevent the sector from closing the month in the red.

The Fund return was positive in July.

Within the equity sleeve, key contributions came from our holdings in China and Hong Kong. For example, the top contributor was Alibaba, the ecommerce giant in China. Its share price has been strong on the back of the Politburo's emphasis on private sector support and consumption incentives to boost domestic demand.

Conversely, key detraction came from our holdings in the semiconductor hardware chain. The sector overall experienced profit taking after a strong rally in previous months. Despite the near-term weakness, we are positive on the sector's outlook, particularly relating to developments in structural opportunities such as generative artificial intelligence (AI).

The asset allocation at the end of the month was 67.4% invested in Asian equities and 32.1% in Asian fixed income, with the remainder in cash.

Outside of China, we are finding a number of attractively valued structural growth stories in the ASEAN region that tap into favourable demographics, rising consumption power and reordering of supply chains associated with "China +1". In the tech-heavy markets of Taiwan and South Korea, the semiconductor stocks look interesting with a bottoming out of the DRAM cycle, and the structural AI story should continue to be an important growth driver. In July, we added an electronics and power module producer from Taiwan to the portfolio. On the other hand, we exited our position in an asset manager and brokerage in Australia.

For the fixed income sleeve, we invest in bonds with the aim of long-term interest accrual. Turnover was low for July with the key activity being a reduction in our exposure to an issuer with potential credit concerns.

At the end of the month, we held 62 equities and 65 fixed income securities. The equity portfolio yield was 2.8%, and the average fixed income coupon was 5.2% with an average credit rating of BB and duration of 2.4 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 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.

In China, notwithstanding recent encouraging signals from policymakers to boost economic growth, the economic recovery will probably not progress in a straight line. There will likely be continued equity market volatility, but the recovery trend should incrementally improve as more concrete government support measures unfold. The formulation and implementation of effective policy measures should result in significant improvements in market confidence, in our view.

For high yield credits, we prefer the ex-China issuers as projected default rates remain low and carry attractive. Market technicals are also supportive as supply is low. For Chinese high yield credits, we prefer fundamentally-driven bottom-up selection as the sector remains prone to idiosyncratic noise. We expect more detailed supportive policies to continue to be announced in China, but do not expect an aggressive panacea.

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 market closed mixed in July, with yields closing between -3bps to +4bps month-on-month. The 10-year MGS yields was down 2.4bps to 3.83%. Demand was strong in July, as evidenced in the strong bid-to-cover ratio of the govvies auctions in July of between 1.9x to 2.6x. Meanwhile, corporate bonds performed better than govvies, with yields down 2-13bps across the board, with the 10y and longer outperforming the shorter-ends. BNM kept the OPR unchanged in its July meeting at 3.00%, in line with our expectations that Bank Negara is more inclined to support growth rather than tackle inflationary pressures. The MPC considers the monetary policy stance as "slightly accommodative", thus remains supportive of the economy. Meanwhile, the US Federal Reserves hiked the Fed Fund Rates by 25bps to 5.50% as expected, with accompanying statement saying monetary policy actions will be data driven going forward. Central banks globally changed their tone in July and dialled down on hawkishness on the back of soft data in the US and UK/EU, thus rising expectations that interest rates are to peak soon.

In equities, July started on a rough patch on easing inflation data countered with strong jobs data. However, positive news from China, following reports that it is ending the rectification of large fintech companies suggests a normalize regulatory environment moving forward. The Politburo signaled more support for the economy, which centered the troubled real estate sector in addition to boosting consumption and resolving local government debt. US CPI data also came in below expectations, raising the expectations that the Fed is near its end of its rate-hike cycle. Closer to home, after falling for 6 straight months, the KLCI reversed to a positive 6.0% mom to 1,459 pts reducing the year-to-date negative performance to -2.4%. In terms of sectors, property, industrials, and energy sectors were the best performers while REITs, transportation and telecommunications were at the bottom. Similarly, foreign investors turned net buyers to the tune of US$313m (RM1.4bn) for the first time after 10 consecutive months since August 2022. The region benefited from net flows as there were net foreign inflows of US$333.6m into Philippines and US$181.56m into Indonesia. The Thailand saw net foreign selling amounting to U$23.1m (understandable given the political environment at this juncture). Year-to-date, Indonesia remains the only nation with positive net foreign inflows, amounting to US$1.2bn. In local currency terms, the region all saw gains with Malaysia being the best performer, followed by Singapore (+5.2%), Indonesia (+4.0%), Thailand (+3.5%) and Philippines (+1.9%). Elsewhere, in currencies, the Ringgit gained 3.5%.

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 technical recession following 2 consecutive quarters of negative GDP growth in 1Q 2023.

We expect 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. Furthermore, we think investors can move on following the conclusion of the recent state elections. We think now, there is more certainty, at least on local reforms and implementation of policy. However, we remain wary on the risks of inflation and the coming economic slowdown. Indeed, recent GDP numbers here as well as elsewhere has been less inspiring. In any case, we remain nimble in our approach as markets have rallied in recent times, perhaps helped by the recent foreign fund flows, and pertaining to the polls. 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 overweigh 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, equity markets saw a relief in the recent month but has mainly been focused on selected sectors e.g., property and reverse trades that had been sold-down due to rising interest rates. These are driven by expectations of revival in infrastructure projects as well as valuation re-rating. On this front, we are looking at thematic plays e.g., green energy initiatives, public infrastructure projects, etc. Other sector we are keen includes, energy, and selected consumer. All in all, we maintain a balanced approach with the portfolio structure into both growth and defensive sectors to navigate market volatility while remaining nimble.

For Allianz Life All China Equity Fund and Allianz Life All China Equity Fund (USD):

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

Market Review

The Fund underperformed the benchmark in July. Stock selection in the Information Technology and Consumer Discretionary sectors was the key source of relative underperformance, offsetting better picks in Financials, Health Care and Energy.

At a single stock level, one of the top detractors this month was a dominant office software service provider in China. Key growth drivers include China's software localisation trend and tailwinds from office artificial intelligence (AI) applications. Although the stock has seen some profit taking pressure after a strong rally earlier this year, we believe the company has credible plans to introduce large language models into its existing suite of products and should be able to monetise these new services soon.

Conversely, a key contributor was one of our top holdings, Citic Securities, a large full-service brokerage house in China. Citic Securities operates across diverse business segments including research, asset management and underwriting. The company is a key beneficiary of ongoing financial reforms in China, especially reforms related to initial public offerings (IPOs) given its investment banking capabilities. In a month where the Politburo stressed the need for policy to turn more supportive and implied looser credit conditions ahead, our holding in Citic Securities benefitted.

Market Outlook

A late-month rally helped Chinese stocks to close July sharply higher. The improvement was driven by growing optimism over further support measures from the Chinese authorities, with the Politburo pledging to step up policy measures to boost economic growth. Additionally, China's housing and urban development minister admitted the property sector needs more effective measures such as lower home mortgage rates and down-payment ratios for first-time home buyers to boost home purchases, bringing more confidence into this critical sector and the overall economy.

The hope of policy support overshadowed weakness across the reported economic data. China's gross domestic product (GDP) grew a mere 0.8% quarter-on-quarter (seasonally adjusted) in Q2, far weaker than the expansion seen in the first three months of 2023. In addition, the official manufacturing purchasing managers' index (PMI) fell to 49.9 in July, marking the fourth consecutive month of contraction.

With valuations at the current levels, weak domestic investor appetite for risk assets and under-ownership among foreign funds, the bear case for China equities is well known. Typically, when investor sentiment has been so poor, China equity markets have recovered. Indeed, the acknowledgement by the Politburo meeting of the disappointing economic data has sparked a catalyst for Chinese assets to react positively.

In addition to the rhetoric around policy support, we see some softening of direct Sino-US tensions, with more face-to-face exchanges being reported between the two countries in recent weeks. Another important development has been more accommodating tones from China's top leadership towards private and internet companies, and we believe this will help rekindle animal spirits among households and corporates, especially towards offshore-listed Chinese names.

Notwithstanding such encouraging signals, the economic recovery will probably not progress in a straight line. There will likely be continued equity market volatility, but the recovery trend should incrementally improve as more concrete government support measures unfold. The formulation and implementation of effective policy measures should result in significant improvements in market confidence, in our view.

We continue to focus on areas of the market where we find structural growth tailwinds. For example, we initiated several new ideas during the month, including a networking equipment producer in router switches and cloud service servers, which should benefit from increasing adoption of AI servers; an auto braking system manufacturer that is gaining market share in the domestic market on the back of import substitution trends; as well as a leading semiconductor testing solutions provider with circa 60% share in China's analog/mixed signal testing market and a growing presence in digital and power discrete testing markets. We also increased our weighting in internet platforms following positive tones from Chinese policymakers.

As at the end of the month, the onshore/offshore allocation is close to benchmark with around 48% in China A-shares. On a sector level, the largest overweight remains in the Consumer Discretionary sector, while our largest underweight is in the Financials sector.

For Allianz Life Global Artificial Intelligence Fund and Allianz Life Global Artificial Intelligence Fund (USD):

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

Market Review

Global equities rallied over July, buoyed by further signs of cooling inflation and hopes of a soft landing for the US economy. The promise of additional stimulus measures from the Chinese authorities to boost the nation's stagnating economy further lifted sentiment, particularly in emerging markets. Energy stocks led the advance as oil prices gained, with the Communication Services sector also posting solid gains. In contrast, defensive sectors such as Utilities, Health Care and Consumer Staples lagged.

After pausing its rate-hiking cycle in June, the US Federal Reserve (Fed) raised rates by 25 basis points (bps) in July, taking the fed funds rate to a 22-year high of 5.25–5.50%. US policymakers suggested that any further rises will be data-dependent. The European Central Bank (ECB) also implemented another 25-bps increase but amended its guidance, suggesting that further hikes could be considered "if necessary". Meanwhile, the Bank of Japan (BoJ) tweaked its yield curve control policy to allow more flexibility.

Oil prices surged to a 3-month high following the decision by the Organisation of the Petroleum Exporting Countries plus (OPEC+) countries to implement deep production cuts, with Brent crude closing the month around USD 85 per barrel. Wheat prices jumped to a 5-month high on news that Russia had terminated the Ukrainian Grain Export Agreement but later lost ground on the prospect of ample US supplies.

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. From a sector perspective within the MSCI AC World Index, Energy stocks surged as oil prices rebounded. The Communication Services sector was another bright spot, helped by well-received earnings reports from a technology conglomerate and a social media company. Conversely, stocks in the Health Care and Utilities sectors lagged.

During the period, the Fund outperformed versus the custom benchmark (50% MSCI ACWI Index/50% MSCI World Information Technology Index). The Fund benefitted from stock selection in Information Technology and Health Care sectors, while Materials and Real Estate slightly detracted from performance. Artificial intelligence (AI) Infrastructure, AI Applications and AI-enabled industries categories all outperformed the custom benchmark.

Contributors

Our position in ON Semiconductor Corp., a power semiconductor provider with presence across various end-markets, was the top contributor over the period. During the period, the stock benefitted from solid earnings and positive outlooks from semiconductor peers. Looking out, the company's growth trajectory remains robust given its focus on being a value-added semiconductor supplier to high-growth opportunities that include electric vehicles, data centres and silicon carbide.

Our underweight position in a tech giant was another contributor for the period. Shares pulled back as quarterly results missed investors' lofty expectations. The stock was also weighed by the lack of clarity on the launch timing of the highly anticipated productivity tool powered by AI.

Detractors

Our position in Enphase Energy Inc., a producer of microinverters for residential solar energy systems and energy storage solutions, was the top detractor over the period. Despite releasing solid quarterly results, shares underperformed as forward guidance missed investor expectations due to channel inventory build. Longer term, Enphase is well positioned to benefit from rapidly increasing attach rates of backup storage systems to residential solar systems and expansion of smart grid systems.

The underweight positioning to a graphics processing units manufacturer was another detractor for the period. Shares benefitted from positive commentary on AI-oriented server spending from other technology companies.

Market Outlook

From a macroeconomic perspective, most major indicators in July pointed to the increased probability that the US economy may achieve a soft landing. The phrase "goldilocks" was used to describe lower-than-expected inflation readings combined with continued resilience in the labour market and consumer spending. Although the Fed did raise rates again by 25 bps at its late-July meeting, there was an expectation that this may be the last raise as the current cycle of inflation continues to abate. However, chairman Powell and other Fed governors made clear that they expect inflation to take time to come down to their 2% target and therefore rates will need to stay higher for longer. Low unemployment and higher gross domestic product (GDP) allow the Fed greater flexibility to keep rates at higher levels. Once again, the expected recession continues to be pushed further into the future.

The benign economic environment was one catalyst for equity markets, but another was better-than-expected earnings results and guidance. For July, over 80% of the companies in the S&P 500 reported beats versus expectations. However, the median stock which beat on earnings actually lagged the S&P 500 Index by 50 bps the day of the report, which is both counter-intuitive and the opposite of historical performance. We believe this shows that despite companies having lowered expectations over the past few quarters, beating that lowered bar is less important than other indicators such as margins, free cash flow and of course forward guidance.

After the strong year-to-date equity market returns (especially for technology stocks), we expect to see more volatility over the coming quarters as interest rates likely stay higher for longer and as more restrictive financial conditions slow economic growth. We believe earnings for many of the companies we are invested in are likely to be more resilient in the context of a slowing economy as they are benefitting from innovations in AI. Our portfolio remains aligned to our long-term perspective, as AI will impact all industries and will be a key avenue to shareholder value creation.

The US equity markets this year have favoured companies that are poised to benefit from growing interest in AI. 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 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 and Allianz Life Oriental Income Fund (USD):

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

Market Review

Asia Pacific equity markets advanced over July. Despite continued evidence of a slowdown in China's economy, sentiment was lifted by hopes of further stimulus measures from the Chinese authorities. As a result, both onshore and offshore Chinese equities closed the month sharply higher.

Across North Asia, the tech-heavy markets of Taiwan and South Korea gained, although semiconductor stocks were held back by news that a semiconductor manufacturing company had lowered its outlook for 2023. In Japan, the TOPIX Index (total return) ended the month up 1.48% in local terms, buoyed by further signs of cooling inflation and hopes of a soft landing for the US economy.

ASEAN markets moved higher, buoyed by signs of easing inflationary pressures and the prospect of further stimulus from the Chinese authorities. Similarly, Indian equities continued their upward trajectory, hitting new all-time highs before retreating slightly as mixed corporate results pressured key sectors of the stock market.

Australian shares rose over the month. After two unexpected rate hikes, the Reserve Bank of Australia (RBA) kept interest rates on hold at 4.1% in July, saying it wanted to assess the impact of previous hikes on the economy. The Fund underperformed the benchmark in July. Stock selection in the Materials and Industrials sectors was detractive, offsetting better picks in Financials and Energy.

At a single stock level, a top detractor 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 artificial intelligence-based (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. The share price has been volatile, and Koh Young was a victim of profit taking after last month's rally.

Conversely, a key contributor this month was Alchip, a Taiwanese semiconductor company that designs sophisticated, customised chips for a global clientele with applications in growth areas such as cloud computing and data centres. Alchip has a growing project pipeline, with AI chipset customisation set to become a key growth driver. We believe Alchip offers a superior technology, and the stock has been a direct beneficiary of AI-related trends.

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 given specific stocks owned in these markets – which is balanced by underweight positions in China and India.

The weighting to Energy has come down over recent months. China's strategic goal to reduce reliance on imported energy should support higher capital expenditure (capex) by upstream oil majors. However, the risk of a global slowdown and reduced demand for oil products has increased this year, warranting a less overweight position.

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. 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

A late-month rally helped Chinese stocks close July sharply higher. The improvement was driven by growing optimism over further support measures from the Chinese authorities, with the Politburo pledging to step up policy measures to boost economic growth. In particular, we believe more accommodating tones from China's top leadership towards private and internet companies will help rekindle animal spirits among households and corporates, especially towards offshore-listed Chinese names. In addition to the rhetoric around policy support, we see some softening of direct Sino-US tensions, with more face-to-face exchanges being reported between the two countries in recent weeks. This should be positive for the overall region, while valuations remain attractive.

In Japan, the outlook continues to look 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 equity markets advanced over July. Despite continued evidence of a slowdown in China's economy, sentiment was lifted by hopes of further stimulus measures from the Chinese authorities. Speculation that US interest rates may have peaked and that the US economy may experience a soft landing also helped.

A late-month rally helped both onshore and offshore Chinese equities to close July sharply higher, with the Politburo pledging to step up policy measures to boost economic growth. Additionally, China's housing and urban development minister admitted the property sector needs more effective measures to bring more confidence into this critical sector and the overall economy. The hope of policy support overshadowed weakness across the reported economic data, such as a weak Q2 gross domestic product (GDP) growth rate and a low purchasing managers' index (PMI) print in July.

The tech-heavy markets of Taiwan and South Korea also gained, although semiconductor stocks were held back by news that Taiwan Semiconductor Manufacturing Company (TSMC) had lowered its outlook for 2023. ASEAN markets moved higher, buoyed by signs of easing inflationary pressures and the prospect of further stimulus from the Chinese authorities. Similarly, Indian equities continued their upward trajectory, hitting new all-time highs before retreating slightly as mixed corporate results pressured key sectors of the stock market.

In a strong month for Asian equities overall, stock selection was a key contributor, notably in the Energy and Consumer Staples sectors. From a geographical perspective, stockpicking in China was particularly beneficial, with names in the white liquor and internet industries delivering solid gains. Conversely, selection within India was a drag on overall performance.

At a single stock level, a top contributor was a Korea-based petrochemicals and alternative energy business. Its share price recovered after having suffered from an unexpected rights issue in June that sent its share price lower. We believe the company intends to use the capital for important new business initiatives, mainly in the low carbon space, and pay down debt. We continue to see long-term earnings growth potential in the business and see the green tech and electric battery businesses as key growth drivers.

Conversely, a leading detractor was HDFC Bank, India's leading private sector bank. Its share price was a relative laggard in a market where high growth-oriented names performed best. 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.

In July, we initiated positions in a premium Indian real estate developer, a Chinese ecommerce platform and a Korean semiconductor business. 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, Financials and Energy. This reflects bottom-up ideas expected to benefit from the region's economic rebound as well as more structural opportunities in the coming years. The largest positions in the portfolio at month-end were HDFC Bank, 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 the month on continued economic strength, moderating inflation, and a strong start to the Q2 earnings season. Consumer confidence exceeded estimates, weekly jobless claims remained subdued, small business optimism increased, and construction spending was higher. Additionally, inflation readings were softer than expected, which supported the case that the US Federal Reserve's (Fed's) hike cycle was nearing an end, following July's 25-basis point (25-bps) rate increase by the central bank. Thus far, 80% of S&P 500 companies reported a positive earnings surprise (above the 5-year average of 77%) and 64% reported a positive revenue surprise, according to FactSet Insights. Corporate management commentary was generally positive, highlighted by stabilisation of business trends.

In this environment, global equity markets, as measured by the MSCI World Index, returned +3.36%.* Non-US developed equities underperformed their US counterparts and growth stocks underperformed value stocks. Global convertible securities and high-yield bonds also finished higher but new issuance was subdued. Global fixed income, as measured by the Bloomberg Global Aggregate Index, returned +0.69% with US exposure underperforming non-US.^

The portfolio benefitted from strength across equities, convertible securities, and corporate bonds.

The top contributors to Fund performance in July included a chemical company, a major US bank that surpassed analyst estimates, and a logistics stock that advanced on the prospect of firmer pricing. Alphabet outperformed after reporting surprising strength in its cloud, search, and YouTube businesses, A graphics processing units manufacturer gained on continued artificial intelligence-related (AI-related) optimism, and Meta traded higher following better-than-expected quarterly results and guidance. Other top contributors included multiple software companies, a Chinese ecommerce company, and an Israel-based beauty and wellness technology company.

Notable detractors in the period included a Japanese machinery company that reduced guidance, and a waste management company on mergers and acquisitions-related (M&A-related) concerns. An aerospace company was pressured after reporting an engine issue at a subsidiary – a near-term headwind. An insurance company declined after reporting mixed results, a health care robotics position fell despite reporting robust procedure growth, and a cyber security holding settled lower after advancing sharply in June. Other laggards consisted of Microsoft and positions in retailing, medical technology, and auto parts.

Exposure increased the most in Energy and Health Care, and decreased the most in Technology and Real Estate.

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.

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. 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 31 July 2023 unless otherwise stated.
* Source: MSCI, as at 31 July 2023
^ Source: Bloomberg, as at 31 July 2023
** Source: ICE Data Services, as at 31 December 2022
# Source: JP Morgan, as at 31 October 2022

For Allianz Life Thematica Fund and Allianz Life Thematica Fund (USD):

Target Fund Manager's Comment (For Allianz Thematica)

Market Review

Global equities rallied over July, buoyed by further signs of cooling inflation, and hopes of a soft landing for the US economy. The promise of additional stimulus measures from the Chinese authorities to boost the nation's stagnating economy further lifted sentiment, particularly in emerging markets.

After pausing its rate-hiking cycle in June, the US Federal Reserve (Fed) raised rates by 25 basis points (bps) in July, taking the fed funds rate to a 22-year high of 5-5.25%. US policymakers suggested that any further rises will be data dependent. The European Central Bank (ECB) also implemented another 25-bps increase but amended its guidance, suggesting that further hikes could be considered "if necessary". Meanwhile, the Bank of Japan (BoJ) tweaked its yield curve control policy to allow more flexibility.

The Japanese yen strengthened on growing speculation that the BoJ would start to amend its ultra-accommodative monetary policy stance. Elsewhere, the British pound and euro advanced modestly against the US dollar amid rising hopes that the Fed's latest rate increase may be its last in this rate-hiking cycle.

Oil prices surged to a 3-month high following the decision by the Organisation of the Petroleum Exporting Countries plus (OPEC+) countries to implement deep production cuts, with Brent crude closing the month around USD 85 a barrel. Energy stocks led the advance as oil prices gained, with the Communication Services sector also posting solid gains. In contrast, defensive sectors such as Utilities, Health Care and Consumer Staples lagged.

Market Outlook

The Fund returned positively in July, underperforming the MSCI AC World Index.

Stock selection has been a positive contributor to overall performance. From a theme perspective, Digital Life and Infrastructure have been the key positive drivers. On the other hand, Health Tech and Next Generation Energy slightly detracted. From a sector perspective, the underweight in Consumer Staples and Real Estate contributed well just like the overweight to Materials did. Being overweight to Utilities created negative contributions just as the underweight in Communication Services and Financials.

Top contributors from a single stock perspective have been a Chinese molybdenum producer (Next Generation Energy) which benefitted from further stimulus measures from the Chinese government. A manufacturer of high-performance insulation and building envelope technologies (Infrastructure) has been among the best performers after reporting solid earnings figures. Lam Research (Digital Life) has performed well from the positive news flow regarding improvements of semiconductor capital expenditure (capex).

Negative contribution occurred from the underweight to index heavyweight stocks like a graphics processing units manufacturer, a technology conglomerate and a social media company where the Fund is structurally underweight compared to its benchmark.

Over the course of this year, we increased our exposure to Digital Life and Next Generation Energy. We expect continuous tailwind due to politicians worldwide focussing on speeding up the energy transition. The RePowerEU Plan just as the Inflation Reduction Act gives 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 H1 as some accumulated gains were realised. We are keeping the portfolio in the "core" area from a style perspective.

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

Market Review

In July, although positive market sentiment suggested a soft landing in sight, Central Banks were indeed hawkish across the board. US headline inflation for June dropped to 3% year-on-year, while core fell to 4.8% YoY from 5.3% the previous month. In the Eurozone, the flash number indicated that July annual HICP was likely to decrease for a third consecutive month to 5.3%, with core inflation staying the same at 5.5%, surpassing the headline result. Meanwhile, in the UK, headline inflation softened to 7.9% YoY, with core inflation also coming in lower at 6.9% YoY.

The downside surprise came with slowing but resilient economic growth data, increasing expectations for a soft landing. US Q2 GDP was resilient at 2.4% quarter-on-quarter, while the UK labor market revealed strong June average weekly earnings data at 7.3% YoY. The Eurozone, however, had a softer growth outlook with its Q2 GDP coming in at 0.3% quarter-on-quarter. The Fed maintained its hawkish stance and raised the key policy rate by 25 basis points to 5.50%. Markets expected the BoE to follow suit in August (which it did), although the expected peak for the Bank Rate fell to 5.75%. The ECB raised the deposit rate by 0.25% to 3.75%, accompanied by hints of a pause on the way. Japan's moves at the end of the month were slightly complicated but hawkish, as the BoJ increased the upper limit of the 10y JGB from 0.5% to 1%.

Core bond yields rose, with 10y US Treasury and German Bund yields rising by +12bps and +10bps respectively, while 10y UK gilt yields fell by -8bps. The short end of the UK gilts curve saw a stronger rally of -28bps, likely due to the benign inflation data that was incorporated into the market's expectations. Japan's JGB curve saw historic moves, with its 10y yields rising by +21bps as a result of the adjustment to its yield curve control policy.

The equity market saw a broad-based rally driven by AI-related optimism and macro data, with all major indices except for the Nikkei posting gains. In credit, USD and EUR investment grade spreads tightened -10bps and -13bps respectively. High yield outperformed this month, with USD and EUR high yield spreads tightening -23 and -16bps respectively.

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