

Market Review and Outlook

February 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

The equity market kicked off strongly in 2023 but hit a speed bump in February 2023 as the MSCI World Index reversed 2.53% mom. Initially fueled by hopes of an easing of the global monetary tightening measures on the back of declining inflation, market sentiment was subsequently negatively affected by robust economic data during the month under review. As a result, investors had to reappraise their expectations of the interest rate peak and the pace at which it would get there. In US, the Dow Jones Index fell by 4.19% mom as the resilient economic data such as the January 2023 Consumer Price Index (CPI) of +6.4% yoy (+0.5% mom) and retail sales growth of +3.0% mom came in ahead of expectations. Moreover, US nonfarm payroll employment rose by 517k in January 2023, above consensus expectations, propelled by job growth in the leisure and hospitality, professional and business services, government and health care sectors. Without doubt, this would serve to sustain a hawkish Federal Reserve (Fed) outlook. Hence, while the Fed Fund Rate was raised by only 25 bps to 4.75% in February 2023, Chairman Powell cautioned that if it would continue to encounter strong economic data, further rates hikes would likely be on the cards. Over in Europe, the Stoxx 50 Index instead rose by +1.80% mom despite the European Central Bank (ECB) raising interest rates by 50 bps to 2.5% in the month as it attempted to rein in inflation to the 2% target level. Like its American counterpart, the ECB president had also chimed in to share her concerns noting that the ECB could likewise raise interest rates by another 50 bps in March 2023. That said, the S&P Global Eurozone Composite Index had a positive January 2023 reading of 50.3 after a series of contractionary readings over 2H22. China's Shanghai Composite Index also enjoyed a +0.74% mom as the country continued to leverage on its economic re-opening momentum post its Covid Zero lockdown. This was evident with the January Caixin China PMI Composite reading of 51.1 which was an expansionary reading after 4 months of contraction. During the month under review, the People's Bank of China (PBOC) kept the 1-year and 5-year Loan Prime Rates unchanged at 3.65% and 4.30% respectively.

In February, Brent oil continued its decline, falling 1.8% mom to USD83.89/ bbl despite global economic recovery. This was due to it being suppressed by concerns of the Fed needing to raise interest rates to keep inflation in check. On the other hand, crude palm oil (CPO) price surged +10.6% mom to RM4113/ MT as Indonesia imposed temporary restrictions on palm oil exports to ensure a sufficient local supply of cooking oil while the country adopted B35 biodiesel (contains 35% palm oil-based biofuel) from B33 starting 1 February 2023.

The ASEAN equity markets experienced somewhat lacklustre performances in February. Singapore's Straits Times Index dropped 3.06% mom due to a slowdown in economic data such as its January 2023 Non-Oil Domestic Exports (NODX) being down -25.0% yoy and below expectations and its Purchasing Manager Index being 49.8, its 5th contractionary reading since September 2022. The Singaporean government launched its Budget 2023 which primarily focused on helping its citizenry deal with the inflationary pressures, a redistribution of wealth, with higher duties for home buyers, more luxury car and tobacco taxes. The Stock Exchange of Thailand declined by 2.94% mom as its 4Q22 GDP growth came in below expectations at +1.4% yoy but -1.5% qoq. In addition, the Thai Baht had weakened by 6.8% mom versus the USD due to rising concerns of

the Fed's further rate hikes which would cause foreigners to cut back on equity positions for fear of sustaining foreign exchange losses. Thailand's prime minister had also stated that he was planning to dissolve the House in March 2023, thus paving way for an election in May 2023, which might precipitate some uncertainty. Closer to home, the FBMKLCI also eased 2.11% mom despite posting a 4Q22 GDP growth of +7.0% yoy which was ahead of consensus estimates, due to apprehensions surrounding the shadow of potentially rising US rates. Foreigners were net sellers in 6th consecutive months with net equity outflow totaling RM169m during the month under review. As such, the Ringgit slipped to RM4.4873: USD1.00 from RM4.2677: USD1.00 in the previous month. Apart from that, investors were lukewarm over the Malaysian Unity government's new Revised Budget 2023 which targeted a 2023 GDP growth of +4.5 % yoy with a reduced deficit of 5.0%. Lastly, Indonesia's Jakarta Composite Index ended the month somewhat flattish, inching up +0.06% mom. During the month under review, Bank Indonesia (BI) kept its benchmark interest rate (7 – day Reverse Repo Rate) at 5.75% which was in – line with expectations. However, it is noteworthy that BI stressed that the current interest rate level was already sufficient to steer inflation to its 2 – 4% target by 2H23.

US Treasuries (UST) yield curve flattened with yields rising 29 – 63 bps mom following the hawkish shift after the release of January inflation data. The Fed's released Federal Open Market Committee (FOMC) minutes hinted that officials would stay on its hawkish course until data more assuredly shows that inflation is on a sustained downward path to 2%. Meanwhile, the CPI rose 0.5% mom in January (+0.1% mom in December 2022) mainly from the rising shelter, gas and fuel prices. These numbers suggested that inflation which had accelerated starting the new year would put the Fed in a position where it likely would continue hiking interest rates over a longer period. Selling pressure continued when the personal consumption expenditures (PCE) price index, the Fed's preferred inflation measure, rose 0.6% mom in January which is three times higher than the December pace (+0.2% mom).

After the January yield rally, Malaysian Government Securities (MGS) yields shifted higher by 1 – 13 bps mom in February in tandem with the UST movement. The 10 – year MGS was up 11 bps to close the month at 3.91%. Market players also remained cautious pending the re-tableting of the National Budget 2023 on 24 February. From the budget, the fiscal deficit was expected to consolidate further to 5.0% of GDP (revised from 5.5% of GDP) to -RM93.94b from -RM99.48b in 2022. With the revised fiscal deficit target, the market would expect the projected gross MGS/GII issuances to be lower at RM175.0b, with the net issuance declining by RM5.5b. This could be positive for the bond market as a lower fiscal deficit would be positive for Malaysia's sovereign ratings and help to address rating agencies' concerns about the country's fiscal consolidation path post – pandemic. Meanwhile, Malaysia's inflation rate in January 2023 eased to 3.7% yoy as compared to 3.8% yoy in December 2022.

Foreign funds net bought Ringgit bond holdings in February with net inflows of RM4.3b (January: +RM0.5b). Foreign share of MGS remained unchanged at 34.5% (January: 34.5%) while foreign share of MGS+MGII declined marginally to 22.2% (January: 22.3%). Malaysia's foreign reserves reduced by USD0.9b to USD114.3b as of end-January 2023 (January: USD115.2b).

Market Outlook

There can be many risks to the 2023 global economic recovery which will be monitored with great interests by investors. They include a multitude of exo – and endogenous factors, some of which are the still elevated inflation and the risk that excessively strong responses by central banks might tip the world into a recession, the escalation of geopolitical risks like the Russia – Ukraine conflict and the ever – present threat of another new Covid variant outbreak which might result in more supply disruptions. In Malaysia, it will be prudent to carefully observe signs of possible political instability amongst the coalition partners that may compromise the Unity government. That said, there are also some tailwinds that can aid this recovery such as the re – opening of China post Zero Covid Policy which may spur regional tourism and trade.

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. Nonetheless, we may at times adjust our stance to adapt to any market environment flux which may necessitate an investment direction shift. Otherwise, there may also be times where we could engage in a modicum of trading activity to take advantage of any prevailing market volatility.

For bonds, volatility in the fixed income market is expected to persist due to the uncertainty surrounding the pace and magnitude of interest rate hikes resulting from inflationary pressures. With the stronger US nonfarm payrolls report and higher inflation data paving the way for further hikes, the market anticipates that the Fed Funds rate will reach 5.25% to 5.50% in 2023, with no possibility of a rate cut. Bank Negara Malaysia's (BNM) latest assessment in January 2023 maintained that the current monetary policy stance would be supportive of economic growth. Despite the improved risk – reward of MGS due to BNM policy normalisation, external and internal factors could still contribute to bond market volatility that might affect local yields. However, we would continue to accumulate 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?

- The Fund benefitted from the positive exposure to Quality stocks.

What hurt?

- The Fund was negatively impacted by exposure to Growth stocks.

Market Review and Outlook

Global equities reversed some of the previous month's strong gains in February. Hopes that central banks may be nearing the end of their rate-hiking cycles were dashed by stronger-than-expected economic data and hawkish statements from central bank policymakers. US and emerging market stocks closed the month lower, while shares rose modestly in Europe and Japan.

US stocks sold off over February as strong economic data stoked fears that the US Federal Reserve (Fed) would have to keep rates higher for longer to bring inflation back to target levels. The decline was broad based, with corporate earnings falling slightly on a year-on-year basis in Q4 2022 as a tight labour market and strong US dollar pressured margins.

European equities rallied modestly over February (in EUR terms). Sentiment was buoyed by growing hopes that the region may avoid a recession, with the fall in natural gas prices and higher-than-normal gas storage levels for the time of year contributing to the positive tone. Performance at a sector level was mixed: Communication Services and Energy companies posted solid gains, while Materials and Real Estate stocks sold off the most.

For Allianz Life Asia Multi-IncomePLUS Fund:

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

Market Review

Asia excluding Japan equity markets retreated over February as stronger-than-expected US economic data and resilient inflation raised fears that the US Federal Reserve (Fed) would need to keep rates higher for longer. A stronger tone to the US dollar also weighed on sentiment.

Chinese equities lost ground over February, disrupting the strong recovery ignited by Beijing's zero-COVID pivot, with sentiment dented by geopolitical tensions between China and the US. Hong Kong-listed stocks sharply underperformed mainland shares as a result. On a positive front, China's COVID-19 infection levels plummeted after peaking in early January. Elsewhere in the region, returns in Taiwan and South Korea were largely flat. ASEAN markets declined but fell less than the broader region. While inflation rates are falling in Indonesia, Thailand, and Malaysia, the Philippines central bank raised rates by 50 basis points (bps) to 6% during the month, and Singaporean inflation also ticked slightly higher to 6.6% in January, following a 1% increase in its sales tax to help fund higher healthcare spending.

The Asian USD high yield credit market, as represented by the JP Morgan JACI Non-Investment Grade Custom Index, corrected by -1.38% in February. Following the strong rally since November 2022, the market saw some profit taking in early February led by the Chinese property sector. This later reversed in the last week of the month as market participants resumed investing in the market again.

In this environment, the Fund return was negative in USD terms in February.

Within the equity sleeve, the top detractors came from our position in China internet platforms. Share price performance reflects the broader market decline and profit-taking from the reopening rally. With domestic consumption expected to lead the economic recovery, these companies are well-positioned to benefit from the increase in demand for discretionary goods and services.

Conversely, the top contributor over the month was a leading domestic skincare brand in China. The company is gaining market share by targeting mass and upper-mass consumers to benefit from the consumption upgrade cycle. Its multi-channel operation capability and, particularly, its strong online presence is a key strength that is boosting growth.

The asset allocation at the end of the month was 66.6% invested in Asian equities and 32.9% in Asian fixed income, with the remainder in cash. Portfolio activity for the equity sleeve was limited in February. We maintain a higher portfolio allocation towards China where we see stronger potential for economic growth and earnings recovery in 2023.

For the fixed income sleeve, we invest in bonds with the aim of long-term interest accrual. In February, we sold our exposure to an Indonesian issuer with potential credit concerns while rotating into bonds issued by Thai and Chinese issuers for diversification.

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

Market Outlook

We maintain our base case for a recovery in Asian markets with some macro headwinds now appearing to have eased, yet we are not out of the woods. Interest rates, inflation, and the path of the US dollar continue to be watchpoints at the macro level, while earnings growth, input costs, pricing power, and consumer demand remain on our radar at the micro level. So far, the market recovery from the low point last year has primarily been a function of improvement in valuations. These remain below longer-term average levels and should continue to provide support until there is more evidence of a pick-up in corporate earnings. Mixed data across markets and sectors should provide a better environment for our style of active stockpicking.

The abrupt change in China's COVID policies coupled with a broader pivot towards a more pro-growth agenda makes an economic recovery more likely, with the 5% gross domestic product (GDP) growth target seemingly achievable in 2023. The expanding manufacturing purchasing managers' index (PMI) in February and pick-up in larger city property sales are encouraging signs. We expect economic recovery in China to accelerate with more supportive policy for the property market and private sector, in particular.

Despite the strong rebound in Asian high yield credits over the last few months, valuations are still attractive on a historical basis. The positive market sentiment is expected to continue as the Chinese economy recovers post reopening.

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

Market Review

The Malaysian government bond yields corrected in February after the rally in January which was spurred by BNM's surprise OPR pause. Govvies' yields increased over the month of February on the back of rising global bond yields due to hotter than expected US inflation and recent strong data from the US which reinforced expectations that rates would likely stay higher for longer. Comparatively, Malaysian govies were pretty resilient as yields increased by 5-16bps while US Treasury yield spiked by a whopping 28-63bps.

Global markets were mixed in February with declines in the US and most of Asean while Europe fared better. Broad-based gains last month were erased as the reversal in the US disinflation trend (strong data in inflation, labour, and consumption) pushed market expectations to "higher for longer" from "soft landing". This led the US rates and the USD higher and hampered performance especially in emerging markets. Elsewhere, the re-escalation of US-China tensions and disagreements on the Russia-Ukraine conflict, drove the plunge in Hong Kong's -9.4%, which were already affected by the lowered expectations on policy stimulus (upcoming National People's Congress). Closer to home, KLCI closed 2.1% lower to 1,454pts. The decline came from weaker industrials and technology while construction gained. Investors were also mostly in the side-lines ahead of the Budget 2023 and it failed to provide any meaningful catalyst. The Budget was re-tabled without any immediate taxes announced (absent of prosperity tax) but there is an introduction of capital gains tax, and several items are currently under study e.g., luxury goods. Taxes for the M40 have been however lowered while for the T20 are to be higher.

Market Outlook

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

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

Following the 100bps cumulative OPR hike in 2022 to 2.75%, and the pause in the first 2 meetings of 2023, we expect one more 25 bps hike by BNM this year to bring OPR back to pre-covid level of 3.00%. The recent Monetary Policy Statement in March reiterated the reason for its pause decision is due to the need to assess the impact of cumulative tightening in 2022 given the lag effect of monetary policy on the economy. It also indicated "further normalization", suggesting the recent pause is not the end of the rate hike cycle, and maintained that further monetary policy actions will be data dependent.

The equity outlook for Asia, as for other parts of the world, hinges on the Fed's response to the challenges of inflation and how the Russia-Ukraine conflict resolves. In particular, the outcome of China's Zero Covid-19 policy and whether it can emerge from what is hopefully a bottom of the country's economic cycle will determine if Asia can continue to outperform the world for the year. Another source of drag for economies is the diminished purchasing power of consumers due to persistent inflation that will likely lead to lower-than-expected growth from private consumption. Until global equity markets have repriced adequately to reflect the extent of economic slowdown that lies ahead, market volatility will persist.

Locally, we are cautiously optimistic on the local equity market. The month recently also had the quarterly earnings season which, unfortunately had more misses. Generally, companies lamented on margin compression as well as weaker top line. Financials were decent as most of their earnings were driven by writebacks but NIMs continue to be under pressure. Elsewhere, sectors that were relatively better were in construction, transport, consumer, and telecommunications. Materials, healthcare (rubber gloves) and technology companies saw earnings disappointment. Thus, these put earnings outlook has turned murky which suggests that there more earnings downgrade although we think these are mostly priced-in.

For Malaysian sukuk, we will continue to trade opportunistically and realise profits, while also considering new primary issuances with higher yields to increase returns. As outlook improves, we aim to increase our duration for better returns from market recovery going forward, with preferred investments into attractive govies yields and healthy AAA and AA corporate credits. We are more inclined to invest in govies in 2023 after staying on the sidelines in 2022 due to rising global sovereign yields. As rates appear to have reached peak and central banks are anticipated to become more accommodating in 2023 we believe that government bond yields are likely to decline in 2023, allowing for advantageous trading positioning.

For Malaysian equities, after rally in January, markets were hit back with a reality check as corporate earnings have turned out to be tepid which we think will further be reduced. Having said that, we are optimistic that things will turn around as market expectations moderate in addition to low valuations. Hence, we will look opportunistically on quality names and names that should have a meaning full recovery. Elsewhere, we also maintain our positive view on financials as they benefit from interest rate hikes although we note there are rising risks of falling asset quality and the unexpected hold in OPR rates. Besides this, we look for defensive and dividend yielders as well as recovery plays such as some of the construction names that have been positive in the news flow front, notwithstanding the restructuring of the toll highway concessions.

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

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

Market Review

The Fund lagged the benchmark in February. Stock selection was the main detractor as a result of relative weakness in the Information Technology and Financials sectors.

At a single stock level, China Tourism Group Duty Free, the premier duty free store operator, was a leading detractor. The company's preliminary results announcement was weak, as expected, but still it prompted some profit-taking after a strong rally in previous months. We expect a significant pick-up in business through the year following the removal of domestic travel restrictions. This should be further supplemented by a recovery in overseas tourism once international airline capacity has been restored. The stock remains a core holding.

On the other hand, a key contributor in the month was a company engaged in the production and distribution of liquor products. Like other white liquor stocks, the share price has recovered significantly in recent months on expectations of improving demand after the ending of COVID restrictions. We expect the company to deliver above-industry volume growth in coming years as it continues to expand outside its home province of Hunan.

Market Outlook

China equities have been going through a period of consolidation, after the strong rally in previous months spurred by the end of COVID policies. China A-shares were more resilient than offshore equities in February. Overall, there was a reasonably broad-based pullback with every sector in the MSCI China All Shares Index seeing declines.

A key debate at the moment is whether the hope of China's recovery post-COVID reopening will be matched by the economic reality. A relative lack of information has clouded near-term visibility. China does not report separate January and February data for most economic indicators, instead bundling the two months together for release in March. Many companies are in communications blackout ahead of the upcoming reporting season.

What economic data there has been recently does point to some green shoots of recovery. The manufacturing purchasing managers' index (PMI) in February came in at 52.6%, compared to 50.1% in January (a figure above 50 reflects economic expansion). Property sales in larger cities are also seeing a pick-up. But a clearer picture of the state of the economic rebound will only become available around mid-March.

An important signal for the year ahead was given at the National People's Congress in early March, with the 2023 gross domestic product (GDP) target set at "around 5.0%". Having undershot the growth target last year as a result of the strict COVID policies, our view is that this year's figure leaves a significant buffer to be exceeded.

Overall, we retain a more optimistic view on the market outlook. We should see increasing signs that earnings growth will accelerate during the year and valuations remain below longer-term average levels. The multiple contraction of many stocks in the last one to two years has resulted in an increasing number of attractively valued investment opportunities.

Recent portfolio activity has been to add to companies which should benefit from the economic recovery as well as improved financial market sentiment. This includes initiating a position in a financial services software company, and also a bakery products stock where the offline business was significantly impacted by last year's lockdowns.

The Fund continues to be overweight in the Consumer Discretionary and Consumer Staples sectors, with domestic consumption expected to lead the economic recovery. Conversely, we are underweight in Financials, with limited exposure to the large state-owned banks where profitability will likely be impacted by a deterioration in loan book credit quality.

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

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

Market Review

Global equities reversed some of the previous month's strong gains in February. Hopes that central banks may be nearing the end of their rate-hiking cycles were dashed by stronger-than-expected economic data and hawkish statements from central bank policymakers. US and emerging market stocks closed the month lower, while shares rose modestly in Europe and Japan. In early February, central banks in the US and Europe raised rates by 25 basis points (bps) and 50 bps, respectively. While the hikes were widely expected, minutes of the rate-setting meetings showed many policymakers believed that further significant hikes were likely to be needed to tame inflation. In general, economic data proved more resilient than forecast, with the probability of an extended European recession fading, while the recent decline in inflation levels slowed. The US dollar strengthened over February amid a growing belief that US interest rates would need to be higher for longer to tame inflation. Commodity prices generally eased. European natural gas prices fell to an 18-month low on growing confidence that the region will avoid shortages this winter and next. Oil prices were little changed, with Brent crude closing the month around USD 83 per barrel. Elsewhere, gold and copper prices retreated slightly.

Information Technology and related stocks were roughly flat for the period. Internet Services and Infrastructure, and Electric Equipment and Instruments were the subsectors with the largest drawdowns. Semiconductors and Technology Hardware remained resilient. Performance for the period had a positive start, but a series of unfavourable macro reports stirred fears that the US Federal Reserve (Fed) will keep rates higher for longer and diminished the expectation of any rate cut in 2023. There remains a healthy debate as to when the Fed will pause the current rate-hike policy.

During the period, the Fund in US dollar terms outperformed on a gross of fees and net of fees basis versus the custom benchmark (50% MSCI All Country World Index/50% MSCI World Information Technology Index). During February, stock selection within Communication Services positively contributed to relative performance, while stock selection in the Health Care sector was the biggest relative detractor. From a total attribution perspective, artificial intelligence (AI) infrastructure was a positive relative contributor and AI applications, and AI-enabled industries were negative relative detractors.

Contributors

For the second consecutive monthly period, our position in Tesla, Inc. was the top contributor. The stock has shown strength heading into its annual "Investor Day" on 1 March, at which the company introduced a new manufacturing platform and cost-saving initiatives, which should allow Tesla to lower the price point of certain vehicles while maintaining margins.

The Fund's position in Meta Platforms Inc. was also a top contributor during the period. Although the company missed on its earnings per share (EPS) number, revenue came in better than expected and due to cost cuts and other measures, the company expects free cash flow for 2023 to be well above consensus expectations. As we have observed, in the current reporting season, positive outlooks for margins and cash flow have been better received by investors than earnings beats for most companies. In addition, per our original thesis, it appears management is progressing well in effectively monetising Reels and reducing its loss in the Reality Labs division without adversely affecting product development.

Detractors

Our position in ecommerce platform Alibaba Group Holding Ltd. was one of the top detractors during the period. The company delivered a strong earnings beat, but investors were worried that growth may be tempered going forward, due to a potential price war (subsidies) with competitors in an effort to gain market share as China emerges from the zero-COVID environment. At current levels, we still believe the stock is an attractive holding due to its strong market position, brand, and strides in AI and cloud infrastructure.

Our position in an online store for furniture and home goods was also a top detractor during the period. The company missed on its revenue and earnings release, reporting a larger loss than expected. One positive was management believes they have quicker path to earnings before interest, taxes, depreciation and amortisation (EBITDA) profitability due to cost cuts, but the company needs to regain sales momentum in a tough market, given high inflation and slowdown in demand for home goods and furnishings.

Market Outlook

Equity markets gave back some of their strong gains for the year in the second half of February, after a series of macroeconomic related data showed core inflation was “stickier” than expected and the labour market remained historically strong, despite an uptick in layoff announcements, primarily from tech companies. The debate continues around both the macro environment and company top-line and earnings growth, which will lead to ongoing volatility in the markets. We believe that the decision to add higher quality names to the portfolio should help weather another downturn. We are pleased with the Fund’s relative performance in the first two months and are cautiously optimistic that it remains better positioned to navigate this volatile environment.

From a macro perspective, chairman Powell and other Fed members have noted that goods inflation is trending down and that they expect inflation in the housing and shelter segment to start declining as well. However, Federal Open Market Committee (FOMC) members noted continued price strength in the core services ex-housing segment as an area of concern. In mid-February, the core personal consumption expenditures price index (PCE), which is the Fed’s preferred inflation metric, came in stronger than expected, and this initiated a significant rise in yields and decline in equity markets due to expectations the Fed will hold rates higher for longer and a lower probability of any rate cuts in 2023. We believe that until there is further clarity as the year progresses, market volatility will remain.

Outside the US, most equity markets were also weak, in local currency terms. Geopolitical risk remained heightened as the Russian invasion of Ukraine hit its 1-year anniversary and the shooting down of a Chinese surveillance balloon by the US kept tensions high between the two largest global economies. Inflation levels in Europe were higher than forecasted.

Equity valuations were elevated as 10-year yields rose meaningfully during the month. Although companies have reported stronger results than expected for Q4 2022, outlook and guidance has been weaker. At the end of 2022, Bloomberg consensus had earnings expected to deliver low, but positive single digit growth for 2023, and two months into the reporting season, consensus expectations are now for a small EPS decline for the full calendar year.

We continue to see growing interest in “everything AI” due to Microsoft’s USD 10 billion investment in OpenAI and numerous announcements around the release of other generative pre-trained transformers (GPT) tools from tech companies around the globe. Although we believe there is a large element of retail investor speculation in some of the smaller, unprofitable names, and that iterations of generative AI technology have existed for decades, applications such as ChatGPT and DALL-E 2 are indeed milestones, especially in the area of unsupervised machine learning and deep learning applications.

The future of generative AI will likely evolve rapidly. We expect to see improvements in the quality and diversity of generated content, new types of generative models, and broader application in a variety of industries, such as health care, finance and transportation. Additionally, AI should become more accessible to a wider range of users through user-friendly interfaces and tools.

What is the implication for investors in the Fund? The headlines around generative AI and 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 ongoing applications. AI applications will be required to optimise the functionality of these new tools. Finally, several companies in the AI-enabled industry category have already announced GPT-related functionality added to their services to enhance customer engagement and experience.

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

Market Review

Asia Pacific markets retreated over February as stronger-than-expected US economic data and resilient inflation raised fears that the US Federal Reserve (Fed) would need to keep rates higher for longer. A stronger tone to the US dollar also weighed on sentiment.

Chinese equities lost ground over February, disrupting the strong recovery ignited by Beijing's zero-COVID pivot, with sentiment dented by geopolitical tensions between China and the US. Hong Kong-listed stocks sharply underperformed mainland shares as a result. On a positive front, China's COVID-19 infection levels plummeted after peaking in early January. Elsewhere in the region, returns in Taiwan and South Korea were largely flat. ASEAN markets declined but fell less than the broader region.

Australian stocks also closed February lower. The Reserve Bank of Australia (RBA) raised rates by 25 basis points (bps) in February and suggested that at least two more rate hikes should be expected as price pressures were spreading into services and wages. Japanese equities rose slightly after the incoming Bank of Japan (BoJ) governor, academic Kazuo Ueda, indicated that he is open to exiting Japan's ultra-loose monetary policy stance, but only when it appears the economy is able to sustain the 2% inflation target.

The portfolio underperformed the benchmark in February. Stock selection in Japan and China was the key source of detractor, with the bulk of the weakness coming from positions in the Health Care, Energy, and Information Technology sectors. This more than offset positive selection effects in Taiwan and Hong Kong.

At a single stock level, a top detractor 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. The stock remains a high conviction holding, with the share price weakness mainly a reflection of near-term order delays. Conversely, a top contributor was Taiwanese semiconductor company Alchip Technologies, which designs sophisticated, customised chips for a global clientele with applications in growth areas such as cloud computing and data centres. We believe Alchip offers a superior technology, making it better able to withstand near-term headwinds to the sector.

At the sector level, the shape of the portfolio has changed little over the month, with Information Technology, Energy, and Health Care remaining the main portfolio overweights. In Technology, one area we have gradually added exposure is memory chipmakers, where valuations have been touching trough levels seen in previous down cycles. In Energy, we see higher oil and gas prices resulting in significantly improved cash flows and dividends. We also continue to be optimistic on the long-term outlook for the Health Care sector, especially in the biotech space. Although the sector has been volatile due to policy concerns and geopolitical risks, underlying businesses continue to perform well.

From a geographical perspective, the Fund is most overweight in New Zealand and Taiwan – a by-product of specific stocks owned in these markets. India and Japan remain the key underweight markets. During the month, we added new names in Japan and Korea, rotating out of some Chinese and Thai stocks.

Market Outlook

We maintain our base case for a recovery in Asian markets with some macro headwinds now appearing to have eased. We are, however, not yet out of the woods. Interest rates, inflation, and the path of the US dollar continue to be watchpoints at the macro level, while earnings growth, input costs, pricing power, and consumer demand remain on our radar at the micro level. So far, the market recovery from the low point last year has primarily been a function of improvement in valuations. These remain below longer-term average levels and should continue to provide support until there is more evidence of a pick-up in corporate earnings.

The abrupt change in China's COVID policies, coupled with a broader pivot towards a more pro-growth agenda makes an economic recovery more likely, with the 5% gross domestic product (GDP) growth target seemingly achievable in 2023. The expanding manufacturing purchasing managers' index (PMI) in February and pick-up in larger city property sales are encouraging signs. We expect economic recovery in China to accelerate with more supportive policy for the property market and private sector, in particular.

In Japan, it is more challenging to see near-term market catalysts given the macro environment and potential future changes to the BoJ policy stance. Having said that, the yen continues to look undervalued, and we expect that returns to international investors will be supported by currency appreciation.

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

Market Review

Asia excluding Japan equity markets retreated over February as stronger-than-expected US economic data and resilient inflation raised fears that the US Federal Reserve (Fed) would need to keep rates higher for longer. A stronger tone to the US dollar also weighed on sentiment.

Chinese equities lost ground over February, disrupting the strong recovery ignited by Beijing's zero-COVID pivot, with sentiment dented by geopolitical tensions between China and the US. Hong Kong-listed stocks sharply underperformed mainland shares as a result. On a positive front, China's COVID-19 infection levels plummeted after peaking in early January.

Elsewhere in the region, returns in Taiwan and South Korea were largely flat. ASEAN markets declined but fell less than the broader region. While inflation rates are falling in Indonesia, Thailand, and Malaysia, the Philippines central bank raised rates by 50 basis points (bps) to 6% during the month, and Singaporean inflation also ticked slightly higher to 6.6% in January, following a 1% increase in its sales tax to help fund higher healthcare spending.

The Fund underperformed the benchmark in February. In a reversal from January, key detractors came from China, especially the big position in Alibaba, whose share price pulled back amidst the broader China market consolidation. Another internet platform business in China, Meituan, also struggled for similar reasons.

Conversely, HDFC Bank, a top holding in the portfolio and our preferred name in India, was a top contributor. HDFC Bank is India's leading private sector bank, and we continue to view this as an exceptionally well-managed business.

The shape of the portfolio remains unchanged from last month. The portfolio is positioned to benefit from a stronger market in China, which is now an overweight position, as well as overweights in India and Singapore. North Asian tech-heavy markets of Korea and Taiwan are underweight on concerns around exports due to destocking and recession fears.

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

Market Outlook

We maintain our base case for a recovery in Asian markets with some macro headwinds now appearing to have eased, yet we are not out of the woods. Interest rates, inflation, and the path of the US dollar continue to be watchpoints at the macro level, while earnings growth, input costs, pricing power, and consumer demand remain on our radar at the micro level. So far, the market recovery from the low point last year has primarily been a function of improvement in valuations. These remain below longer-term average levels and should continue to provide support until there is more evidence of a pick-up in corporate earnings. Mixed data across markets and sectors should provide a better environment for our style of active stockpicking.

The abrupt change in China's COVID policies, coupled with a broader pivot towards a more pro-growth agenda, makes an economic recovery more likely, with the 5% gross domestic product (GDP) growth target seemingly achievable in 2023. The expanding manufacturing purchasing managers' index (PMI) in February and pick-up in larger city property sales are encouraging signs. We expect economic recovery in China to accelerate with more supportive policy for the property market and private sector, in particular.

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

Market Review

After a strong start to the year, most markets declined in February. Falling unemployment, better-than-expected retail sales, higher personal spending, and a rebounding services index boosted Q1 gross domestic product (GDP) growth estimates. Additionally, inflation measures were hotter than estimated, raising concerns prices may cool at a slower rate. Against this backdrop, terminal rate projections moved higher, US Treasury yields surged, the US dollar rallied, and the yield curve (10s2s) inverted further. Q4 financial metrics continued to exceed consensus estimates. Many companies cited challenges, while others expressed confidence in their ability to weather a slowdown or offset margin pressures.

In this environment, global equity markets, as measured by the MSCI World Index, returned -2.40%.* US stocks marginally underperformed their non-US developed counterparts, and all sectors declined apart from Technology. Global convertible securities and high-yield bonds also finished lower. Convertible new issuance increased month-over-month while high-yield primary market activity slowed. Global fixed income, as measured by the Bloomberg Global Aggregate Index, returned -3.32% with US exposure holding up better than non-US.^

The portfolio declined in February with most holdings detracting from performance in the period. With the sharp rise in interest rates, investment grade corporate bond exposure did not provide the resiliency expected in a risk-averse market environment.

Top individual detractors included a cellular tower REIT that posted good Q4 results but mixed 2023 guidance and a Chinese express delivery company that consolidated recent outperformance. Macro concerns weighed on Canadian and Chinese ecommerce stocks, crude oil price volatility pressured a US oilfield services provider (Schlumberger), and primary market uncertainty impacted a capital markets company.

Notable contributors included a US cyber security issuer that could benefit from industry consolidation and a semiconductor company that highlighted a new artificial intelligence (AI) offering and provided an above-consensus sales outlook. Other sources of strength were in solar technology services, food processing and luxury car manufacturing.

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

Market Outlook

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

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

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

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

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

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

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

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

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

Credit's risk/reward opportunity is compelling after a historic 2022. High-yield credit statistics and fundamentals are healthy, near-term refinancing obligations remain low and managements continue to prioritise debt reduction. As a result, defaults may increase but not significantly, trending towards historical averages. With respect to high grade corporates, rising interest rates remain a key risk. That said, the investment opportunity has improved on the back of sharply higher yields coupled with a positive fundamental outlook. Both markets trade at a deep discount to face value, offering attractive total return potential and higher spreads that compensate for macro risks. Notably, there are no instances of the high-yield asset class producing back-to-back negative annual returns and forward 12- and 24-month return projections based on the current yield have been consistent with mid to high single digits.

All data are sourced from Allianz Global Investors dated 28 February 2023 unless otherwise stated.

* Source: MSCI, as at 28 February 2023

^ Source: Bloomberg, as at 28 February 2023

For Allianz Life Thematica Fund:

Target Fund Manager's Comment (For Allianz Thematica)

Market Review

Equity markets reversed some of the previous month's strong gains in February. Hopes that central banks may be nearing the end of their rate-hiking cycles were dashed by stronger-than-expected economic data and hawkish statements from central bank policymakers. While the rate hikes during the month were widely expected, with the US Federal Reserve (Fed) and the European Central Bank (ECB) raising 25 basis points (bps) and 50 bps respectively, minutes of the rate-setting meetings showed many policymakers believed that further significant hikes were likely to be needed to tame inflation.

The MSCI ACWI fell by 3% in February, and it was a broad-based decline with all sectors in negative territory. Materials were the weakest area as commodity prices consolidated after a strong rally prompted by China's reopening. The lack of economic data from China recently – due to the lunar new year, most January and February data releases are combined and only reported in mid-March – has left markets questioning whether the much talked about economic acceleration is happening in practice.

Europe was one of the most resilient regions last month and has still delivered healthy gains year-to-date. The US Tech space has also been notable with the strong performance of an electric vehicle (EV) maker allowing its CEO to reclaim the title of the world's richest person, unseating the CEO of a luxury goods company (according to Bloomberg at least).

Global commodity prices generally eased. European natural gas prices fell to an 18-month low on growing confidence that the region will avoid shortages this winter and probably the next one. Oil prices were little changed, with Brent crude closing the month around low USD 80 a barrel while gold and copper prices retreated slightly.

Market Outlook

The Fund was up over the course of February, outperforming the MSCI AC World Index and continuing its positive development already witnessed over the course of January.

Stock selection among the included themes has been a positive contributor to positive performance as the theme selection has contributed to a larger amount. Overweight among themes like Clean Water and Land hurt slightly from an allocation perspective. Infrastructure and Next Generation Energy have been the best contributors to overall performance. Digital Life and Health Tech contributed well to overall performance in terms of stock selection and from a thematic perspective. The successful start to the new year gives strong evidence that our successful theme selection approach works.

From a sector perspective, the overweight to Industrials and Information Technology contributed well just like the underweight to Communication Services and Real Estate.

Top contributor of the strategy from a single stock perspective has been Renesas Electronics (Next Generation Energy) which reported stellar results in its automotive and industrial semiconductor businesses. Align Technology (Health Technology) recovered nicely as well after the company reported solid earnings development and announced further buybacks. A cyber security company (Digital Life) benefitted from the solid development of Technology stocks over the recent month.

Most negative contributions from a single stock perspective resulted from the structural underweight of index-heavyweight companies like a US tech giant, the aforementioned EV maker, a social media company, etc.

Over the course of last year, we shifted more to the Energy Transition theme which has 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. Among the other parts of the portfolio, we sold stocks with very high valuations and a growth profile that extends too far into the future. Among the other themes, we have been very active within the themes by focusing more on valuations to benefit from the sector rotation. This has changed the character from a growth-biased to a more balanced "core" portfolio where multiples are on average market levels.

For Allianz Life Elite Income Fund:

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

Market Review

Risk assets and rates markets gave back some of the previous month's gains. The global economy remained resilient, as strong labor market data complemented by stronger PMI data suggested a longer road to on-target inflation. The U.S. unemployment rate fell to 3.4% as nonfarm payrolls increased by 517,000. Markets perceived the positive economic news as implying higher terminal policy rates and delays in eventual future rate cuts. Additionally, an upside surprise in U.S. inflation prints disappointed investors, further adding to the pressure on interest rates. U.S. headline CPI increased by 6.4% YoY, slightly higher than market expectations as core CPI increased by 5.6% YoY, with shelter being the major contributor. In the Euro Area, headline inflation came in at 8.6% YoY, dropping from 9.2% YoY in December, supported by decreasing energy prices. However, core inflation remained stubborn at 5.3% YoY, a sign that the ECB still may have some way to go before slowing down rate hikes. In the U.K., inflation came down slightly to 10.1% YoY from 10.5% YoY in the previous month.

Core bond yields rose, as markets were surprised by the sticky inflation and priced in the potential for a longer central bank hiking cycle. U.S., German and U.K. 10y yields rose by +41bps, +37bps and +49bps, respectively. Yields at the front end also increased, with U.S., German and U.K. 2y yields rising by +61bps, +48bps and +24bps, respectively.

Central Banks continued with rate hikes, as the ECB and BoE both hiked +50bps to 2.5% and 4% respectively, while the Fed hiked +25bps to 4.75%. Other central banks also tightened, notably Australia and New Zealand.

In terms of asset class performance, equities fell, as the S&P500 and MSCI World were down -2.4% and -2.5%, respectively. In credit, USD investment grade widened +5bps, while EUR investment grade tightened -4bps. USD and EUR high yield credit tightened by -8bps and -26bps, respectively.

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