Market Review and Outlook

May 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

In May 2023, global equity markets experienced a correction with the MSCI World Index falling 1.25% mom, being hampered by stubbornly high core inflation in US and Europe which gave rise to the spectrum of prolonged peak policy rates. Apart from inflationary concerns, US' Dow Jones Index which dropped 3.49% mom was also dragged by the debt ceiling deadlock between the Democrats and Republicans throughout May. On the other hand, from an economic standpoint, its April 2023 core consumer inflation rate was 5.5%, -0.1 ppt mom and generally in – line with expectations. Housing starts in April 2023 was also up +2.2% mom as compared to the expectation of a 1.4% mom contraction. In addition, May's preliminary reading of the S&P Global US Composite Purchasing Managers Index (PMI) was 54.5 versus 53.4 in the previous month. In line with market expectations, the Federal Reserve raised the Fed Fund Rate by yet another 25 bps to its latest target range of 5.00 – 5.25% but ceased posturing that more policy firming might be required to achieve its 2.0% inflation target. In Europe, the Stoxx 50 Index also plummeted 3.24% mom as its core Consumer Price Index (CPI) had an April preliminary reading of +5.6% yoy which was comparable to the +5.7% yoy reading for the previous month. Eurozone's March unemployment rate improved to 6.5%, -0.1 ppt mom and was slightly better than consensus expectation of 6.6%. To counter the persistent inflationary situation, the European Central Bank (ECB) raised its deposit rate by 25 bps to 3.25% but also noted a possible slowing of the pace of hikes. China's Shanghai Composite Index also declined by 3.57% mom as its April Caixin China PMI Manufacturing Index reported a contractionary reading of 49.5 as compared to 50.0 a month ago. Its April Industrial Production only grew by +5.6% yoy which fell short of consensus' expectation of +10.9% yoy. The People's Bank of China (PBOC) opted to keep its 1 – year and 5 – year Loan Prime Rates stable at 3.65% and 4.30% respectively in May 2023, for the 9th straight month.

During the month under review, Brent oil decreased by 8.6% mom to USD72.66/ bbl. It was troubled by weaker oil demand outlook which depressed market sentiments. Crude palm oil (CPO) also weakened by 17.3% mom to RM3255/ MT in May as the US Department of Agriculture issued 2023/34 bumper crops estimates which led to a correction of oil seed and other vegetable oil prices. In addition, China and India had also slowed down their imports of CPO during the month.

Over in the ASEAN countries, the Stock Exchange of Thailand inched up +0.29% mom on account of positive market sentiments stemming from its general election results on 14 May 2023. The Thai equity market had rallied on a MTD basis prior to the election but gave up some of its gains after it emerged that the Move Forward Party (MFP) was the biggest winner and this gave some investors pause due to their people – centric policies such as an approx. 30% minimum wage hike. It should be worthwhile noting that the Thai coalition government would only be properly determined later, up to 60 days post – election. The Thai economy held up well with its 1Q23 GDP growth coming in at 2.7% yoy, +1.3 ppt qoq and above consensus expectations. Malaysia's FBMKLCI fell 2.04% mom to 1387.12 due to concerns surrounding the global economic slowdown and US debt ceiling impasse. Foreign net equity outflow in May 2023 amounted to RM728.2m, which led to a YTD net outflow of RM2.8b. The Ringgit had also weakened to RM4.6130: USD1.00 from RM4.4622: USD1.00 in April 2023 despite the Monetary Policy Committee (MPC) of Bank Negara Malaysia's (BNM) decision to raise its Overnight Policy Rate (OPR) by 25 bps to 3.00%. That said, Malaysia was still on sound economic footing with 1Q23 GDP growth reported at +5.6% yoy which was above consensus expectations and a March Industrial Production growth of +3.1% yoy which was also ahead of expectations. The Straits Times Index (STI) of Singapore had also experienced a drop of 3.42% mom following a Non – Oil Domestic Export (NODX) contraction of 9.8% yoy, its 7th consecutive month of decline while it also experienced an April Industrial Production contraction of 6.9% yoy, -2.7 ppt mom. Lastly, the Indonesian Jakarta Composite Index (JCI) tumbled 4.08% mom as it recorded an April export contraction of 29.40% yoy which worsened from an 11.33% contraction in March and was below consensus expectations. It was also pulled down by weakening commodity prices in the month as coal and nickel dropped 26.4% mom and 12.1% mom respectively.

The global bond market saw another volatile month in May. US Treasuries (UST) weakened with yields rising by 19 – 33 bps mom in a flattening manner. The sell – off was due to the confluence of factors that included the US debt ceiling concerns, stubbornly high inflation and the heightened probability of another rate hike. The US Treasury Department, constrained by the need to raise or suspend the debt ceiling, announced unchanged coupon auction sizes for the May – to – July quarter. With US cash resources dwindling, investors avoided Treasury bills maturing during the first half of June, causing short tenured yields nearing maturity to briefly exceed 7% before an agreement to temporarily suspend the debt ceiling was reached to avoid a default. On 2 June 2023, the US Congress approved a deal to lift the country's borrowing limit which brought some relief to the markets. The agreement suspended the debt ceiling and the spending limit set by Congress that determines how much money the government can borrow, until 1 January 2025. Earlier on 25 May 2023, Fitch placed the US "AAA" rating on "rating watch negative", signaling that it could downgrade US debt if lawmakers do not agree on a bill that raises US Treasury's debt limit. As of end – May, the market – implied expected peak was higher at 5.285% in July (end – April was 5.033%) compared to a +36.4% probability of a rate hike in June (previously +21.1%) and +46.5% in July (previously rate cut probability of 23.2%).

The Malaysian Government Securities (MGS) yield movements in May were rather resilient compared to the UST movements, even after BNM surprised the market by raising the OPR by 25 bps to 3.00%. Mom, MGS yields shifted between -4 bps to +9 bps with the 7 – year MGS and 10 – year MGS attracting the most interest. The 10 – year MGS closed 3 bps lower at 3.70%. However, market players also traded cautiously ahead of the US Congress decision to lift the country's borrowing limit to avoid a default.

Market Outlook

Though there are several exo – and endogenous risks that appear to plague the global as well as our domestic economy, there are nascent signs of recovery. The US Senate has recently approved a bipartisan debt ceiling bill which should thankfully avert the first – ever US debt default and also the central banks appear to have begun to ease back on the momentum of rate hikes required to curtail the burgeoning inflation issue. However, we are cognizant that there still are risks at large such as the Russia – Ukraine war, the reemergence of new Covid outbreak and the success of the economic reopening of China. The inflationary environment may also prove to be more stubborn than anticipated with the latest US May Non – Farm Payrolls (NFP) rising by 339k which surpassed market expectation of 190k. Closer to home, several states will be soon undergoing state elections which could, to some degree, serve as a litmus test as to the people's approval of the Unity government. Nevertheless, the results would not likely have any immediate effect on the stability of our federal government and hence, we believe that rollouts of their policies would continue unabated.

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.

In 2023, bond yield volatility in the fixed income market is expected to persist due to fears of a potential banking crisis and the sticky inflationary data although the threat of a US default has diminished. Fed's 'dot plot' is at 5.1% for this year-end, while the market implied rate is pricing in at least one rate cut to 4.908% by year-end (narrowed from a minimum of two rate cuts last month at 4.474%). Locally, BNM in its latest assessment cited that with the OPR level now at 3%, the monetary policy stance is slightly accommodative and remains supportive of the economy. With the latest 25 bps hike on 3 May, BNM has withdrawn the monetary stimulus intended to address the economic disruption caused by the Covid – 19 crisis. Despite the improved risk – reward of MGS, external and internal factors could still contribute to bond market volatility that may affect local yields. However, we will 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?

- In a difficult month for Value and Dividend strategies, the allocation towards Dividend Growth was helpful to keep up in a risk-on and Growth-driven market environment.

What hurt?

- The strategy lagged the performance of global equity markets as well as its customised benchmark. The fund could not hold up due to its principally defensive dividend strategy.

Market Review and Outlook

It was a mixed month for global stocks. Japanese shares ended May firmly in the black, while a strong rally in popular 'new technology' stocks also helped US indices to close the month in positive territory. Elsewhere, shares mostly declined. Chinese equities were among the weakest performers amid concerns that China's post-COVID rebound was losing momentum. At a sector level, Information Technology companies outperformed by a wide margin as semiconductor companies benefitted from growing interest in artificial intelligence (AI) applications. Meanwhile, Energy stocks were among the weakest given fears of waning global demand.

US stock indices advanced over May, helped by news of a last-minute agreement between President Joe Biden and House of Representatives' Speaker Kevin McCarthy to raise the debt ceiling. The deal, which is yet to be approved by Congress, should prevent a US default and will suspend the debt ceiling until after the next presidential election in late-2024. The broad-based S&P 500 Index posted modest gains to close around a nine-month high, but the tech-heavy Nasdaq Composite Index jumped to levels seen last April, helped by a surge in AI-related stocks.

European equities closed May modestly lower (in EUR terms) as investors balanced concerns over the economic outlook and a possible US default against generally better-than-expected corporate earnings. At a sector level, Information Technology was the standout performer, with stocks such as a supplier of semiconductor manufacturing equipment, lifted by growing interest in AI applications, while Real Estate and Energy were the weakest.

For Allianz Life Asia Multi-IncomePLUS Fund:

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

Market Review

Asian equities saw divergent returns over the month. China was notably weaker and dragged down the broader region due to concerns about the sustainability of the economic recovery, with the purchasing managers' index (PMI) falling back below 50. Australian equities also retreated following the unexpected interest rate hike by the Reserve Bank of Australia (RBA) in May. In contrast, the technology heavy markets of Taiwan and Korea performed far better, helped by robust rallies in chipmakers.

Elsewhere in the region, Indian equities also advanced in May, with the Indian economy expanding better than expected. For ASEAN markets, overall the stronger US dollar was a headwind. Singapore was the weakest market within the sub-region, while Indonesia held up the best.

For the month of May 2023, as proxied by JACI composite (JACI), Asia credit posted -0.82% return, with both investment grade (IG) and non-investment grade (non-IG) delivering negative total returns. JACI IG declined by -0.4%, while JACI non-IG was down -3.2%. For non-IG, the China Real Estate sector continued to be the key drag on performance, which is down double digits, overshadowing the resilience of other high-yield sectors. The selloff in Chinese property was triggered by slower-than-expected physical property market recovery and hence renewed concerns on liquidity and business viability.

Outside of Chinese property, the rest of the high-yield market in fact managed to deliver positive returns, driven by the frontier markets, namely Sri Lanka and Pakistan. Q1 earnings issued by most Southeast Asian high-yield corporates are largely in line with expectations and remain solid.

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

Within the equity sleeve, key detraction came from our holdings in China and Hong Kong. For example, the top detractor was a premium hotel operator in China. After a strong rally linked to China's reopening, share price was under pressure from concerns on China's consumption recovery. We reduced our position to allocate towards other opportunities.

Conversely, the top contributor was Taiwan Semiconductor Manufacturing Company (TSMC). Its share price performed well along with a broader rally in the technology and artificial intelligence-related sectors. There are also expectations that excess inventory levels in semiconductors and memory chips will be digested in coming months, leading to stronger pricing power, which is supportive to the stock.

The asset allocation at the end of the month was 66.4% invested in Asian equities and 32.0% in Asian fixed income, with the remainder in cash.

Key portfolio activity in May has been adding to the North Asian markets of Taiwan and Korea, on signs that the worst of the downcycle in technology hardware and semiconductors is in sight and there is more pricing discipline in the market. To fund this, we reduced the overall China exposure given a more subdued outlook for earnings growth.

For the fixed income sleeve, we invest in bonds with the aim of long-term interest accrual. In May, we sold our exposure to issuers with potential credit weakness.

At the end of the month, we held 62 equities and 66 fixed income securities. The equity portfolio yield was 3.0%, and the average fixed income coupon was 5.1% with an average credit rating of BB+ and duration of 2.6 years.

Market Outlook

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

The long-term risk-reward ratio of Asian high yield credits is compelling and with market valuations cheap on a historical basis, the asset class presents opportunities for strong spread compression and attractive carry. We will continue to maintain a diversified portfolio focusing on interest accrual.

For Allianz Life Amanah Dana Ikhlas:

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

Market Review

The month of May saw BNM surprising the market by hiking the OPR by 25 basis points, as it unwound the monetary accommodation intended to help the economy affected by covid-19. The OPR is now back to pre-covid level of 3.00%. The market, however, did not react as if it was very surprised as most market participants were just uncertain on the timing of the hike. There was a knee-jerk reaction immediately post-hike, but yields trended lower subsequently, with the 10-year MGS at 3.642% on 12 May, the lowest level this year. Yields then started spiking up again to a high of the month at 3.81% on 25 May due to the US debt ceiling saga which saw USDMYR breached 4.63 level on safe haven flows. The 10-year MGS closed the month at 3.701% on news of a resolution to the US debt ceiling which averted US default risk. While the govvies saw mixed movement over the month (between -2.9bps to +5.75bps across the board), corporate bonds were better performers with yields down between 6-13bps m-o-m.

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

Market Outlook

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 to avoid a hard landing. This peaking interest rate outlook, as well as anticipation of slower global growth and high probability of US recession, would be ideal for bond yields to fall, and potentially even see rate cut for US Fed Fund Rate. This would bode well for the valuations of the fixed income funds.

We expect the OPR to be maintained at the current 3.00% level for the rest of the year, after the surprise hike in early May. The MPC describes the current monetary policy stance as "slightly accommodative and remains supportive of the economy", removing the usual "remains accommodative" from previous statements. The latest statement also saw the removal of "further normalization", which we think implies that BNM is almost done with normalization but reserving its bullet to hike if need be. This peaking interest rate outlook, as well as anticipation of slower global growth and high probability of US recession, would be ideal for bond yields to fall, and potentially even see rate cut for US Fed Fund Rate. This would bode well for the valuations of domestic sukuk.

In equity markets, the year started positively after showing impressive resilience in the face of various challenges, geopolitical tensions, persistent high inflation. The US economy showed momentum especially on the service sector, beating expectations while Eurozone data also surprised to the upside as energy prices moderated. However, we are reminded of the still fragile environment with the recent banking crisis. Even so, the market has gained in recent times but has been narrowed to selected few on the AI frenzy and on the shift in interest rate hike expectations. We are, however, remaining defensive against the backdrop of a slowdown in economic growth, which has yet to be reflected in equity valuations.

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

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

For Allianz Life All China Equity Fund:

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

Market Review

The Fund lagged the benchmark in May. Stock selection was the main detractor as a result of relative weakness in the Financials and Health Care sectors.

At a single stock level, a top detractor in the month was a duty free store operator. After a strong rally linked to China's reopening, the share price has been weak on concerns over slower sales momentum, especially following the Golden Week holiday earlier in the month. We believe the sell-down has been overdone in the context of the weaker market environment and fears over the broader macro slowdown. With consumption expected to be a key driver for the economy, we anticipate a pick-up in business from increased domestic tourism and consumer spending.

Conversely, a top contributor was a technology company that was initiated in the Fund earlier this year. The company's main business is in networking equipment such as switches and servers, which is seeing significant growth as a result of demand for more computer processing power. There is also potential for a pick-up in their cloud service operations as capital expenditure (capex) starts to rebound. A significant acquisition announced towards the end of the month was another kicker for the share price.

Market Outlook

It has been an uncomfortable period for investors in China. Financial markets have clearly been losing confidence in the economic recovery. As well as the pullback in both onshore and offshore equities, in recent weeks China's governmentbond yields have declined, the currency has been weaker and the prices of many commodities such as iron ore and copper have also fallen.

The catalyst has been a significant weakening of growth momentum in April and May with the purchasing managers' index (PMI) falling back below 50 – a figure that suggests the sector is contracting. There have also been jitters in the housing market. While completions of suspended home construction projects have accelerated – spurred by government support targeted at an area of social sensitivity – overall property sales in April 2023 were only 63% of the level in April 2019. Sales in March were 95% of those seen four years before.

The question, therefore, is whether this is the end of the recovery, or merely a soft patch. Our view is the latter. As such, while equity markets may have been overly optimistic about the recovery earlier this year, now we see a mirror image with markets in danger of becoming overly pessimistic.

An important point is that there is a different dynamic to this economic cycle. Previous recoveries have been reliant on property and infrastructure spending, where policy changes can be reflected rapidly in the macro data. This time in China, the pick-up is being led by the consumer. And here the restoration of confidence – with the normalisation of spending patterns after the end of the COVID restrictions – is taking longer to happen.

Although we are not expecting major changes to either fiscal or monetary policies, we expect the recent bout of economic weakness will likely prompt a more targeted policy response in key areas such as property, and also to tackle the high level of youth unemployment. As such, the overall policy environment should remain supportive while the nascent economic recovery takes hold.

A notable feature of the market environment this year has been the outperformance of state-owned enterprises (SOEs), especially those controlled by the central government. The initial trigger for this was the announcement of a new round of SOE reform with companies urged to increase competitiveness. High-level government officials have also suggested the stocks are undervalued, with many trading well below stated book value.

While this official rhetoric provides a theme for local market participants, in practice we see SOE outperformance as primarily a reflection of the increasingly loose liquidity conditions combined with the uncertain macro environment. SOEs are perceived domestically as a safer investment option with their lower valuations and higher dividends. In practice, we think it will be challenging for most central SOEs to achieve fundamental improvements in profitability in the medium term.

Portfolio activity in May was mainly focused on using the equity market weakness to add to existing positions, as we have gradually positioned the portfolio for a more positive market and macro environment. New holdings in recent months, for example, include one of China's largest industrial robotics producers, a heavy duty truck manufacturer and a major digital advertising network, which is expected to see significant business improvement as advertising spend recovers.

The Fund continues to be overweight in both the Consumer Discretionary and Consumer Staples sectors, with domestic consumption expected to lead the economic recovery. Conversely, we are underweight in Financials, with limited exposure to the large state-owned banks.

As at the end of the month, the onshore/offshore allocation is close to benchmark with around 51% in China A-shares.

For Allianz Life Global Artificial Intelligence Fund:

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

Market Review

It was a mixed month for global stocks. Japanese shares ended May firmly in the black, while a strong rally in popular "new technology" stocks also helped US indices to close the month in positive territory. Elsewhere, shares mostly declined. Chinese equities were among the weakest performers amid concerns that China's post-COVID rebound was losing momentum. At a sector level, Information Technology companies outperformed by a wide margin as semiconductor companies benefitted from growing interest in artificial intelligence (AI) applications. Meanwhile, Energy stocks were among the weakest given fears of waning global demand. Major central banks continued to tighten monetary policy, with the US Federal Reserve (Fed), European Central Bank (ECB) and Bank of England (BoE) all hiking borrowing costs by 25 basis points (bps). While the US removed guidance that further rate hikes may be appropriate, Fed chair Jerome Powell stressed that the outlook was data dependent. ECB president Christine Lagarde also warned that the fight against inflation was not yet won. Of the major central banks, Japan continues to be the outlier in maintaining its accommodative stance. The US dollar strengthened over May as solid US economic data bolstered expectations that the Fed could tighten further and keep interest rates higher for longer. Oil prices slid over May, with Brent crude closing the month around USD 72 per barrel. European natural gas prices also retreated: they have now dropped around two-thirds since the start of the year, due to plentiful liquefied natural gas (LNG) supplies, reduced demand, stronger renewable power generation and milder weather. Gold touched an all-time high in early May but subsequently retreated, closing the month modestly lower. Prices for copper and iron ore touched a six-month low due to concerns over the outlook for global demand.

Information Technology and Communication Services posted strong absolute performance in May. Various proxies such as the MSCI World Information Technology Index, the MSCI World Communication Services Index and the S&P 500 Information Technology Sector Index were all positive. Although, performance was primarily driven by mega cap technology stocks there was better breadth in May across the capitalisation spectrum. For example, the Russell 2500 Technology index was a top performer.

During the period, the Fund delivered an outperformance on a net-of-fees basis versus the custom benchmark (50% MSCI ACWI Index/50% MSCI World Information Technology Index). The Fund benefitted from both sector allocation and stock selection. Stock selection within Information Technology was the top contributor, while the sector underweight allocation to Information Technology was the top relative detractor. All three AI categories contributed positively to relative returns with AI applications being the largest.

Contributors
A software application provider was the largest relative contributor. The company benefitted from the overall performance of AI related stocks as it has heavily integrated AI technologies since inception in its software offerings. During the month, the company reported a strong earnings beat as well.

Our position in semiconductor firm Marvell Technologies, Inc. was the second highest contributor. The company also delivered a positive surprise on estimated earnings, but more importantly gave positive forward guidance and provided details on how the company plans to benefit from the growth in generative AI applications.

Detractors
The largest detractor on a relative basis was a technology company that designs graphics processing units. Although the stock was a meaningful position in the Fund, it was an underweight to the benchmark, which had an average allocation of 4.1% during the month versus the Fund's average weight of 1.9%. The company delivered a much better-than expected earnings report and forward guidance, far exceeding sell-side expectations and the stock rose significantly after the report, which contributed to most of the underperformance. Importantly for context, year-to-date prior to the earnings call on 24 May, the stock had risen 110% and therefore we have been opportunistically taking profits during its rise. We still favour the stock, but as one piece of a diversified exposure to the AI opportunity.

One month after being one of the Fund's top contributors, a developer of an online healthcare resource and interactive platform was the second largest detractor. Despite a solid earnings beat and relatively benign forward guidance, several sell-side analysts slightly decreased the target price on the stock. We have slightly reduced our position, but at the present time still believe in the risk-reward thesis.

Market Outlook

Equities delivered a broad dispersion of returns for May depending on the geographic location, as well as sector and industry in question. We saw a continuation of the trend from April in which market leadership was primarily concentrated in mega cap US stocks. As a proxy, the five largest weights in the S&P 500 index, accounted for almost 23% of the total index capitalisation at month-end and had an average return of just over 15.4% for May versus the 0.4% return for the overall Index. The star performer though was the semiconductor industry, which was seen as the best nearterm beneficiary of the growing interest in all things "AI". The ICE Semiconductor Index was up around 15.7% for the month. In addition, within the Technology space there was better breadth of performance as the Russell 2500 Technology Index returned just over 10% for the month. However, macroeconomic and monetary policy concerns weighed on the rest of the market. The S&P 500 Equal Weight Index and the S&P 500 ex Technology Index were down 3.8% and 2.8%, respectively, for the month.

Despite the takeover of First Republic bank by JP Morgan and Chase during the month, fears over the banking system have largely disappeared. For most of the month that fear was replaced with worries that the US government might actually default due to failure to raise the federal debt ceiling by the US Congress and President Biden. As of the end of May, there was an agreement which the US House had approved, with US Senate's approval pending, but expected to pass in time to avoid default.

In addition, stronger-than-expected economic data, especially in the labour market, and stubborn core inflation levels increased the probability that the Fed may raise rates again at its 14 June meeting. However, other economic indicators were lower, especially within manufacturing and business sentiment results. These mixed results have created high levels of uncertainty as to if, and when, a US recession might occur. This has taken on additional importance for the global economy as economic growth within China, while high on a relative basis to other countries and regions, has been below expectations coming out of the COVID lockdowns. This potentially removes an important engine of global economic growth and consumption, but may actually help the inflation picture.

The primary narrative in US equity markets was "all things AI" and which companies are best poised to benefit from growing interest in the technology. Semiconductors were the recent winners along with some cloud and software service providers that provided a clear business thesis around the technology going forward. Indeed, for the Q1 2023 earnings reporting season, there were well over 100 mentions of "AI" on S&P 500 index member companies earnings calls, compared with 78 and 53 the previous two quarters. 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 space, equities have started to show weakness in anticipation of a recession, 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 ongoing applications. AI applications will be required to optimise the functionality of these new tools, of which the plug-ins are just the first step to greater customisation for individual enterprises and consumers. 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. We believe this is just the tip of the iceberg as companies become more comfortable with the technology's potential and software applications improve.

For Allianz Life Oriental Income Fund:

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

Market Review

Asia Pacific equities saw divergent returns over the month. China was notably weaker, due to concerns about the sustainability of the economic recovery, with the purchasing managers' index (PMI) falling back below 50. ASEAN markets also declined, the stronger US dollar providing a significant headwind, as did Australian equities. Having paused its tightening programme in April, the Reserve Bank of Australia (RBA) unexpectedly raised interest rates by 25 basis points (bps) in May.

In contrast, the tech-heavy markets of Taiwan and Korea performed far better, helped by robust rallies in chipmakers. Japan equities also delivered solid gains with the Nikkei 225 Index hitting a 33-year high. Solid corporate earnings, ongoing Japanese yen weakness and strong overseas demand for Japanese shares all supported the advance. The rally has been buoyed by expectations of multiple expansion with the Tokyo Stock Exchange (TSE) reinvigorating a campaign for corporates to enhance shareholder value. Around half of all listed companies trade below book value in Japan, and the TSE now requires these companies to detail plans to improve their valuations.

The Fund outperformed the benchmark in May. Information Technology stocks were the key driver, with names from Japan and Taiwan reversing last month's losses to deliver solid gains.

At a single stock level, a leading contributor was Alchip Technologies, a Taiwan semiconductor company which designs sophisticated, customised chips for a global clientele with applications in growth areas such as cloud computing and data centres. Recent results highlighted their growing project pipeline with artificial intelligence (AI) chipset customisation set to become a key growth driver. We believe Alchip offers a superior technology, making it better able to withstand near-term sector headwinds.

Conversely, a top detractor was Galaxy Entertainment, a casino operator in Macau. The company is viewed as a key beneficiary of China's relaxation of travel restrictions post the COVID-19 lockdowns. Although a solid business rebound appears underway – nearly 500,000 visitors entered Macau during the recent Labour Day holiday – nonetheless the share price saw some profit taking last month in line with the wider market. We continue to view Galaxy as a high conviction name on views of a continued recovery.

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. In May, we added positions in a high-quality Japanese automation business, and an industrials conglomerate with expertise across infrastructure, energy, and logistics. Other overweight markets include Taiwan and New Zealand – a by-product of specific stocks owned in these markets – which is balanced by underweight positions in India and China.

At a sector level, the key change over the month was adding to Technology. This is primarily in technology hardware, including exposure to memory chipmakers, where valuations have been touching trough levels seen in previous down cycles. Other notable sector positions include Energy, where we see higher oil and gas prices resulting in significantly improved cash flows and dividends. We also continue to be optimistic on the long-term outlook for the Health Care sector, especially in the biotech space. Although the sector has been volatile due to policy concerns and geopolitical risks, underlying businesses continue to perform well.

Market Outlook

Within the region, it has been an uncomfortable period for investors in China with financial markets clearly losing confidence in the economic recovery. While the future pace of growth remains uncertain, the slowdown makes it more likely there will be some further policy support. Valuations should provide some downside cushion, especially given that we are at the trough of the earnings cycle.

In Japan, the outlook is looking more encouraging. The impact of inbound tourism is helping to support domestic demand. We also expect that TSE governance reforms should continue to support positive sentiment in selective stocks with low price-to-book valuations. In addition, the Japanese 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 excluding Japan equities saw divergent returns over the month. China was notably weaker and dragged down the broader region due to concerns about the sustainability of the economic recovery, with the purchasing managers' index (PMI) falling back below 50. ASEAN markets also declined, the stronger US dollar providing a significant headwind. Singapore was the weakest market within the sub-region, while Indonesia held up the best. In contrast, the tech-heavy markets of Taiwan and Korea performed far better, helped by robust rallies in chipmakers.

Elsewhere in the region, Indian equities also advanced in May, with the Indian economy expanding by a stronger-than-expected 6.1% year-on-year in Q1, while growth in Q4 2022 was also revised upwards. In further positive news, India's inflation rate slowed sharply to 4.7% in April, the lowest rate since October 2021 and well below the Reserve Bank of India's upper limit of 6%.

The portfolio underperformed the benchmark in May. Stock selection was a key detractor, notably in the Consumer Discretionary and Financials sectors. Sector and geographical allocation effects had little impact on the overall result.

At a single stock level, a leading detractor was HDFC Bank, India's leading private sector bank. The stock gave back some of its previous gains after touching a record high level at the beginning of the month. We continue to view this as an exceptionally well-managed business. In addition, we see the merger with mortgage lender HDFC Ltd as an opportunity to increase exposure to the fast-growing housing segment, as well as providing cross-sell opportunities.

Conversely, a top contributor was index-heavyweight Samsung Electronics, the Korea-based chipmaker and consumer electronics manufacturer. Its share price performed well on expectations that excess inventory levels in semiconductors and memory chips will be digested in coming months, leading to stronger pricing power, along with a broader technology tailwind from artificial intelligence (AI).

Portfolio activity in recent months has been to reduce China allocations, which together with Taiwan are now significant underweight positions. Our preference is for Southeast Asian markets such as Singapore and Thailand, as well as India, where we have greater confidence in the outlook for corporate earnings growth.

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

Market Outlook

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

Within the region, our preference leans more towards South Asia where we are finding a number of attractively valued structural growth stories, which 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.

For Allianz Life Global Income Fund:

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

Market Review

Markets finished mixed in May as investors digested numerous crosscurrents. The US Federal Reserve (Fed) hiked the fed funds rate by 25 basis points (bps), as expected, and softened their policy statement's rate guidance language. Q1 earnings results continued to outpace pre-season forecasts and cost-cutting/efficiency initiatives were a theme in corporate commentary with fewer references to sales and profitability headwinds. On the political front, the debt-ceiling deadline made headlines, but angst eased into period-end on increased odds of a resolution. Against this backdrop, US Treasuries were weaker across the curve with the 2-year yield rising above 4.50% before retreating over the last days of the month.

In this environment, global equity markets, as measured by the MSCI World Index, returned -1.00%.* Non-US developed equities underperformed their US counterparts and value stocks underperformed growth. Global convertible securities advanced, and new issuance increased month-over-month, whereas global high-yield bonds finished lower and new issuance outpaced the prior period. Global fixed income, as measured by the Bloomberg Global Aggregate Index, returned -1.95% with US exposure outperforming non-US.^

The portfolio modestly declined (net of fees) in the month as strength in equities and convertible securities was offset by weakness in fixed income.

Technology-focused leadership and mega-cap strength aided the Fund's performance in May. Many of the month's top contributors were positively impacted by artificial intelligence (AI) optimism including multiple semiconductor holdings. Taiwan Semiconductor outperformed alongside an industry leader that significantly raised guidance due to strong demand for its chips which train and deploy generative AI applications. Microsoft, Alphabet, Amazon, Salesforce.com, Oracle, and Apple also benefitted the Fund. Finally, strong Q1 results helped drive gains in a Canadian ecommerce company and a cloud computing company.

Top detractors included an athletic apparel and footwear company, and select international casino operators, both of which have notable sales exposure to China. An Italian online betting company focused on increasing market share and a Japanese general merchandise store operator traded lower, while crude oil weakness pressured an energy-related position. A cellular tower operator, a video game company, and defensively oriented holdings including a British food processor and a British spirits distributor also weighed on the Fund's performance.

Exposure increased the most in Industrials and Health Care, and decreased the most in Energy and Communication Services.

Market Outlook

The US economy could continue to expand if employment, services activity, and consumer spending, among other factors, remain steady. Rising industrial and auto production, and a stabilising housing market are potential tailwinds, whereas the lagged effects of policy tightening and durability of household balance sheets are potential risks to growth.

Inflation's trajectory appears to be lower given commodity price declines, falling transportation costs, easing supply chains, slower wage growth, and lower shelter costs. These factors are expected to offset stickier components.

An environment characterised by moderate economic growth and weaker inflation may give the Fed reason to pause in June or even begin to signal the end of their current campaign.

2023 and 2024 corporate earnings estimates may have bottomed following better-than-expected Q1 results and upward revisions to earnings and sales projections. This development also supports the soft-landing narrative.

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 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 are expected to normalise but not significantly exceed historical averages. 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 and higher spreads that compensate for macro risks. 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 May 2023 unless otherwise stated.
* Source: MSCI, as at 31 May 2023
^ Source: Bloomberg, as at 31 May 2023
** Source: ICE Data Services, as at 31 December 2022
# Source: JP Morgan, as at 31 October 2022

For Allianz Life Thematica Fund:

Target Fund Manager's Comment (For Allianz Thematica)

Market Review

After a decent rally in previous months, global equities overall consolidated in May with the MSCI ACWI down slightly for the month. Within this, however, there was significant divergence at regional and sector levels.

The main focus of the month was US equities, where a handful of tech stocks led the market higher. A technology company that designs graphics processing units was the standout name. The stock briefly surpassed the USD 1 trillion market cap threshold, joining the elite club of the likes of Alphabet, Apple, and Microsoft. The Nasdaq is now up around 24% year-to-date, compared to the S&P 500 rise of 10%.

Another notable event has been the return to favour of Japan, with the Topix reaching levels last seen back in 1990. Long derided as a value trap with the propensity of corporates to hoard cash, the rally has been driven mainly by expectations of multiple expansion with the Tokyo Stock Exchange (TSE) reinvigorating a campaign for corporates to enhance shareholder value. Around half of all listed companies trade below book value, and the TSE now requires these companies to detail plans to improve their valuations.

Outside Japan and the world of artificial intelligence (AI), it was generally a more challenging month. European equities saw profit taking after their previous rally, with weaker oil and gas prices weighing on returns. China equities were also notably weak, with macro data disappointing and calling into question the sustainability of the economic rebound which had propelled stocks from the previous low point.

Market Outlook

The Fund was up (in EUR, gross of fees) over the course of May, outperforming the MSCI AC World Index. Stock selection has been a positive contributor to overall performance while sector allocation created a burden over the course of the month. From a theme perspective, the Intelligent Machines theme performed best, while Infrastructure has been an overall burden for the portfolio. From a sector perspective the underweight in Consumer Staples and Financials contributed well just like the overweight of Information Technology did. Being overweight to Utilities and Materials created negative contribution as the underweight in Communication Services did.

Top contributors from a single stock perspective have been a maker of a robotic-assisted surgery system (Intelligent Machines) which benefitted from solid news flow from the semiconductor industry regarding AI adoption etc. Renesas (Next Generation Energy) did well after announcing new product releases that should enhance sales growth in the future. The overall positive sentiment in semiconductors also benefitted holdings like a supplier of advanced materials and process solutions for the semiconductor and other high-technology industries.

Negative contribution occurred from the underweight to index heavyweight stocks like the afore-mentioned technology company that designs graphics processing units, which jumped after rising the guidance massively and companies like Microsoft, Apple, and an online consumer giant where the Fund is structurally underweight compared to its benchmark.

Over the course of last year, we shifted more to the Energy transition theme which has tailwind due to politicians worldwide focusing on speeding up the energy transition. The RePowerEU Plan just as the Inflation Reduction Act give credit for this. During Q1, the portfolio's exposure to the Digital Life theme was increased and it is now the largest theme in the portfolio. Intelligent Machines and Health Technology also saw modest increases, while exposure to Infrastructure and Clean Water declined slightly last quarter as some accumulated gains were realised. We are keeping the portfolio in the "Core" area from a style perspective.

For Allianz Life Elite Income Fund:

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

Market Review

In May, financial markets faced a range of macro headlines, resulting in significant disparities across sectors and a technical dislocation in short dated US Treasuries. The ongoing tug-of-war over the US debt ceiling took center stage, with Democrats and Republicans locked in a heated battle. This conflict momentarily pushed select Treasury bill yields to over 7%. By the end of the month, an agreement was reached, subject to Senate approval. Meanwhile, the Federal Reserve persisted in its rate-hiking cycle, raising rates by 25 basis points, with other central banks following suit. Despite growing speculations of a pause in interest rate hikes, the US economy remained resilient and core inflation appears sticky. US unemployment fell to 3.4%, a 53-year low, as non farm payrolls increased by 253,000. US headline CPI increased to 4.9% YoY, while core inflation remained persistent at 5.5% YoY. Meanwhile, Eurozone headline inflation for April reached 7.0% YoY as core inflation declined to 5.6% YoY, before preliminary May numbers, released on June 1st, showed a welcome fall in both gauges. In the UK, headline inflation exceeded expectations, despite dropping to 8.7% YoY. Concurrently, core inflation climbed from 6.2% to 6.8% YoY, leading the market to price in a higher BoE terminal rate.

Core bond yields rose broadly with the exception of Germany, as Europe's largest economy entered a technical recession. US and UK 10y yields rose +22bps and +46bps, respectively, whereas German 10y yields fell -3bps. In the front end, U.S. and U.K. 2y yields rose +40bps and +55bps, respectively, whilst German2y yields rose +3bps.

In terms of asset class performance, equity markets saw a wide range of returns across the globe, as tech stocks outperformed with AI a major catalyst. The growth-oriented NASDAQ was up +7.73% over the month, whereas the FTSE 100 and Hong Kong Hang Seng were down -4.93% and -7.85%, respectively. In credit, USD and EUR investment grade spreads widened +2bps and +7bps, respectively. USD high yield credit spreads widened +7bps, whilst EUR high yield credit spreads tightened -8bps.