

Market Review and Outlook

February 2024

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

Global equity markets continued its rally with the MSCI World Index rising +4.11% mom on the back of expectations of an economic 'soft landing'. US' Dow Jones Index climbed further (+2.22% mom) as economic data remained resilient, with the American economy adding 353k nonfarm jobs in January and S&P Global US Manufacturing Purchasing Managers' Index (PMI) having recorded 52.2 in February, up from 50.7 in January. Over in Europe, the Stoxx50 Index advanced +4.93% mom. The Hamburg Commercial Bank (HCOB) Eurozone Composite Purchasing Managers' Index (PMI) jumped to 49.2 in February from January's 47.9, suggesting further signs of recovery. Meanwhile, Eurozone unemployment rate came in at 6.4%, down from 6.5% in December 2023. Onto the Chinese equity markets, post a weak start into 2024, the Shanghai Composite Index regained some ground (+8.13% mom). This was also on the back of measures such as cut in five-year loan prime rate (LPR; benchmark for mortgages), state-led buying into onshore shares and more curbs on short-selling.

Commodities experienced some positive price momentum for the month under review. Brent oil remained buoyant having posted +2.40% mom gains into February, driven partly by Red Sea shipping crisis. Meanwhile, crude palm oil (CPO) price was up by +5.50% mom to RM4025/ MT, spurred by the expectations of poor output owing to a production drop caused by seasonal factors and erratic weather.

On the home front, FBMKLCI was a gainer at +2.54% mom (+6.70% year-to-date 2M24). Foreign investors maintained their position as net buyers of Malaysian equities with inflows of MYR1.30billion in the month. Consequently, we note the uptick in foreign shareholding to 19.9% (+0.30% mom) in February 2024. The positive market sentiment was partly attributable to new King's emphasis on political stability of the country. Elsewhere, YTL Corp and YTL Power International was included in MSCI Malaysia Index (effective 29 Feb close) while Dialog was removed. On the other hand, Singapore's Straits Times Index pulled back slightly at -0.35% mom. In terms of subsectors returns, telecommunications, financials and consumer staples outperformed while IT, consumer discretionary and real estate lagged. On 16 February, the Singapore government unveiled its 2024 budget with key focus in the near-term being mitigation of impact on households' cost of livings by cash transfers and grants while medium and long term investments revolve around innovation, productivity growth and upskilling. Turning to Indonesia, the Jakarta Composite Index rebounded +1.50% mom, partly reacting positively to the 14th February election. The Indonesia economy continued to chug along with its February 2024 S&P Global Indonesia Manufacturing PMI having posted an expansionary reading of 52.7 (-0.2 mom).

Meanwhile, The Stock of Exchange of Thailand ended the month higher, +0.45% mom. By sector, consumer staples, industrials and energy were among the outperformers. On the other hand, IT, telecommunications and utilities lagged. Thailand 4Q23 GDP came in behind market's expectations at 1.70% yoy, largely on public spending slump. This brings full year growth to +1.90% yoy (+2.60% yoy in 2022). Its latest S&P Global Thailand Manufacturing PMI print as well remains weak, having registered a contractionary reading of 45.3 in February, versus 46.7 the month prior.

The US Treasuries (UST) yield curve flattened as the 1 – 10yrs yields were up by 21 – 30bps while the 20 – 30yrs yields were up by 13 – 15bps. Yields rose in February to reach a year-to-date high when the higher-than-expected nonfarm payroll additions and inflation data caused a selloff and dented the outlook for the Fed's interest rate cuts. US January CPI rose 0.30% mom and 3.10% yoy (survey: 0.20% mom and 2.90% yoy), which stalled recent disinflation progress. Expectations for Fed rate cuts tumbled as the market – implied total rate cuts for 2024 as of the end of February 2024 fell to 85bps from 133bps as of the end of January 2024. Meanwhile, market's expectations of Fed's first-rate cut has been pushed out to July as of end February 2024, compared to May as of end January 2024.

Compared to the UST, the Malaysian Government Securities (MGS) were rather resilient as the 3yrs yield was up 15bps, the 5 – 20yrs yields were up 3 – 8bps, while the 30yrs yield was down 2bps. The 10yrs MGS closed the month 7bps higher mom at 3.86%. Malaysia's 2023 4Q GDP slowed to 3.00% yoy (2023 3Q GDP: 3.30% yoy), bringing full – year 2023 GDP growth to 3.70% (2022: 8.70%) as exports remained subdued during the quarter on prolonged weakness in external demand. January 2024 CPI remained at 1.50% yoy (Dec: 1.50% yoy, survey: 1.60% yoy), driven by slower increases in various sectors, including food and beverages.

Market Outlook

As global interest rate tightening cycle nears its end, we anticipate that Malaysia's investors would shift their focus towards the nation's resilient domestic demand and gradual implementation of policies. That notion is underpinned by the rollout of the government's Budget 2024 plans which includes a modicum of pump priming, the successful enactment of domestic subsidy reforms, and the execution of strategic initiatives such as the National Energy Transition Roadmap (NETR) and the New Industrial Master Plan (NIMP) 2030.

For equities, we maintain our unwavering predilection for fundamentally sound investments over a suitably long-term investment horizon. That said, we may opportunistically engage in trading activities to further capitalize on any prevailing market volatility. Nonetheless, given the pervasive geopolitical risks as well as potentially easing global growth, we are cognizant of the need to adapt to new strategies as and when required to attune to new market conditions.

Bond market volatility in the fixed income market will persist but to a lesser extent for 2024. There are expectations of positive support for bonds over the Fed signalling that it has potentially reached the end of its tightening cycle. However, a still firm job market, sticky inflation data and a resilient US economy suggest that the Fed could push back the timing of its first rate cut. Locally, with the benign inflation in 1Q2024, the market expectation is for BNM to stand pat on the Overnight Policy Rate. The January MPC statement highlighted that 2024 inflation is expected to remain modest, broadly reflecting stable cost and demand conditions. However, risks to the inflation outlook will remain highly subject to changes to domestic policy on subsidies and price controls, as well as global commodity prices and financial market developments. We will continue accumulating bonds at favourable valuations while prioritising good quality names.

For Allianz Life Global High Payout Fund:

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

What helped?

- The Fund performed strongly in February during a strong market for global equities. Stocks with strong momentum and trend-following exposure could do better than equity market average and extend the rally from January.

What hurt?

- A negative contribution was given by the allocation of the dividend theme where names with high and stable dividend payments lagged during the past month.

Market Review and Outlook

Global equities rallied over February, with China, Japan and the US among the strongest markets, buoyed by hopes of further stimulus measures in China, ongoing resilience in the US economy and solid corporate earnings. At a sector level, growth stocks in the Consumer Discretionary, Industrials and Information Technology sectors were the top performers in the MSCI All Countries World Index, while Utilities, Consumer Staples, Real Estate and Energy lagged.

US stocks rose strongly, with the S&P 500 Index breaking through the 5,000 level to reach a fresh record high, while the Nasdaq Composite Index also surpassed its previous high set in November 2021. Solid corporate earnings, a resilient US economy and a further surge in artificial intelligence-related (AI-related) stocks all drove the market higher, with growth stocks outperforming value ones by around 3% over the month.

European equities advanced over February. The rally meant the broad STOXX Europe 600 Index surpassed the previous high set in January 2022. Consumer Discretionary companies were particularly strong, as luxury goods companies were boosted by better-than-expected results from a leading luxury brand. The Technology and Industrials sectors also outpaced the overall market, while Real Estate and Utilities were the weakest sectors, notching up sizable falls.

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

Market Review

Asia Pacific ex Japan equities delivered positive returns in February. Chinese stocks had an encouraging pre- and post-Chinese New Year rally. There was notable evidence of “national team” activity with a significant pickup in onshore exchange-traded fund (ETF) volumes, as well as a regulatory crackdown on short selling and securities lending. Elsewhere, stocks delivered solid gains in Taiwan and South Korea. Taiwanese equities ended the month at a record high from continued interest in artificial intelligence (AI)-related stocks. India equities maintained their recent momentum, with the manufacturing purchasing managers' index (PMI) showing mild but sustained expansion, while cost pressures were muted. ASEAN markets also advanced but lagged more developed markets. In contrast, Australia equities finished the month slightly lower, weighed down by the Materials and Energy sectors.

Despite a big selloff in the US Treasuries at the beginning of February, Asian credit spreads managed to tighten throughout the month, more than offset the US Treasuries selloff, mainly thanks to continuously robust performance from Asia high yield, as well as the resilience of Asia investment grade credit. The JP Morgan Asia Credit Index (JACI) composite delivered a total return of 10 basis points (bps), lifted by 2.2% total return from Asia high yield. Year-to-date, JACI has delivered 40 bps total return, mainly driven by the 4.9% total return of Asia high yield.

The Fund return was positive in USD terms in February.

On a stock level basis, key contribution to performance came from our positions in the semiconductor value chain, where the outlook has strengthened both in demand and in pricing power, driven by increasing interest in AI-enabled applications and the bottoming out of inventory levels. For example, the top contributor was chipmaker - Taiwan Semiconductor Manufacturing (TSMC).

Conversely, a top detractor was a leading gaming company in India. The company has seen strong growth in recent years for its e-sports segment. There was little company-specific news flow over the month. We reduced the position slightly to allocate to other stronger growth opportunities in the India market.

The asset allocation at the end of the month was 66.0% invested in Asian equities and 30.4% in Asian fixed income, with the remainder in cash and others.

Over the month, we initiated a position in a REIT in Australia, a pharmaceutical company in India, as well as an electronics testing equipment company in Taiwan. On the other hand, we exited our position in a home goods company in the Philippines.

For the fixed income sleeve in February, we invested in Indian and Chinese issuers to increase the yield of the portfolio.

At the end of the month, we held 60 equities and 52 fixed income securities. The equity portfolio yield was 3.1% (based on forward 12-month estimates), and the average fixed income coupon was 5.3% with an average credit rating of BB and average duration of 1.9 years.

Market Outlook

Across the Asian region, we are expecting some of 2023's macro headwinds to ease as we move into the new year. We have a significant weight in India, where more favourable demographics, rising consumption power and reordering of supply chains associated with “China +1” are boosting the growth outlook. In China, the outlook remains quite uncertain. On the one hand, the government is taking actions to ramp up policy support, which should help provide a floor to the economic outlook.

In the rest of Asia, there have been some encouraging signs in the important Technology sector, where we see significant demand drivers relating to AI and previous overcapacity in the semiconductor supply chain increasingly being absorbed. Overall, regional valuations remain at reasonable levels.

On the fixed income side, Asia high yield credits have outperformed global credit markets year-to-date by a large margin and remain reasonably attractive considering its higher rating composition. The favourable credit cycle of most of the sectors in the Asia high yield space gives us comfort to build our core holdings with stable carry, while normalisation of default rate in China offers spread compression and credit repricing opportunities.

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

Market Review

Malaysian yield curve weakened by 2-8bps for the month with the 10y yield moved higher by 7bps to closed at 3.86% level, amid weakness in both the UST and Ringgit. The USDMYR spot surged past 4.80 briefly in Feb but rebounded strongly in the last week of the month and closed at 4.7428. BNM has increased the frequency of verbal interventions in support of the Ringgit as evidenced from news flow, and stepped up the engagements with GLICs, GLCs, corporates and investors to encourage inflows to the FX market. On policy front, BNM kept its key policy rate unchanged at 3.0% as widely expected on 7 March 2024. Of note, the statement has added comments on Ringgit. The statement indicated the Ringgit is undervalued vs economic fundamentals and growth prospects.

Global markets continue to be powered by the US tech heavyweights, helped by strong AI guidance by Nvidia while China reversed some losses, with the latter on expectations of government stimulus and intervention. However, the higher-than-expected US CPI data pushed bond yields higher, as expectations of a rate cut shifted to July from May. This made the USD stronger with the DXY Index higher 0.9%. Against the USD, the Ringgit slipped 0.2%. Local equity markets remain buoyant in February, with the KLCI gaining 2.5% bringing year-to-date up 6.7%. Chinese New Year played a role somewhat, with the corporate earnings season kicked-off, share price movements were largely centered around MSCI quarterly index rebalance. Elsewhere, the New Agong gave his inaugural address during parliament.

Market Outlook

Sukuk Outlook & Strategy

Looking ahead into 2024, the fixed income market is expected to continue its recovery, benefiting from the global trend of central banks easing interest rate hikes. With BNM anticipated to maintain the OPR at 3.00% throughout 2024 and Malaysia's GDP projected to grow between 4.00% and 5.00%, the local fixed income market remains attractive in 2024.

The OPR was maintained at 3.00% by BNM throughout 2023 as risks to growth outlook are viewed as broadly balanced, with the expectation that inflation would stay steady in the near-term. However, the medium-term trajectory is subject to the risks of changes to subsidy and price control policies, as well as global commodity prices. We expect BNM to maintain OPR at 3.00% throughout the year in the absence of demand pulled pressures, although monthly CPI is likely to trend higher depending on the pace of subsidy rationalization.

In term of Malaysia GDP growth prospect, it is projected to expand by around 4.00% in 2023, and 4.00 – 5.00% in year 2024. This justifies a continuation of the recent monetary policy stance. Having said no change, the next move in OPR, if any, is likely to be a cut rather than a hike as Malaysia's 3Q2023 GDP growth came in at 3.3% YoY, a small improvement from 2.9% YoY in 2Q2023, albeit with a softening monthly trend. As such, we maintain our positive outlook for Malaysia's fixed income market.

As such, strategy-wise, we aim to be fully invested and are looking to increase our duration exposure for better returns from the market recovery going forward. We continue to monitor sovereign bond yields for opportunities to increase our exposure in GILs at attractive entry level for trading opportunities. Nonetheless, we maintain our overweight position in corporate sukuk versus government bonds, as we believe our preference for corporate bonds over sovereign bonds and strong credit selection will continue to add value to the Fund portfolio. Such positioning would 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 AAAs and GILs will be primed for trading and return on investment purposes. At the same time, we will continue to trade opportunistically and realize profits, reinvesting into longer-duration and higher yield accretive bonds while also considering new primary issuances with higher yields to increase the Fund returns.

Equity Outlook & Strategy

Despite the strong performance for the first two months, we remain optimistic outlook for Malaysian equities, supported by the government stability and the execution of the Madani Economic Initiatives. Having said that, we have in recent weeks took profit on some names, indeed the market has been in consolidation mode. Furthermore, as at writing, foreigners have been net selling, offsetting February net buying.

In any case, the macroeconomic outlook suggests a 'soft-landing' in the US, while Malaysia's GDP growth is expected to be firmer in 2024. We maintain focus on high-yielding stocks and emphasize on thematic investing, such as National Energy Transition Roadmap (NETR) and major infrastructure projects that are expected to be revived.

For Allianz Life Amanah Dana Ikhlas:

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

The stability will enable it to implement its measures under the Madani Economy. This year marks the execution phase for the macro blueprints introduced in 2023, along with additional reform initiatives hinted at by PMX. Among these reforms, fiscal restructuring stands out as a linchpin for the Madani Economy, aiming to bring the country's balance sheet back on stronger footing. The ongoing subsidy rationalization program is poised to intensify in 2024, potentially impacting domestic prices. Already, the water tariffs rates have been increased effective February for domestic users for Peninsular and Labuan as announced by SPAN. On the flipside, these initiatives may help alleviate the fiscal deficit and more efficient re-allocation of resources.

We maintain our themes which are high-yielding companies will remain a cornerstone of the portfolio structure while we add on more growth stocks. In our pursuit of growth, we look for thematic investing for 2024 focusing on 1) Emphasizing NETR-related segments such as water, solar, and energy- efficiencies businesses, 2) Allocation of additional government spending for Penang & East Malaysia (Sabah & Sarawak) from the 2024 Budget, likely to drive pent-up economic activities in these states, 3) Lastly, fostering a closer Malaysia-Singapore relationship which will directly benefit Johor State and with the next Yang DiPertuan Agong coming from Johor, we believe all stars are aligned for businesses in the Johor state.

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

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

Market Review

The Fund outperformed the benchmark in February. The key contributors were positive stock selection in the Consumer Discretionary and Communication Services sectors.

At a single stock level, a key contributor was a premium electric vehicle (EV) maker. The company announced strong quarterly results and also indicated significant volume ramp-up in coming months as well as a series of new model launches. With continued scale economics and operating leverage, we expect the company to gain further share in the increasingly competitive EV market.

Conversely, one of the top detractors was Citic Securities, a large full-service brokerage house in China. Although the stock was up during the month, it lagged the broader market recovery. The company operates across diverse business segments including research, asset management and underwriting. It is a key beneficiary of ongoing financial reforms given its investment banking capabilities. And it should also benefit if there is a sustained recovery in equity market sentiment.

Market Outlook

China equities have had an encouraging pre- and post-Chinese New Year rally with both onshore and offshore markets recovering in February. Having been hit hardest in the sell-off, small caps have been particularly strong in recent weeks. The ChiNext Index – sometimes referred to as China's NASDAQ – is up close to 17% since its low point year-to-date.

There have been several catalysts for the rally. In particular, this year's equity market weakness has resulted in a higher-than-usual level of scrutiny from senior politicians in China. The State Council – equivalent to a government cabinet – held a meeting specifically on capital markets. And the head of the securities regulator was replaced just before markets closed for the Lunar New Year holiday.

Indeed, there is strong evidence that the so-called "National Team" – a group of state-owned financial institutions under political direction – has started to buy onshore equities in considerable size. A Chinese sovereign fund, one of the main "National Team" members, announced that it has begun buying exchange-traded funds (ETFs) and would continue to increase the scale of its purchases. Daily trading volume in the larger onshore ETFs has picked up significantly since mid-January.

Additionally, stock buybacks have increased notably. Large state-owned enterprises have made a series of apparently coordinated buyback announcements, and many smaller companies have also bought back stock. As well as an increase in demand for equities, the supply of equity has also reduced. Partly this is related to a managed slowdown in the pace of new initial public offerings (IPOs) where fundraising has dropped sharply. And the regulator has also introduced restrictions on short selling and securities lending.

In early March, there was an important economic data indicator with China announcing its 2024 gross domestic product (GDP) target of 5.0%. Although this is similar to the 5.2% GDP growth achieved last year, this year's target will be far more of a challenge which will require a significantly increased level of policy support.

So far this year there has already been a cut in the reserve ratio requirement for banks and the 5-year loan prime rate, the reference rate for mortgages. Together with other measures, including moves to ease the funding stress of property developers, this suggests the previous gap that existed between policy rhetoric and policy action appears to be closing.

In recent months we have been using the market weakness to add to high quality stocks which have reached multi-year low valuations, across areas including industrial automation, power equipment, the semiconductor supply chain and artificial intelligence (AI)-related applications. Conversely, we reduced exposure to areas where we see potential earnings risk, for example related to weaker consumption.

As at month end, the onshore/offshore allocation was around 39% in China A-shares. At a sector level, the largest sector overweight was Consumer Discretionary, while our largest sector underweight was Materials.

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

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

Market Review

Global equities rallied over February, with China, Japan and the US among the strongest markets, buoyed by hopes of further stimulus measures in China, ongoing resilience in the US economy and solid corporate earnings. A resilient US economy and a further surge in artificial intelligence (AI)-related stocks all drove the US market higher, with growth stocks outperforming value over the month.

Global central banks indicated that they were in no rush to reduce borrowing costs but suggested that rate cuts would likely be possible later this year. Headline inflation rates slowed modestly, but policymakers continue to be vigilant for signs that inflationary pressures, such as wage growth, may be accelerating again. While economic activity appeared to improve in Europe during February, it deteriorated slightly in the US and Japan.

Oil prices traded just above USD 80 per barrel for much of the month (Brent crude), as investors weighed hopes for a ceasefire in the Israel and Hamas conflict against the forthcoming Organisation of Petroleum Exporting Countries plus (OPEC+) decision as to whether to extend production cuts. European gas prices fell to their lowest level since May 2021 as a warm winter coincided with abundant inventories. Gold briefly dipped below USD 2,000 a troy ounce but later regained its earlier losses to close the month relatively unchanged.

From a sector perspective for global equities, as measured by the MSCI All Country World Index, the Consumer Discretionary sector was the top performer and supported by large growth-oriented names. The Information Technology sector was another outperformer. Conversely, stocks in the Materials and Real Estate sectors lagged broader markets.

During the period, the Fund underperformed on both a gross- and net-of-fees basis versus the custom benchmark (50% MSCI ACWI Index/50% MSCI World Information Technology Index). The Health Care and Materials sectors detracted from performance, while the Information Technology and Communication Services sectors were offsetting. AI applications underperformed the custom benchmark because of softer earnings results from a few software companies. AI infrastructure was a relative contributor with tailwinds from the exposure to data centre-related semiconductor companies. AI-enabled industries performed mostly in line with the custom benchmark.

Contributors

Social media operator Meta Platforms Inc. was among the top contributors. Shares were higher as the company delivered strong earnings results. Revenue upside came from strength in the retail, gaming and entertainment verticals. Meta's "year of efficiency" continues as expenses remain controlled, translating to operating margin expansion and higher overall net income. The company is working on new ways that generative AI can improve experiences across Facebook, Instagram, Messenger and WhatsApp – spanning search, social discovery, advertisements, messaging and more. This includes a generative AI personal assistant with robust functionality that rivals other co-pilot AI applications. We believe these new innovations can help drive greater user engagement and stickiness, as well as improvements with ad targeting and monetisation.

Our underweight position in a technology hardware producer was another relative contributor due to its significant weighting in the benchmark. It had an average 11.8% weight in the benchmark, while the Fund did not have exposure to the name. Shares pulled back on speculation of softer smartphone shipments for calendar year 2024.

Detractors

Our position in cloud-based communication platform Twilio Inc. was among the largest detractors of relative returns. Shares were lower following mixed earnings results, as guidance came in lighter than expected because of headwinds from the cryptocurrency industry vertical and the wind-down of a legacy software business. Twilio continues to make operational improvements and is set up to capture a potential demand recovery. It continues to have a compelling cloud communications platform that enables developers to build and manage applications without the complexity of maintaining the underlying infrastructure.

Another detractor was a streaming television platform provider. Although the company reported solid earnings results, the stock fell as guidance missed investors' lofty expectations. Looking forward, it is well positioned to benefit from an ongoing shift of television viewing to streaming. Its streaming platform has a large and growing user base with significant engagement. The company's earnings growth runway appears healthy as advertising dollars shift from traditional TV to connective TV, and as it introduces new advertising formats to spur demand.

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

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

New Buys and Sells

During the period, new purchases in the Fund included the world's second-largest home improvement retailer. Although negative sentiment has weighed on companies tied to residential construction, investors may be underappreciating the various growth and AI initiatives that the company has been implementing over the last several years. We believe there is a growing pent-up demand for home improvement that could drive additional upside.

The Fund also purchased a global industrial automation leader. The company sees AI as a key driver of industrial transformation and is actively incorporating it into various products and business operations. We believe its AI initiatives have the potential to be additive to a range of factory processes that includes preventative maintenance, quality inspection, supply chain optimisation and autonomous guided vehicles for material handling.

A company which specialises in a wide range of networking hardware, telecommunications equipment, software, and other high-technology services and products was another new addition. We believe it stands to benefit across its product portfolio as companies invest in their AI infrastructure, given the company's growing pipeline of orders for AI networking solutions.

We re-initiated a position in a cyber security provider, as the risk reward became more attractive. Over the past several quarters, the company has made strong progress on enhancing its cost structure and product portfolio through AI, while also leveraging AI to streamline its operations, including task automation.

Lastly, we exited our position in a cloud services platform provider, as shares appreciated significantly and approached our price target.

Market Outlook

We believe the equity market recovery in 2023 can extend into 2024. Over the last couple of months, the US equity market has shown signs of broadening out beyond the Magnificent 7 as interest rates appear to be on a path lower with an economic soft landing more likely. At the December 2023 Federal Open Market Committee (FOMC) meeting, the US Federal Reserve (Fed) held fed funds rate steady and signalled multiple rate cuts could come in 2024 and 2025 as rates are either at or near peak levels with promising inflation and moderating jobs data.

The backdrop for normalising monetary policy should be conducive for an economic recovery and for growth to reaccelerate as 2024 progresses. The recent soft economic backdrop due to higher interest rates has weighed on some sectors and industries more than others. Lower rates and easier financial conditions should translate to better demand, easier access to capital and increased investment in high return-on-investment projects like AI.

We also think small- and mid-cap stocks have the potential to outperform large caps in 2024, given historical outperformance during a recovery phase and the relatively muted returns over the past few years. Even if there is more market volatility ahead, smaller stocks might be further along towards a recovery as estimates already discounted more of the uncertainties ahead, in our opinion. Earnings growth looks poised to reaccelerate in 2024 across more sectors, which should be supportive of a continued broadening of the market. There are likely bumps along the way and the market might be due for a short-term breather after the recent strength, but there are reasons to be optimistic for 2024.

AI's impact on every industry is starting to take hold, and we see a growing opportunity set beyond just the Magnificent 7 and the technology sector. ChatGPT and early use cases of generative AI have proven that these breakthroughs can greatly improve efficiency and drive a new wave of automation. We are likely at the dawn of a long-term AI investment cycle that will have significant growth implications across the value chain and in every sector of the economy.

AI infrastructure: The developments around generative AI and large language models further demonstrate that the demand backdrop for AI infrastructure companies should remain strong, given the computing requirements for training complex AI models and subsequent inference needed for edge intelligence. More companies are now motivated to build out their own domain-specific generative AI capabilities through continuous training and refinement. As these launch for broad-based use, demand should also expand to networking and storage infrastructure to support the explosive growth in new AI workloads. Investment also appears to be expanding to smaller cloud providers, governments and corporations in more countries around the world, which should be supportive of the ongoing build-out of critical AI infrastructure in the coming years.

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

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

AI applications: A new wave of AI applications is emerging that infuse generative AI capabilities into their software to drive greater value and create more monetisation opportunities. Today's general purpose AI models were trained on the internet, and they cannot respond to questions based on proprietary knowledge or data housed privately within an organisation. Many internet and software companies have a wealth of proprietary data sets and workflows to train AI models that can result in a new era of more intelligent applications and systems, opening up many new opportunities for monetisation and value.

AI-enabled industries: AI is helping to reinvent digital transformation, introducing new generative AI possibilities that can significantly boost productivity and reduce costs. As more processes go digital, the opportunity for AI to react to new information or unexpected changes can revolutionise every industry. Many companies in AI-enabled industries are increasing investments in generative AI to train one's own industry-specific model on its proprietary content or knowledge to compete better and innovate in the future. We are witnessing an increasing number of companies across automotive, consumer, health care, and finance sectors leveraging proprietary datasets that could yield differentiated AI models and applications that are difficult to replicate and can handle tasks better than general purpose AI. We believe this is just the tip of the iceberg as companies become more comfortable with AI's potential to drive greater efficiencies and automation across every part of their business.

Overall, we continue to believe we are at the very early stages of massive disruptive change brought about by advances in – and the deployment of – AI. We believe these changes will drive meaningful growth for companies that can take advantage and drive disruption within their respective industries. Our view is that the compounding effect from AI disruption will create massive opportunities for innovative companies across every sector. Stockpicking will be essential to capturing the benefits of this opportunity, especially in an environment characterised by disruption and change. As we have done since the launch of the strategy, we remain focused on identifying the companies that leverage AI to deliver the most shareholder value creation over the long term. Compared to the technology innovation ahead of us, humanity is still on day one of our journey through the AI revolution.

For Allianz Life Oriental Income Fund and Allianz Life Oriental Income Fund (USD):

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

Market Review

Asia Pacific equities generally delivered positive returns in February. Chinese stocks had an encouraging pre- and post-Chinese New Year rally. There was notable evidence of “national team” activity with a significant pickup in onshore exchange-traded fund (ETF) volumes, as well as a regulatory crackdown on short selling and securities lending. Elsewhere, stocks delivered solid gains in Taiwan and South Korea. Taiwanese equities ended the month at a record high, buoyed by robust gains from a chipmaker, which continues to benefit from interest in artificial intelligence (AI)- related stocks.

Japan equities continued their strong start to the year, with the market advance helping the Nikkei 225 Index break through the previous high set in 1989. The gains were driven by continued positive overseas interest as well as robust corporate earnings. India equities also maintained their recent momentum, with the manufacturing purchasing managers’ index (PMI) showing mild but sustained expansion, while cost pressures were muted. ASEAN markets also advanced but lagged more developed markets. In contrast, Australia equities finished the month slightly lower, weighed down by the Materials and Energy sectors.

The Fund underperformed the benchmark in February. Stock selection was a key driver, with stock selection in Japan being the key source of detractor.

At a single stock level, a top detractor was Mainfreight, a New Zealand-based company providing freight, warehousing, and logistics services. We believe Mainfreight is an exceptionally well-managed business with a highly competitive service and customer-focused culture. Its share price has been weak of late-on concerns over slowing global economic growth, but with a long-term investment horizon, we believe Mainfreight is a high-quality company that should be able to deliver earnings growth through the cycle.

Conversely, a top contributor during the month was a Hong Kong-listed company. The company is a provider of advanced packaging for semiconductors and has benefitted from the increased demand from AI servers as well as high performance computing and high-bandwidth memory. Quarterly results announced this month were upbeat and indicated a stronger pipeline of future orders.

Overall positioning of the portfolio remains little changed. At a geography level, key overweight allocations are in Taiwan and Japan. In Taiwan, we maintain a high exposure to Technology, especially in the semiconductor supply chain where we see an improving outlook both in demand and also in pricing power. Japan represents around 38% of the overall portfolio, compared to the benchmark level of 35%, and there was some minor switching of names owned in this market during the month. We also took the opportunity to initiate some new holdings in South Korea, where sentiment has been strong leading up to elections in April and proposals from the regulator to improve corporate governance.

This positioning is balanced by underweight positions in India, Australia, and Hong Kong/China. At the sector level, Financials remains our largest underweight, along with the Communication Services and Consumer Discretionary areas.

Market Outlook

We continue to have a constructive view on the regional market outlook. In Japan, this month sees the conclusion of the annual shunto wage negotiations which are expected to set the scene for significant pay increases and contribute further to a more inflationary environment. In turn, this is leading to a change in management mindset, especially regarding a more efficient use of corporate balance sheets to generate higher returns. The focus on enhanced profitability is also being encouraged by the Tokyo Stock Exchange (TSE) governance reforms. In addition, the yen looks undervalued so that returns to international investors should be supported by longer-term currency appreciation.

In China, while market sentiment has improved, the outlook remains quite fragile. China set its annual growth target at around 5% for 2024, which will require significant additional policy stimulus given the ongoing weakness in the property sector. While near-term visibility on growth remains uncertain, nevertheless, any signals of macro stabilisation could trigger a marked rally given the depressed valuations. Elsewhere in the region, there are signs of stronger momentum in the Technology sector, especially for companies with AI-related business exposure. Overall, from a regional standpoint, valuations remain at reasonable levels.

For Allianz Life Total Return Asian Equity Fund:

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

Market Review

Asia ex Japan equities generally delivered positive returns in February. Chinese stocks had an encouraging pre- and post-Chinese New Year rally. There was notable evidence of "national team" activity with a significant pickup in onshore exchange-traded fund (ETF) volumes, as well as a regulatory crackdown on short selling and securities lending.

Elsewhere, stocks delivered solid gains in Taiwan and South Korea. Taiwanese equities ended the month at a record high, buoyed by robust gains from chipmaker - Taiwan Semiconductor Manufacturing (TSMC), which continues to benefit from interest in artificial intelligence (AI)-related stocks. ASEAN markets also advanced but lagged more than developed markets. Finally, Indian equities delivered a solid advance again in February, with the manufacturing purchasing managers' index (PMI) showing mild but sustained expansion, while cost pressures were muted. Sentiment around Indian equities remains strong, with domestic investors continuing to buoy markets as consistent net buyers.

The Fund underperformed the benchmark in February. Stock selection in Consumer Discretionary and Information Technology areas was a key detractor from a sector standpoint, whereas stockpicking in Hong Kong/China was also a source of relative underperformance, along with our broader underweight to China in a month when Chinese equities rebounded.

At a single stock level, India's leading private sector bank, HDFC Bank, was a top detractor, with the market expressing disappointment in the merger between the bank and mortgage lender HDFC Ltd. We continue to view HDFC Bank as an exceptionally well-managed business. In our view, the merger, while prone to some integration challenges, presents an opportunity to increase exposure to the fast-growing housing segment and extend the duration of its loan book, as well as to introduce cross-selling opportunities.

In contrast, a key contributor was DLF Limited, the largest property developer in India with a national profile and particularly strong footprint in the Greater Delhi area. We have been increasing our exposure to India property, which we believe is in the early stages of a multi-year upcycle after suffering an extended period of weakness. Indian income levels are rising and housing affordability is improving.

The main change in portfolio positioning over the last year has been to increase the allocation to India. At the beginning of 2023, India portfolio exposure was around 18%. At the end of February 2024, it had risen to 26%, significantly overweight compared to the benchmark level of 21%. In February, we exited one Indian property name that had exceeded our target price and repositioned somewhat in Taiwan Technology to capture the recent selloff in selective AI names.

We remain underweight in Hong Kong/ China, where macro conditions continue to weigh on market sentiment. At a sector level, Technology continues to be a dominant position, while Industrials is underweight. Top names in the portfolio include TSMC, Samsung Electronics, and Tencent at month-end.

Market Outlook

Across the Asian region, we are expecting some of this year's macro headwinds to ease as we move through the year. Within the region, our preference leans more towards South Asia where we are finding a number of attractively-valued structural growth stories that are less impacted by geopolitical risks. In particular, the more favourable demographics, rising consumption power and reordering of supply chains associated with "China +1" are boosting the growth outlook across ASEAN markets and India, where we see more promising investment opportunities relative to North Asia at this juncture. In particular, there are signs of stronger momentum in the Technology sector, especially for companies with AI-related business exposure.

In China, while market sentiment has improved, the outlook remains quite fragile. China set its annual growth target at around 5% for 2024, which will require significant additional policy stimulus given the ongoing weakness in the property sector. Overall, regional valuations remain at reasonable levels.

For Allianz Life Global Income Fund:

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

Market Review

Markets advanced in February as investors digested better-than-expected corporate earnings, mixed economic data, and a shift in rate cut expectations. A strong finish to the earnings season drove Q4's earnings growth to 4.0% (compared to -0.3% at the end of January) and helped lift 2024 and 2025 earnings estimates. Monthly payroll figures and the unemployment rate topped forecasts and manufacturing and services sector surveys improved. On the other hand, some inflation measures came in higher than expected. As a result, market expectations for the first interest rate cut were pushed out to June's Federal Open Market Committee (FOMC) meeting, aligning with the US Federal Reserve (Fed)'s most recent full-year forecast. Against this backdrop, Treasury yields rose, and investment grade bonds fell.

In this environment, global equity markets, as measured by the MSCI World Index, returned 4.24%.^{*} US developed equities outperformed their non-US counterparts, and growth stocks outperformed value stocks. Global convertible securities finished higher and new issuance increased month-over-month. Global high-yield bonds also advanced and new issuance decreased versus the prior period. Global fixed income, as measured by the Bloomberg Global Aggregate Index, returned -1.26% with US exposure underperforming non-US.[^]

The portfolio was positively impacted by strength across most markets.

Top contributors included companies capitalising on artificial intelligence (AI) adoption and cloud migration such as Nvidia, Amazon, Microsoft, and Salesforce.com. Meta advanced after reporting accelerating advertising growth and instituting a dividend, and a pharmaceutical position continued to gain on research and development (R&D) scalability and revenue opportunity potential. Other top contributors were a semiconductor manufacturer, a logistics software provider, a power management company, and an aerospace holding.

Top detractors included a wireless services provider that reported a data breach, and a software company on substitution fears. Holdings in data services, waste management, and payments all offered below-consensus guidance, and a beverage company announced changes to management. Other top detractors were a consumer electronics company, a technology consultant, an ecommerce platform, and a food distributor.

Exposure increased the most in Industrials, Financials, and Consumer Discretionary, and decreased the most in Health Care, Information Technology, and Materials.

Market Outlook

2023's economic momentum should carry over into 2024. Economic tailwinds include low unemployment, steady consumption, government spending, waning inflation, a stabilising manufacturing sector, an end to the rate hike cycle, and inflecting earnings. Economic headwinds include continued restrictive monetary policy and quantitative tightening, less savings, and US/international political risks, among others.

Global corporate bonds and global convertible securities should be better positioned to weather any market volatility given current asset class dynamics, which in some respects are more favourable today than they were exiting 2022. Consequently, today's market outlook resembles 2023's with mid to high single-digit returns possible by year-end 2024 for global corporate bonds, global convertible securities, and global equities.

Global investment grade corporate bond's risk/reward opportunity is compelling. Rising interest rates remain a key risk for high grade corporates, however the investment opportunity remains attractive given higher coupons and yields, and a positive fundamental outlook with limited default risk. The asset class trades at a discount to par, offering attractive total return potential and downside cushioning.

The global high-yield corporate bond market, yielding nearly 8%, offers the potential for equity-like returns but with less volatility. Credit fundamentals are stable, near-term refinancing obligations remain low, and management teams continue to prioritise debt reduction. Given these factors, defaults should remain well below historical cycle peaks. The market's attractive total return potential is a function of its discount to face value and higher coupon, which also serves to cushion downside volatility.

For Allianz Life Global Income Fund:

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

Global convertible securities should continue to provide benefits to investors, including an attractive asymmetric return profile and potentially lower volatility relative to the equity market. The shift in the universe's composition exiting 2022 remains largely unchanged heading into 2024. Many securities offer attractive current yields and exhibit defensive characteristics given lower deltas and closer proximities to bond floors. This dynamic may allow for greater downside protection if equity volatility rises. If the prices of underlying stocks advance, convertible securities could be positioned to participate in the upside. Lastly, higher debt financing costs should draw issuers to the convertible market for coupon savings. As a result, new issuance is expected to increase materially year-over-year.

Global equity valuations reside near long-term averages. Visibility around 2024 and 2025 earnings, currency and rate stabilisation, and an end to the rate hike cycle could be positive developments for stocks. Any equity market volatility will present opportunities for active managers to take advantage of better prices in attractive investments.

A covered call options strategy can be utilised to generate premium income. In periods of elevated or rising equity volatility, premiums collected may translate into more attractive annualised yields.

All data are sourced from Allianz Global Investors dated 30 November 2023 unless otherwise stated.

* Source: MSCI, as at 29 February 2024

^ Source: Bloomberg, as at 29 February 2024

** Source: ICE Data Services, as at 31 December 2022

Source: JP Morgan, as at 31 October 2022

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

Target Fund Manager's Comment (For Allianz Thematica)

Market Review

Global equities rallied over February, with China, Japan, and the US among the strongest markets, buoyed by hopes of further stimulus measures in China, ongoing resilience in the US economy and solid corporate earnings. At a sector level, growth stocks in the Consumer Discretionary, Industrials and Information Technology sectors were the top performers in the MSCI All Countries World Index, while Utilities, Consumer Staples, Real Estate and Energy lagged.

Global central banks indicated that they were in no rush to reduce borrowing costs but suggested that rate cuts would likely be possible later this year. Headline inflation rates slowed modestly, but policymakers continue to be vigilant for signs that inflationary pressures, such as wage growth, may be accelerating again. While economic activity appeared to improve in Europe during February, it deteriorated slightly in the US and Japan.

The Japanese yen weakened against other major currencies as the Bank of Japan (BoJ) maintained its ultraaccommodative stance. Elsewhere, the US dollar and euro rose against the British pound. Central banks in both the US and the eurozone moved to dispel speculation that rates might be cut in March but suggested that rate cuts were still on the cards later in 2024.

Oil prices traded just above USD 80 a barrel for much of the month (Brent crude), as investors weighed hopes for a ceasefire in the Israel/Hamas conflict against the forthcoming Organisation of the Petroleum Exporting Countries plus (OPEC+) decision as to whether to extend production cuts. European gas prices fell to the lowest level since May 2021 as a warm winter coincided with abundant inventories.

Market Outlook

The Fund returned positively in February, slightly lagging global equity markets as represented by the MSCI AC World Index.

Positive performance occurred from themes like Intelligent Machines, Clean Water and Land, and Digital Life. Whilst we had already taken a more cautious stance with a lower overall portfolio exposure and changes with the theme, the theme Next Generation Energy remained a detractor in the month of February, as well as Infrastructure, and Pet Economy.

The influence of the index heavyweights has been slightly negative in total, as the underweight to Nvidia, a social technology company, and an ecommerce giant hurt the overall performance, while the underweight to a US tech giant and a technology conglomerate helped. Due to solid performance from the other stocks in this theme, the overall performance has been slightly positive. Besides that, companies from the Intelligent Machines theme contributed solidly, bringing the overall theme into positive territory. Clean Water and Land companies contributed positively as some of them announced robust quarterly earnings results.

Negative performance occurred from Infrastructure-related companies. A cyber security company suffered as it missed market expectations after the earnings release. Furthermore, the pressure on renewable companies like a producer of renewable gasoline remains in place, although some companies are already reporting that the trough in terms of business activity has been reached.

The portfolio forward-looking price/earnings relation sits below global equity markets – at a level not seen in the past five years. At the same time, both earnings growth as well as sales growth are expected to come in well above global equity markets average. Whilst this already provides a good starting point for a catch-up move, we are also confident with our theme line-up. In our ongoing exercise of checking the continued relevance of each single theme, we can clearly put a check mark behind each of the themes owned in the portfolio.

For Allianz Life Elite Income Fund and Allianz Life Elite Income Fund (USD):

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

Market Review

Risk assets continued their upward climb in February, with equities leading the way once again, buoyed by the persistent excitement surrounding Artificial Intelligence, and resiliency in macro data. The US labor market remained strong, as nonfarm payroll employment significantly exceeded expectations and was up +353k with upwardly revised data for previous months suggesting that momentum may not be decelerating. Furthermore, we also saw the ISM manufacturing print reach a 15-month high. In line with stronger data, inflation also surprised to the upside as US headline inflation (CPI) came in at +3.1% YoY vs a +2.9% estimate, while core inflation came in at +3.9% YoY vs a +3.7% estimate. In particular, the monthly core CPI print was the highest in eight months at +0.4% MoM. In the Euro Area, headline inflation came in at +2.8% YoY, whilst core inflation was at +3.3% YoY. In the UK, both headline and core were unchanged, at +4.0% YoY and +5.1% YoY, respectively.

As a result, we saw a divergence in performance between fixed income and equities. Government bond yields broadly sold off as markets absorbed the positive economic data and pared back expectations for the extent of Fed rate cuts in 2024, pricing in a total of 85bps of cuts from the end of February to the end of year, versus 146bps of cuts priced in at the start of the month. In the front end, US 2Y Treasury, German 2Y Bund and UK 2Y gilt yields rose +41bps, +48bps and +4bps, respectively. US 10Y Treasury, German 10Y Bund and UK 10Y gilt yields rose +34bps, +25bps and +33bps, respectively. Meanwhile, equity markets rallied given the resiliency of the US economy and broader bullish sentiment, with the S&P reaching new all-time highs. Japanese equities led the way with +8.0% returns, as the S&P 500 and MSCI World returned +5.34% and +4.28%, respectively. Even China equities, which had been a laggard, bounced back as the CSI 300 Index and Hang Seng Index were up +9.4% and +6.6%, respectively. In credit, USD investment grade spreads stayed flat whilst EUR investment grade spreads tightened -9bps. High yield outperformed, as USD and EUR high yield spreads tightened -32bps and -33bps, respectively.

During the month, the PIMCO GIS Income Fund returned -0.41% after fees (in USD, for the Institutional class, Accumulation share), bringing YTD '24 performance to 0.17%.

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