Market Review and Outlook

August 2022

The content of this document is supplementary to the Monthly Fund Factsheets.

For the following funds:

Allianz Life Master Bond Fund ("MBF")
Allianz Life Master Equity Fund ("MEF")
Allianz Life Master Dividend Fund ("MDF")
Allianz Life Master Dana Ekuiti ("MDE")
Allianz Life Master ASEAN Plus Fund ("AMAF")
Allianz Life Managed Fund ("MF")
Allianz Life Equity Fund ("EF")
Allianz Life Dynamic Growth Fund ("DGF")
Allianz Life Equity Income Fund ("EIF")
Allianz Life Bond Fund ("BF")
Allianz Life Dana Padu ("DP")
Allianz Life ASEAN Plus Fund ("AAF")

Market Review

The MSCI World Index reversed its uptrend in the previous month by declining 4.33% mom during the month under review. This was brought about by the actions of various central banks which reaffirmed their fervent commitment to rein in inflation. In the United States (US), the Dow Jones Index fell by 4.06% mom as the Federal Reserve (Fed), at their annual Jackson Hole symposium, reiterated their stand in the fight against inflation and made known that they were even prepared to endure some near-term economic pain to achieve their goal. On the economic front, despite suffering 2 previous quarters of negative gross domestic product (GDP) growth qoq, some positive signs are beginning to show. The July 2022 ISM Manufacturing Purchasing Managers Index (PMI) reading was expansionary at 52.8, July 2022 unemployment rate edged down 0.1 ppt mom to 3.5% while July's US Consumer Price Index (CPI) eased to +8.5% yoy after peaking at +9.1% yoy in June 2022. In Europe, the Stoxx 50 Index also dropped 5.15% mom despite exhibiting 2Q22 GDP growths of +3.9% yoy and +0.6% qoq, due to the fiscal efforts of the European governments since the advent of the Russia-Ukraine conflict. However, economic uncertainty was still present with the Eurozone Flash Composite PMI deteriorating further to 49.2 in August 2022 as compared to 49.9 in July 2022. Apart from that, inflation fears might still be stoked by Russia's recent and indefinite shut down of the Nord Stream 1 as Gazprom could no longer provide a timeframe for restarting deliveries after discovering an 'oil leak' with the Russian government blaming sanctions imposed for hampering maintenance efforts. This could encumber Europe's efforts in securing fuel for the impending winter and might further buoy energy prices. On the other hand, to contain inflation while sustaining employment, the Bank of England's Monetary Policy Committee (MPC) voted to raise the Bank Rate by 0.5 ppt to 1.75%. In China, the Shanghai Composite Index eased by 1.57% mom, due to mixed economic data. On one hand, the July 2022 Caixin China PMI Composite Index was expansionary at 54.0 but on the other, August's manufacturing PMI was contractionary at 49.4 and retail sales momentum in July 2022 eased by 0.4 ppt mom to +2.7% yoy which was below consensus expectations. In addition, the Chinese economy was also reeling from Covid-19 lockdowns and a property downturn. To spur growth, the People's Bank of China (PBOC) lowered its 1-year loan prime rate (LPR) by 0.05 ppt to 3.65% and its 5-year LPR by 0.15 ppt to 4.30%.

For bonds, after last month's yield rally post-July FOMC, US Treasury (UST) yields continued their upward trend in August. USTs underperformed after US key data exhibited signs of weakness and was also fuelled by the Fed's Chairman, Powell's hawkish testimony at the aforementioned Jackson Hole Symposium on 25-27 August 2022. In his speech, Powell affirmed that the Fed will use tools forcefully to attack inflation that is running near its highest level in more than 40 years. While higher interest rates, slower growth, and softer labour market conditions will bring down inflation, Powell added that the actions will also bring some pain to households and businesses. He also expressed that a failure to restore price stability would mean far greater pain. This led to investors increasing their bets on more rate hikes in the next FOMC meeting. The 2-year UST yield being particularly sensitive to interest rate expectations, rose to a high of 3.49%, its highest since late 2007. Benchmark 10-year UST yield also rose 54bps to close the month high at 3.19% but remained well shy of their mid-June top of 3.47%.

During the month under review, Brent oil price continued its downwards trajectory by 12.3% mom to USD96.49/bbl, driven by weaker Chinese demand while the G7 nations threatened to impose a price cap on Russian oil. Crude palm oil (CPO) price also slid by 6.1% mom to RM4037/MT due to higher inventory levels and the move by the Indonesian government to extend its zero-export levy on all palm oil products until end October 2022 in a bid to boost CPO exports as well as cut back on the oversupply of fresh fruit bunches.

In contrast to its broader global peers, the ASEAN stock markets instead continued to enjoy positive performances in August 2022. The Stock Exchange of Thailand surged +3.97% mom as the country registered a 2Q22 GDP growth of +2.5% yoy which was +0.3 ppt qoq. In addition, its July 2022 S&P Global Thailand PMI Manufacturing registered an expansion with a reading of 52.4. Due to the inflation concerns and a robust economic recovery stimulated by tourism, the Bank of Thailand's (BoT) MPC raised its policy rate by 0.25% to 0.75% for the first time in almost four years (since December 2018). The Jakarta Composite Index also rose by +3.27% mom as Indonesia enjoyed a 2Q22 GDP growth of +5.44% yoy. Bank of Indonesia also raised its benchmark interest rate by 0.25 ppt to 3.75% for the first time since 2018 in a pre-emptive move to mitigate the inflation risks arising from non-subsidised fuel and food prices. Back home, the FBMKLCI climbed +1.33% mom on the back of a strong +8.9% yoy GDP growth in 2Q22 which was also above consensus expectations. Malaysia's June 2022 industrial production growth was also encouraging at +12.1% yoy, being a marked improvement over the previous month's +4.1% yoy. Foreign funds also helped to support the market with a RM2.1b net equity inflow in August which brought the YTD sum to RM8.3b. However, the Ringgit weakened to RM4.4755: USD1.00 in August from RM4.4508: USD1.00 in July. Lastly, Singapore's Straits Times Index edged up +0.31% mom, helped by the financial sector which stood to benefit from improved net interest margins amidst the rate hike environment. From an economic perspective, July's non-oil domestic exports (NODX) grew by +7.0% yoy albeit at a slightly lower momentum as compared to the +9.0% yoy in June 2022.

With regards to the domestic bond market, the Malaysian Government Securities (MGS) yield curve steepened as the 3-year MGS fell 14bps to 3.36% while the 5-year to 15-year MGS was higher by 3 to 9bps. The longest end of the curve was well supported by real money investors with the 20-year MGS yield down by 4bps while the 30-year MGS yields stayed unchanged. While the market remained somewhat in thin liquidity post-Jackson Hole Symposium, local bond activities during the month came with some bargain-hunting activities as the market expected a showdown in the current tightening cycle by Bank Negara Malaysia (BNM) in 2023 should there be slower growth. Although GDP grew 8.9% yoy in 2Q 2022 which brought GDP growth in the 1H 2022 to 6.9% yoy, Finance Minister, Tengku Zafrul mentioned that the government remained cautious on the second half of year performance "as the economic outlook is still subjected to risks of slower growth due to global economic uncertainty, caused primarily by the prolonged Russia-Ukraine conflict, as well as China's economic slowdown following the implementation of strict COVID-19 containment measures." He added that higher inflationary pressures due to expected increases in commodity and food prices, as well as ongoing global supply chain disruptions, were factors that might impact global growth. Meanwhile, July headline CPI inflation recorded 4.4% yoy from June's 3.4% yoy, matching the median estimate in a Bloomberg survey, with the increase primarily driven by a record increase in the cost of food. On 8 September, the Monetary Policy Committee (MPC) proceeded to raise the Overnight Policy Rate (OPR) by 25bps to 2.50% as widely expected. The decision was made based on the positive growth prospects for the Malaysian economy.

Foreign funds turned net buyer in August with a purchase of RM5.6b of Ringgit bond holdings (July: -RM3.5b). This decreased YTD outflows to RM1.2b. Foreign share of both MGS and MGS+MGII climbed to 36.1% (July: 35.5%) and 23.5% (July: 23.3%) respectively. Malaysia's foreign reserves contracted by USD1.0b to USD108.2b as of end-August 2022 (July: USD109.2b).

Market Outlook

We opine investors would keep a vigil on global inflation concerns and the elevated geopolitical risks brought about by the Russia-Ukraine conflict. In China, there have been lingering fears that their dynamic zero Covid-19 policies could cripple economic growth especially with the latest lockdown in Chengdu. Apart from that, there are domestic political concerns which may precipitate from the often-mentioned 15th General Election (GE15) which must take place before the end of September 2023. There is a possibility that the GE15 may be brought forward earlier as the Pakatan Harapan's Memorandum of Understanding (MoU) of Transformation and Political Stability with the government expired in July 2022. To that end, the government has brought forward the tabling of Budget 2023 by three weeks to 7 October 2022. According to the Finance Minister, this budget is expected to focus on sustainable subsidy management and also to strengthen the country against increasing inflation pressures.

For equities, we maintain our prudent yet sensible posture towards our equity market's longer term growth trajectory and, where possible, would direct monies into fundamentally good investments. We would also engage in some trading activities should market volatility present us with good opportunities. We are partial towards sectors exhibiting robust growth prospects but remain cognizant for signs that market volatility might necessitate a shift of investment direction.

Locally, bond yields are expected to remain volatile in tandem with the UST yield movements. Although the US has entered into a technical recession, the markets have continued to remain jittery over the potential aggressive Fed rate hike path as US inflation remains elevated due to still high commodity prices and supply disruptions. The Fed has indicated that it is still committed to achieving its targeted inflation rate of approximately 2.0% and economic data will be scrutinized heavily to determine the next rate hike. On the other hand, local monetary policy is expected to remain accommodative to support sustainable economic growth in an environment of price stability as BNM reassured that economic developments and inflationary conditions would be monitored continuously and any rate hike would be done in a measured and gradual manner.

We are of the view that the risk-reward of MGS has improved with the Ringgit rates market well priced for BNM normalisation but we are also mindful of the bond market volatility arising from both external and internal fronts, which would impact local yields. The risk remains if domestic inflation surprises on the upside and foreign portfolio outflow accelerates. We would however maintain our strategy to accumulate bonds at favourable valuations skewing towards good quality names.

For Allianz Life Global High Payout Fund:

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

What helped?

- Defensive and sustainable dividend stocks could provide for a steady income stream.

What hurt?

- Fund lagged behind global equity markets as well as the customised benchmark.
- Performance suffered in August and retreated from an otherwise strong year-to-date performance for this segment.

Market Review and Outlook

Global equities rallied over the first half of August amid growing hopes that central banks would soon start to reduce the pace of monetary tightening. However, the rally came to an abrupt end as hawkish comments from the US Federal Reserve (Fed) and European Central Bank (ECB) dashed these hopes. In general, developed markets fell over August while emerging markets, many of which are ahead of the curve in raising rates, rallied modestly.

US equities initially rallied as a slight easing in the annual rate of US inflation boosted speculation that the Fed may be less aggressive in raising rates. By mid-August, the S&P 500 Index had rallied around 15% from its lowest point in mid-June while the Nasdaq Index had rebounded more than 20%. US shares later reversed direction when Fed officials issued a series of hawkish statements, with both the S&P 500 and the Nasdaq closing the month lower.

European equities retreated (in EUR terms) over August amid growing recessionary fears along with concerns that sharp hikes in interest rates will be needed to combat inflation. Gas prices soared once again, and several European nations introduced measures to help households hit by a cost-of-living crisis: Germany pledged EUR 10 billion of tax relief while France agreed a EUR 44 billion support package which included the nationalisation of an energy supplier. As the heatwave continued, Europe faced the worst drought in 500 years with low water levels threatening to disrupt key transportation routes, such as Germany's Rhine River.

For Allianz Life Asia Multi-IncomePLUS Fund:

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

Market Review

Equity markets in Asia ex Japan delivered flat returns over August as investors digested corporate earnings and hawkish statements from the US Federal Reserve (Fed). While China eased monetary policy, other central banks in the region raised rates to combat rising inflation. China and Hong Kong equities declined, as elevated COVID-19 cases, power cuts due to a severe drought, and a continued housing market slowdown in China weighed on investor sentiment. Taiwan and Korea equities were broadly flat, with leading chipmakers warning of softening demand from weaker consumer spending. Elsewhere, the Reserve Bank of Australia (RBA) raised rates to the highest levels since 2016. India equities rallied, as inflationary pressure eased to a 5-month low in July. ASEAN markets were the main outperformers, with Indonesia, Thailand and Philippines posting solid gains.

The Asian USD high yield credit market, as represented by the JP Morgan JACI Non-Investment Grade Index, rose by 2.85% in August, building on the rebound that started in late July. The market was driven mainly by the recovery in Chinese property issuers, as the market reacted positively to increased government support for the sector. For the month, credit spreads compressed from 1,069 basis points (bps) to 1,013 bps, while 5-year US Treasury yields rose sharply from 2.68% to 3.35%.

The Fund return was marginally negative in USD terms in August. Within the equity sleeve, main detraction came from our Hong Kong and China positions, although our Australia and India positions helped offset part of the underperformance.

On a single stock level, the top detractor was a leading skincare and cosmetics company in China. The stock saw some profit taking after share price reached record highs in July. We continue to expect the company to gain market share over foreign brands given its strong flagship products and ecommerce penetration.

On the positive side, the top contributor over the month was Tencent, as the overall Chinese internet companies rallied at the end of the month. The catalyst was China and US authorities announcing an agreement on access to audits of Chinese companies listed in the US, which for the time being reduces the risk of American Depository Receipts (ADRs) being delisted.

The asset allocation at the end of the month was 67.6% invested in Asian equities and 31.2% in Asian fixed income, with the remainder in cash.

In terms of portfolio activity, in August we added to our position a pharmaceutical company in Australia specialising in arthritis treatment. The equity portfolio remains positioned with a broad spread of exposure in structural and dividend growth companies across Asian equity markets.

For the fixed income sleeve, we invest in bonds with the aim of long-term interest accrual. In August, we sold our exposure to issuers with potential idiosyncratic concerns while reinvesting in higher quality issuers for less volatile interest accrual.

At the end of the month, we held 58 equities and 81 fixed income securities. The equity portfolio yield was 3.1% and the average fixed income coupon was 5.3% with an average credit rating of BB and duration of 2.6 years.

Market Outlook

We remain in uncertain times with low visibility around future economic and geopolitical developments globally. However, notwithstanding the challenging macro environment, our base case scenario is to be cautiously optimistic on the market outlook.

In particular, while the weakness in the property sector, combined with the impact of COVID policies, is weighing on economic activity in China for the time being, we anticipate a more supportive policy environment especially after the Party Congress in October. This should create a more helpful environment for equities, especially with valuations below longer-term average levels.

Elsewhere, we also believe that the sharp pullback in regional Asian markets has resulted in a number of stocks coming back to attractive levels.

For the Asian credit market, while market performance has been supported by increased measures to support the Chinese property sector, we continue to expect the market to be bifurcated with stronger Chinese property issuers outperforming distressed issuers. Market valuations as a whole remain cheap and we should see more differentiation between issuers.

For Allianz Life Amanah Dana Ikhlas:

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

Market Review

The Malaysian sovereign bond market has been resilient amidst a global bond sell-off and continued its recovery in August with yield curve steepened as the short-end yields fell 3-14 bps while the long-end rose 2-8 bps over the month. To compare, US Treasuries yields rose 38-72 bps m-o-m across the board. Demand for local bonds were supported by the stronger than expected 2Q2022 GDP numbers at +8.9% y-o-y, driven by domestic demand and recovery in labour market. Meanwhile, the US Federal Reserve Chairman Powell reiterated his pledge to fight inflation and hawkish rate narrative. Locally, corporate bonds also saw better demand, with yields decreased by 2-8 bps m-o-m. Year-to-date, govvies yields rose by 13-103 bps, and corporate bond yields rose by 37-120 bps, while US Treasuries jumped 139-276 bps.

Global equity markets were choppy in August, brought by hopes of an end to the Fed's hawkishness following the weaker-than-expected inflation in the US that clashed with the weak economic data from China and rising energy prices in Europe heightened recession fears. In addition, remarks from the Fed that it will remain hawkish, as well as expectations of a sustained period of below-trend growth and rising unemployment are needed to push down prices led to a sell-off. China's plan to provide monetary and fiscal support to the economy did provide some relief, a cut to the policy rate by 10bps to 2.75%, RMB300bn in policy financing for property, RMB200bn in special bonds for power producers, and preliminary agreement with the US over audit inspections.

The KLCI closed modestly higher (+1.4%) to 1,512 pts, in an otherwise volatile month. Market reached a high of 1,527 pts in line with the global market rebound but slipped thereafter. The performance was driven by net foreign buying and the better GDP numbers. Energy (in contrast with oil prices movements), utilities, and telecommunication were the top gainers while healthcare, technology and REITs were in the bottom. The month also saw decent performance for the 2QCY2022 corporate earnings, driven by re-openings. Sector that posted within or better expectations were consumer, financials, automotive, telecommunications, REITs, and plantations. Mixed performances were seen in technology, utilities, and energy. Poor results on the other hand were from gloves, petrochemicals, industrials and construction and gaming. Cost escalation continues to be the theme for the reporting season and likely to persist in the near-term on higher input prices and labour related costs.

Market Outlook

We expect the local bond market to continue to see some strengthening in the next 6 months as market adjusted to a less hawkish hikes by BNM than initially expected and recession concerns grow over the US and other developed market economies. Supply and energy disruptions from the Ukraine-Russian war and China zero-Covid lockdowns measures in major industrious regions continue to hamper economic activities in developed economies while fueling inflation despite rate hikes by its central banks. Recession concerns have seen the long-end US Treasury yields dropped while short-end yields rise on interest rates hikes to see an inversion on the curve which is normally taken as an indicator of rising market expectations of a potential recession in the US.

On monetary policy, following the 50bps of cumulative OPR hike in May and July 2022, we expect just one more 25 bps hike by BNM in September to bring OPR to 2.50% for the rest of the year. The emphasis on a measured and gradual pace of OPRincreases by BNM is an indication that the central bank is likely to adopt a more accommodative hike in 2022 to ensure it does not derail the domestic economic recovery amidst a volatile global economic scenario.

The equity outlook for Asia, as for other parts of the world, hinges on the Fed's response to the challenges of inflation and how the Russia-Ukraine conflict resolves. Recently, the US August CPI numbers did not provide good news for equity markets as the service sector remained sticky. For Asia in particular, the outcome of China's Zero Covid-19 policy and whether it can emerge from what is hopefully a bottom of the country's economic cycle will determine if Asia can continue to outperform the world in the 2H2022. With such backdrop of persisting volatility, we are neutral on Asian equities. Given the hawkish tone set by the Fed, the rest of Asia ex-Japan except for China, will likely press on the path of policy tightening. The impact of this path will be closely watched over the next 12 months as the risk of recession and corporate failures rise with rising borrowing costs and inflation. Another source of drag for economies is the diminished purchasing power of consumers due to persistent inflation that will likely lead to lower-than-expected growth from private consumption. Until global equity markets have repriced adequately to reflect the extent of economic slowdown that lies ahead, market volatility will persist. Locally, we are cautiously optimistic on the local equity market. We are on the view that Malaysia economic recovery theme will continue despite rising threat of inflation and interest rate. However, rising cost and margin pressure are risks to earnings in 2H2022, but corporates should likely be able to absorb these shocks to some extent.

For Malaysian sukuk, we believe our preference for corporate bonds (which are less volatile and provide higher yields compared to govvies) and strong credit selection will continue to protect our portfolio. We prefer strong AA-rated and A-rated papers for yield pickup and potential long-term upgrade. We will look to gradually increase duration by increasing sukuk exposure but still maintain our underweight duration bias on the back of increasing DM recessionary fears amidst a hawkish global central banks' monetary policy outlook. We will continue to trade opportunistically and will also look into new primary issuances that offer higher yields, as well as bonds in the secondary market that has oversold.

For Malaysian equities, while we are in a capital preservation mode with higher cash levels, we may look to add into growth-oriented stocks as trading position in this bear-market rally although this has somewhat reversed on the back of higher-than-expected inflation numbers. We are however comforted that corporate earnings have stayed somewhat resilient, but we do foresee margin compression moving forward due to the expected slowdown. Having said that, valuations have come-off substantially albeit not at depressed level of yet. Elsewhere, we also maintain our positive view on financials as they benefit from interest rate hikes although we note there are rising risks of falling asset quality. Besides this, we look for recovery plays such as some of the construction names that have been positive in the news flow front, notwithstanding the restructuring of the toll highway concessions.

For Allianz Life All China Equity Fund:

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

Market Review

The Fund slightly lagged the benchmark in August. The main detractor was stock selection in the Consumer Discretionary and Materials sectors which was partially offset by a positive contribution from Consumer Staples. The overall allocation effect was small as a result of the close to benchmark sector allocations.

At a single stock level, a company that makes smart cockpit displays which link in-vehicle 'infotainment' to other aspects of smart driving technology such as high-precision sensors, detracted. The stock had been the leading contributor last month, which gives a sense of the ongoing level of rotation within the market. We expect the company to benefit both from the long-term trend towards autonomous driving, as well as increasing electric vehicles (EV)-related orders.

On the other hand, one of the top contributors was an electronics component maker and a key supplier to an American technology giant. The company has been gaining share in the wireless earphone and wearable smartwatch in particular, and has also been expanding into the mobile phone assembly and casing. A good set of quarterly results at the end of the month, despite higher input costs, should reinforce confidence in the longer-term growth outlook.

Market Outlook

China equities continued their somewhat lacklustre recent performance in August. China A-shares were down slightly in local currency terms, with returns to global investors also impacted by the strength of the US dollar. Offshore equities were more resilient, with internet and ecommerce stocks receiving a boost at the end of the month. The catalyst was China and US authorities announcing an agreement on access to audits of Chinese companies listed in the US, which for the time being reduces the risk of ADRs being delisted.

The main concern weighing on markets is the strength and sustainability of the economic recovery with the most urgent issue relating to property. While the housing market has been instrumental to China's economic success, it is now set for a period of structural decline. This is largely a result of demographics. Chinese housing demand is expected to fall slowly but in a sustained way.

China therefore needs to wean itself off the housing sector and look towards a more diversified set of future growth drivers – hence the government's focus on allocating resources towards other areas such as technology and the further development of a more modern and self-sufficient manufacturing base.

In the short term, the issue is how to prevent an extreme downturn in the property market such that it does not lead to an economic hard landing. It is also about de-risking a sector which has taken on a lot of leverage.

We do not take the view that the property downturn represents a systemic risk – resources will be mobilised to prevent this. But it is likely to continue to weigh on economic activity for the time being. And there are also likely to be increasing questions about asset quality in the banking sector and requirements for larger financial institutions to do 'national service'. This is the reason we reduced bank exposure in recent months.

Portfolio activity was limited in August. We continue to be overweight in the consumer discretionary sector where there is potential for 'opening up' beneficiaries to recover. We also see a more structural trend whereby increasing affluence and changing lifestyles are driving sustained demand for healthier and more environmentally conscious products and services.

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

For Allianz Life Global Artificial Intelligence Fund:

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

Market Review

Global equities rallied over the first half of August amid growing hopes that central banks would soon start to reduce the pace of monetary tightening. By mid-August, the S&P 500 Index had rallied around 15% from its lowest point in mid-June while the Nasdaq Index had rebounded more than 20%. However, the rally came to an abrupt end as hawkish comments from the US Federal Reserve (Fed) and the European Central Bank (ECB) dashed these hopes. At the annual Jackson Hole gathering of central bankers, Fed chairman Jerome Powell stressed that the US central bank "must keep at it until the job is done" by raising rates to smother inflation. In general, value stocks outperformed growth shares. Energy stocks defied the broader market sell-off, rallying over August. In contrast, Technology companies, which had rebounded strongly on hopes that rates may soon be nearing a peak, were among the weakest performers. The Health Care and Real Estate sectors also underperformed.

Information Technology and related stocks underperformed the broader market during the period. At the industry level, semiconductors were among the worst performers as companies reported inventory corrections in the gaming, personal computer (PC), and smartphone segments, as well as slowing data centre demand. Software also underperformed the sector and market amid mixed earnings reports, weaker customer buying behaviour, and rising interest rates. The US and China signed an agreement on auditing of US-listed Chinese firms, providing a tailwind for that group. Underperformance was led by mega caps including two leading technology companies, a wireless network operator, and a graphics processing units company. Electronic and communications equipment companies fared best during the month.

During the period, the Fund in USD outperformed on a gross of fees basis versus the custom benchmark (50% MSCI All Country World Index/50% MSCI World Information Technology Index).

Contributors

The Trade Desk was one of the top contributors during the period after reporting quarterly financial results that beat expectations, driven by healthy revenue growth of 35% year-over-year (YoY). The company provides a self-service platform for ad buyers to purchase and manage data-driven digital advertising campaigns across advertising formats. More of the world's leading brands are signing major new or expanded long-term agreements with The Trade Desk, as it continues to invest to drive future growth in key areas such as identity, connected TV, retail media, and supply chain optimisation. We remain positive on The Trade Desk, seeing the company as the leading independent programmatic ad buying platform across digital channels. The company has a leading position in connected TV, which is expected to be among the fastest growth areas in ad-tech.

Our position in ZoomInfo Technologies, which operates a cloud-based platform for sales and marketing teams in the US and internationally, was also a top contributor. The company reported quarterly financial results that exceeded estimates with earnings growing 50% YoY. ZoomInfo now has 1,763 customers with USD 100,000 or greater in annual contract value, up from 1,100 one year ago. The company's core asset is a huge database of contact and account information that services some 120 million business professionals. We believe the company's unique data assets and workflow solutions that leverage artificial intelligence (AI) from data collection to analytics are more relevant as sales teams digitise their go-to-market motions.

Detractors

Our position in storage and communications chip maker, Marvell Technology, was one of the top detractors during the period. Shares fell along with other semiconductor companies following negative industry commentary concerning deteriorating supply/demand conditions. Marvell reported in-line quarterly financial results with strong demand for cloud and 5G infrastructure. Management expects revenues to accelerate driven by growth in the cloud, 5G, and auto end-markets. While the currently robust demand environment is unlikely to persist indefinitely, we believe Marvell can continue to outgrow peers given its attractive end-market exposures and executional rigour. We maintain our positive view on the stock given attractive growth supported by multi-year design wins and a disciplined capital allocation profile.

Our position in a cloud-based platform that enables developers to build, scale, and operate real-time communications within software applications was also among the top detractors during the period. The platform. The company reported quarterly financial results that beat expectations driven in part by strong growth in international business, but gross margins came in weaker. Organic revenue growth also decelerated slightly, but management reiterated guidance for 30%+ growth for the year. The company has a growing suite of developer-focused software products and has committed to optimise spending to focus on profitability. We remain positive on the company's long-term fundamentals and believe it is positioned to benefit from digital transformation in customer engagement.

Purchases and Sales

During the period, we exited the remaining stub position in a robotic process automation (RPA) software company given mixed execution and increased competition in the RPA market. We concluded that the company was not a name that we planned on increasing at this time and decided to exit the position in the Fund for more compelling ideas.

We redeployed the proceeds to a position in a company which creates and operates an interactive real-time 3D content platform. Its platform provides software solutions to create, run, and monetise interactive, real-time 2D and 3D content for mobile phones, tablets, PCs, consoles, and augmented and virtual reality devices. The company's shares have contracted sharply after a successful initial public offering (IPO) due to several factors impacting its business. While it is unclear whether the worst is behind for the company, we believe that many negative issues are now priced into shares providing a more attractive reward to risk. Moreover, we believe the long-term opportunity for the company in helping developers create content and experiences for the emerging metaverse still remains early and is likely a tailwind for its long-term business. We believe the 3D engine that the company provides will be the foundation of emerging areas such as the development of digital twins and robotic simulation that, when combined with other AI technologies, will enable many new forms of automation.

We also re-initiated a position in a software company that we have previously owned. The company sells analytic process automation software that enables organisations to enhance business outcomes and the productivity of their business analysts, data scientists, citizen data scientists, and data engineers. Over the past couple years, the company has expanded its product suite with several new products, including machine learning, modelling and data analysis software. These new product offerings have expanded the company's addressable market, which appears to be enabling the company to upsell and cross-sell to its installed base, helping drive accelerated growth. In addition, the company brought in a new management team over two years ago that has been rebuilding its go-to-market strategy. While recent results have shown some improved execution, we will likely be patient in building our position as we await more evidence that the execution issues of the past are behind the company and that the turnaround is taking hold.

We also initiated a position in a leading ecommerce company that focuses on the home furniture and home furnishing market. Its business model makes money through drop-shipping where the company owns minimal inventory but instead has a wide supply network. The company currently offers more than 18 million items, from over 7,000 suppliers, yet only directly handles a small portion of its selection. Its business model is driven by AI-powered algorithms that personalise its customer experience, monitor its logistic network, and constantly optimise the experience. More recently, the company has been making aggressive investments in augmented reality to help customers better visualise items, such as tables and couches, in the customers' environment. We believe these initiatives can enable the company to gain greater share in the furniture and home furnishing market, and management is embracing greater cost discipline that could help improve future profitability.

Lastly, we re-initiated a position in an observability service provider which provides cloud-based monitoring and analytics. The company's platform integrates and automates infrastructure monitoring, application performance monitoring, log management, and security monitoring to provide real-time observability of its customers' technology stack. Its tools leverage data analytics and AI to help users rapidly identify problems with applications and remediate them. We initiated a position in the company at this time as shares have corrected materially from their all-time highs, despite the company continuing to execute strongly against its long-term opportunity.

Market Outlook

Equity markets continued to rebound during the first three trading weeks of August but gave back some of the gains towards the end of the month. This rebound in equity markets was driven by some moderation in inflation expectations as commodity prices have retreated from their highs, offering hope that central banks' tightening policies may be further along. However, some of this hope dissipated as strong jobs reports in the US and continued tight labour market conditions increased concerns that inflation may be more persistent.

Overall, the economic picture in the US and for the global economy remains complicated. On one hand, the US employment remains quite strong, consumer spending is holding up relatively well, corporate balance sheets remain healthy, and supply chain constraints are easing. On the other hand, the strength and resiliency of the US economy may require the Fed to tighten financial conditions more to reduce inflationary pressures. Chairman Powell reaffirmed the Fed's resolve in his widely anticipated speech in Jackson Hole on 26 August 2022 in which he reiterated the need for more than a few "good" data points on inflation before easing rate policy. The impacts of the Fed's actions are already evident as higher borrowing rates are impacting the housing market with sales slowing and price cuts.

It is no wonder that the US dollar has strengthened considerably against other major currencies given this backdrop of higher interest rates and more resilient economic growth. A strong US dollar is good for the US as it makes imports relatively cheaper, which in turn somewhat moderates inflationary pressures. At the same time, many US multinational companies could see headwinds from currency translation. For the rest of the world, a strong US dollar creates challenges as many global commodities, such as oil, are priced in US dollars which adds to the inflationary pressures in local terms.

On a broad market basis, we expect more volatility as these issues rattle the markets and create ever shifting risk-on, risk-off environments to varying degrees. We do not know whether June was the "bottom" nor if the rally will continue. We believe a necessary precondition for a sustained market rally is that inflation expectations moderate and remain contained – this is the single most important objective of the Fed's policy actions. Given the demand destruction that is happening around the world due to elevated energy prices, it is possible that inflation may have peaked. While weak economic data may continue even after inflation pressures ease, markets serve as a discounting mechanism typically bottoming months before economic data improves.

August was a busy month for earnings announcements and there was a large dispersion in what we heard from company management teams. Overall, Q2 earnings were healthy for the majority of our portfolio companies, but the outlook for the rest of 2022 across most sectors was more conservative. Some companies face headwinds on margins and/or demand, while others are navigating the environment better. We don't expect valuations to return to the levels of 2020-2021 as growth rates moderate and interest rates move higher, but identifying companies with superior business models, strong management teams, and innovative/disruptive products and services should help navigate the current environment better. In the US, the recent passing of the CHIPS Act and Inflation Reduction Act should provide tailwinds for a number of companies in the portfolio over the coming years.

AI infrastructure outlook

Over the long term, we expect healthy demand for the ongoing build-out of AI Infrastructure as AI progresses from the pilot stage to mass deployment. For semiconductor companies, quarterly earnings results were relatively mixed with the outlook for H2 more conservative. As expected, consumer PC demand and gaming activity was weaker given demand was pulled forward due to the pandemic restrictions and stimulus-driven spending. The outlook for corporate PCs, servers, and data centres is also starting to moderate some due to economic uncertainties. Supply chain issues are gradually improving, and we believe most of our semiconductor holdings have unique products and intellectual property that should insulate their earnings better. Valuations have also pulled back to reasonable levels and we maintain a constructive view on the space over the long term given the many secular growth drivers of cloud, 5G, Internet of Things (IoT), edge computing, electric and autonomous vehicles, leading-edge manufacturing, etc.

AI applications outlook

During August, we saw better results from cloud and cyber security companies as spending appears to be more resilient and should weather any downturn better. On the flip side, the weakening in advertising spending put pressure on the top-line revenue growth for social media related companies, and the pressure may continue until there is greater economic clarity.

We are seeing AI get embedded into an increasing number of software applications and systems to help make more intelligent decisions. AI is helping drive higher levels of automation, better recommendations, faster decision-making, and significant cost savings. As AI continues to advance, we expect software and apps to offer even more personalised services, made possible through an increased understanding of user behaviour and search patterns, allowing companies to deliver more human-centric experiences in real-time. AI and machine learning will continue to automate mundane tasks and complicated analyses to free up employees to focus more time and attention on creative and strategic tasks. The recent introduction of quantum cloud computing could lead to significant breakthroughs in AI and machine learning in the coming years as researchers design new algorithms to exploit the exponentially faster computing power.

AI-enabled industries outlook

AI-enabled industries will most likely receive a net boost from the Inflation Reduction Act with renewable energy related names set to be long-term beneficiaries. If we are entering an economic slowdown, AI-related investments in areas such as productivity savings and automation, for example, should help companies better navigate the choppy environment.

We are seeing more companies begin to leverage AI to drive innovation. Many of our portfolio holdings in the Automotive, Consumer, Health Care, and Finance sectors are already seeing the early benefits from AI, which is allowing them to introduce unique products and services, enabling them to outperform their industry peers. We expect to see more industries roll out AI projects across more of their operations to accelerate their digital transformation.

Overall, we continue to believe we are at the very early stages of massive disruptive change brought about by advancement in AI and its deployment. We believe that these changes will drive meaningful growth for companies that are able to take advantage and drive disruption within their respective industries. While it is expected at times that markets may question the underpinnings of this growth, we believe the compounding effect from AI disruption will create long-term shareholder value. We believe that stockpicking will be imperative to capturing the benefits of this opportunity, especially in an environment characterised by disruption and change.

For Allianz Life Oriental Income Fund:

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

Market Review

On balance, equities in Asia Pacific were little changed over the month as markets digested corporate earnings and hawkish statements from the US Federal Reserve. Offshore China equities eeked out slight gains as ADRs were boosted by news that US accounting regulators will be able to inspect the audits of Chinese companies listed in the US. Without this deal, there was a countdown to China ADRs being delisted in 2024.

ASEAN markets were the main outperformers with Indonesia, Thailand and the Philippines posting solid gains. This was despite some regional central banks tightening policy to combat rising inflation. Australia closed the month slightly higher, helped by energy stocks which benefitted from stronger oil and gas prices. Korea and Taiwan were broadly flat as several high-profile chipmakers warned that demand would be hit by slower consumer spending. Japan equities were modestly higher in local currency terms, but returns to international investors were impacted by the Japanese yen weakness as the Bank of Japan maintains an accommodative stance.

The Fund outperformed the benchmark during the month. The main contributors were positive stock selection in Taiwan, China and Japan.

At a single stock level, a top contributor was Alchip Technologies. The company is a semiconductor design house which makes application-specific chips used mainly in high performance computing and data centres. The stock had seen significant profit taking in Q2 in line with the rest of the tech sector. We believe the company is well positioned over the long term. In particular, their strong foothold in China should provide structural support from the country's push for greater self-sufficiency in semiconductor production.

Conversely, two shipping stocks were detractors in the month. The share price weakness coincides with lower shipping rates, reflecting the deteriorating global demand outlook. While the bulk shipping cycle is cyclical, we believe the valuations discount the downturn and the high dividends for both stocks help to support the total return potential.

There was limited portfolio activity last month. We continue to look for opportunities to add to conviction stocks which have been, in our view, unfairly punished in the market volatility and rotation.

We maintain an overweight allocation to the Technology sector but have become more selective in our approach. As well as Alchip Technologies, for example, another key holding is Lasertec, a Japanese technology company which provides inspection machines for semiconductor and flat panel production. The company has a specific technology niche focused on mask inspection machines where it has a leading global position.

Elsewhere in the Tech sector, we have reduced exposure to stocks where we see some fundamental weakness, especially in the semiconductor supply chain. As a result, the relative overweight in Taiwan is lower than earlier in the year.

Market Outlook

Notwithstanding the challenging macro environment, our base case scenario is to be cautiously optimistic on the market outlook. While the weakness in the property sector, combined with the impact of Covid policies, is weighing on economic activity in China for the time being, we anticipate a more supportive policy environment especially after the Party Congress in October. This should create a more helpful environment for equities, especially with valuations below longer-term average levels.

We remain relatively cautious on the near term outlook in Japan. The deteriorating outlook for the global economy remains a headwind. And higher commodity and energy prices will increase costs and squeeze margins, especially for downstream manufacturers. Having said that, the weaker Japanese yen clearly makes certain companies and sectors more competitive relative to global peers. Elsewhere, we believe that the pullback in regional Asian markets has resulted in a number of stocks coming back to attractive valuation levels.

For Allianz Life Total Return Asian Equity Fund:

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

Market Review

On balance, equities in Asia were little changed over the month as markets digested corporate earnings and hawkish statements from the US Federal Reserve (Fed). Offshore China equities eked out slight gains as American Depository Receipts (ADRs) were boosted by news that US accounting regulators will be able to inspect the audits of Chinese companies listed in the US. Without this deal, there was a countdown to China ADRs being delisted in 2024. The market resilience was despite geopolitical tensions over Taiwan, and weaker economic data.

ASEAN markets were the main outperformers, with Indonesia, Thailand and the Philippines posting solid gains. This was despite some regional central banks tightening policy to combat rising inflation. The Singapore market fell modestly as inflation hit a 14-year high of 7.0% in July. Meanwhile, Korea and Taiwan were broadly flat as several high-profile chipmakers warned that demand would be hit by slower consumer spending.

The Fund lagged the benchmark during the month. The key factor was security selection in India and Singapore where Financial and Real Estate stocks detracted. This was partially offset by positive selection in China.

At a single stock level, a leading detractor over the month was HDFC Bank. The stock saw some profit taking after a strong rally previously. With a high level of capital and underlying profitability, we view this as an exceptionally well managed bank. In addition, we see the merger with mortgage lender HDFC Ltd, announced in early April, as an opportunity to increase exposure to the fast-growing housing segment as well as providing cross-sell opportunities.

Conversely, the top contributor was Alibaba. As an ADR, the stock benefitted from news of China and the US reaching an agreement regarding the auditing of accounts, which for the time being has reduced the risk of delisting from US exchanges. The company has also recently announced that it is seeking a dual primary listing on the Hong Kong Stock Exchange. This move would make the stock eligible for inclusion in the Stock Connect programme and hence could be accessed by mainland China retail investors.

The overall positioning of the Fund was little changed in August. At the end of the month, from a geography perspective, the portfolio has an overweight position to Southeast Asia. The largest relative position is in Singapore where we are focused on stocks with potential for positive cash flow generation and which should be resilient in the challenging macro environment.

At a sector level, the Fund is overweight Financials, Consumer Staples and Energy, whilst being underweight Industrials and Utilities.

Market Outlook

We remain in extremely uncertain times with low visibility around future economic and geopolitical developments globally. However, notwithstanding the challenging macro environment, our base case scenario is to be cautiously optimistic on the market outlook.

In particular, while the weakness in the property sector, combined with the impact of COVID policies, is weighing on economic activity in China for the time being, we anticipate a more supportive policy environment especially after the Party Congress in October. This should create a more helpful environment for equities, especially with valuations below longer-term average levels.

Elsewhere, we also believe that the sharp pullback in regional Asian markets has resulted in a number of stocks coming back to attractive levels.

For Allianz Life Global Income Fund:

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

Market Review

Hawkish central bank outlooks weighed on risk assets in August. The Bank of England (BoE) raised interest rates by 50 basis points (bps), the European Central Bank (ECB) indicated further aggressive tightening was necessary, and the US Federal Reserve (Fed) chair Jerome Powell said restrictive policy could be required for some time, cautioning against prematurely loosening policy. Powell's tone was also echoed by several Fed officials, putting upward pressure on rate hike probabilities, government bond yields and the US dollar. By month-end, odds of a 75-bp rate increase at September's Federal Open Market Committee (FOMC) meeting were greater than 70%. US economic reports were mixed with improving consumer sentiment, subdued jobless claims and slowing inflation gauges counterbalanced by deteriorating housing and manufacturing statistics.

In this environment, global equity markets, as measured by the MSCI World Index, returned -4.18%.^ US stocks slightly outperformed their non-US developed counterparts, and with the exception of Energy, all sectors declined in the month. Building on July's gain, global convertible securities finished higher and new issuance was brisk, whereas global high-yield bonds settled lower and new issuance remained negligible. Global fixed income, as measured by the Bloomberg Global Aggregate Index, returned -3.95% with US exposure besting non-US.**

The portfolio participated in the weakness across risk assets with most holdings detracting from performance in the period. Additionally, a sharp move higher in interest rates weighed on the portfolio's fixed income allocation.

Several positions that contributed to the portfolio's strength in July, settled lower in August, consolidating the prior month's notable gains. Examples include individual positions exposed to Microsoft (software), Apple (hardware) and Mastercard (fintech) as well as Alphabet (internet services) and Amazon (ecommerce). Select Health Care companies focused on biopharmaceuticals and animal health also underperformed.

Holdings that had the greatest positive impact on performance in the period were primarily convertible securities with exposure to cruise line operations, packaged food and neuroscience therapy. A high-yield copper miner and select cybersecurity holdings also benefitted the portfolio.

Netting new purchases and complete sells over the period, Consumer Discretionary, Communication Services, Industrials and Information Technology exposures increased, whereas Financials and Health Care decreased.

Market Outlook

The market outlook remains uncertain given global slowdown concerns, slowing earnings momentum, global central bank tightening, yield curve inversion and elevated inflation. We address each risk below.

Economy: Financial conditions have tightened and some economic data points such as housing and consumer confidence/sentiment have weakened. However, continued labour market strength and steady consumption favour a resumption of growth over the remainder of 2022.

Earnings: The resiliency of revenues will partially hinge on a company's ability to successfully raise selling prices. 2022 and 2023 earnings estimates have declined as forecasts for slower sales, margin pressure and inventory build-up, among others, offset gains from operating leverage.

Fed: Additional hikes are expected given elevated inflation measures. Low unemployment supports this view. However, a slower pace of tightening and/or shorter hike cycle may be appropriate as inflation slows.

Yield curve: The inverted yield curve reflects 1) needed monetary policy tightening to curb current inflation, and 2) lower inflation expectations given the Fed's restrictive stance.

Inflation: Inflation expectations, such as the 2- and 5-year breakeven rates, have fallen with the former at the lowest level since early 2021. Potential commodity price weakness, US dollar strength, price discounting, normalising supply chains and rising financing costs should reduce inflation pressures. Prices for services however could be stickier due to a shift in consumer spending. In the near term, markets will be focused on the slope of inflation's descent.

Against this backdrop, risk assets sold off sharply in H1. The S&P 500 Index fell more than 20% from peak to trough#, and convertible securities and high-yield bonds finished H1 lower at -20% and -14%, respectively.** Weakness was not isolated to just risk assets, however. Safe haven investments such as investment grade credit and 10-year US Treasuries had one of their worst starts to a year, falling -14% and -11%, respectively, for the same period.*

While caution may still be warranted, there are several constructive factors worth highlighting. First, examining the past four rate hike cycles, the S&P 500 Index gained +15.3% on average from initial hike to last hike. Second, equity valuations have improved. The S&P 500's forward price-to-earnings multiple fell more than 5 turns to 15.8x in June from 21.4x in December, undercutting its long-term average of 16.4x (since September 1995), and price-to-free cash flow multiple (LTM) fell further below its long-term average. Lastly, corporate liquidity could lead to shareholder friendly activities such as stock buybacks and increased dividends. Corporations could also use liquidity to spur organic growth or for mergers and acquisitions (M&A) purposes to boost future sales and profits. Any one of these observations including emerging signs of peak Fed hawkishness and a more stable interest rate environment could help equities find a bottom in the future.

Convertible securities should continue to provide benefits to investors, including an attractive asymmetric return profile and a low correlation to core fixed income. Today, the asset class exhibits more defensive characteristics given the market's lower delta and closer proximity to the bond floor. This dynamic should allow for greater downside protection if equity volatility persists. If underlying equities strengthen from here, convertible securities are positioned to participate in the upside.

Credit's risk/reward opportunity is compelling after a historic start to the year. In addition to a favourable technical backdrop (due to a less active primary market following record new issuance in 2020 and 2021), high-yield credit statistics and fundamentals are healthy, near-term refinancing obligations remain very low and managements continue to prioritise debt reduction. 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 noted risks.

All data are sourced from Allianz Global Investors dated 31 August 2022 unless otherwise stated.
^ Source: MSCI, as at 31 August 2022
* Source: Bloomberg, as at 31 August 2022
** Source: BofA Merrill Lynch, as at 31 August 2022
# Source: FactSet, as at 31 August 2022

For Allianz Life Thematica Fund:

Target Fund Manager's Comment (For Allianz Thematica)

Market Review

Global equities rallied over the first half of August amid growing hopes that central banks would soon start to reduce the pace of monetary tightening. However, the rally came to an abrupt end as hawkish comments from the US Federal Reserve (Fed) and European Central Bank (ECB) dashed these hopes. In general, developed markets fell over August while emerging markets, many of which are ahead of the curve in raising rates, rallied modestly.

Market Outlook

The Fund was down over the course of August. The theme selection created a negative impact for the portfolio while stock selection was slightly negative. From a theme perspective, Next Generation Energy and Infrastructure benefitted most after Inflation Reduction Act revealed continued support for the stock as the US authorities seem determined to provide some subsidy to the local US photovoltaics (PV) industry. Clean Water and Land slightly detracted after the strong performance over the month of July. Health Tech and Intelligent Machines were overall pressured by recessions fears and inflation concerns. The underweight to other areas such as Energy has also created a minor burden to overall performance as the sector rotation continues. We have already started to adapt the portfolio to a changing market environment last year and exited high growth companies into so called long duration assets. The new themes of "Infrastructure" and "Intelligent Machines" should be able to cope better in the current environment and provide positive impulses. In addition, the portfolio has been largely cleansed of stocks with very high valuations and a growth profile that extends too far into the future. This has changed the character from a growth-biased to a more balanced "core" portfolio. We continue to see selective reasons for optimism again. We will therefore continue to follow developments very closely and keep the cautionary stance until then.

The Next Generation Energy theme is back to being the largest theme exposure in the portfolio. Record droughts throughout Europe, flooding in Australia, record-high temperatures in India in April, and burning woods all over the world are precursors that global climate is changing dramatically, showing us the consequences of global warming. Climate change and its associated risks to economic growth and environmental damage create a major concern for our economic welfare. Scientists warn that time is running out to contain greenhouse gas emissions and prevent disastrous global warming. All these occur in times when the world is confronted with record-high energy prices and energy scarcity in several regions of the world. These all are evidence that it is high time to shape the transformation of the energy system with commitment, determination – and not least with the help of sustainable energy generation, innovative storage solutions and more sustainable consumption. To accelerate the clean energy transition, more investments in innovative solutions are needed, in parallel to the capital required to develop new frontier technologies that will reach marketability and help ensure a smooth transition to create a more sustainable future. There is broad consensus that to reach the maximum warming target of 1.5°C, the redirection of financial flows towards more sustainable investments need to gather even more momentum.

The good news is that investments in renewable energy have already been growing rapidly worldwide. With programmes such as the European Commission's REPowerEU Plan, the recently passed Inflation Reduction Act in the US that according to US President Joe Biden "makes the largest investment ever in combatting the existential crisis of climate change", these investments will grow even further. As diverse as the pathways to support energy transition are along the entire value-chain, there are equally numerous possibilities to invest in enablers and beneficiaries of the energy transition process, to participate in the growth prospects arising from changing energy consumption patterns, and the resulting new demand dynamics. We look at companies that provide solutions to cleaner energy generation, efficient energy storage and sustainable energy consumption along the value chain.

For Allianz Life Elite Income Fund:

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

Market Review

Risk assets rallied over the first half of August, as strong labor market data and talk of "peaking inflation" fueled optimism. The latter part of the month however, saw a broader market setback given renewed concerns over inflation and the monetary policy response. The MSCI World index was down -4.33% and the US ten-year Treasury yield increased by +54bps over the month, as market sentiment soured over the hawkish tone of central banks, capped by Fed Chair Powell's speech at the annual Jackson Hole meeting. Weak China economic data and the continued Russia- Ukraine conflict also contributed to risk aversion.

In the US, strong July employment data suggested the Fed had more scope for hawkish policies, while inflation showed signs of slowing with CPI coming in at +8.5% YoY in July compared to a recent high of +9.1% in the previous month. However, the Fed's public comments suggested that they are committed to reigning in inflation, with a significant chance of a 75bps rate hike at the September meeting.

Hawkish central bank stances resulted in higher bond yields led by the front-ends of the curves. On the month, two-year US, US and German yields rose +61bps, +130bps and +92bps to 3.49%, 2.99% and 1.18% respectively. Ten-year US, UK and German yields rose +54bps, +94bps and +72bps to 3.19%, 2.80% and 1.54% respectively.

Within corporate credit markets there was a divergence between USD and EUR spreads. In investment grade, USD spreads tightened -4bps whereas EUR spreads widened +10bps. In high yield, USD spreads widened +15bps whereas EUR spreads tightened -30bps.