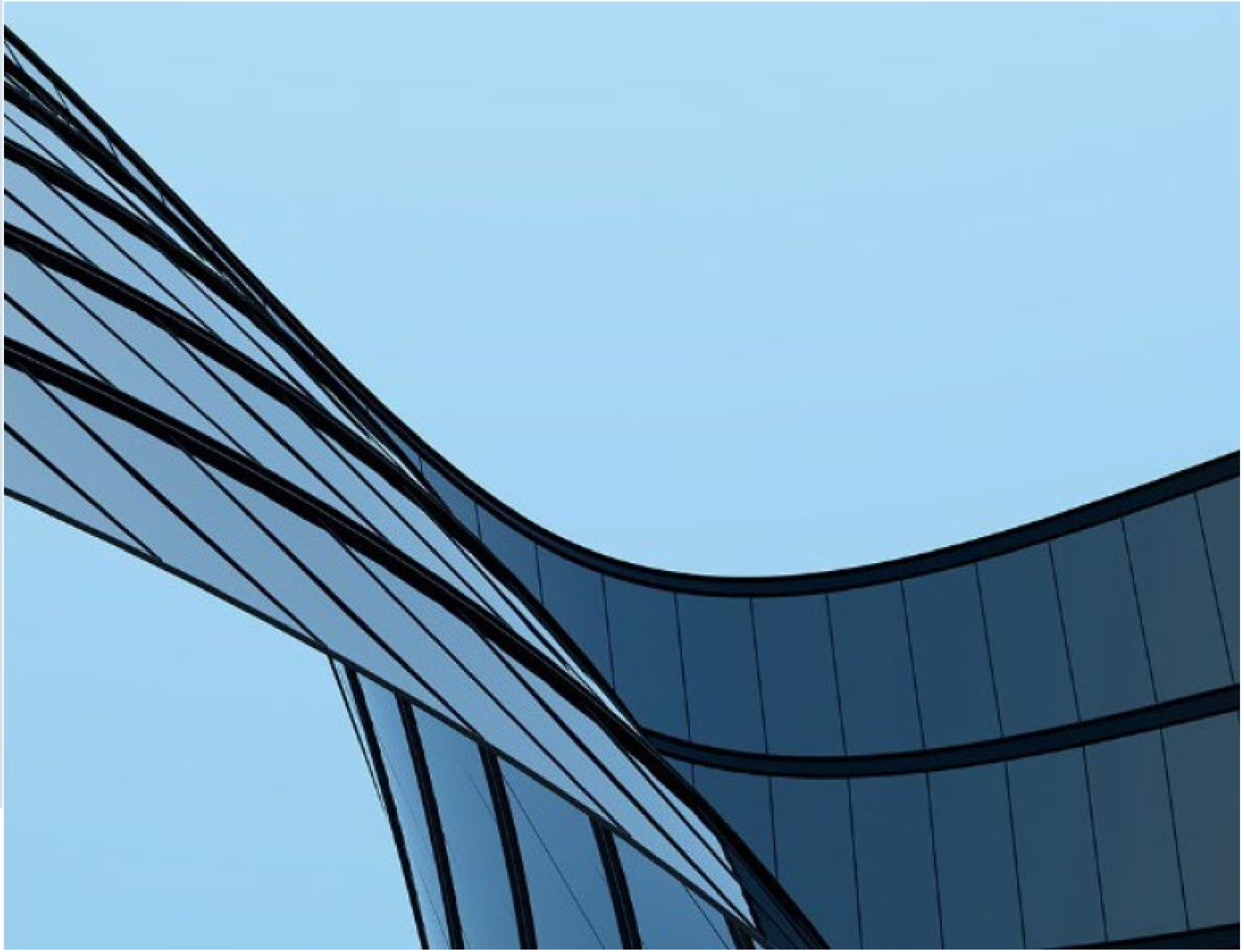
Staying the course

Ways to preserve wealth and purchasing power in turbulent market environments

October 2022



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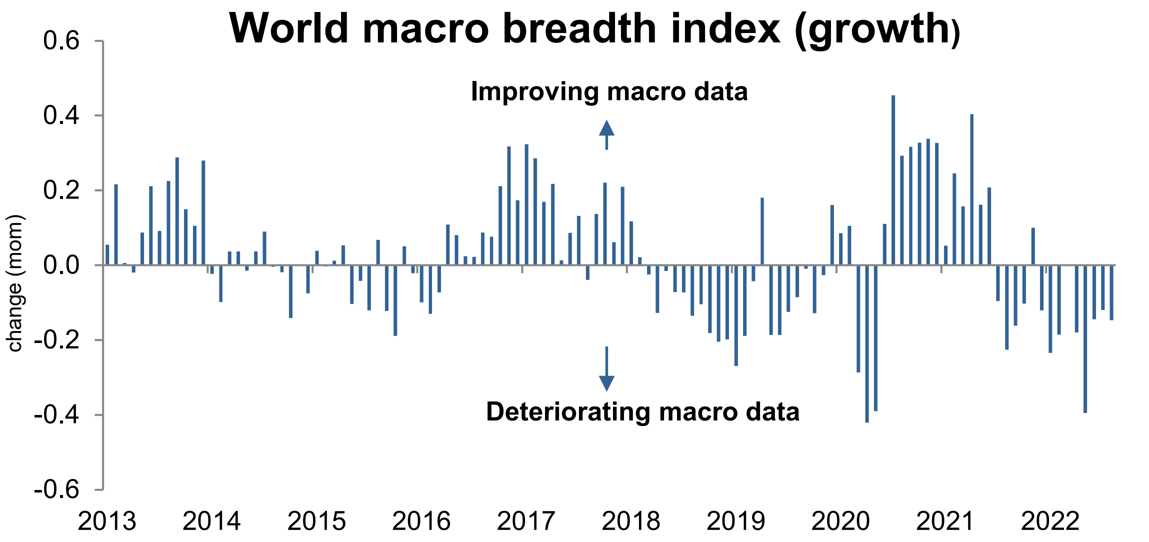
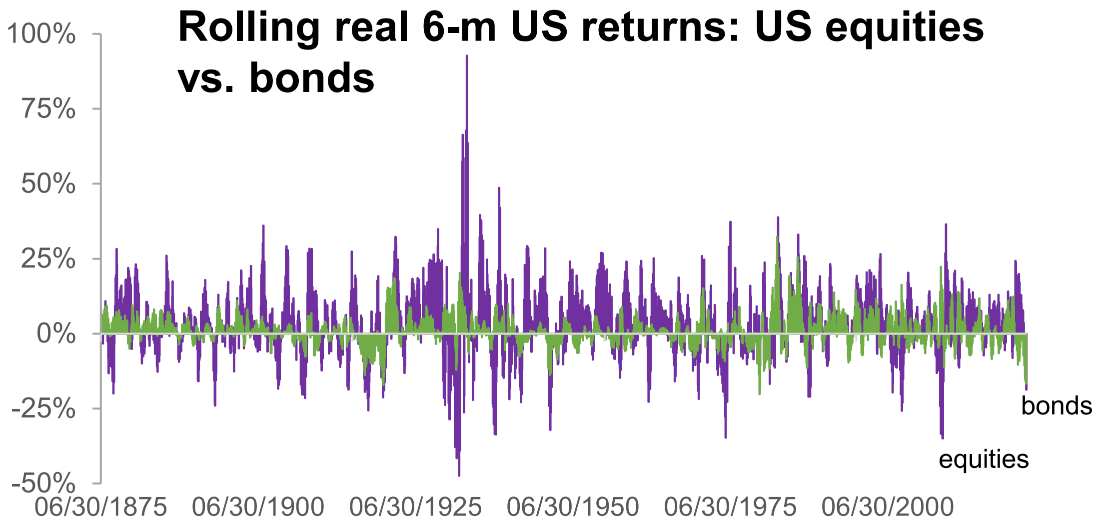
Turbulence is affecting capital markets against an uncertain economic backdrop



Note: the index tracks the direction of 354 global, regional and country macroeconomic data on a monthly basis. Source: Allianz Global Investors Global Economics & Strategy. Data as at 30 September 2022.



Sources: AllianzGI, GFD, data as at 30 June 2022

High inflationary pressure, the war in Ukraine and shifts in energy supply are clouding the economic outlook – and causing unease among investors.

Reflected in simultaneous weakness in the two main asset classes: fixed income and equities

For investors, the tension between avoiding risk and striving for returns grows ever stronger.

What are some ways you might position your portfolio to help preserve your money and purchasing power but also accumulate wealth in this complex investment environment?

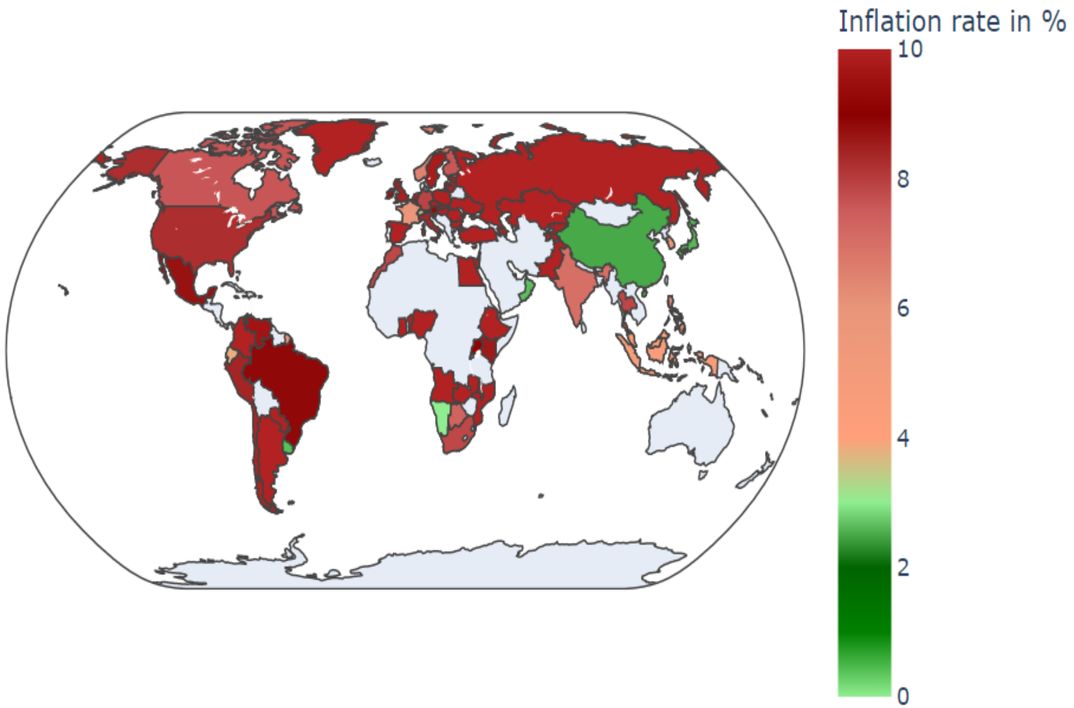
For illustrative purposes only.

Tracking the path of inflation and interest rates is paramount

Overview of inflation rates; (sample: 76 countries)

Red: inflation rate greater than 2%

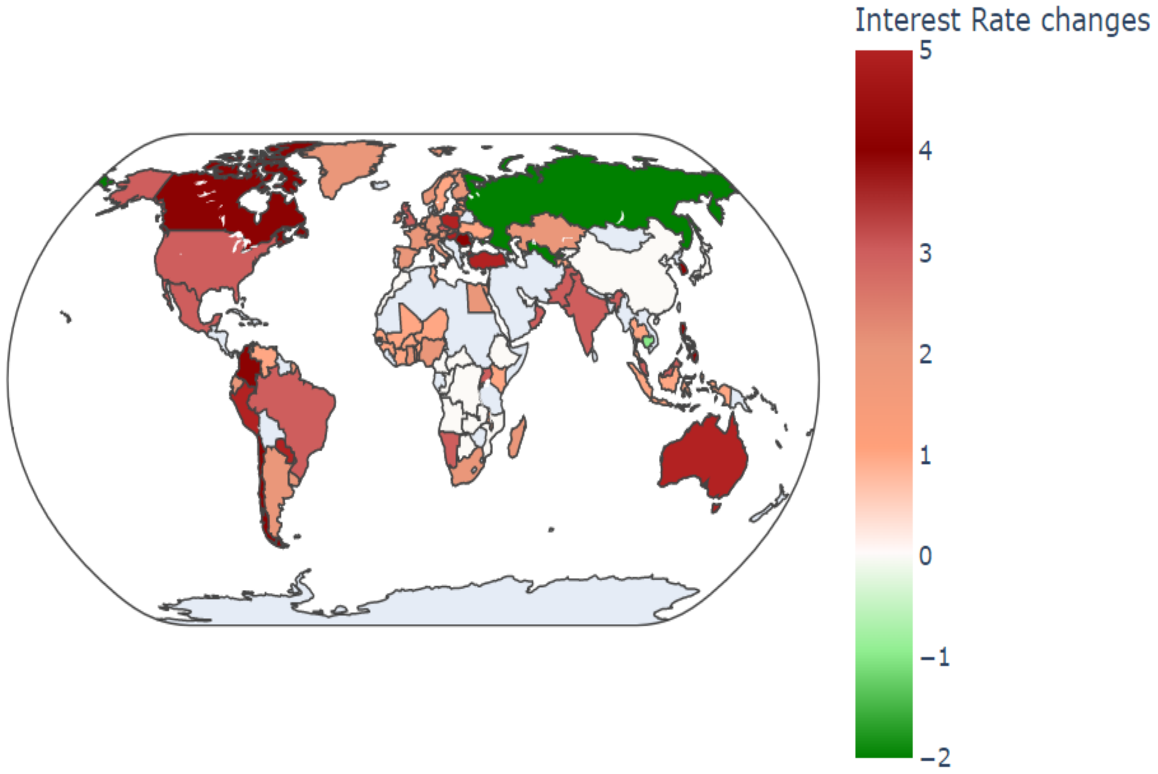
Green: inflation rate less than 2%



Number of central banks' interest rate changes in the last 6 months; (sample: 76 countries)

Red: interest rate increases

Green: interest rate cuts

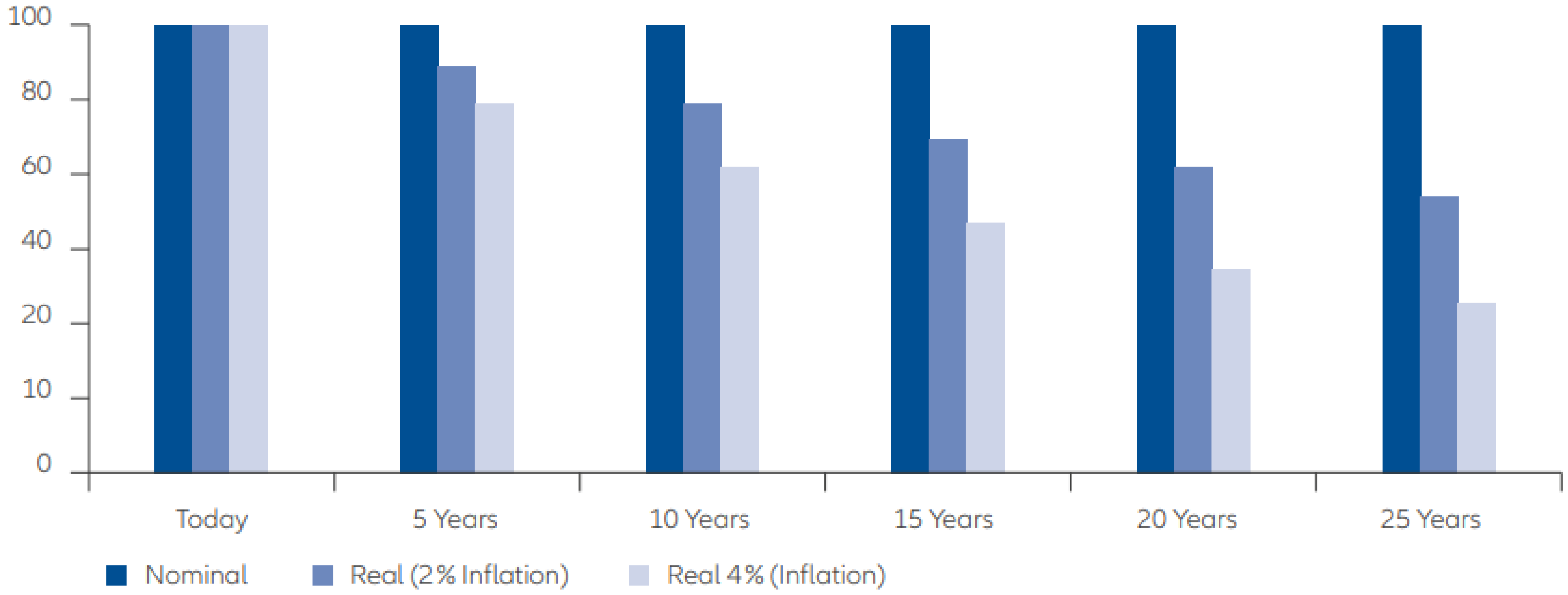


Source: AllianzGI Global Global Capital Markets & Thematic Research, Refinitiv Eikon Datastream, data as at August & September 2022

While investments might be subject to market volatility, cash may not be an adequate hiding place from inflation in the longer-term

Even at significantly lower levels than today, inflation could lead to a loss in purchasing power

What will happen to 100 EUR if inflation is 2 % and what will happen if it´s 4 %? (Example calculation)



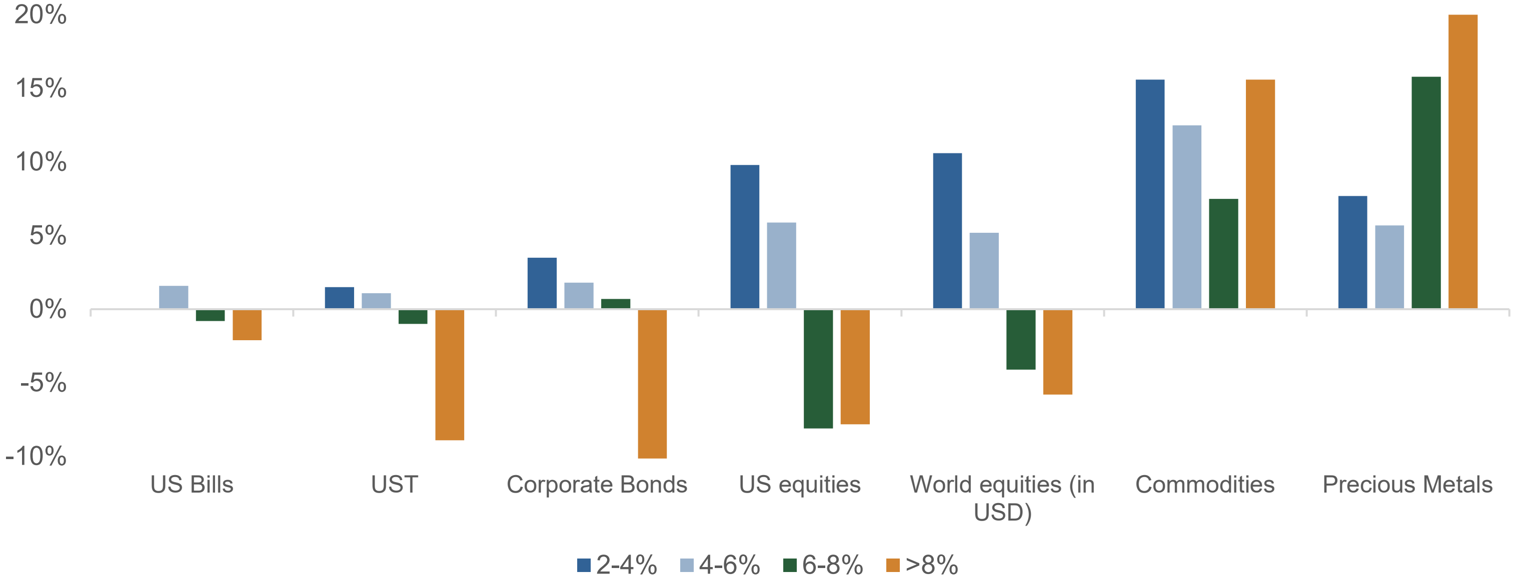
Source: AllianzGI Global Capital Markets & Thematic Research.

Consider preserving the purchasing power of your capital as a minimum requirement for your investment.

For illustrative purposes only. Actual results may differ materially from these estimates.

…therefore, being *actively* invested is vital to helping to preserve – and enhance wealth

Average annual real asset returns since 1971 in times of positive inflation surprises and inflation >2%



Precious metals and commodities tend to be the top performers during high inflationary episodes. Commodities and equities do well during more moderate price pressures.
US annual inflation has averaged close to 4% since 1971.[1]

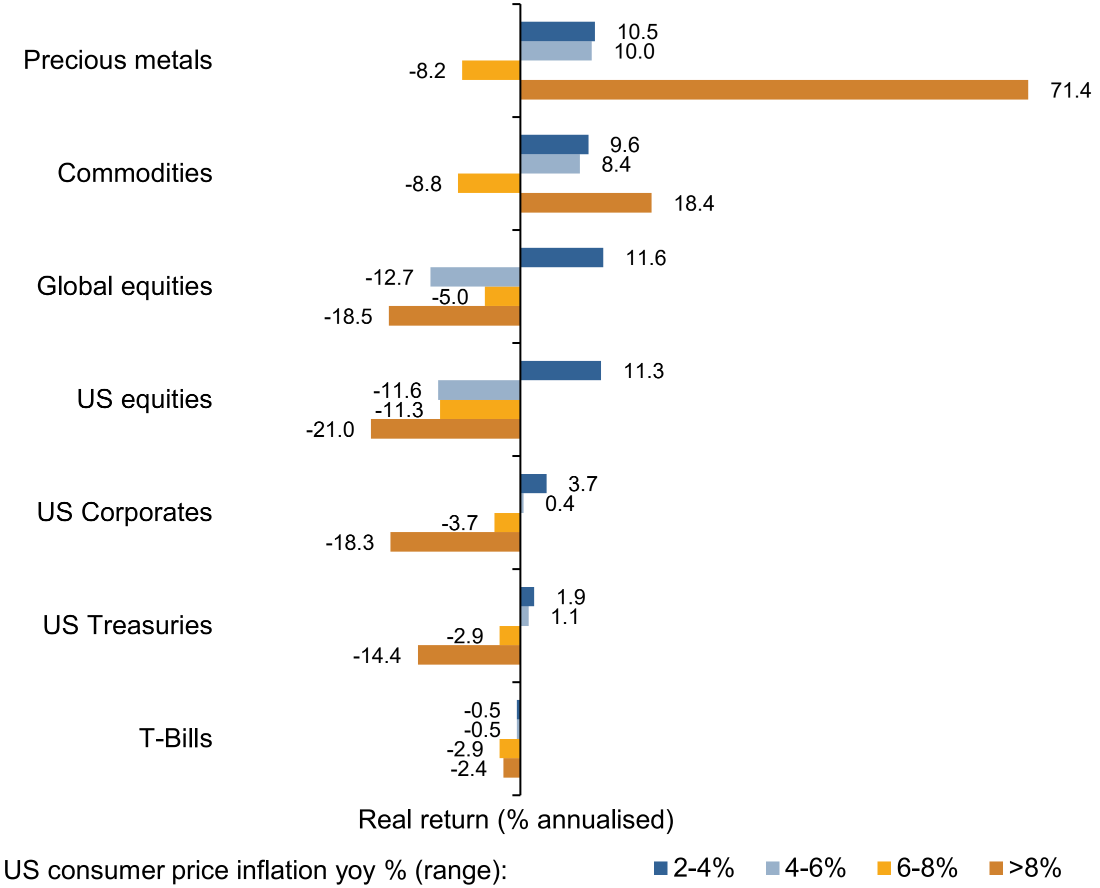
Source: AllianzGI, Global Financial Data, Refinitiv. Data as at April 2021. Legend: inflation surprise defined as surprise in inflation (yoy) >0%; numbers show calculated average returns for periods in respective inflation buckets and increases in yoy inflation rates

No risks, no premium: investments in riskier assets have tended to generate higher return potential over time than alternative investments with no risk exposure. Over the long-term, taking greater risks on equities has historically been rewarded. From a purchasing power perspective, equities have offered greater security than bonds.

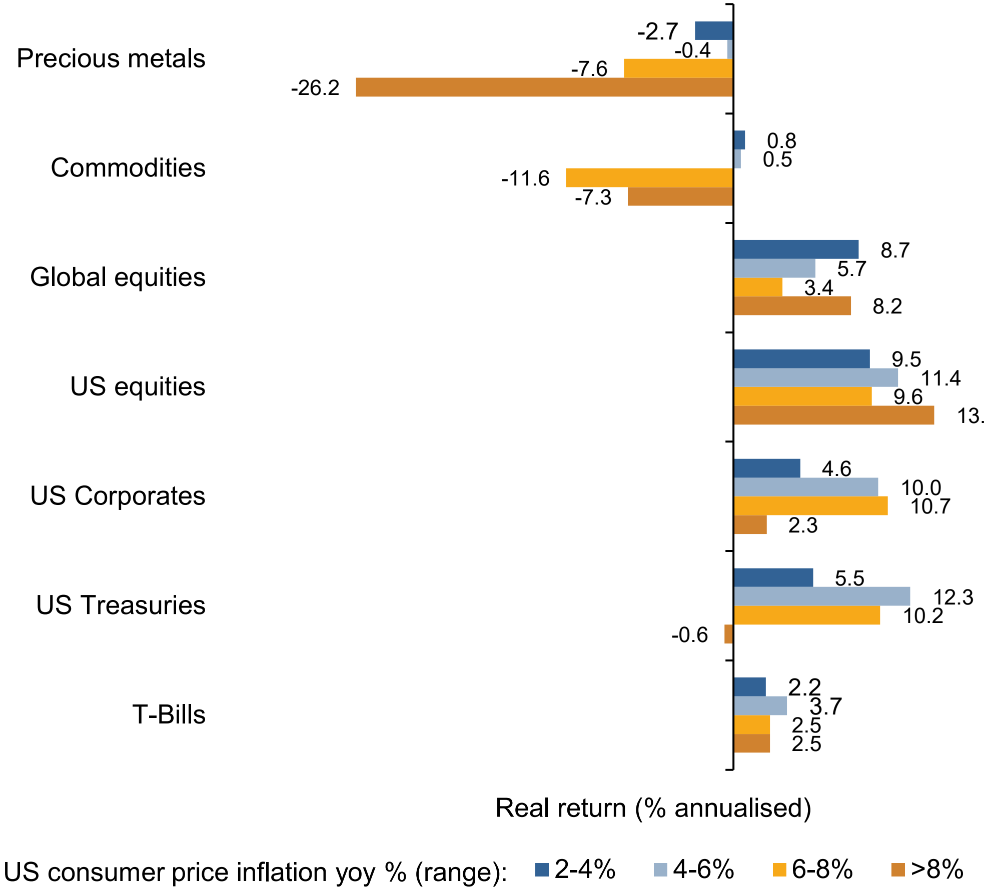
1 Source: US Bureau of Labor Statistics

…and *active* asset allocation is key as returns have been affected by the level and direction of inflation

Real returns in periods of high and rising US inflation



Real returns in periods of high and falling US inflation



Note: average arithmetic real returns of US asset classes (and global equities, commodities, precious metals) in USD during episodes of rising and falling year-over-year rates of US consumer price inflation. Period: 1/1971 – 4/2021. Number of monthly data points per inflation range (rising/falling inflation): 2-4% (123/136), 4-6% (44/48), 6-8% (17/23), >8% (34/29). Past performance does not predict future returns.
Source: Allianz Global Investors Global Economics & Strategy, Global Financial Data, Refinitv (data as at April 2021)) For illustrative purposes only.

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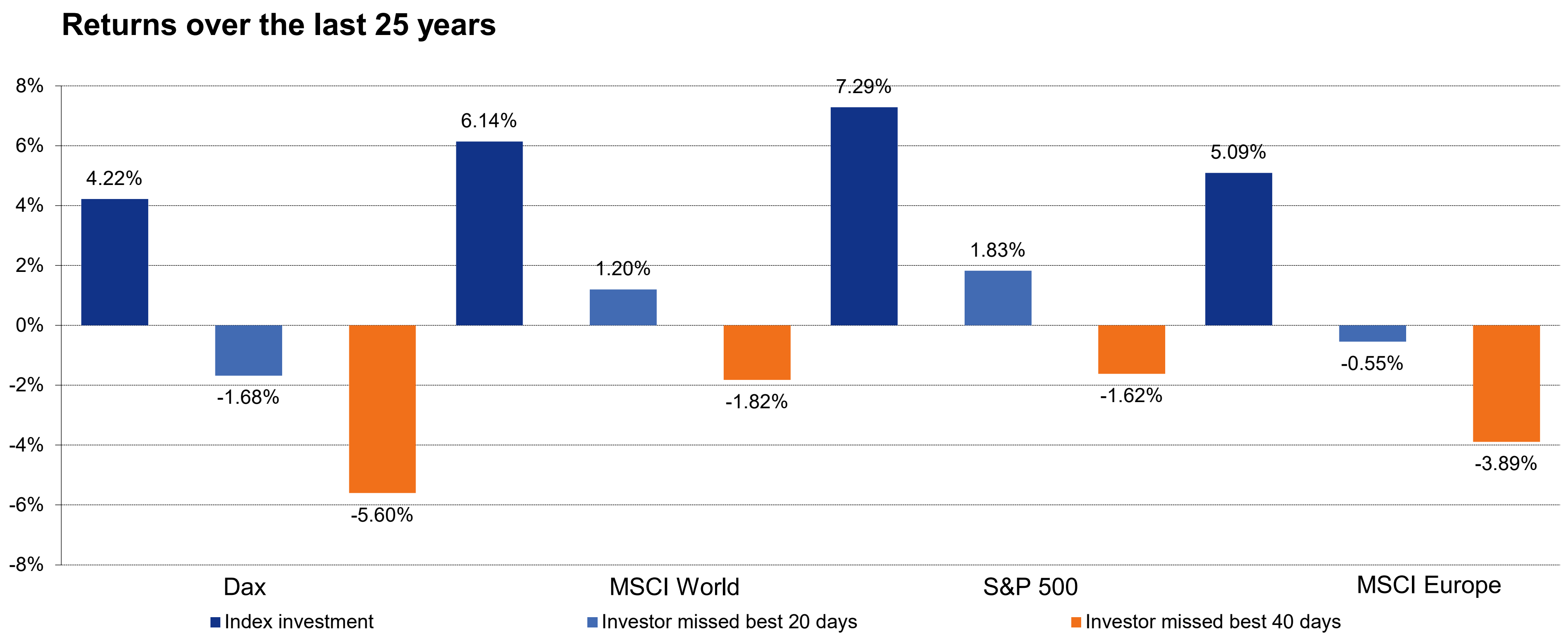
Consider benefitting from the “best days” by investing, rather than speculating. That means staying in for the long haul.



Seek to accumulate capital over the long term by focusing on investing. Speculating is betting on price movements in the short term – and can be risky. Investing is putting your capital to work over the medium or longer term seeking to build your future wealth.

For illustrative purposes only. Past Performance does not predict future returns. Source: Datastream, AllianzGI Global Capital Markets & Thematic Research. Timeframe: 09/1997 – 09/2022. DAX – index of share prices on an average of 30 leading stocks quoted on the Frankfurt Stock Exchange, MSCI World – captures large and mid-cap representation across 23 Developed Markets (DM) countries, and MSCI Europe – captures large and mid cap representation across 15 Developed Markets (DM) countries in Europe*. With 428 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across the European Developed Markets equity universe. Investors cannot invest directly in an index. Index returns are presented as net returns, which reflect both price performance and income from dividend payments, if any, but do not reflect fees, brokerage commissions or other expenses of investing.

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It might be an investment cliché, but diversification is important in the long-term

Returns across asset classes (US dollar, in % per annum)

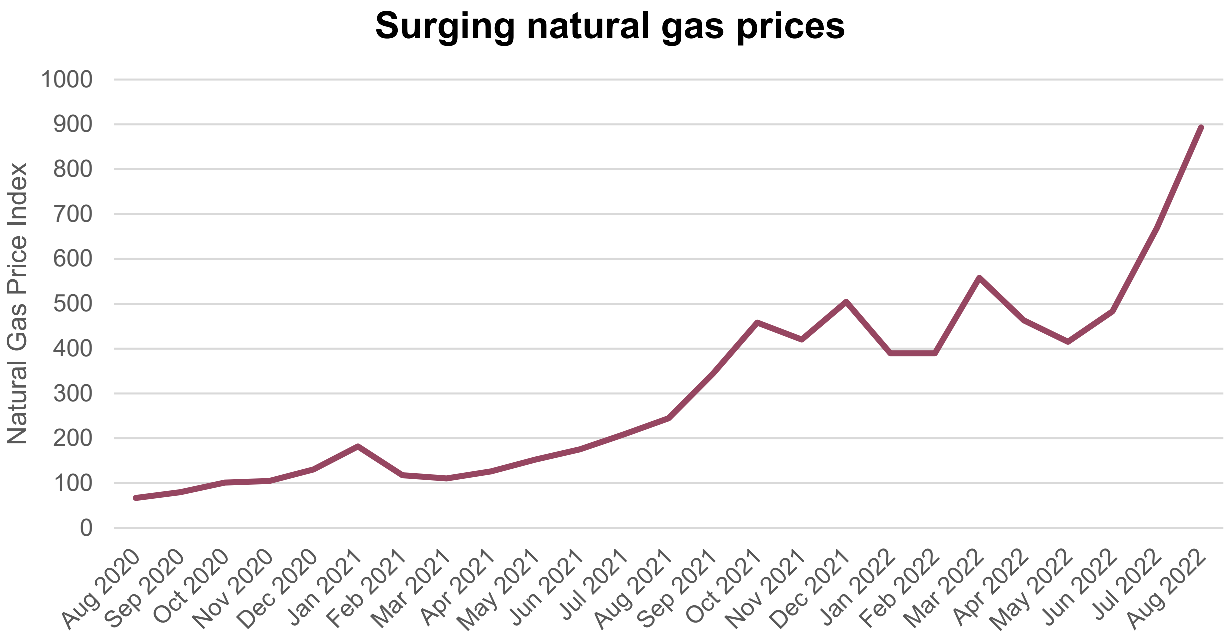
Equities Germany | Equities US | Equities EM | Equities Europe | Gov. Bonds Advanced Economies | Gov. Bonds Emerging Markets | Corporate Bonds | Real Estate (REITS) | Commodities (ex. Precious metals) | Gold

Rank	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Q3 2022
1	39.78	10.92	79.01	29.35	11.07	32.10	32.61	13.36	8.78	11.61	37.75	2.34	31.65	24.81	43.73	69.65
2	35.93	3.12	32.55	19.20	6.83	18.63	32.41	7.40	1.32	11.60	28.49	-0.25	26.88	21.37	26.97	16.59
3	32.78	-8.29	28.13	15.45	5.46	18.09	20.51	5.09	-0.89	11.37	21.90	-1.70	21.68	18.73	25.85	12.47
4	31.78	-12.23	27.14	11.75	4.47	17.12	10.79	3.15	-1.27	8.95	17.33	-3.46	18.89	18.69	8.67	8.39
5	12.37	-13.51	27.12	9.56	2.83	16.14	0.11	0.18	-2.61	8.43	12.61	-3.97	18.66	12.29	5.90	0.22
6	10.74	-37.13	26.55	9.32	1.99	11.07	-0.17	-1.78	-3.77	7.56	11.09	-4.50	17.62	10.33	-2.22	-4.19
7	7.29	-43.29	19.18	8.25	-1.42	5.58	-2.27	-1.82	-9.35	4.27	10.88	-10.00	12.75	9.23	-2.95	-4.30
8	6.95	-45.49	15.32	6.01	-7.51	1.75	-2.49	-5.02	-10.45	3.49	9.25	-14.24	11.44	6.60	-3.64	-6.46
9	6.03	-47.50	13.04	5.64	-17.45	-0.14	-4.33	-9.76	-14.60	3.22	6.51	-14.30	6.50	-2.82	-3.97	-14.62
10	3.17	-53.18	2.25	-6.72	-18.17	-0.75	-27.34	-33.83	-33.66	1.73	5.50	-21.64	5.47	-26.44	-6.86	-21.44
Ø	18.68	-24.66	27.03	10.78	-1.19	11.96	5.98	-2.30	-6.65	7.22	16.13	-7.17	17.15	9.28	9.15	5.63

For illustrative purposes only. Source: Thomson Reuters Datastream, Allianz Global Investors, Benchmarks: Germany MSCI Germany TR, USA: MSCI USA TR, Equities Emerging Markets: MSCI EM TR, Bonds Developed countries: JPM Global Govt. Bond Index TR, Bonds Emerging Markets: JPM EMBI Global Composite TR, Corporates: BofA ML Broad Corp. Index TR, Real Estate: Real Estate Europace Hedonic House Price Composite Index, Commodities: S&P GSCI Non. Precious Metals TR, Gold: €/Feinunze; all returns in USD (TR = Total Return Index, NAV = Net Asset Value). Data as at October 4 2022. Past performance does not predict future returns. Investors cannot invest directly in an index. Index returns are presented as net returns, which reflect both price performance and income from dividend payments, if any, but do not reflect fees, brokerage commissions or other expenses of investing. Diversification does not guarantee a profit or protect against losses.

Finally, two ideas for investors wanting to think strategically about positioning for today's inflation challenges

1. Accounting for high energy prices



Source: IMF. Data as at 31 August 2022

The war in Ukraine has galvanised Europe's push to achieve independence from fossil fuels through the development of renewable energy forms and technologies. The transition is likely to squeeze access to "cheap" energy and hasten environmental regulations – both inflationary factors.

Idea for investors: for the medium term, sustainable energy options may gain support as low-cost investment becomes possible, governments provide guarantees, and regulatory hurdles are removed.

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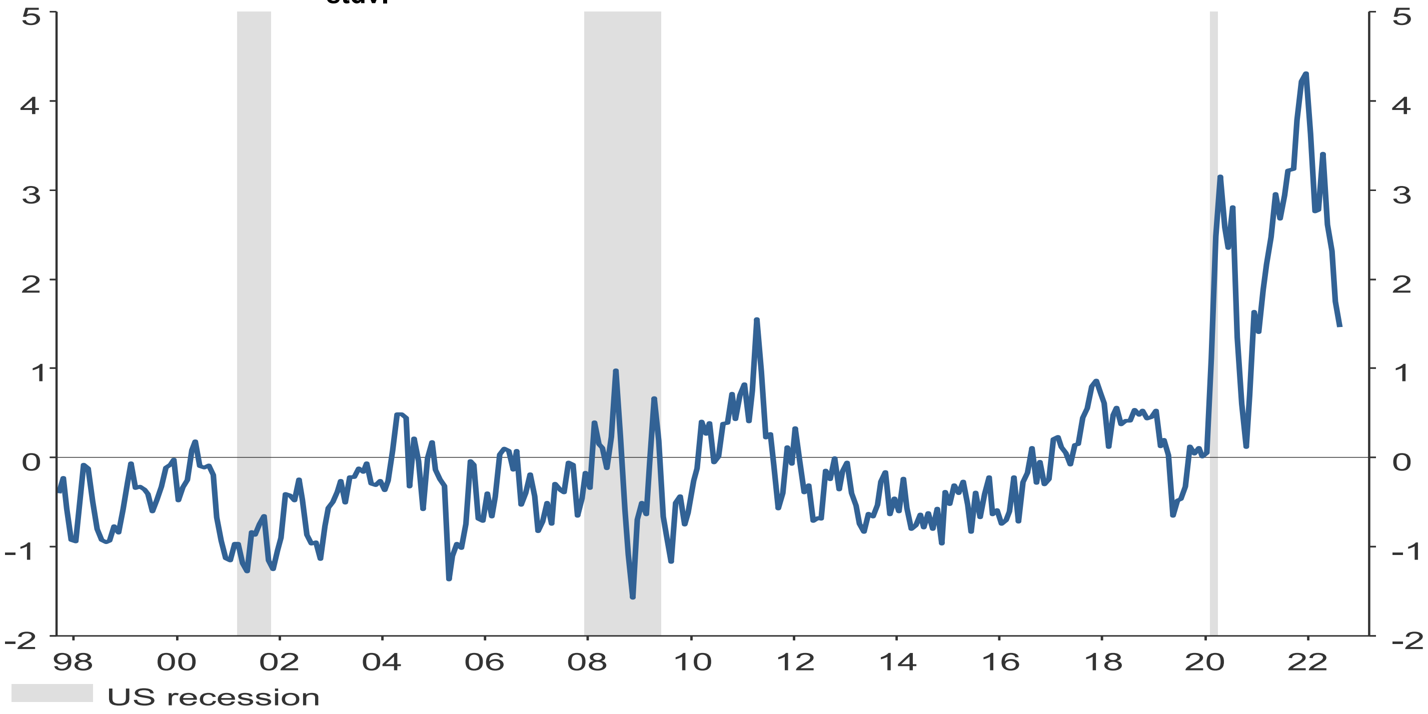
Ideas for investors wanting to think strategically about positioning for today's inflation challenges

2. Embracing supply chain disruptions

Global supply chain pressure index (NY Fed)
stdv.



Source: Refinitiv Datastream, AllianzGI Economics & Strategy 12/09/2022

The Covid-19 pandemic, the war in Ukraine and the drive by some economies to achieve self-sufficiency in key industries have disrupted the flow of goods around the world. Global trade patterns have shifted as companies have diversified their suppliers and shifted manufacturing and distribution closer to customers. "Glocalisation" will disrupt labour markets too.

Idea for investors: companies are investing in automation, robotics and smart use of data.
Investors may find potential opportunities in sectors that underpin this data-and-AI-driven supply chain revolution.

Important risk considerations

This presentation describes certain product capabilities of Allianz Global Investors U.S. LLC (“AllianzGI US”). These strategies involve selling and buying derivatives including futures and swaps and may not be suitable for every investor. No assurance can be given that any particular investment objective will be achieved. Among the risks specific to these strategies that AllianzGI US wishes to call to the attention of prospective investors are the following:

The use of derivatives involves risks different from, and possibly greater than, the risks associated with investing directly in the investments underlying the derivatives. Derivatives can be more volatile and involve significant risk and can disproportionately increase losses and reduce opportunities for gains.

Derivative transactions may produce effects similar to leverage and expose an account to related risks. Consequently, an adverse change in the relative price level can result in a loss of capital that is more exaggerated than would have resulted from an investment that did not involve the use of leverage inherent in the derivative contract.

For each strategy, the collateral requirement may vary depending on the use of an active or passive underlying portfolio, and on the extent to which the strategy uses derivatives. For each strategy, securities from the passive or active underlying portfolio may be pledged as collateral in order to implement the derivative positions. The collateral rules are based on the greater of Reg T rules (standard collateral rules defined by the CBOE and the SEC) and requirements of counterparties. When collateral is used to implement derivative positions, it is possible that a decline in market value of the positions could force the portfolio to cover any shortfall by liquidating non-cash assets. The timing of such liquidation may be adverse.

The account may be required to sell investments at times it would not otherwise choose to do so in order to settle derivatives. Such sales may result in losses on such investments and will, in addition, involve transaction costs.

Options on indices may not correlate perfectly with the underlying investments and may not act as expected. Such transactions may not achieve their objectives and may result in (or add to) losses to the account.

Strategies described herein are dependent on the smooth functioning of the markets for the particular instruments being purchased or sold. If such markets do not operate as expected, the strategies described herein could be adversely affected.

Swap agreements involve the risk that the party with whom a client has entered into the swap will default on its obligation to pay the client and the risk that the client will not be able to meet its obligations to pay the other party to the agreement. Collateral for swaps is determined by each counterparty under ISDA agreements.

Past performance does not predict future returns. Performance may be volatile.

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