

Allianz European Equity Dividend

Monthly commentary

Summary

- European equities advanced over the course of February. While it seems that fears of a “hard landing” in the US can be put safely aside for the next few quarters, there are indications that sentiment in Europe is cautiously, but steadily improving.
- The Allianz European Equity Dividend strategy performed almost in line with the broader market represented by the MSCI Europe Index despite a challenging market for income strategies.

Market review

European equities advanced over the course of February. Consumer Discretionary companies were particularly strong, as luxury goods companies were boosted by better-than-expected results from Hermes. The Technology and Industrials sectors also outpaced the overall market, while real estate and utilities were the weakest sectors, notching up sizeable falls. The flash estimate of the HCOB euro-zone composite purchasing managers’ index (PMI) improved further in February, while service sector activity jumped to the highest level in seven months. While manufacturing activity deteriorated to 46.1, it indicated activity had improved from last year’s late-summer slump. The European Commission revised down its growth and inflation projections, saying it expected the euro-zone economy to grow by 0.8% in 2024, down from a prior estimate of 1.2%, while inflation is now forecast to fall to 2.7%, from a previous estimate of 3.2%. German shares posted solid gains, with the DAX reaching fresh all-time highs. In contrast to the broader euro zone, German economic activity weakened further in February, mainly due to a steeper contraction in the manufacturing sector. After a 0.3 % fall in German economic output in the fourth quarter of 2023, the Bundesbank warned that the economy may contract further in the first quarter of 2024, citing uncertainty over government policy, transport strikes and weak consumer and industrial demand. German inflation dropped to 2.5% in February, the lowest rate since June 2021. The UK fell into an official recession in the second half of 2023, but the economy appears to have started 2024 on a stronger footing, with the flash S&P Global UK composite PMI surging to the highest level since May 2023. The Bank of England kept rates on hold but dropped a warning that rates could rise again. UK inflation held steady at 4.0% in January.

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This is a marketing communication. Please refer to the prospectus of the Fund and to the Key Information Document before making any final investment decisions.

Performance analysis

Allianz European Equity Dividend performed almost in line with the broader market represented by the MSCI Europe Index despite a challenging market for income strategies. This is also reflected in the fact that the MSCI High Dividend Yield Index once again underperformed the broader index. February was a less volatile month for the European equity markets than the previous months. The strongest increases resulted from the more cyclical and growth-oriented sectors. While sector allocation impacted overall performance, stock selection demonstrated strength, particularly in Industrials (overweight Volvo, Schneider Electric, and Siemens) and Information Technology (overweight BE Semiconductor), sectors that thrived in the buoyant market conditions. Conversely, the strategy's returns were weighed down by selection in the Health Care sector. While our overweight position in GSK and not holding AstraZeneca resulted in a positive contribution, being overweight in Sanofi and Roche detracted. Not holding leading pharmaceuticals group Novo Nordisk also hurt, as the company continued its rise fuelled by market expectations for its diabetes and weight loss drugs, which are expected to become global bestsellers. Semiconductor equipment giant ASML also delivered another robust performance this month. However, due to its high valuation and a dividend yield of less than 1%, it is not part of our strategy. In addition, our positioning in the Energy and Materials sectors had a negative impact due to our overweight positions in Equinor and Rio Tinto. On the positive side, our holdings in the Financials sector made a notable contribution, supported by reinsurer Muenchner Rueck and several bank positions such as KBC and Lloyds Banking. At the individual stock level, overweighted positions in BNP Paribas, Veolia Environment and Nestle as well as the exclusion of LVMH hurt, while the overweight position in Stellantis helped.

Portfolio strategy and activity

During the month, we continued to adjust portfolio allocations, particularly in the banking sector, where we divested from UBS. Despite a promising performance at the start of the year, the dividend yield has now fallen significantly to just 2.1% for FY 2024. While the market is optimistic about the merger with CSFB, it is worth bearing in mind that UBS's potential rise to wealth management juggernaut could be overshadowed by its reduced attractiveness from a dividend perspective. In turn, we have increased our position in Bank of Ireland. Consolidation in the Irish banking market means we could swap one strong franchise for another, but at a lower valuation and with a much higher prospective dividend yield. As our Industrial holdings continued to perform well, we reduced holdings to take advantage of higher prices, similar to last month. We also adjusted positions in some pharmaceutical companies (e.g. Novartis) as their results gave us insights into the prospects for their key drugs. The overall positioning of the strategy is similar to before: we are looking for quality companies that offer attractive dividend yields and are cautious of over-leveraged and poorly capitalized companies.

Market outlook

Robust US growth has been the main source of support for the equity markets so far. At the same time, there are more and more indications that sentiment in Europe is cautiously, but steadily improving. It seems that fears of a "hard landing" in the US can be put safely aside for the next few quarters. This view is supported by the trend in corporate earnings, which have been quite healthy overall in recent weeks and months. As the economy is humming along, the Federal Reserve needs to deal with the challenge of bringing inflation down towards the target without choking off growth. As long as earnings growth is stable, market participants should remain optimistic even in the face of new record highs. Nevertheless, equity valuations appear ambitious in many markets, which makes them vulnerable to a slowdown in earnings trends and/or a significant deterioration of the economic environment. In addition, the general uptrend is driven by the development of a comparatively small number of stocks. This is particularly true for the US. Many investors are obviously still focussed on future-oriented topics such as digitisation or artificial intelligence. Against the background of this market concentration it probably makes sense to pursue a differentiated, active approach to stock and sector selection.

Opportunities

- + High return potential of stocks in the long run
- + Investments specifically in the European stock market
- + Dividend stocks outperform in some phases
- + Focus on sustainable investments
- + Broad diversification across numerous securities
- + Possible extra returns through single security analysis and active management

Risks

- High volatility of stocks, losses possible. The volatility of fund unit prices may be strongly increased.
- Underperformance of the European stock market possible
- Dividend stocks may underperform at times
- Sustainability approach narrows the investment universe
- Limited participation in the yield potential of single securities
- Success of single security analysis and active management not guaranteed

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