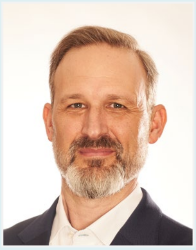
Allianz Global Investors

Multi Asset Tactical View

AUGUST 2024



Gregor M. A. Hirt
Global CIO
Multi Asset

Views in brief: Recession fears overdone... for the moment

In July, the key story for global equities was a significant shift from technology companies to value stocks, with AI-related and semiconductor names particularly impacted. Central banks in the US and euro zone kept rates on hold, as expected. At the turn of the month, the Japanese yen surged, while Japanese equities contracted sharply following a 15 basis point rate increase by the Bank of Japan. Coupled with weaker US job data, this move triggered knock-on effects for risk assets globally as investors unwound JPY-based carry trades. Consequently, expectations of pending rate cuts on both sides of the Atlantic grew strongly, benefiting government bonds.

Despite potential volatility in the coming weeks, our view of equity markets for the medium-term remains constructive, as the more likely soft-landing scenario should continue to support risky assets. On US equities, still supported by momentum, our fundamental view has become more cautious considering investors' high positioning and rich valuation. While we had already adopted a slightly less optimistic stance on euro zone equities last month, we maintain a solid overweight in UK equities, which are undervalued and under-owned. We keep our positive stance on Japanese equities, expecting the Bank of Japan to hold rates steady in the coming months.

We keep a constructive view on government bond duration, anticipating continued benefits from likely rate cuts. Although high yield bonds are supported by strong momentum and attractive carry, their fundamentals look less favourable and could be at risk if economic data weakens further.

Meanwhile, Donald Trump's push for cheap oil (if he becomes US president), coupled with weak Chinese data, does not bode well for commodities leading us to slightly downgrade our stance. We maintain a very positive outlook on gold in the current environment.

Tactical asset allocation views summary

These views reflect a short-term time horizon showing the direction and conviction of the team's analysis based on both fundamental and systematic indicators. These views are independent of individual portfolio construction considerations.

	Asset class	Index Return% 1mo	3mo	6mo	Asset Class View (Cautious – Constructive)	Views summary
Broad Asset Classes	Global equities	1.6	8.1	12.4		Prospect of lower rates combined with sufficient global growth run rate offers solid background
	Global sovereign	3.0	4.2	0.2		Weakening cyclical data and repricing of anticipated monetary policy cuts support global bonds
	Commodities	-4.0	-3.9	0.5		Selective positioning favouring gold and precious metals due to uncertainty over high spare oil capacities
	Currencies (USD)	-1.2	-1.0	1.3		With volatility the driving force, safe haven currencies gained against USD; USD remains supported by carry
Equities	US equities	1.2	10.0	14.8		Likely Fed rate cuts have potential to broaden rally, with mega cap earnings expectations a potential challenge
	Euro zone equities	0.4	0.6	6.5		Potential for more ECB cuts the key attraction against a mixed growth and political background
	Japanese equities	-0.5	2.1	10.8		Sharp yen appreciation weighing on stocks temporarily, but overall fundamentals remain sufficiently strong
	Emerging markets	0.3	4.8	13.1		Cheap valuations and mildly positive data flow on earnings and growth paint positive, but volatile picture
Fixed Income	US treasuries	2.1	4.6	1.6		Expected Fed rate cut in September and softer economic data to drive treasury bond markets
	UK gilts	1.8	4.0	1.4		While domestic data are improving, correlation to US treasuries and pricing of a BoE cut to support gilts
	Euro zone sovereign	2.2	2.3	0.7		The ECB's stance for September is officially 'wide open', key data trend to remain constructive
	US high yield	1.9	4.0	4.6		US high yields benefit from solid fundamentals, but remain rich with spreads near 330 bps; attractive carry
	EM fixed income (USD)	2.0	4.2	5.9		Lower US yield trends and stable local macro data are supportive for EM debt
Commodities and currencies	Oil	-2.8	-1.4	9.6		OPEC+ will significantly ramp up production in 2025 and might be pressured to do so by the next US administration
	Copper	-4.4	-7.2	8.6		Positioning still excessive, but positive outlook due to rising demand and tight supply
	Gold	5.2	7.1	20.0		EM central banks as well as retail investors continue to step-up gold reserves. Gold as a safe haven asset preferred
	USD vs. EUR	-1.0	-1.5	-0.1		USD appreciation took a pause due to lower inflation figures in the US, spreads remain supportive for USD
	GBP vs. EUR	-0.6	-1.4	-1.2		GBP depreciated with higher volatility; sticky inflation and improving economic data in UK supportive for GBP
	USD vs. JPY	-6.8	-5.0	2.1		JPY appreciated after foreign exchange intervention, overall hawkish stance of BoJ supportive factor

KEY: Blue = Equities, Dark Grey = Fixed Income, Orange = Commodities, Light Grey = Currencies

See overleaf for sources. Asset class view signals as of 6 August 2024, performance as of 31 July 2024.

MULTI ASSET TACTICAL VIEW

Source: Bloomberg Finance L.P.; Asset class view signals as of 6 August 2024, performance as of 31 July 2024. Past performance does not predict future returns. Global equities are represented by MSCI AC World Daily TR, Global sovereign by FTSE World Government Bond Index – Developed Markets in USD, Commodities by Bloomberg Commodity Index, Currencies (USD) by Bloomberg Dollar Spot, US equities by S&P 500 Index, Euro-zone equities by MSCI EMU Index (EUR), Japanese equities by TOPIX Index (JPY), Emerging markets by MSCI EM NR, US treasuries by J.P. Morgan US Government Bond Index, UK gilts by J.P. Morgan UK Government Bond Index, Euro-zone sovereign by J.P. Morgan EMU Investment Grade Index, US high yield by Bloomberg U.S. Corporate High Yield, EM fixed income by J.P. Morgan EMBI Plus Index, Oil by S&P GSCI Crude Oil, Copper by BBG Copper TR, Gold by GOLD SPOT $/OZ. For currencies, the US dollar (USD) and the British pound (GBP) are represented by each respective currency vs. the euro (EUR) as well as the USD vs. the Japanese yen (JPY).

AdMaster 3778691