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Q2 2020

# Allianz Multi Asset Long / Short

## Fund manager commentary

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### Summary

- Global equities surged over the second quarter, rebounding strongly from the steep sell-off over February and March. Global bonds posted modestly positive returns with yields in many markets closing the quarter little changed from their levels at the end of March. Oil prices and gold reached higher levels, while major currencies such as the US dollar (USD) and the British pound (GBP) weakened against the euro.
- The fund retreated in value (in EUR terms). Main detractors were positions in global equities, short exposure to US high yields and commodities. In contrast, the main positive contributors were the long positions in global bonds, gold as well as short positions in natural gas.

### Market environment

Global equities surged over the second quarter of 2020, rebounding strongly from the steep sell-off over February and March. Growing optimism over economic recovery fuelled the rally as countries that had been among the worst hit by COVID-19 in the first quarter gradually started to ease lockdown measures and travel restrictions. While COVID-19 cases continued to rise globally, unprecedented government and central bank support buoyed stocks, helping investors overcome fears of a second wave of infections. The global economy ground to standstill in April as a result of measures taken to limit the spread of COVID-19. While European data improved throughout May and June as travel restrictions and lockdowns were lifted, a rise in new infections in southern and western US states delayed planned re-openings. The epicentre of the pandemic moved to Latin America, although India and Russia also saw a surge in cases. In China, the first economy to lockdown and subsequently ease such measures, economic metrics gradually returned to pre-COVID levels. Budget deficits ballooned as governments continued to provide financial support to both companies and individuals. Central banks provided liquidity, but warned of deep recessions and slow recoveries.

In general, global government bonds posted modestly positive returns with yields in many markets closing the quarter little changed from their levels at the end of March. Peripheral euro-zone bonds were the exception, as yields declined on news that the EU planned a Recovery Fund to help member states hit by COVID-19. UK Gilts also outperformed. Meanwhile, corporate bonds surged, outperforming sovereign bonds by a considerable margin. High-yield bonds delivered especially strong returns as investors sought higher levels of income.

Oil prices were volatile. In April, US oil prices briefly turned negative for the first time in history due to a lack of storage capacity, but the market recovered in May and June. Brent crude reached a peak above USD 45 a barrel on speculation that OPEC and Russia would agree to extend their record cuts to production. Gold surpassed USD 1,800 an ounce for the first time in more than seven years.

The euro strengthened over the quarter, helped by signs that the euro-zone economy may be over the worst. After an exceptionally strong first quarter, the USD relinquished some of its gains. The GBP also weakened against the euro, with sentiment undermined by reports of limited progress in the trade talks with the EU.

### Performance analysis and strategy

In this market environment, the fund retreated in value (in EUR terms) during the reporting period. The strategy posted a positive return in April, but retreated in value during the following two months. Performance was more challenged in June, given a rather volatile first half of the month. Primary detractors of performance during the reporting period were our positioning in global equities, the short exposure to US high yields as well as short exposure to commodities such as industrial metals and oil/gasoil. Additionally, being long the Japanese Yen (JPY) hurt the Fund's performance. In contrast, the main positive contributors were our long exposure to global bonds, being long gold as well as the short position in natural gas. In addition to that exposure to short duration high yields helped.

### Performance overview

| Allianz Multi Asset Long / Short I3 (H2-EUR) | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sept | Oct | Nov | Dec | YTD |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2016 | | | | | | | | | | | | **1.65%** | **2.37%** |
| 2017 | -0.35% | 1.69% | 0.37% | 0.21% | 1.47% | -0.60% | 1.69% | 0.63% | -0.39% | 1.60% | 0.37% | **0.96%** | **7.89%** |
| 2018 | 1.76% | -4.56% | -2.17% | -0.75% | -2.10% | 1.07% | -0.09% | 1.51% | -0.47% | -2.48% | -0.96% | **3.48%** | **-5.85%** |
| 2019 | -4.27% | -0.79% | 2.92% | 0.15% | 0.82% | 2.38% | 1.36% | 3.88% | -1.38% | -3.28% | 0.73% | **-0.60%** | **1.61%** |
| 2020 | 1.45% | -2.24% | -8.35% | 0.20% | -0.31% | -0.68% | | | | | | | **-9.82%** |

*Calculated at the net asset value, excl. front-end load, distributions reinvested. Calculation according to method as defined by BVI, the German Fund Companies Association. Past performance is not a reliable indicator of future results. Any front-end loads reduce the capital employed and the performance. Based on the I3 (H2-EUR) share class. Source: Allianz Global Investors, data as at 30/06/2020.posted modestly positive returns with yields in many markets closing the quarter little changed from their levels at the end of March

From an asset allocation perspective, our short exposure to equities was decreased from -13% to -5% during April and then progressively raised to +7% and +17% by end of May and June respectively as global equity markets recovered. While he had no exposure to the VIX in April and May, we initiated a new position in June ending the quarter with a long position of approximately 1.4%. In contrast, global bond exposure was stable in April, moving from  approximately 70% to 71%, then higher to 85% in May and was finally significantly increased in by ending the month at about 147%. From a regional perspective, additions were made across the board. In credits, the short position in US high yields was increased slightly from about -1% to -2% during April, but then decreased and was finally eliminated to went neutral by June. In contrast, the short exposure to emerging market credits was reduced from approximately -6% to -4% in April, while we went long about +2% in May and stayed about there through the month of June. Within currencies, we stayed around neutral with a net short USD position of 8%, mainly because of a 6% JPY long position. In May, we reduced the short USD position to -3% by reducing our long positioning in the JPY, while the month of June saw a large increase in the USD short position to -26%, primarily through an increase in our long euro exposure. For commodities, our short positions in energy and industrial metals respectively stayed in the -5 to -7% and -10% or so range during April and May. In June though Energy short positions were raised to about -8%, while the short exposure to industrial metal was decreased to about -7%. With respect to precious metals, the long gold position was steadily increased from approximately 2% to 3% in April, stayed about there during the middle of the quarter and then was raised to about 6% by the end of June. Additionally, the positions in silver and platinum were close to neutral throughout at 1% or so in total.

Overall, the performance of the fund during the reporting period was mainly based on the systematic trend-based component according to scores we retrieved from our Market Cycle Analysis. Therefore, as scores for global equities strengthened in most regions in the course of the reporting period, so did our positioning in equities. The scores for fixed income followed a similar trajectory in the first half of the period, while government bond yields rose sharply at the start of June, touching the highest levels since March amid growing optimism over the outlook for the global economy. However, gloomy central bank predictions and an increase in new COVID-19 infections in Americas, Europe and Asia caused yields to decline once more, resulting in a higher weighting with respect to the portfolio composition. Corporate bonds mostly outperformed government bonds during the quarter as spreads tightened. Consequently, we ended the quarter with a long exposure to higher yielding fixed income markets. In commodities, US oil prices briefly turned negative for the first time in history due to a lack of storage capacity at the beginning of the quarter, while gold conversely rallied. In the course of the quarter, oil prices recovered and gold surpassing $ 1,800 an ounce for the first time in more than seven years. This was also displayed in our portfolio positioning, maintaining a net short exposure to oil and gasoil during the quarter. Industrial metals followed a similar trajectory, ending the quarter with a short position. Gold saw positive readings throughout the period. Therefore, the portfolio increased the long exposure in gold. in currencies, the readings for the USD weakened especially against the euro in the quarter due to signs that the euro-zone economy may be over the worst. While the USD fell against the euro, it rose slightly against the JPY in the last month of the quarter. In contrast, the GBP against the USD saw negative readings throughout the quarter on limited progress of trade talks with the EU and the Bank of England actively reviewing negative rates.

From a fundamental scores view, after a strong quarter global equity markets entered a consolidation while awaiting earnings. The main focus and driver of markets should be on further fiscal and monetary stimulus.

While growth/quality seems to be ok, value has battled back and looks to hold its own since May. Political risks (US-China relations, US elections), a possible 2nd wave as well as slow economic growth risks remain. From a fixed income perspective, the US Fed support should keep Treasury yields low but rangebound, while US investment grade spreads have tightened. Additionally, the Bank of England (BoE) Quantitative Easing Program is suppressing gilt yields, but the BoE prefers to avoid negative policy rates. With respect to Eurozone fixed income, inflation is low and strong fiscal support should be more favourable for risky assets. For credits, the US Fed is backing the US corporate bond market, but there is a risk of increased downgrades in the high yield sector. Given rising oil prices, attractive spread levels and reopening economies, emerging market debt seems to be attractive in our view. With respect to commodities, oil demand is further recovering, while OPEC cuts remain in place but inventories are at historic highs. Gold as a real asset remains attractive in our view given the large monetary stimulus globally. On the top level, an economic recovery, low price levels and declining cap-ex are positive factors for commodities in the medium term. From a currency perspective, the COVID-19 crises should drive the USD, with growth in infection numbers weighting on the USD. The GBP should continue to devalue in our opinion when negotiations about a UK-EU trade agreement show no progress. Finally, the USD and the JPY both react as a safe haven currency, while sentiment wise the JPY is preferable to the USD.

**Opportunities**

+ Prospect for attractive risk-adjusted return throughout the market cycle
+ Flexible use of different high-opportunity asset classes
+ Potential exploitation of rising and falling asset prices through combination of long and short positions

**Risks**

– Positive return or capital preservation not guaranteed. The fund unit price may be subject to strongly increased volatility.
– Above-average fluctuations and risk of loss particularly in high-opportunity asset-classes
– Above-average risk of loss in alternative investment strategies employing derivatives and long/short strategies



Source: Allianz Global Investors, June 2020