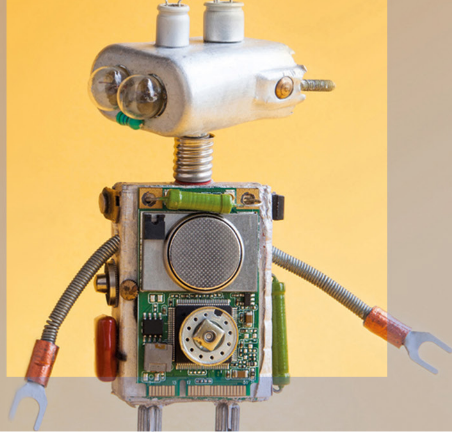

# Active is: Investment Insights

www.allianztechnologytrust.com

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**Investing involves risk. The value of an investment and the income from it may fall as well as rise and investors may not get back the full amount invested.**

**Walter Price**
Lead Manager
Allianz Technology Trust

With over 40 years of experience of investing in technology companies, Walter Price has witnessed the evolution of the technology sector from the birth of the personal computer to the arrival of the internet and now the shift to cloud computing. Based in San Francisco, giving him close proximity to many of the world's most innovative companies, he heads up the Global Technology Team which manages US$4 billion* in assets.

*Source: Allianz Global Investors GmbH.

## Investment Insights from Silicon Valley

### Market update - 12 October 2018

Given that the bull market in US stocks became the longest in history in August and the tech sector in particular has been in something of a sustained 'sweet spot', this week's market sell-off is not unexpected. It is premature to say whether or not this is a significant market correction but it is something that has affected markets globally over recent days and follows heightened volatility throughout much of 2018. Global geopolitical and economic tensions have all created an uncertain backdrop, against which the possibility of a correction has become more and more realistic.

What has triggered this week's technology stock sell-off? We believe upward pressure on bond yields, higher oil prices, rising trade tensions with China, and heightened US political turmoil have all made their presence felt, combining to trigger market falls. Investors are uncertain over the potential impact of higher interest rates on global economic growth as well as nervousness related to the risk of a full blown trade war.

### Trade tensions create headwinds

US-China trade tensions have been brewing for some time. However, recent reports about a China chip hack back in 2015, Vice President Mike Pence's criticism of Chinese trade policy and his accusations regarding alleged Chinese attempts to interfere in the upcoming US mid-term elections have heightened fears of an all-out trade war – posing a very real threat to the global economy. This has hit home in recent days with several US companies stating that recently imposed tariffs on Chinese imports are already starting to impact their business. In China itself, the reality of economic uncertainty is being felt, causing manufacturers to reduce inventory and not build new manufacturing plants. In turn, this is causing a downturn in revenue for the whole manufacturing supply chain.

Prior to the sell-off, software and internet software companies have been the best performers. These companies are now selling off the most as investors are de-risking and taking profits from recent winners.

**Value. Shared.**

Allianz Global Investors

While the tech decline has been painful, we see no change in the underlying fundamentals of the software and internet software companies in the portfolio, and we maintain our conviction in the long-term growth opportunity they offer.

## Short-term uncertainty likely but the long-term opportunity remains robust

Whilst we remain confident that the case for strong relative performance of the tech sector remains robust, the immediate outlook is uncertain. Markets are likely to remain volatile until the Q3 earnings season begins in late October followed by the US mid-term elections in early November. Any progress towards a trade deal with China would serve to reduce market volatility. While rising trade tensions between the US and China in recent months have weighed on performance and stoked fears of a cyclical downturn, we believe the long-term opportunity for technology stocks remains healthy.

In times of elevated volatility, we believe our risk management process and staying active is critical. This provides us with more opportunities to take advantage of pullbacks in higher-conviction ideas and construct a portfolio with compelling risk-return potential as the market recovers.

Investing in tech has never been for the faint-hearted but, for underlying investors, an actively-managed fund like ours is a way of diversifying risk since we offer access to a portfolio of stocks across a range of tech sub-sectors. As such, our investors are never reliant on the success of just one or two investments.

## Continuing focus on balancing risks and opportunities is key

While there will always be examples of tech stocks that don't deliver on their promised growth, the technology sector as a whole is widening its grip on the global economy and is the single largest contributor to global economic growth. Innovative tech solutions enable every other sector of the modern economy to improve quality or productivity, maintain competitiveness or spur expansion. And the ongoing digital transformation among businesses should continue to drive growth in IT spending. At Allianz Technology Trust we will continue carefully balancing risks and opportunities, leveraging our industry expertise and emphasising individual stock selection.

This is no recommendation or solicitation to buy or sell any particular security. A ranking, a rating or an award provides no indicator of future performance and is not constant over time.

Please note that we can only offer information and are unable to provide investment advice. You should contact your financial adviser before making any investment decision.

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