Allianz
Global Investors

Allianz American Income

Monthly commentary

- The Fund aims at long-term capital growth and income by investing in debt securities of American bond markets with a focus on the US bond markets.
- The Fund is exposed to significant risks of investment/general market, country, emerging market, creditworthiness/credit rating, default, interest rate, volatility and liquidity, counterparty, valuation, sovereign debt, currency (such as exchange controls, in particular RMB), and the adverse impact on RMB share classes due to currency depreciation.
- The Fund may invest in high-yield (non-investment grade and unrated) investments and convertible bonds which may subject to higher risks, such as volatility, loss of principal and interest, creditworthiness and downgrading, default, interest rate, general market and liquidity risks and therefore may adversely impact the net asset value of the Fund. Convertibles may also expose to risks such as prepayment, equity movement, and greater volatility than straight bond investments.
- The Fund may invest in financial derivative instruments ("FDI") which may expose to higher leverage, counterparty, liquidity, valuation, volatility, market and over the counter transaction risks. The Fund's net derivative exposure may be up to 50% of the Fund's net asset value.
- This investment may involve risks that could result in loss of part or entire amount of investors' investment.
- In making investment decisions, investors should not rely solely on this material.

Note: Dividend payments may, at the sole discretion of the Investment Manager, be made out of the Fund's capital or effectively out of the Fund's capital which represents a return or withdrawal of part of the amount investors originally invested and/or capital gains attributable to the original investment. This may result in an immediate decrease in the NAV per share and the capital of the Fund available for investment in the future and capital growth may be reduced, in particular for hedged share classes for which the distribution amount and NAV of any hedged share classes (HSC) may be adversely affected by differences in the interests rates of the reference currency of the HSC and the base currency of the Fund, particularly if such HSC are applying the IRD Neutral Policy.

What Happened in May

Fixed income markets advanced in May. With the first quarter earnings season nearly complete, most companies surpassed consensus estimates helped by strong sales, cost cuts, and share repurchases. Full-year 2024 and 2025 earnings estimates moved higher over the month despite mixed company management outlooks. Key economic reports were neutral in aggregate. The labor market remained healthy, consumer confidence improved, and inflation showed signs of slowly ebbing. On the other hand, manufacturing fell back into contractionary territory and home and retail sales missed expectations. Finally, the Federal Reserve kept rates unchanged at May's Federal Open Market Committee (FOMC) meeting with Chair Powell pushing back against potential rate hikes at the press conference.

Investment Grade Bond Market Environment

The ICE BofA US Corporate Index returned +1.85%, outperforming the shorter-dated ICE BofA 1-10 Year US Corporate Index which returned +1.42%.^ AAA, AA, A and BBB rated bonds returned +1.86%, +1.70%, +1.80% and +1.93%, respectively.^

Spreads narrowed to 88bp from 91bp, the average bond price rose to 91.46, and the market's yield fell to 5.60%.*

MAY 2024

Gross new issuance for the period was USD 132.7 billion.

The 10-year US Treasury returned +1.88%. The note's yield fell to 4.49% compared to 4.68% the prior month.*

High-Yield Bond Market Environment

The ICE BofA US High Yield Index returned +1.13% for the month.* BB, B, and CCC rated bonds returned +1.23%, +0.96%, and +1.23%, respectively.*

Spreads widened to 320bp from 318bp, the average bond price rose to 92.54, and the market's yield fell to 8.18%.*

Most industries finished higher for the period. Healthcare, food producers, and utilities outperformed, whereas media, telecoms, and cable underperformed.

Trailing 12-month default rates fell to 2.02% (par) and 1.90% (issues).**

New issuance saw 54 issues priced, raising USD 33.6 billion in proceeds.**

Portfolio Review

May performance compared favorably to core bonds. The portfolio was positively impacted by broad based strength across fixed income markets as interest rates moved lower.

Among corporate bonds, industries that contributed the most to performance included technology, financial services, and banking. Technology issues that positively impacted performance were led by longer-dated issues in consulting, semiconductors, and software. Within financial services, the largest contributors were holdings with exposure to credit card services and aircraft leasing. A consumer financial services company and multiple major banks outperformed in the banking industry.

There were no industries that detracted from performance during the period.

Transactions included new purchases in industrial machinery/supplies/components, pharmaceuticals, and communications equipment. Complete sells included issues in packaged foods, data processing & outsourced services, and oil & gas exploration & production.

Outlook and Strategy

2023's economic momentum should carry over into 2024. Economic tailwinds include a healthy labor market, steady consumption, government spending, elevated household net worth, a stabilizing manufacturing sector, an end to the rate hike cycle, and accelerating earnings. Economic headwinds include persistent inflation, restrictive monetary policy, prolonged yield curve inversion, less personal savings, and US/international political risks, among others.

Investment grade corporate bond's risk/reward opportunity is also compelling. Rising interest rates are a risk for high grade corporates however the investment opportunity has improved on the back of higher coupons and yields, and a positive fundamental outlook. The asset class trades at a significant discount to par, offering attractive total return potential and downside cushioning.

After an outsized move in rates, US Treasuries should be better positioned to provide portfolio diversification benefits going forward.

The high yield market, currently yielding nearly 8%[1], offers the potential for equity-like returns but with much lower volatility. Credit fundamentals are stable, near-term refinancing obligations remain low, and management teams continue to prioritize debt reduction. Given these factors, defaults should remain well below historical cycle peaks. The market's attractive total return potential is a function of its deep discount to face value and increased coupon, which also serves to cushion downside volatility. Notably, after recording an annual decline, the high-yield market has historically delivered two consecutive years of positive returns in six of seven cases[2], and forward 12- and 24-month return projections based on the current market yield have been consistent with mid to high single digits[3].

All data are sourced from Allianz Global Investors dated 31 May 2024 unless otherwise stated.

* Source: BofA Merrill Lynch, as at 31 May 2024.

^Source: ICE Data Systems, as at 31 May 2024.

**Source: JP Morgan, as at 31 May 2024.

[1] Source: ICE Data Services; data as 31 May 2024.

[2]Source: ICE Data Services; data as of December 2022.

[3]Source: JP Morgan; data as of October 2022.