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 July

US corporate bonds finished higher in July. The second quarter earnings season got off to a strong start. Thus far, most S&P 500 companies have surpassed top- and bottom-line estimates and earnings growth has paced well ahead of projections. Trade deals were announced with Japan, Vietnam, and the European Union. The One Big Beautiful Bill Act was signed into law and released economic data was mixed. Unemployment remained low, manufacturing and services surveys advanced, and retail sales and gross domestic product (GDP) growth surprised to the upside; however, inflation measures accelerated, and the housing market cooled. Against this backdrop, the US Federal Reserve (Fed) kept interest rates steady despite some dissent from the committee.

Investment Grade Bond Market Environment

The ICE BofA US Corporate Index returned +0.15%, modestly underperforming the shorter-dated ICE BofA 1-10 Year US Corporate Index which returned +0.18%. ^ AAA, AA, A and BBB rated bonds returned -0.22%, -0.03%, +0.12% and +0.21%, respectively. ^

Spreads tightened to 79bp, the average bond price fell to 94.24, and the market's yield rose to 5.13%.^

Gross new issuance for the month was USD 85.5 billion.*

The 10-year US Treasury returned -0.67%. The note's yield rose to 4.36% compared to 4.23% the prior month. *

High-Yield Bond Market Environment

The ICE BofA US High Yield Index returned +0.40% for the month.BB, B, and CCC rated bonds returned +0.17%, +0.45%, and +1.39%, respectively. ^

Spreads narrowed to 286bp from 296bp, the average bond price fell to 97.00, and the market's yield fell to 7.33%. ^

Industry performance was mostly higher with metals, media, and cable outperforming, while transportation, services, and retail underperformed.

Trailing 12-month default rates finished the period at 1.37% (par) and 0.91% (issues). **

Monthly new issuance saw 44 issues priced, raising USD 37.5 billion in proceeds. **

Portfolio Review

July performance was positively impacted by strength across the portfolio's corporate bond holdings.

Among corporate bonds, the top contributors to performance in the period included banking, automotive, and energy. Banking outperformance was attributable to a number of strong earnings reports in the sector. An issue from an automobile manufacturer that offered better-than-expected guidance had the largest impact in automotive. Strength in energy was primarily attributable to an issue in natural gas.

Cable & satellite TV was the only industry that detracted from performance in the period. An issuer in diversified telecommunications that reported a weaker-than-expected quarter was the main source of weakness.

Transactions during the period included new purchases in application software, apparel/accessories, and wireless telecommunication services, and complete sells in cargo ground transportation and commodity chemicals.

Outlook and Strategy

Despite a strong recovery in risk assets, the macroeconomic outlook remains clouded given uncertainty around trade, monetary policy, government spending and geopolitics. On the other hand, economic data has been resilient, trade tensions while elevated have stabilized, earnings tailwinds have begun to emerge, Fed commentary has been less hawkish, capital markets have been active, and government spending has emerged as a tailwind.

The US economy should expand in 2025, even with tariffs potentially hampering growth. Trade policy clarity could begin to improve and as the range of outcomes narrow, uncertainty should lessen, and spending, investment, hiring, and mergers and acquisitions (M&A) activity can resume. Further out, fiscal stimulus, deregulation measures, capex tailwinds, productivity gains, and a reindustrialization movement are potential growth drivers.

A resumption of monetary policy easing – currently, the market is pricing in three 25 basis point interest rate cuts in 2025 – would closer align the Fed with accommodation by central banks overseas. Early signs of labor market softening or minimal tariff price pass through could pull forward rate cuts, while steady employment or higher inflation could cause the Fed to move later.

US investment grade corporate bond's risk/reward opportunity is favourable. Rising interest rates are a risk for high grade corporates, however the investment opportunity remains favourable given higher coupons and yields, and a positive fundamental outlook with limited default risk. The asset class trades at a discount to par, offering favourable total return potential and downside cushioning. If the 10-year US Treasury yield finishes 2025 near the lower bound of the expected range of 3.5-4.5%, the asset class return could exceed mid-single digits.

US Treasuries – a low-risk source of reliable income – are an attractive investment given relatively high interest rates.

The US high-yield market, yielding more than 7%[1], could deliver a coupon-like return in 2025. As a result, the asset class continues to offer equity-like returns but with less volatility. The market's attractive total return potential is a function of its discount to face value and higher coupon, which also serves to cushion downside volatility. Credit fundamentals are stable, near-term refinancing obligations remain low, and management teams continue to exercise balance sheet discipline. In this environment, new issuance is expected to remain steady, and the default rate should stay below the historical average.

All data are sourced from Allianz Global Investors dated 31 July 2025 unless otherwise stated.

* Source: BofA Merrill Lynch, as at 31 July 2025.

^Source: ICE Data Systems, as at 31 July 2025.

**Source: JP Morgan, as at 31 July 2025.

[1] Source: ICE Data Services; data as 31 July 2025.

Allianz Global Investors and Voya Investment Management entered into a long-term strategic partnership on 25 July 2022, upon which the investment team transferred to Voya Investment Management. This did not materially change the composition of the team, the investment philosophy nor the investment process. Management Company: Allianz Global Investors GmbH. Delegated Manager: Voya Investment Management Co. LLC ("Voya IM").