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 August

US corporate bonds and shorter maturity US Treasuries finished higher in August. Second quarter earnings reports for S&P 500 companies continued to surpass top- and bottom-line estimates, with quarterly earnings growth pacing for low-double-digits (versus projections for mid-single-digits) with most constituents having reported. Economic data was mixed; the Atlanta Fed's third quarter GDP estimate moved higher, the CPI was below consensus, and initial claims remained subdued, while manufacturing and services surveys missed estimates, the unemployment rate ticked higher, and retail sales decelerated. Global trade remains in focus with many companies citing tariff pressures, while the Trump administration indicated that most major deals will be finalized in the next few months. The Fed was a focal point in August with Chair Powell's Jackson Hole speech marking a significant shift in stance, further increasing market expectations for a rate cut in September. Against this backdrop, the 10-year Treasury yield fell 14 basis points to 4.22%.

Investment Grade Bond Market Environment

The ICE BofA US Corporate Index returned +1.06%, modestly underperforming the shorter-dated ICE BofA 1-10 Year US Corporate Index which returned +1.19%. ^ AAA, AA, A and BBB rated bonds returned +0.82%, +0.94%, +1.04% and +1.11%, respectively. ^

Spreads widened to 81bp, the average bond price rose to 94.91, and the market's yield fell to 4.97%.^

Gross new issuance for the month was USD 101.6 billion.*

The 10-year US Treasury returned +1.55%. The note's yield fell to 4.22% compared to 4.36% the prior month. *

High-Yield Bond Market Environment

The ICE BofA US High Yield Index returned +1.22% for the month. * BB, B, and CCC rated bonds returned +1.20%, +1.15%, and +1.51%, respectively.^

Spreads narrowed to 284bp from 286bp, the average bond price rose to 97.79, and the market's yield fell to 7.13%^

Almost all industries finished higher with energy, healthcare, and real estate outperforming, while packaging/paper, chemicals, and transportation underperformed.

Trailing 12-month default rates finished the period at 1.45% (par) and 1.14% (issues). **

Monthly new issuance saw 31 issues priced, raising USD 25.7 billion in proceeds. **

Portfolio Review

August performance was positively impacted by strength across the portfolio's corporate bond holdings as well as US Treasury positioning.

Among corporate bonds, the top contributors to performance in the period included technology, financial services, and banking. Technology was driven by issuers in tech hardware, enterprise software, and semiconductors, several of which reported strong earnings. Strength in financial services was relatively broad-based, led by a debt collector that boosted collections guidance. In the banking space, several longer-dated issues from large multi-national banks had the greatest impact.

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

Transactions during the period included new purchases in consumer finance, automotive retail, and hotels/resorts/cruise lines, and complete sells in consumer finance, treasuries, and communications equipment.

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 August 2025 unless otherwise stated.

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

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

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

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