

# 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 were mixed in May, with risk assets outperforming safe havens. Momentum from April's mid-month rally persisted, as tariff tensions eased following announcements of de-escalation measures with both China and the UK. The earnings season wound down over the month with most of the remaining high profile companies surpassing analyst expectations. First quarter top- and bottom-line growth rates exceeded consensus estimates although many companies pulled or reduced full-year guidance on trade-related uncertainty. Economic reports released during the month were generally positive. Inflation measures decelerated, consumer confidence increased, the services sector rebounded, unemployment remained low, and second quarter estimates for real gross domestic product (GDP) growth neared 4%. Conversely, continuing jobless claims trended higher, retail sales underwhelmed, and select housing statistics remained weak. Against this backdrop, the US Federal Reserve (Fed) held interest rates steady at May's Federal Open Market Committee (FOMC) meeting, taking a "wait-and-see" approach, and the 10-year US treasury yield increased to 4.39% but finished well off the intramonth high of 4.63%.

## Investment Grade Bond Market Environment

The ICE BofA US Corporate Index returned 0.00%, underperforming the shorter-dated ICE BofA 1-10 Year US Corporate Index which returned +0.20%.^ AAA, AA, A and BBB rated bonds returned -0.79%, -0.44%, -0.17% and +0.27%, respectively.^

Spreads tightened to 92bp, the average bond price fell to 92.99, and the market's yield was rose to 5.28%.^

Gross new issuance for the month was USD 160.2 billion.\*

The 10-year US Treasury returned -1.41%.\* The note's yield rose to 4.39% compared to 4.15% the prior month.\*

## High-Yield Bond Market Environment

The ICE BofA US High Yield Index returned +1.68% for the month, bringing year-to-date performance to +2.65%.^ BB, B, and CCC rated bonds returned +1.52%, +1.44%, and +3.17%, respectively.^

Spreads narrowed to 332bp from 394bp, the average bond price rose to 95.65, and the market's yield fell to 7.75%.^

Industry performance was broadly higher with media, energy, and telecoms outperforming, while cable, food producers, and metals underperformed.

Trailing 12-month default rates finished the period at 1.33% (par) and 1.03% (issues).\*\*

Monthly new issuance saw 35 issues priced, raising USD 32.0 billion in proceeds.\*\*

## Portfolio Review

May 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 technology, energy, and financial services. Technology holdings that positively impacted performance were concentrated within the semiconductor and tech hardware industries, both of which benefited from the easing of tariff impact expectations. Strength in energy was broad-based with all portfolio holdings finishing higher, led by several exploration & production issues that rallied alongside crude oil prices. Issues in the debt purchasing, consumer finance, and payments spaces drove performance in financial services.

Steel producers/products was the only industry that detracted from performance in the period. A steel manufacturer was negatively impacted by commodity price weakness.

Transactions during the period included new purchases in tires/rubber, US treasuries, and passenger ground transportation, and complete sells in alternative carriers, health care technology, and semiconductor materials & equipment.

## Outlook and Strategy

Despite May's notable strength in risk assets, the macro outlook remains uncertain.

The US economy is still expected to expand in 2025 with widespread effects from tariffs hampering growth. Clarity around trade policy is unlikely to improve in the near term, but as the range of outcomes continue to narrow, uncertainty should

lessen, and spending, investment, hiring, and mergers and acquisitions (M&A) activity can resume. Further out, fiscal stimulus, deregulation measures, productivity gains, and a reindustrialisation movement are potential growth drivers.

The Fed likely remains on hold as officials continue to assess the effect of tariffs on inflation, employment, and the potential for stagflation. Inflation has slowed but concerns of a second wave have risen due to tariffs. Steady employment is possible if less hiring is met with less layoffs. A resumption of monetary policy easing – currently, the market is pricing in two 25 bp interest rate cuts in 2025 – would closer align the Fed with accommodation by central banks overseas.

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%<sup>1</sup>, 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 of 3-4%.

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

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

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

\*\*Source: JP Morgan, as at 31 May 2025.

<sup>1</sup> Source: ICE Data Services; data as 31 May 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").**

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