Allianz
Global Investors

Allianz Global Floating Rate Notes Plus

Monthly commentary

- The Fund aims to capture income from a global universe of floating-rate notes and seeks potential for long-term capital growth in accordance with environmental and social characteristics. With the adoption of the socially responsible investment ("SRI") (Proprietary Scoring) strategy ("SRI (Proprietary Scoring) Strategy"), the Fund takes into account sustainability factors based on United Nations Global Compact Principles and follows the principles of SRI. The Fund does not constitute as an ESG fund pursuant to the SFC's circular issued on 29 June 2021.
- The Fund is exposed to significant risks of investment/general market, currency, creditworthiness/credit rating, interest rate, default, valuation, volatility and liquidity, and sovereign debt.
- The Fund is exposed to risks relating to SRI (Proprietary Scoring) Strategy investment (such as foregoing opportunities to buy certain securities when it might otherwise be advantageous to do so, selling securities when it might be disadvantageous to do so, and/or selling securities when it might be disadvantageous to do so). The Fund focuses on SRI which may reduce risk diversifications and may have an adverse impact on the performance of the Fund.
- The Fund may invest in high-yield (non-investment grade and unrated) investments 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 increase the risk of loss of original investment.
- 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 October

In October, global investment grade (IG) corporate spreads widened modestly by 2 basis points (bps) to 80 bps. By region, USD spreads widened 7 bps to 81 bps, EUR spreads tightened 2 bps to 77 bps, and GBP spreads tightened 3 bps to 83 bps. US IG spreads began the month near historical tights, supported by nearly USD 1 trillion of inflows into IG exchange-traded funds (ETFs). However, sentiment weakened as concerns over a potential government shutdown and an escalation in trade tensions weighed on risk assets.

China's Ministry of Commerce announced the imposition of export controls on certain rare earth-related products and technologies, citing national security concerns after reports that foreign entities had illegally obtained and used these technologies for military applications. In response, the US administration announced a 100% tariff on Chinese imports, effective 1 November. The announcement triggered a sharp sell-off, wiping approximately USD 2 trillion from global equity markets amid fears of a sustained trade war escalation.

In the Technology sector, earnings and guidance continued to drive market movements. Investors focused not only on whether companies could maintain growth above expectations but also on how record levels of investment could translate into sustainable revenue generation. At the time of writing, around half of US tech issuers had reported results, with roughly 75% delivering earnings surprises. Despite this strong showing, sentiment has turned more cautious as investors debate the durability of earnings growth in the face of slowing capital efficiency.

Within the Banking sector, markets reacted negatively to several instances of fraud and bankruptcy. A US regional bank reported a USD 50 million Q3 loss linked to a fraudulent borrower, raising questions around underwriting standards across the industry. Meanwhile, recent bankruptcies – including a subprime auto lender and an auto parts manufacturer– have added to concerns that the rapid expansion of private credit may be introducing new systemic risks to the financial system. Turning to primary issuance, US IG supply totalled USD 127.8 billion in October. This included a social media operator's landmark USD 30 billion multi-tranche deal, which built a record USD 125 billion order book – surpassing the previous record set by the USD 120 billion order book of a health solutions company in 2018. In Europe, issuance totalled EUR 68.5 billion, slightly below the EUR 71.1 billion recorded in the same period last year.

Portfolio overview

The Fund generated positive gross return in October. Positive absolute performance was generated by attractive underlying yields inbuilt within the Fund, with SOFR at 4.22% by the end of the period.

With circa 1.6 years of corporate contribution to spread duration (CTSD), we maintained an overall conservative position with a quality bias. We remained tactical in trading around our credit default swap (CDX) high yield (HY) overlay, currently long protection, 0.2 years CTSD, responding to evolving valuations. We continued to add to high quality securitised products over the course of the month, with high-quality securitised now contributing 0.5 years. We maintained the interest rate duration of the portfolio at around 0.6 years.

Outlook

We consider the global corporate market to be at fair value to modestly rich. Our focus remains on sectorial and idiosyncratic opportunities, within the context of an overall light credit risk footprint. In our view, spreads can continue to grind tighter given the supportive technical backdrop. Fundamentals remain healthy, albeit bifurcated by sector.

Based on our analysis of banks' exposures, and the scale of non-bank lending, we view the recent events in US private credit to be isolated tremors that do not indicate systemic risks and thus do not significantly impact our outlook on IG credit. We retain our high conviction to Financials, given that bank fundamentals are broadly solid, with stable asset quality, strong capital and profitability reflected by continued strong earnings results. Our analysis of banks' exposure to non-bank financial institutions (NBFIs) does not induce us to alter our conviction. However, we have reduced our relative exposure to the sector, based primarily on valuations; spreads have compressed considerably since the Credit Suisse event in 2023.

In regard to non-financial corporates, we do not see a direct read-across from the afore-mentioned auto parts manufacturer event to other US corporates. We prefer non-cyclical Industrials and remain cautious on consumer cyclicals, given the continued downside risk to growth and higher expected interest costs. Given the relative value to Financials, risks in the sector appear to be skewed to the downside. In general, the consumer sector also screens as more vulnerable to tariff-related pressures, given the reliance on global supply chains.

We are constructive on securitised products as relative value looks compelling to corporates. The asset class continues to benefit from a supportive macro environment that has resulted in stable credit trends on underlying assets. Structures include credit enhancement and other structural protections as well as tests and covenants that protect bondholders, particularly at the AAA level.

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All data are sourced from Bloomberg and Allianz Global Investors, as of 31 October 2025 unless otherwise stated.
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