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 reducing risk diversifications compared to broadly based funds) which may result in the Fund being more volatile and have adverse impact on the performance of the Fund and consequently adversely affect an investor's investment in 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 July

In July, global investment grade corporate spreads tightened by -10bps to 79bps with USD spreads tightening by -8bps to 79bps, EUR spreads tightened by -13bps to 79bps, and GBP spreads tightened by -8bps to 93bps. Despite a series of tariff announcements in July, markets remained stable, supported by strong US economic data. The pause on "Liberation Day" tariffs was extended from July 9 to August 1, during which trade agreements were reached with Japan, the EU, and South Korea. Although these deals reduced uncertainty, the baseline tariff rate of 15% was higher than expected. Still, global markets responded positively, likely viewing the developments as a sign of easing tensions.

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The Trump administration also introduced new trade measures: a 15% tariff on South Korean autos, a brief delay on Brazilian tariffs with some exemptions, a revision to exclude refined copper from tariffs, and the removal of the USD 800 de minimis exemption on low-value imports. Additionally, President Trump pressured US drugmakers to cut prices, while expressing optimism about trade talks with China. Chinese state media echoed a hopeful tone, emphasising growing trust in the negotiations.

The US Federal Reserve (Fed) held interest rates steady at 4.25–4.50% during its July meeting, reiterating concerns over persistent inflation and a strong labour market. While the Fed maintained its commitment to the 2% inflation target, internal divisions emerged for the first time in decades, with two Federal Open Market Committee (FOMC) members dissenting in favour of a rate cut—a notable development not seen since 1993.

In the US, investment grade gross supply totalled to USD 85.5bn in July, down from the USD 112.5bn in June while also down 29.7% from July 2024 (USD 121.7bn). In Europe It has been the second-busiest July in recent years, thanks to the increase in corporate issuance. July issuance amounted to EUR 51bn, almost equal to the EUR 51.4bn supplied in July 2019, but more skewed towards corporate issues: EUR36bn, versus EUR 25bn in July 2019 and EUR 26bn in July last year.

Portfolio overview

The Fund generated +59 bps of gross return in July, ahead (+22 bps) its cash reference index (SOFR). Positive absolute performance was generated by attractive underlying yields inbuilt within the fund, with SOFR at 4.39% by the end of the period. Carry and credit spread tightening were the main positive contributors to the relative outperformance.

With circa 1.7 year 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 index high yield (CDX HY) overlay, currently long protection, 0.3 year CTSD, responding to evolving valuations. The portfolio continues to hold a circa 20% liquidity buffer including cash, US Treasuries and high-quality Supra & Agency (SSA) paper. We selectively participated in new issues within the securitized and corporate bond markets and we further increased the share of fixed coupon bonds in the portfolio in July.

Outlook

We consider the global corporate market to be at fair value following the compression from the tariff induced widening, with valuations reflecting the strong fundamentals indicated by Q1 earnings. Our focus remains on sectorial and idiosyncratic opportunities, within the context of an overall light credit risk footprint. Assuming the news flow around tariffs does not deteriorate again, spreads can continue to grind tighter given the supportive technical backdrop. We prefer financials and domestically focused sectors, and we remain cautious on consumer cyclicals. We continue to favour higher-quality credits and to stay in the upper part of the capital structure. Our modest risk positioning and our ample liquidity buffer provide us with high flexibility to seize opportunities going forward.