Allianz Global Investors

Allianz Global Opportunistic Bond

Monthly commentary

- The Fund aims at long-term capital growth and income by investing in global bond markets.
- The Fund is exposed to significant risks of investment/general market, creditworthiness/credit rating, interest rate, default, valuation, sovereign debt, emerging markets, and currency.
- Investing in share class with fixed distribution percentage (Class AMf) is not an alternative to fixed interest paying investment. Investors should note that fixed distribution percentage is not guaranteed. The percentage of distributions paid by these share classes is unrelated to expected or past income or returns of these share classes or the Fund. Distribution will continue even the fund has negative returns and may adversely impact the net asset value of the Fund. Positive distribution yield does not imply positive return.
- 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, particularly if such HSC are applying the IRD Neutral Policy.

What Happened in July

July brought some headwinds for major government bond markets as global equities posted fresh all-time highs amid optimism surrounding trade deals between the US and its key trading partners. Yields on major bond markets finished the month approximately 15bp higher, as a reflationary narrative was also supported by a modestly better tone in the US, with key data releases – such as nonfarm payrolls, retail sales, and Q2 gross domestic product (GDP) – exceeding market expectations. Two of the strongest-performing global-macro themes of H1 2025 – US yield-curve steepeners and short US dollar positions – underwent some consolidation amid stretched positioning. After steepening by around 45bp over H1, the US 7s30s curve ended the month flatter by 5bp, and the US dollar gained 3% against the Euro following an H1 decline of 14%.

In the Euro area, the European Central Bank (ECB) kept rates unchanged after easing policy by 25bp in June. Following eight rate cuts that have taken the deposit rate to 2.0%, members of the ECB's Governing Council have indicated that policy is likely to remain on hold for now. The US–EU trade deal has removed near-term tail risks for the Euro area. Although activity levels remain weak and inflationary pressures have abated, there are few signs of further sequential deterioration in economic activity. Recent monetary and prospective fiscal policy easing make for a constructive medium-term growth outlook for the region.

Portfolio Review and Strategy

US Treasury yields ended the month 15bp higher, predominantly driven by increased inflation expectations (with real yields only 5bp higher). The US yield-curve meanwhile took a breather from the steepening tendency in H1, with the 7s30s curve 5bp flatter as interest rate markets started to delay expectations of the US Federal Reserve (Fed) easing in 2025. A high proportion of our active US duration in exposure was concentrated in Treasury Inflation-Protected Securities (TIPS) which shielded the fund from some of the bearish momentum in July, however on balance our long duration and curve steepening positioning detracted from performance.

During the month, we decided to implement a tactical flattener position on the German yield curve – expressed via buying 10-year versus 2-year Bunds. Market pricing of yet further ECB rate-cuts and high expectations on German fiscal spending have led to a significant widening of the spread between 10-year and 2-year yields in recent months. Meanwhile the inflation trajectory in the Euro area appear benign with a stronger EUR and potential re-routing of Chinese goods further presenting a disinflationary impulse. This presents a more favourable backdrop for EUR duration and some re-flattening of the yield curve. The position added to returns in July.

Fiscal jitters meanwhile briefly re-emerged in the UK following the fiscal U-turn on welfare cuts and subsequent questions emerging around Rachel Reeves' position as Chancellor. We remain invested in 30-year Gilts paired against 30-year US Treasuries, however decided to book profit on our long UK Gilts versus German Bunds position. Our short position in long-dated US Treasuries (paired against UK Gilts and Spanish Government bonds) contributed to performance over the month.

In currency markets, following the impressive US dollar demise over the first half of 2025, July saw a modest rebound with the trade-weighted dollar 3% higher. This presented a more challenging backdrop in July for our short USD theme (with short positions in the USD versus EUR, KRW, BRL and IDR). However, we maintain a structurally bearish view on the USD and used this temporary setback to modestly add to our long EUR versus USD position.

Meanwhile, our relative value crosses long NOK versus SEK and long AUD versus GBP contributed to performance in July. We decided to add to our short positioning in GBP – consistent with our view that more cuts by the Bank of England than is currently priced may be required given the weak domestic outlook – paired against a long position in CAD, where the Bank of Canada (BOC)'s monetary easing increasingly begin to stabilise the real economy. The position added to performance in July.

In credit markets, global investment grade corporate spreads tightened a further 9bp in July, with EUR (-13bp) corporates outperforming their US counterparts (-7). Spread risk remained conservative in allocation, with a modest long via allocations to investment grade (IG) corporates (sector focus on senior financials and utilities versus cyclical industrials), partially hedged via buying protection in CDS. Overall, the credit positioning added value to performance in the month.

Looking ahead, we think sovereign bond market volatility is likely to remain elevated in the coming months, given the evolving macro and policy landscape. With several high-profile trade deals recently announced, the immediate uncertainty surrounding the global growth outlook may have been mitigated. However, US trade policy remains far too erratic for a tranquil market environment to persist. Moreover, with the US putting pressure on Russia to imminently strike a deal with Ukraine, upside risks to energy prices have re-emerged – leaving an undercurrent of stagflation risks in place. In the US, our highest-conviction medium-term view remains for a continued steepening of the 7s30s yield curve, given the combination of cyclical and structural forces impacting the economy.

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