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 June

June was another volatile month for fixed income markets as Middle East tensions and ongoing uncertainty about the macro impact of US trade policy drove market sentiment. The Israel-Iran conflict proved to be short-lived, but resulted in oil prices trading in a USD 65-80 a barrel range during the month. On the policy front, the US Federal Reserve (Fed) kept rates on hold, leaving the Fed funds target range unchanged at 4.25%-4.50% for the fourth consecutive meeting. In its latest economic projections, the Fed dialled back its growth forecast for this year to 1.4% but raised its core personal consumption expenditures (PCE) inflation forecast to 3.1% and highlighted the uncertainty around the economic outlook given US tariff policy. Since their initial post-"Liberation Day" declines in early April, equity and credit markets have rebounded sharply, reflecting market perceptions that tariff policy will be sufficiently watered down to not significantly impair corporate fundamentals. In the Euro area, the European Central Bank (ECB) cut rates by 25 basis points (bp), its eighth cut in this cycle, taking the deposit rate to 2.0%. US-EU trade tensions remain and Euro area survey data suggests that economic activity is still anaemic, while inflationary pressures have eased. However, the monetary and fiscal policy stance is raising hopes of an economic recovery in the region over the short and medium term.

Portfolio Review and Strategy

With interest rate markets pricing up the risks to near-term growth prospects, 10-year US Treasury yields ended the month at 4.23% (17bp lower); 10-year Bund yields meanwhile ended the month at 2.61% (11bp higher) as the monetary and fiscal policy stance is raising hopes of an economic recovery in the region. The move lower in USD yields helped our long duration basket (comprised of the US; New Zealand; and select emerging markets (EM) local rates). During the month, we decided to rotate the duration held in Norwegian Government bonds to add to our NZD duration exposure. We also added to our position in EM local markets, buying Indonesian Government bonds on an unhedged basis.

The US 7s30s yield curve continued to steepen, ending the month at 78bp, helped by expectations of the passage of Trump's "Big Beautiful Bill". Our steepener stance contributed to performance in this environment.

In cross-market relative value (RV) trades, we saw good performance from our long UK Gilt versus German Bund position in June. Our short position to long-dated US treasuries (paired against UK Gilts and Spanish Government bonds) meanwhile detracted as USD duration outperformed within the month.

In currency markets, the US dollar continued to come under downward pressure in June, on a trade weighted basis falling to its lowest levels since early 2022 – which played well into our strategic theme to be short the USD. Early in the month, and having reached our target levels, we booked profits on our short USD/KRW position. With the cross subsequently retracing some of the gains, we elected to re-engage in the position at a better entry level.

Our short USD/BRL and long EUR/USD position also contributed to performance, with the Euro being the strongest performer in the G10 markets versus the US dollar, rising by 3.7% in June. Within the month, we decided to further add to the position, as we see further upside for the EUR to move towards a 1.20 handle.

The geopolitical crisis unfolding in the Middle East pushed the Norwegian Krone higher to the benefit of our long NOK versus SEK position. We booked profits on the move during the height of the crisis. As the cross moved back to our initial entry level following the resolution of the conflict, we decided to re-instigate the position as we believe the near-term cyclical momentum remains more favourable in Norway compared to Sweden.

Elsewhere, we closed our long JPY positions (paired against the THB and GBP) at a small loss, as the tailwinds for risky assets following the constructive US-China trade talks limits the potential for near-term JPY outperformance. We also closed our short PLN/ZAR position at a small cost.

In credit markets, global investment grade (IG) corporate spreads tightened a further 6bp in June, split evenly across EUR and USD corporates. Spread risk remained conservative in allocation, with a modest long via allocations to IG corporates (sector focus on Financials, EUR reverse-yankee bonds, and US regulated utilities), partially hedged via buying protection in credit default swap (CDS). Overall, the credit positioning added value to performance in the month.

Looking ahead, we think that sovereign bond market volatility is likely to remain elevated in the coming months given the evolving macro and policy landscape. There is some uncertainty about the near-term global economic growth and inflation path given US tariff policy and heightened geopolitical risk premium that could place some upside risks to energy prices. In the short term, downside risks remain for the global growth outlook, although much will depend on the evolution of US tariff policy. On the inflation front, the upside risks to the US inflation outlook are more evident in the near-term (given the supply shock on the US economy from tariffs) than in other developed markets. In the US, our highest conviction view remains for a continued steepening of the (7s30s) yield curve given the combination of cyclical and structural forces impacting the US economy.

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