

# 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 September

Market focus in September turned to the US Federal Reserve (Fed) and expectations of a start to the US rate cutting cycle, in line with the policy easing that began in other G10 markets in recent months. In the event, the Fed started its easing cycle with a 50bp cut, lowering the Fed funds target range to 4.75-5.0%. The Fed affirmed market expectations of a front-loaded rate cutting cycle, highlighting greater sensitivity to any weakening in the labour market ahead. Even though the Fed's real gross domestic product (GDP) growth projections for 2024 and 2025 were little changed from the previous meeting, at 2%, projections for the unemployment rate were edged up to 4.4% for both years. In its dot plot projections, the committee signalled two further 25bp rate cuts by year-end. Government bond yield curves continued their steepening trend that began in the summer, with the US7s30s curve ending the month at 47bp – around its highest levels since early 2022. 10-year US Treasury yields ended the month 12bp lower at 3.78%. Risk assets were buoyed by the Fed decision as it raised hopes that the Fed could engineer a soft landing for the economy; the trade weighted US dollar ended the month around year-to-date (YTD) lows, with the AUD, JPY and GBP the best performers versus the USD in the G10 space.

In contrast to the US, the economic woes of the Euro area came back into focus as survey data pointed to an anaemic growth outlook for the region, especially in Germany and France. As expected, the European Central Bank (ECB) cut the

deposit rate by a further 25bp to 3.5% in September, with market pricing increasingly shifting towards further front-loaded rate cuts. The German 5s30s curve ended the month at 51bp – its highest level since mid-2022. German 10-year yields ended the month 18bp lower at 2.12%, while concerns about the stability of the French government and fiscal dynamics saw 10-year French/German spreads re-test the June highs at 80bp. In the UK, the Bank of England (BoE) held rates steady at 5%, as expected, but communicated a more gradual easing path ahead, citing still elevated services inflation. 10-year Gilt yields ended the month 12bp lower at 3.78%.

In Asia, there was a renewed sense of urgency amongst Chinese policymakers as they tried to stem the downside growth risks for the Chinese economy. The Chinese central bank announced a broad package of policy measures to support domestic demand, focussed on the troubled real estate sector and the equity market. 10-year Chinese government bond yields ended the month fractionally higher at 2.21% - although they remain around historic lows.

### Portfolio Review and Strategy

The Fed's decision to front-load its easing cycle with a 50bp rate reduction as well as further scope for ECB cuts drove yield curves steeper in the US and Europe. Throughout the month, we continued to phase out of steepening risk in the strategy by cutting in two clips circa 50% in the US 7s30s risk, as well as closing the DE 10s30s steepening stance. We do remain engaged in the more policy-sensitive 5s30s expression on the German yield curve.

The global move lower in yields over the month helped our moderate long duration stance, with contributions from our exposures in the US, New Zealand and in Norwegian Government bonds where, following the outsized repricing higher in NOK yields after the hawkish guidance by the Norges Bank, we engaged via a tap at the 10-year auction.

Early in the month, we added a new cross-market relative value (RV) trade, buying UK 10-year Gilts against German bunds. We think that the improvement in the UK growth outlook is now sufficiently priced, while inflationary pressures are set to moderate further and the UK fiscal stance risks becoming a drag on growth. Against this backdrop, we think markets are under-pricing the extend of BoE rate cuts in comparison to the ECB and the Fed. The downbeat data from the Eurozone and the continued emphasis on a gradual easing path by the BoE worked against the position in September, but we remain confident in the potential for gilt outperformance in the next 3 to 6 months as valuations remain attractive.

Our active foreign exchange (FX) allocations added value over the month, with our Latam FX exposure in BRL and MXN, as well as our FX RV trade to be long AUD vs NZD contributing. Our short EUR/INR position meanwhile modestly detracted in September as the EUR leg edged higher amid US Dollar weakness in September. In line with our allocation to UK gilts, and consistent with the belief that interest rate markets are insufficiently pricing the potential for BoE rate cuts relative to the ECB and the Fed, we decided to take profit on our tactical short in EUR/GBP which had performed well since inception in August.

In credit markets, global investment grade (IG) corporate spreads tightened -1bp in September, with US corporates outperforming (5bp tighter) their European peers (unchanged) as generally firm US data was contrasted by weak data in Europe. Spread risk (measured by weighted duration times spread (WDTS)) was maintained with a moderate long bias, with a focus on IG corporates (mainly Financials, EUR-credit, and US regulated utilities), as well as a position in Spanish 30y sovereign spreads vs Germany (4bp tighter). The selection preference towards Financials (4bp tighter) benefitted the strategy in September.

Looking ahead, the outlook for sovereign bond returns remains constructive given the current global macro and policy backdrop, although bond market volatility may well be elevated as market attention turns to the US election in November and as Middle-Eastern tension rise. We favour a long interest rate duration stance in several sovereign bond markets (Australia, New Zealand, Norway and the UK) and we continue to have a preference to be positioned for steeper yield curves in the US and Euro area versus a curve flattener expression in Japan. We favour UK Gilts on a relative value, cross-market basis against German Bunds from both a fundamental and valuation perspective. In addition, we favour owning

inflation protection given the reflation risks stemming from the policy easing currently being priced and given renewed upside risks for oil prices.

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