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 February

In February, a deterioration in risk sentiment resulted in a rally in government bond markets following a variety of headlines on: tariffs; the risks facing private credit markets; the sustainability of artificial intelligence capital expenditure (AI capex); and the growing potential of US military strikes on Iran. The sell-off in risk assets, however, contrasted with economic data in the major markets that generally presented a favourable backdrop for economic growth. In the US, survey data suggested that the economy continued to grow around its trend-rate. In addition, the minutes from the latest US Federal Reserve (Fed) meeting indicated that the majority of committee members judged that the US labour market was showing signs of stabilisation, underscoring the Fed's desire to remain in wait-and-see mode over the near-term as it seeks further evidence to build a more compelling case for additional policy easing. Meanwhile, the US Supreme Court struck down the US administration's ability to use emergency powers to implement its tariff policy, forcing the administration to shift to alternative avenues to implement its tariff policies; this uncertainty further weighed on risk sentiment. Against this macro and policy backdrop, short term interest rate markets are still pricing around a further two US rate cuts this year. 10-year US Treasury yields ended the month at 3.94% (down 30bp), while the US7s30s yield curve steepened by 4bp to end at 90bp. In the Euro area, survey data showed that there were signs of improving cyclical growth momentum in the core Euro economies. With core Euro consumer price index (CPI) inflation also sitting around the European Central Bank (ECB)'s 2%

target, it re-enforces the ECB's messaging that policy is in "a good place"; 10-year German bund yields ended the month at 2.64% (down 20bp). In the UK, the Bank of England left policy rates unchanged at 3.75%, but it was a closer than expected vote within the committee, while policy guidance was also dovish; 10-year Gilt yields ended the month at 4.23% (down 29bp). In Japan, the ruling Liberal Democratic Party (LDP) coalition achieved a landslide victory in the snap lower house elections. Although there are concerns about the potential path of the new administration's spending plans, 10-year Japanese Government Bond (JGB) yields ended the month at 2.11% (13bp lower); the 10s30s yield curve flattened by 17bp to end the month at 119bp. It was a better month for the US dollar, which rallied versus a majority of G10 currencies during the month; the GBP, SEK and JPY were the worst performing currencies, while the AUD, NOK and CHF outperformed the USD.

Portfolio Review and Strategy

The move lower in rates drove strong performance contributions from our US duration exposure in February. Our allocation to select emerging market (EM) local markets (Peru and Brazil), however, marginally detracted from performance over the month.

In active curve exposure, our US steepening expressions (2s30s and 7s30s) had a broadly neutral impact, with the 7s30s steepening, while 2s30s flattened. In Japan, our 10s30s JGB flattener added to performance as the JGB curve reversed some of the aggressive steepening seen ahead of the general election.

Over the month, we engaged in a tactical long in Australian rates vs German Bunds as we see risks that the market is under-pricing Euro area growth upside risks, while we think that Australian rates have sufficiently priced inflation risks in that market.

In currency markets, our short USD basket yielded moderately positive returns in February driven by a long in the Norwegian Krone. We decided to add to the short USD theme by increasing our short USD/JPY position following the strong electoral mandate for the Takaichi government in Japan. The outperformance of NOK on the back of rising energy prices and strong inflation data further benefited portfolios through our tactical longs against SEK and CAD. We reduced the exposure at the end of the month by booking partial profit on our long NOK/SEK trade.

In credit sectors, global investment grade corporate spreads widened 10bp in February, with slight underperformance from USD (+11bp) over EUR (+9bp) corporates. The strategy retained a moderate overall credit allocation via allocations to investment grade (IG) corporates (sector focus on senior financials and utilities versus cyclical industrials). Within European sovereigns, we favour Spain and Italy over Germany and France.

Looking ahead, at the time of writing, the risks of a prolonged US-Iran conflict cannot be discounted and presents a challenging backdrop for risk sentiment. Looking further ahead, however, recent events in the Middle East do not materially alter our assessment for the 2026 macro and market outlook. We think global economic growth is likely to remain supported by the pro-growth monetary and fiscal policy setting in the major economies - the US, China and Euro area. In the US, we expect at least trend-like economic growth given an easy fiscal and monetary policy stance and favourable financial conditions. We expect longer-dated US Treasuries to underperform given: the monetary policy outlook; lingering medium-term inflation and fiscal concerns; and persistent fears about the erosion of Federal Reserve independence. We expect some differentiation in monetary policy cycles globally that results in greater variation across sovereign yield curves, while relative monetary policy outlooks and imbalances in the US economy are still a headwind for the US dollar through 2026.

All data are sourced from Bloomberg and Allianz Global Investors as of 28 February 2026 unless otherwise stated.
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Investing in fixed income instruments (if applicable) may expose investors to various risks, including but not limited to creditworthiness, interest rate, liquidity and restricted flexibility risks. Changes to the economic environment and market conditions may affect these risks, resulting in an adverse effect to the value of the investment. During periods of rising nominal interest rates, the values of fixed income instruments (including short positions with respect to fixed income instruments) are generally expected to decline. Conversely, during periods of declining interest rates, the values are generally expected to rise. Liquidity risk may possibly delay or prevent account withdrawals or redemptions.
Investment involves risks, in particular, risks associated with investment in emerging and less developed markets. Past performance is not indicative of future performance. Investors should read the offering documents for further details, including the risk factors, before investing. This material and website have not been reviewed by the Securities and Futures Commission of Hong Kong. Issued by Allianz Global Investors Asia Pacific Limited.
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