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 August

In August, market price action in sovereign fixed income markets reflected oscillating expectations about near term US Federal Reserve (Fed) policy, along with growing concerns about an erosion of Fed independence. Ahead of the US jobs report in early August, short term interest rate markets were pricing barely one rate cut by the end of this year. However, a weaker than expected jobs report resulted in a re-pricing of US rate cut expectations, with a September rate cut back on the table and a further rate cut priced by year-end . Over the course of the month, the activity data suggested a US economy growing around a sub-trend rate, with inflation concerns still presenting a challenging backdrop for the Fed policy stance. Nonetheless, at the annual Jackson Hole gathering of central bankers, Fed Chair Powell signalled a shift towards a dovish policy stance heading into the September Fed policy meeting. 2-year US Treasury yields ended the month at 3.62% - their lowest levels since early May. The future of the Fed's independence was also increasingly questioned by markets as President Trump signalled his desire to remove a member of the Fed board of governors, throwing into doubt the Fed's ability to conduct monetary policy in the future without political interference. US yield curves steepened as a consequence; the US 7s30s curve ended the month at 100bp – its highest level since mid-2021. 10-year US Treasury yields ended the month 15bp lower at 4.23%, although US inflation expectations did drift higher, with the 5-year US break-even inflation rate ending the month at 2.52% (4bp higher). In the Euro area, less pessimism on the European growth outlook saw 10-year Bund yields ending the month at 2.72% (up 3bp). However, on the political front, the French Prime Minister unexpectedly called a confidence vote in the government for early September, underscoring the fiscal pressures facing the French government; the 10-year French/German bond spread spiked above 80bp towards month end – its highest levels since January 2025 – before ending the month at 79bp. In currency markets, the US dollar ended the month lower versus other G12 currencies, with the SEK, NOK and JPY the best performers versus the USD over the month.

Portfolio Review and Strategy

10-year US Treasury yields ended the month 15bp lower, unwinding the July sell-off, while the US yield curve resumed its steepening amid increasing questions about Fed independence. This market environment benefited our rates positioning and strongly added to performance in August, with decent contributions from our long duration basket and very strong performance of our US 7s30s steepener stance. Respecting the strong steepening observed in August, we decided to take partial profits on about one third of the curve position. We continue to see potential for further momentum in curve steepeners and we maintain a sizable allocation. Within the long duration basket, we opted to take profit on our long South African and Indonesian local rates positions in August following a strong rally in the respective bond markets. Meanwhile, we added a long 10-year Italy position as the bonds looked relatively attractive due to improving fundamentals, attractive valuations and favourable cyclical dynamics, particularly on the inflation side.

As US Treasuries across the curve outperformed in August, our relative value positions to be short ultra-long US Treasuries (paired against Spain and UK) detracted, while our tactical long 10-year USTs vs Korean Treasury Bonds contributed positively. During the month, we decided to add to our long exposure in 30-year Spanish Government bonds against US Treasuries as we continue to believe that the cyclical and structural dynamics for the Spanish economy remain relatively more constructive versus other developed markets.

In currency markets, the US dollar retraced from the July highs following the US jobs report, with the trade-weighted USD 2.2% lower in August. This benefited our strategic short USD theme which contributed positively to performance, notably via the long EUR expression which saw good performance in August after a more challenging July.

Towards the end of the month, we added to our short GBP theme against a long in the Norwegian Krone given the more favourable cyclical momentum in Norway compared to the UK. This follows a profit take on our long CAD vs GBP trade earlier in the month. These trades proved well timed and added to performance in August as GBP quickly depreciated towards the end of the month.

Elsewhere, we implemented a new relative value trade to be long NZD vs SEK, expecting a quicker recovery from sluggish growth rates in New Zealand compared to Sweden. The trade detracted in August as the RBNZ surprised with a dovish outlook challenging the NZD.

In credit markets, global investment grade corporate spreads modestly widened in August by 2bp, with EUR (+5bp) corporates underperforming their US counterparts (+2bp). Over the month, we elected to take some risk off the table and reduce our position in IG corporates, respecting the recent tightening in spreads.

Looking ahead, the macroeconomic environment of sub-trend global growth and heightened uncertainty about the inflation path, especially in the US, will continue to present a challenging backdrop for policymakers. 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. In comparison to the US, we expect greater fiscal orthodoxy in the peripheral Euro area markets and the UK, which underscores our relative-value positions that favour US underperformance versus Spain and the UK.

We maintain a structurally bearish view on the US dollar given ongoing concerns about large US twin deficits (fiscal + current account), potential worries about institutional credibility (such as those related to a more politicized Federal

Reserve ahead), and the potential for currency re-alignment in those markets that run large bilateral trade and current account surpluses versus the US.

In investment grade (IG) credit, fundamentals and technicals remain supportive, but with global IG corporate spreads continuing to tighten, we elected to take some risk off the table during August.

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