Allianz Global Investors

Allianz Income and Growth

Monthly commentary

- The Fund aims at long-term capital growth and income by investing in US and/or Canadian corporate debt securities and equities.
- The Fund is exposed to significant risks of investment/general market, company-specific, creditworthiness/credit rating/downgrading, default, valuation, asset allocation, country and region, emerging market, interest rate, currency (such as exchange controls, in particular RMB), and the adverse impact on RMB share classes due to currency depreciation. The Fund's investments focus on US and Canada which may increase concentration risk.
- The Fund may invest in high-yield (non-investment grade and unrated) investments and convertible bonds 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 adversely impact the net asset value of the Fund. Convertibles may also expose to risks such as prepayment, equity movement and greater volatility than straight bond investments.
- 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.

What Happened in November

Risk assets advanced in November, with equities, convertibles, and high yield bonds finishing higher for the period. US election results and an anticipated pro-growth agenda under the new administration were the primary drivers of market gains. In addition, the US Federal Reserve (Fed) cut interest rates by 25 basis points, boosting investor sentiment further. Lastly, the third quarter earnings season ended on a strong note with both top- and bottom-line results tracking to exceed consensus estimates. On the economic front, inflation gauges were generally in-line with expectations, the services sector's expansion improved, jobless claims remained low, and retail sales beat consensus. In contrast, housing market statistics were mixed, and consumer sentiment and monthly payrolls declined relative to the prior period.

Equity and Option Market Environment

The S&P 500 Index returned +5.87% for the month.*

All sectors gained in November. Consumer discretionary, financials, and industrials were the top-performing sectors, while healthcare, materials, and communication services were the bottom-performing sectors in the period.

Equity volatility was lower month to month with the VIX finishing at 13.51.*

Convertible Market Environment

The ICE BofA US Convertible Index returned +6.77% for the month.^

Sector gains were broad with industrials, technology, and energy outperforming, while telecoms, healthcare, and utilities underperformed.

Below-investment grade issues outperformed investment grade issues. Equity sensitive issues outperformed total return (balanced) and yield-oriented (busted) issues.

New issuance saw 15 issues priced, raising USD 9.6 billion in proceeds. ^

High-Yield Bond Market Environment

The ICE BofA US High Yield Index returned +1.15% for the month.^ BB, B, and CCC rated bonds returned +1.05%, +1.11%, and +1.63%, respectively.^

Spreads narrowed to 274bp from 288bp, the average bond price rose to 96.40, and the market's yield fell to 7.38%.^

All industries advanced with cable, telecoms, and energy outperforming, while technology, utilities, and packaging/paper underperformed.

Trailing 12-month default rates finished the period at 1.14% (par) and 0.91% (issues). **

New issuance saw 20 issues priced, raising USD 10.4 billion in proceeds. **

Portfolio Review

The portfolio was positively impacted by strength across risk assets.

Top contributors in the period were led by an electric vehicle manufacturer, as well as a software company with bitcoin exposure. Companies capitalizing on secular trends around artificial intelligence and cloud migration – were also notable contributors. A major US bank and financial exchange company moved higher on election outcome optimism. Holdings in asset management and data services also advanced on better-than-expected earnings results.

Top detractors in the period included several pharmaceutical holdings that declined on the potential for increased regulatory scrutiny. A big-box retailer and a healthcare diagnostics company sold off after providing cautious guidance. An ecommerce company fell on tariff-related concerns, and a residential solar provider was lower on fears tax credits may be repealed. Multiple technology holdings, including a semiconductor company with exposure to industrial and automotive end markets, also detracted from performance.

Most option positions expired below strike and the portfolio was able to retain the set premiums.

Exposure increased the most in industrials, materials, and real estate, and decreased the most in technology, health care, and consumer discretionary. Covered call option positioning decreased month over month.

Outlook and Strategy

The easing cycle has begun, with the Fed cutting interest rates by 75 basis points through November as inflation and the labor market continue to normalize.

Apart from an accommodative shift in monetary policy, potential economic tailwinds include pro-growth policies under the Trump administration, steady consumption, continued fiscal spending, the proliferation of artificial intelligence, and improving productivity, among others. Risk to the economy may increase if these trends weaken. Other potential headwinds include new tariffs, more restrictive immigration policies, geopolitical tensions, prolonged labor market softening, continued manufacturing contraction, and slower growth outside the US.

US equity markets could benefit from Trump's pro-growth policies should they have a notable impact on future earnings. Continued Fed easing and economic expansion, secular growth drivers, such as artificial intelligence, and accelerating earnings growth or an earnings inflection from more companies are also catalysts. If economic growth or earnings growth fall short of expectations, the equity market could be challenged.

US convertible securities have an attractive asymmetric return profile, providing upside participation potential when stock prices rise and downside mitigation when stock prices fall. Higher debt financing costs have drawn issuers to the convertible market for coupon savings, resulting in accelerated new issuance at favorable terms and an expanded investment opportunity set with the desired risk/reward characteristics. While a change in market leadership is not certain, a sustained broadening of the equity market could be a positive development for the asset class.

The US high-yield market, yielding over 7%[1], offers the potential for equity-like returns but with less volatility. The market's attractive total return potential is a function of its discount to face value and higher coupon, which also serves to cushion downside volatility. Credit fundamentals are stable, near-term refinancing obligations remain low, and management teams continue to prioritize debt reduction. Given these factors, the default rate has been below the long-term average with expectations for it to trend toward the historical average in 2025. Regarding credits spreads, they can stay tight for many years. This was the case in the mid-1990s and 2000s – periods like today when high-yield balance sheets were healthy and defaults were low, the economy was stable, and interest rates were elevated.

A covered call options strategy can be utilised to generate premium income. In periods of elevated or rising equity volatility, premiums collected may translate into more attractive annualised yields.

Collectively, these three asset classes can provide a steady source of income and a compelling "participate and protect " return profile.

The Income and Growth strategy is a client solution designed aim to provide high monthly potential income, the potential for capital appreciation, less volatility than an equity-only fund.

Source: Allianz Global Investors dated 30 November 2024 unless otherwise stated.

*Source: FactSet, as at 30 November 2024.

^Source: BofA Merrill Lynch, as at 30 November 2024.

**Source: J.P. Morgan, as at 30 November 2024.

[1] Source: ICE Data Services; data as at 30 November 2024.

Allianz Global Investors and Voya Investment Management (Voya IM) have entered into a long-term strategic partnership, and as such, as of 25 July 2022, the investment team transferred to Voya IM and Voya IM became the delegated manager for this fund. AllianzGI continues to provide information and services to Voya IM for this investment through a transitional service agreement.