

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 March

Equity, convertible, and high yield markets advanced in March. With the fourth-quarter earnings season winding down, investors focused on economic data and monetary policy. The labor market remained healthy, the services sector stayed in expansionary territory, and consumer sentiment increased. In contrast, the manufacturing sector contracted, and some inflation measures were higher than anticipated. The US Federal Reserve (Fed) kept rates unchanged at March's Federal Open Market Committee (FOMC) meeting with Chair Powell suggesting policy easing "at some point this year".

Equity and Option Market Environment

The S&P 500 Index returned +3.22% for the month, marking the fifth consecutive month of gains.*

The market broadened with all 11 sectors finishing higher. Energy was the best performing sector, followed by utilities and materials. Consumer discretionary was the worst performer, followed by real estate and information technology.

Equity volatility was lower month to month, finishing below 13.01.*

Convertible Market Environment

The ICE BofA US Convertible Index returned +2.32% for the month. ^

Convertible securities were positively impacted by rising stock prices and credit spread tightening.

Most sectors finished higher with energy, consumer discretionary, and industrials outperforming, while materials, transportation, and telecom underperformed.

Below-investment grade issues outperformed investment grade issues. Total return issues outperformed yield alternative and equity sensitive issues.

New issuance increased month over month with 17 issues priced, raising USD 10.4 billion in proceeds. ^ March's monthly volume was the largest in three years. ^

High-Yield Bond Market Environment

The ICE BofA US High Yield Index returned +1.19% for the month. ^ BB, B, and CCC rated bonds returned +1.26%, +1.04%, and +1.26%, respectively. ^

Spreads narrowed to 315bp from 329bp, the average bond price rose to 93.18, and the market's yield fell to 7.90%. ^

Nearly all industries finished higher. Auto, real estate, and retail outperformed whereas cable, packaging/paper, and telecom underperformed.

Trailing 12-month default rates remained low at 2.59% on a dollar-weighted basis and 2.46% on an issuer-weighted basis. **

New issuance decreased month over month with 40 issues priced, raising USD 28.3 billion in proceeds. **

Portfolio Review

The portfolio was positively impacted by strength across risk assets.

Top contributors were led by semiconductor holdings, including a company which unveiled a new AI processor, and a memory chip manufacturer that reported a beat-and-raise quarter. Another two semiconductors holdings, one of them gained on potential spin-off benefits, and another company was higher on AI licensing agreement headlines. A major US bank and an insurance company advanced on margin improvement optimism. An energy producer was higher alongside crude oil and a clean energy company traded up on power consumption forecasts. Other contributors included a financial exchange and delivery services provider.

Top detractors were led by companies navigating slower end markets for electric vehicles, consumer electronics, and footwear & apparel. Multiple software positions underperformed on sales growth fears and production outlook concerns weighed on an airframe manufacturer. A railroad operator also underperformed.

Exposure increased the most in industrials, financials, and consumer staples, and decreased the most in consumer discretionary, information technology, and materials. Covered call option positioning increased month over month.

Outlook and Strategy

2023's economic momentum should carry over into 2024. Economic tailwinds include low unemployment, steady consumption, government spending, waning inflation, an improving manufacturing sector, an end to the rate hike cycle, and inflecting earnings. Economic headwinds include continued restrictive monetary policy and quantitative tightening, less savings, and US/international political risks, among others.

US equity valuations reside near long-term averages. Visibility around 2024 and 2025 earnings, US dollar and Treasury market stabilization, and an end to the rate hike cycle could be positive developments for stocks. Any equity market volatility will present opportunities for active managers to take advantage of better prices in attractive investments.

US convertible securities should continue to provide benefits to investors, including an attractive asymmetric return profile and potentially lower volatility relative to the equity market. The shift in the universe's composition exiting 2022 remains largely unchanged heading into 2024. Many securities offer higher current yields and exhibit defensive characteristics given lower deltas and closer proximities to bond floors. This dynamic may allow for greater downside protection if equity volatility rises. If the prices of underlying stocks advance, convertible securities could be positioned to participate in the upside. Lastly, higher straight debt financing costs should draw issuers to the convertible market for coupon savings. As a result, new issuance, estimated to reach USD60-80 billion in 2024 (per strategists), is expected to increase year over year.

The US high yield market, currently yielding nearly 8%, offers the potential for equity-like returns but with less volatility. Credit fundamentals are stable, near-term refinancing obligations remain low, and management teams continue to prioritize debt reduction. Given these factors, defaults should remain well below historical cycle peaks. The market's attractive total return potential is a function of its deep discount to face value and increased coupon, which also serves to cushion downside volatility. Notably, after recording an annual decline, the high-yield market has historically delivered two consecutive years of positive returns in six of seven cases¹, and forward 12- and 24-month return projections based on the current market yield have been consistent with mid to high single digits².

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.

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Source: Allianz Global Investors dated 31 March 2024 unless otherwise stated.

*Source: FactSet, as at 31 March 2024.

^Source: BofA Merrill Lynch, as at 31 March 2024.

**Source: J.P. Morgan, as at 31 March 2024.

¹Source: ICE Data Services; data as of December 2022

²Source: JP Morgan; data as of October 2022

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.

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