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 May

Equities, convertible securities, and high-yield bonds finished higher for the month. Corporate earnings results in May remained strong with the S&P 500 Index on pace to deliver its highest quarterly earnings growth and surprise percentage since 2021. On the economic front, unemployment declined and the manufacturing sector continued to expand, while inflation rose and personal savings, income, and consumption fell. There was no Federal Open Market Committee (FOMC) meeting in May, but Kevin Warsh was officially sworn in as the next Chairman of the Federal Reserve. Against this backdrop, the 10-year US Treasury yield and crude oil settled well below intra-month highs on lower odds of reescalation in the Middle East.

Equity and Option Market Environment

The S&P 500 Index returned +5.26% for the month, with major US stock market indices reaching fresh all-time highs.*

Technology, consumer discretionary, and healthcare were the top-performing sectors in the period, while energy, utilities, and consumer staples were the bottom-performing sectors.

Equity volatility was lower month to month at 15.32.*

Convertible Market Environment

The ICE BofA US Convertible Index returned +6.10% for the month.^

Sector performance was mixed with technology, telecoms, and industrials outperforming, while materials, consumer staples, and energy underperformed.

Monthly new issuance saw 22 issues priced, raising USD19.6 billion in proceeds.^

High-Yield Bond Market Environment:

The ICE BofA US High Yield Index returned +0.49% for the month.^ BB, B, and CCC rated bonds returned +0.53%, +0.69%, and -0.48%, respectively.^

Spreads narrowed to 274bp from 283bp, the average bond price was flat at 97.32, and the market's yield rose modestly to 7.35%.^

Most industries finished higher with technology, packaging/paper, and services outperforming, while cable, transportation, and retail underperformed.

Trailing 12-month default rates finished the period at 2.02% (par) and 1.64% (issues). **

Monthly new issuance saw 40 issues priced, raising USD27.0 billion in proceeds. **

Portfolio Review

The portfolio was positively impacted by strength across equities, convertible securities, and high-yield bonds.

Top contributors were primarily linked to optimism around the artificial intelligence buildout, reinforced by strong earnings reports that reflected significant demand for compute and managements reaffirming or raising capital expenditure guidance. Beneficiaries comprised several semiconductor companies, such as Micron* and Nvidia*, data storage providers including Western Digital* and Seagate*, multiple hyperscalers led by Microsoft*, and infrastructure plays tied to cloud computing. Apple* also contributed on the back of a strong earnings report, a strategic chip partnership announcement, and AI strategy rollout.

Top detractors were several energy companies, including a utility operator that declined on merger and acquisition (M&A) headlines and an exploration & production company that missed earnings expectations. A big-box retailer was lower on margin concerns, an industrial services provider offered underwhelming guidance, and Alphabet* consolidated April gains. A rare earth miner indicated potential adverse impacts from a plant closure despite strong quarterly results, and a tech hardware manufacturer faced supply constraints. The other top detractors were a healthcare REIT and a power generation company.

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

Exposure increased the most in energy, communication services, and industrials, and decreased the most in healthcare, technology, and consumer discretionary. Covered call option positioning increased month over month.

Outlook and Strategy

The outlook for 2026 remains unchanged. Conflict headwinds may offset some of the artificial intelligence (AI) proliferation, reindustrialisation, and fiscal and monetary policy tailwinds. On the other hand, first quarter results are surpassing expectations, management outlooks are constructive, earnings estimates continue to trend higher, and multiple datapoints indicate sustained economic growth.

Going forward, corporate investment, consumer spending (helped by tax cuts/refunds), less regulation, energy and defence spending, and credit expansion could support gross domestic product (GDP) growth. Conversely, a prolonged conflict in the Middle East lengthens the recovery period, pushing out eventual stability in commodity markets, supply chains, and geopolitics. The investment team continues to closely monitor the situation including the potential effects of higher energy prices on consumption, margins, sales, inflation, government debt yields, monetary policy, and capital expenditure plans.

2026 earnings estimates are trending higher driven by better-than-expected results, AI spend, earnings breadth expansion, productivity gains, durable margins, cost controls, and energy sector strength. Earnings breadth expansion could lead to a sustained broadening out of market leadership. Headwinds include risks cited above and rising operating expenses, among others, with the view that shifts in the use of free cash flow have trade-offs.

Return expectations for 2026 also remain unchanged. Convertible securities could outperform equities again and high yield bonds could deliver another year of coupon-like returns. Given their defensive characteristics, convertible securities and high yield bonds can mitigate market volatility better than equities, which historically average a mid-teens intra-year decline even in annual periods of positive returns.

US convertible securities have an attractive asymmetric return profile, providing upside participation potential when stock prices rise and downside mitigation when stock prices fall. The asset class could outperform the broad equity market again in 2026, helped by solid earnings growth, expanding market breadth, stable credit spreads, and robust new issuance. After a record year of new issuance in 2025, primary market activity likely slows in 2026 but remains elevated around USD 75-80 billion.[#] Aside from diversification benefits, new issuance expands the opportunity set of investments with attractive terms and the desired risk/reward characteristics.

The US high-yield market, yielding more than 7%[^^], offers equity-like returns but with less volatility. Currently, the asset class is expected to deliver another year of coupon-like returns in 2026. 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 exercise balance sheet discipline. Additionally, the market's credit quality composition has improved. In this environment, new issuance is expected to remain steady, spreads can stay tight, and the default rate should continue to reside below the historical average.

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 to provide high monthly potential income, the potential for capital appreciation, less volatility than an equity-only fun.

Connect with Us | hk.allianzgi.com | +852 2238 8000 | Search more Allianz Global Investors

Like us on Facebook 安聯投資 – 香港

Connect on LinkedIn Allianz Global Investors

Subscribe to YouTube channel 安聯投資

Source: Allianz Global Investors dated 31 May 2026 unless otherwise stated.
*Source: FactSet, as at 31 May 2026
^Source: BofA, as at 31 May 2026
**Source: J.P. Morgan, as at 31 May 2026
^^ Source: ICE Data Services, as at 31 May 2026
# Source: BofA Research, as at 31 May 2026

Allianz Global Investors and Voya Investment Management entered into a long-term strategic partnership on 25 July 2022, upon which the investment team transferred to Voya Investment Management. This did not materially change the composition of the team, the investment philosophy nor the investment process. Management Company: Allianz Global Investors GmbH. Delegated Manager: Voya Investment Management Co. LLC ("Voya IM").

MACS-W-ADM@N/A-P-20445679
ADM-W5575012