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 December

Equity and high yield markets finished higher in December, while convertible securities finished lower. The US Federal Reserve (Fed) cut its benchmark interest rate by 25 basis points to a range of 3.50-3.75%, while also updating its summary of economic projections for 2026 to show just one interest rate cut alongside higher real gross domestic product (GDP) growth. The resumption of economic data following the end of the government shutdown was mixed; labor market indicators softened, while consumer spending and inflation metrics were stable. Against this backdrop, the 10-year US Treasury yield rose to 4.17% over the period.

Equity and Option Market Environment

The S&P 500 Index returned +0.06% for the month, bringing full-year performance to +17.88%.*

Financials, materials, and industrials were the top-performing sectors in the period, while utilities, real estate, and consumer staples were the bottom-performing sectors.

Equity volatility was lower month to month at 14.95.*

Convertible Market Environment

The ICE BofA US Convertible Index returned -0.42% for the month, bringing full-year performance to +17.98%.^

Sector performance was mixed with industrials, telecoms, and transportation outperforming, while materials, utilities, and energy underperformed.

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

Monthly new issuance saw 13 issues priced, raising USD 11.4 billion in proceeds, bringing the full-year total to a record USD 118.8 billion.^

High-Yield Bond Market Environment:

The ICE BofA US High Yield Index returned +0.65% for the month, bringing full-year performance to +8.50%.^
BB, B, and CCC rated bonds returned +0.47%, +0.90%, and +0.84%, respectively.^

Spreads narrowed to 281bp from 292bp, the average bond price rose to 98.06, and the market's yield fell to 7.08%.^

Industry performance was mostly higher with gaming, cable, and autos outperforming, while media, retail, and services underperformed.

Trailing 12-month default rates finished the period at 1.88% (par) and 1.40% (issues). **

Monthly new issuance saw 27 issues priced, raising USD 21.8 billion in proceeds, bringing the full-year total to USD 332.0 billion. **

Portfolio Review

Top contributors in December were led by Nvidia*, which rallied on reports that the US government would allow chip sales in China. A networking company was higher following management commentary around strong demand trends, while another semiconductor manufacturer gained on a significant beat-and-raise quarter. A multinational bank indicated robust underwriting revenues for next year, an electric vehicle maker outlined its autonomous vehicle strategy and unveiled custom chips, and a mining company moved higher alongside the rally in precious metals. The other top contributors were an airframe manufacturer, a travel agency, and a satellite internet provider.

Top detractors in the period comprised a number of companies that declined on broader scrutiny around the artificial intelligence theme, including semiconductor companies such as Broadcom, hyperscalers like Microsoft* and Alphabet*, and several infrastructure operators. Welltower* moved lower despite an unchanged positive fundamental outlook for its senior housing business. Apple* fell following an executive departure alongside related reports that the company is planning on completely revamping its artificial intelligence team. A pharmaceutical and biotech distributor consolidated strong year-to-date gains in the month.

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

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

Outlook and Strategy

2026 US economic growth could surpass that of 2025. Potential tailwinds include stimulus from the OBBBA (tax cuts/refunds and capital spending acceleration), foreign direct investment from overseas, continued monetary policy easing (including the recently announced asset purchase program), and steady consumption. Reshoring activity, less regulation, expanding credit, and a rebound in consumer and business confidence are also potential drivers. Improvements in the housing and/or manufacturing sectors could aid growth as well. Key economic risks include heightened geopolitical tensions and elevated fiscal deficits globally. Additionally, if unemployment and/or inflation rise sharply, the odds of an economic slowdown increase.

In an environment where changes in the labor market and prices are more muted, the Federal Reserve can continue to target a neutral policy position. Currently, market odds suggest additional interest rate cuts to a range of 3.00-3.25% – a level that is consistent with the Fed's median, longer run projection of 3%.

Accelerating year-over-year earnings growth is expected to be the primary driver of equity market strength in 2026. Aside from the proliferation of AI, earnings tailwinds include productivity gains, low oil prices, corporate buybacks, cost cutting initiatives, and lower interest rates. Expanding earnings breadth could lead to a further broadening out of gains as an increasing number of companies assume market leadership. Earnings headwinds could include rising operating expenses as well as the impact of tariffs.

Against this economic and earnings backdrop, 2026 could be a favorable year for risk assets. 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%[1], 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.

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Source: Allianz Global Investors dated 31 December 2025 unless otherwise stated.

*Source: FactSet, as at 31 December 2025.

^Source: BofA Merrill Lynch, as at 31 December 2025 .

**Source: J.P. Morgan, as at 31 December 2025.

[1] Source: ICE Data Services; data as at 31 December 2025.

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").

[#]The information above is provided for the purpose to demonstrate the Fund's investment strategy only, it should not be considered a recommendation nor investment advice to buy or sell any shares of securities. There is no assurance that any securities discussed herein will remain in the Fund at the time you receive this document.

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