

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 February

Markets were mixed in February, as high yield bonds closed higher while equities and convertible securities finished lower. Fourth quarter earnings momentum persisted, with approximately three-quarters of companies topping bottom-line consensus estimates, while corporate guidance remained mixed as managements await clarity around the new administration's policies. Except for a key manufacturing survey and unemployment, both of which were better than expected, economic data generally underwhelmed. Services, retail sales, consumer confidence, and select inflation measures missed estimates. Against this backdrop, the 10-year US Treasury yield fell sharply.

Equity and Option Market Environment

The S&P 500 Index returned -1.30% for the month.*

Sector performance was mixed in February. Consumer staples, real estate, and energy were the top-performing sectors, while consumer discretionary, communication services, and industrials were the bottom-performing sectors in the period.

Equity volatility was higher month to month with the VIX finishing at 19.63.*

Convertible Market Environment

The ICE BofA US Convertible Index returned -1.99% for the month.[^]

Sector performance skewed negative in February. Telecommunications, utilities, and media outperformed, whereas consumer staples, technology, and industrials underperformed.

Investment grade issues outperformed below-investment grade issues. Yield-oriented (busted) issues outperformed total return (balanced) and equity sensitive issues.

Monthly new issuance saw 8 issues priced, raising USD 5.3 billion in proceeds.[^]

High-Yield Bond Market Environment

The ICE BofA US High Yield Index returned +0.65% for the month.[^] BB, B, and CCC rated bonds returned +0.72%, +0.61%, and +0.46%, respectively.[^]

Spreads widened to 287bp from 268bp, the average bond price rose modestly to 96.52, and the market's yield fell to 7.39%.[^]

Industry performance was broadly higher with food producers, health care, and utilities outperforming, while autos, retail, and chemicals underperformed.

Trailing 12-month default rates finished the period at 1.25% (par) and 0.68% (issues).^{**}

Monthly new issuance saw 26 issues priced, raising USD 18.7 billion in proceeds.^{**}

Portfolio Review

The portfolio moved lower in the month as equity and convertible holdings offset strength in high yield bonds.

Top contributors included Nvidia* which reported a strong beat-and-raise quarter. Apple* and an ecommerce conglomerate gained after announcing a strategic partnership. Welltower* advanced after boosting 2025 guidance, and several pharmaceutical companies gained on strong long-term demand prospects. Mastercard* rallied after reporting strength across core and secondary businesses, and a utility operator was higher on execution optimism of its long-term capital plan. The other top contributors were a cellular provider and a consulting company.

Top detractors included Alphabet* and Microsoft*, both of which were impacted by weaker-than-expected cloud growth, as well as Amazon* on cautious guidance. Delivery and margin concerns weighed on an electric vehicle manufacturer, and a semiconductor company consolidated strong 2024 gains. An alternative asset manager fell after forecasting near-term insurance business headwinds. The other top detractors were a healthcare provider on legal scrutiny, a software company with bitcoin exposure, and a fintech holding that missed expectations.

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

Exposure increased the most in health care, materials, and technology, and decreased the most in communication services, financials, and energy. Covered call option positioning increased month over month.

Outlook and Strategy

Macro factors, including newly implemented tariffs and government efficiency initiatives, could weigh on consumer spending and delay corporate investment in the near term as households and companies await clarity around current and future policies. A growth slowdown would not be unexpected if these headwinds materialise. The recent increase in equity volatility likely reflects the possibility of downward revisions to short-term earnings growth estimates.

The US economy should continue to expand in 2025, supported by earnings growth, further Fed easing as inflation and the labor market continue to normalise, and the new administration's pro-US growth policies.

Apart from these factors, steady consumer spending, ongoing services sector expansion, continued fiscal spending, and improving productivity aided by the proliferation of artificial intelligence are growth tailwinds. Risk to the economy may increase if these trends weaken. Other considerations include tariff and immigration policies, geopolitical tensions, prolonged labor market softening, continued manufacturing contraction, and economic weakness outside of the US.

Against this backdrop, low- to high-single-digit returns in 2025 are possible for large-cap equities, convertible securities, and high-yield bonds. The equity market's path will not be linear, with bouts of volatility probable throughout the year. Given their defensive characteristics, high-yield bonds and convertible securities can mitigate market volatility better than equities.

The equity market could benefit from continued economic growth and accelerating or inflecting earnings from more companies. Secular growth themes, such as artificial intelligence, lower taxes, increased mergers and acquisitions (M&A) activity, deregulation, productivity gains, and share buybacks are also catalysts. If either economic growth or earnings growth fall short of expectations, the equity market could be challenged. Valuations will continue to be debated.

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 may outperform the broad equity market if leadership broadens, and new issuance remains steady. USD 60-65 billion of new issuance is expected in 2025 due to coupon savings demand, elevated refinancing needs, and a positive outlook for price appreciation among small- and mid-cap companies. 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 over 7%¹, is expected to deliver a coupon-like return in 2025 with upside possible. As a result, the asset class continues to offer 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 exercise balance sheet discipline. Increased M&A activity and deregulation could also have a positive market impact. In this environment, new issuance is expected to remain elevated, the default rate should stay below the historical average of 3-4%, and spreads can remain tight.

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.

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 28 February 2025 unless otherwise stated.

*Source: FactSet, as at 28 February 2025.

^Source: BofA Merrill Lynch, as at 28 February 2025.

**Source: J.P. Morgan, as at 28 February 2025.

¹ Source: ICE Data Services; data as at 28 February 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.

Information herein is based on sources we believe to be accurate and reliable as at the date it was made. We reserve the right to revise any information herein at any time without notice. No offer or solicitation to buy or sell securities and no investment advice or recommendation is made herein. In making investment decisions, investors should not rely solely on this material but should seek independent professional advice.

Investing in fixed income instruments (if applicable) may expose investors to various risks, including but not limited to creditworthiness, interest rate, liquidity and restricted flexibility risks. Changes to the economic environment and market conditions may affect these risks, resulting in an adverse effect to the value of the investment. During periods of rising nominal interest rates, the values of fixed income instruments (including short positions with respect to fixed income instruments) are generally expected to decline. Conversely, during periods of declining interest rates, the values are generally expected to rise. Liquidity risk may possibly delay or prevent account withdrawals or redemptions.

Investment involves risks, in particular, risks associated with investment in emerging and less developed markets. Past performance is not indicative of future performance. Investors should read the offering documents for further details, including the risk factors, before investing. This material and website have not been reviewed by the Securities and Futures Commission of Hong Kong. Issued by Allianz Global Investors Asia Pacific Limited. Allianz Global Investors Asia Pacific Limited (32/F, Two Pacific Place, 88 Queensway, Admiralty, Hong Kong) is the Hong Kong Representative and is regulated by the Securities and Futures Commission of Hong Kong (54/F, One Island East, 18 Westlands Road, Quarry Bay, Hong Kong).