

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

Risk assets were mixed in the first quarter as high-yield bonds finished higher while equities and convertible securities declined. Concerns around the pace and magnitude of tariff and government reform measures pressured markets due to their potential impact on consumer and corporate spending, economic growth, earnings, employment, and inflation. Economic reports released during the period were balanced with durable goods and factory orders, industrial production, and the Institute for Supply Management (ISM) Services survey all topping expectations. Conversely, consumer confidence declined, Atlanta Fed GDPNow estimates were revised lower, and the ISM Manufacturing survey missed projections. Inflation, housing, and labor gauges were mixed. The US Federal Reserve (Fed) kept interest rates steady, slowed its balance sheet drawdown, and updated its economic projections to show a decrease in 2025 gross domestic product (GDP) growth estimates and an increase in 2025 inflation estimates. Against this backdrop, the 10-year US Treasury yield fell sharply in the quarter.

Equity and Option Market Environment

The S&P 500 Index returned -4.27% for the quarter.*

Energy, health care, and consumer staples were the top-performing sectors in the period, while consumer discretionary, information technology, and communication services were the bottom-performing sectors.

Equity volatility increased over the period, finishing at 22.28 from 17.35 to start the quarter.*

Convertible Market Environment

The ICE BofA US Convertible Index returned -2.14% for the period.^

Convertible securities were negatively impacted by falling stock prices and credit spread widening.

Sector performance was mixed with materials, media, and health care outperforming, while consumer staples, transportation, and energy underperformed.

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

New issuance saw 23 issues priced, raising USD15.3 billion in proceeds.^

High-Yield Bond Market Environment

The ICE BofA US High Yield Index returned +0.95% for the period. ^ BB rated bonds returned +1.45%, outperforming B and CCC rated bonds, which returned +0.70% and -0.67%, respectively.^

Spreads widened to 355bp from 292bp, the average bond price fell to 94.97, and the market's yield rose to 7.88%.^

Industry performance was mostly higher for the period. Food producers, cable, and capital goods outperformed whereas packaging/paper, autos, and transportation underperformed.

Trailing 12-month default rates finished the period at 1.20% (par) and 0.68% (issues). **

New issuance saw 90 issues priced, raising USD68.3 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 in the period included Welltower* on a beat-and-raise quarter that reinforced long-term growth prospects and an ecommerce company that reported strong cloud results and announced a strategic partnership. An aerospace manufacturer gained on strong free cashflow guidance, an industrial conglomerate outperformed on broad organic revenue growth, and a utility operator rallied on execution optimism of its long-term capital plan. Other contributors included a number of health care positions across the biotech, pharmaceutical, and health services industries, as well as a telecom holding.

Top detractors in the period included Microsoft* and Nvidia*, in addition to several other holdings across the internet services and semiconductor industries, all of which were adversely impacted by increasing uncertainty around the artificial intelligence secular growth narrative and what an economic slowdown might mean for related capex spending. Apple, Amazon, and a major electric vehicle manufacturer were pressured by tariff-related volatility as investors struggled to evaluate a highly dynamic trade environment. Other top detractors from performance in the period were a pair of software providers, both of which offered disappointing guidance.

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 quarter over quarter.

Outlook and Strategy

In our 2025 outlook, we wrote that the equity market's path would not be linear, with bouts of volatility throughout the year. We also noted convertible securities and high-yield bonds – given their defensive characteristics – could mitigate equity market weakness. This scenario materialized in the first quarter. The portfolio is well positioned if volatility persists without sacrificing upside participation and income-generation potential.

The US economy could expand in 2025, but tariff, government reform, and immigration measures are becoming a bigger headwind than previously thought. However, tailwinds such as deregulation and taxation measures still exist. As trade and budgetary clarity improves, uncertainty should lessen, and spending, investment, hiring, M&A, etc. can resume. Productivity gains, industrialization, onshoring, and private sector demand are additional potential growth drivers.

The Fed likely remains on hold as they assess the effect of trade policies on inflation, employment, and the potential for stagflation. Interest rate cuts could restart later this year to support their dual mandate. A resumption of monetary policy easing would closer align the Fed with accommodation by central banks overseas.

The equity markets are now pricing in slower economic and earnings growth. Stabilization in these estimates or better than expected incoming data / results and corporate guidance could be positive equity market catalysts.

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 31 March 2025 unless otherwise stated.

*Source: FactSet, as at 31 March 2025.

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

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

¹ Source: ICE Data Services; data as at 31 March 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).