

# 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 October

Equities, convertible securities, and high-yield bonds finished higher in October. The third quarter earnings season got off to a strong start. With 64% of S&P 500 companies having reported, 83% topped estimates for an earnings growth rate of 10.7%. Management outlooks highlighted artificial intelligence demand, cautious consumer spending signals, inflationary / tariff pressures, and cost cutting measures. China trade tensions eased, and most economic reports were delayed due to the government shutdown. The US Federal Reserve (Fed) cut interest rates by 25 basis points and announced plans to end quantitative tightening. Against this backdrop the 10-year US Treasury yield fell to 4.09%.

### Equity and Option Market Environment

The S&P 500 Index returned +2.34% for the month.\*

Information technology, healthcare, and consumer discretionary were the top-performing sectors in the period, while materials, financials, and real estate were the bottom-performing sectors.

Equity volatility was higher month to month at 17.44%.\*

## Convertible Market Environment

The ICE BofA US Convertible Index returned +3.13% for the month.^

Sector performance skewed positive with telecoms, consumer staples, and materials outperforming, while transportation, consumer discretionary, and media underperformed.

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

Monthly new issuance saw 12 issues priced, raising USD 9.8 billion in proceeds.^

## High-Yield Bond Market Environment:

The ICE BofA US High Yield Index returned +0.20% for the month. ^ BB, B, and CCC rated bonds returned +0.46%, -0.06%, and -0.42%, respectively.^

Spreads widened to 294bp from 280bp, the average bond price fell to 97.71, and the market's yield rose to 7.17%.^

Industry performance was generally higher with healthcare, metals, and telecoms outperforming, while packaging/paper, chemicals, and autos underperformed.

Trailing 12-month default rates finished the period at 1.40% (par) and 1.38% (issues). \*\*

Monthly new issuance saw 20 issues priced, raising USD 18.7 billion in proceeds. \*\*

## Portfolio Review

The portfolio benefited from strength across equities, convertible securities, and high-yield bonds.

Top contributors in October were driven by strong corporate profits and continued optimism around the artificial intelligence buildout following further color from management teams around capital expenditures. Beneficiaries included Nvidia\*, Broadcom\*, Alphabet\*, Amazon\*, and several data center operators. Apple\* was higher after reporting a top- and bottom-line beat and notable margin improvement. The other top contributors in the period were a heavy equipment manufacturer, a packaged software provider, and a biotech company.

Top detractors in the period included Meta\*, which increased its capital expenditure and operating expense outlook, and an online real estate marketplace operator that reported weak bookings. Retailers with exposure to auto parts, home improvement, and pet supplies were lower on consumer spending concerns. A pharmaceutical company saw an executive departure and a telecom hardware provider missed expectations. The other top detractors were an airframe manufacturer, a live entertainment company, and a financial data services provider.

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

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

## Outlook and Strategy

The macro outlook is improving following a stronger-than-expected economic rebound, an inflection in earnings estimates, a shift in the Fed's stance, the One Big Beautiful Bill Act (OBBBA) being signed into law, and increased visibility around trade policy.

US economic growth for the third quarter is tracking ahead of forecasts due to resilient consumption and strong corporate spending. Unemployment and inflation have increased but only modestly. Potential growth tailwinds include rising capex, reshoring, deregulation, and credit expansion whereas a sharp rise in either unemployment or inflation could increase the odds of an economic slowdown.

The Fed is targeting a more neutral policy position with the market expecting additional interest rate cuts over the coming quarters. However, Chair Powell has noted that future rate decisions remain highly data dependent.

US equity market strength is the result of better-than-expected top- and bottom-line results and inflecting earnings estimates. Potential earnings growth tailwinds include improving economic momentum, rising productivity, the proliferation of AI, low oil prices, and falling borrowing costs. Headwinds include rising operating expenses as well as the impact of tariffs, but clarity has improved on this front. There is evidence earnings breadth is beginning to expand. This dynamic could lead to a broadening out of the market, aided by industries that have underperformed since 2022. The Fed's shift in stance is also notable because equities are generally higher a year after the first rate cut.

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's year-to-date outperformance of the broad equity market can continue if volatility rises or breadth expands. Strategist forecasts for annual new issuance continue to be revised higher, currently sitting at USD 95-100 billion compared to an initial forecast of USD 60-65 billion. Heavy primary market activity is a function of 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 more than 7%<sup>1</sup>, offers equity-like returns but with less volatility. Currently, the asset class is on track to deliver a coupon-plus return in 2025. 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 continues to improve. 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 fund.

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

\*Source: FactSet, as at 31 October 2025.

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

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

<sup>1</sup> Source: ICE Data Services; data as at 31 October 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”).**

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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).