

# 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 July

Equities, convertible securities, and high-yield bonds finished higher in July. The second quarter earnings season got off to a strong start. Thus far, most S&P 500 companies have surpassed top- and bottom-line estimates and earnings growth has paced well ahead of projections. Trade deals were announced with Japan, Vietnam, and the European Union. The One Big Beautiful Bill Act was signed into law and released economic data was mixed. Unemployment remained low, manufacturing and services surveys advanced, and retail sales and gross domestic product (GDP) growth surprised to the upside; however, inflation measures accelerated, and the housing market cooled. Against this backdrop, the US Federal Reserve (Fed) kept interest rates steady despite some dissent from the committee.

### Equity and Option Market Environment

The S&P 500 Index returned +2.24% for the month.\*

Sector performance was mixed in July. Technology, utilities, and industrials were the top-performing sectors, while healthcare, consumer staples, and materials were the bottom-performing sectors in the period.

Equity volatility was unchanged month to month at 16.72.\*

## Convertible Market Environment

The ICE BofA US Convertible Index returned +2.78% for the month.^

Convertible sector performance was broadly higher. Materials, industrials, and financials outperformed, whereas media, energy, and healthcare 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 9 issues priced raising USD 6.1 billion in proceeds.^

## High-Yield Bond Market Environment

The ICE BofA US High Yield Index returned +0.40% for the month.^ BB, B, and CCC rated bonds returned +0.17%, +0.45%, and +1.39%, respectively.^

Spreads narrowed to 286bp from 296bp, the average bond price fell to 97.00, and the market's yield fell to 7.33%. Industry performance was mostly higher with metals, media, and cable outperforming, while transportation, services, and retail underperformed.

Trailing 12-month default rates finished the period at 1.37% (par) and 0.91% (issues). \*\*

Monthly new issuance saw 44 issues priced, raising USD 37.5 billion in proceeds. \*\*

## Portfolio Review

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

Top contributors in July were driven by continued optimism around the artificial intelligence buildout following further color from management teams around capital expenditures. Beneficiaries comprised several semiconductor companies, including Nvidia\* and Broadcom\*, as well as hyperscalers such as Microsoft\*, Amazon\*, and Meta\*. The other top contributors in the period were an online real estate marketplace that has been prioritizing expense management and a heavy equipment manufacturer that benefited from macro tailwinds.

Top detractors in the period included multiple streaming service providers in video and audio that declined on weaker outlooks for ad revenue and pricing, respectively. A fast-food chain guided for lower same-store sales and an electric vehicle manufacturer missed free cashflow estimates, while a software company declined early in the period but finished off the lows after boosting subscription revenue guidance. Several healthcare holdings detracted, including a surgical robotics company that faced regulatory uncertainty and a health insurance provider that reduced forecasts. Other top detractors for the period were a rideshare operator, a specialty ecommerce company, and an internet services provider.

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

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

## Outlook and Strategy

Despite a strong recovery in risk assets, the macroeconomic outlook remains clouded given uncertainty around trade, monetary policy, government spending and geopolitics. On the other hand, economic data has been resilient, trade tensions while elevated have stabilized, earnings tailwinds have begun to emerge, Fed commentary has been less hawkish, capital markets have been active, and government spending has emerged as a tailwind.

The US economy should expand in 2025, even with tariffs potentially hampering growth. Trade policy clarity could begin to improve and as the range of outcomes continue to narrow, uncertainty should lessen, and spending, investment, hiring, and mergers and acquisitions (M&A) activity can resume. Further out, fiscal stimulus, deregulation measures, capex tailwinds, productivity gains, and a reindustrialisation movement are potential growth drivers.

A resumption of monetary policy easing – currently, the market is pricing in three 25 basis point interest rate cuts in 2025 – would closer align the Fed with accommodation by central banks overseas. Early signs of labor market softening or minimal tariff price pass through could pull forward rate cuts, while steady employment or higher inflation could cause the Fed to move later.

US large-cap equities have recovered this year's losses as odds of a recession and global shock receded and first quarter earnings results came in better than expected. Market tailwinds include subdued investor sentiment and positioning, dollar weakness, lower oil prices, and a decline in interest rates, among other potential catalysts. The impact of tariffs remains a headwind, and valuations will continue to be debated. Ultimately, change on the margin around expectations for corporate earnings, management outlooks and the economy will determine the direction of the stock market over the remainder of the year.

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 volatility continues. USD 75-80 billion of new issuance is now expected in 2025 due to coupon savings demand and elevated refinancing need. 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>, could deliver a coupon-like return in 2025. 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. In this environment, new issuance is expected to remain steady, and the default rate should stay 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 July 2025 unless otherwise stated.

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

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

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

<sup>1</sup> Source: ICE Data Services; data as at 31 July 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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