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 September

Equity, convertible, and high-yield markets all finished higher in September, driven by a dovish shift in monetary policy that stemmed from an array of new economic data. Multiple inflation measures continued to ease, consumer spending surprised to the upside, and the service sector remained in expansionary territory. However, some labour market measures were weaker, the manufacturing sector continued to contract, and consumer confidence declined. The simultaneous deceleration of inflation and jobs growth proved to be the catalyst for the first monetary easing campaign in four years, as the US Federal Reserve (Fed) cut interest rates by 50 basis points (bp) at the September's Federal Open Market Committee (FOMC) meeting. Markets responded favorably, with risk assets moving broadly higher into the end of the month to solidify monthly gains.

Equity and Option Market Environment

The S&P 500 Index returned +2.14% in September and closed at a new all-time high for the second consecutive month. *

Most sectors were higher in September. Consumer discretionary, utilities, and communication services were the top-performing sectors, while energy, health care, and financials were the bottom-performing sectors in the period.

Equity volatility was higher month to month, finishing at 16.73.*

Convertible Market Environment

The ICE BofA US Convertible Index returned +1.94% for the month. ^

Convertible securities were positively impacted by rising stock prices and credit spread tightening.

Most sectors closed higher with media, transportation, and industrials outperforming, while consumer staples, health care, and energy underperformed.

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

New issuance saw 9 issues priced, raising USD 6.9 billion in proceeds. ^

High-Yield Bond Market Environment

The ICE BofA US High Yield Index returned +1.63% for the month. ^ BB, B, and CCC rated bonds returned +1.09%, +1.18%, and +5.20%, respectively. ^

Spreads narrowed to 303bp from 317bp, the average bond price rose to 96.72, and the market's yield fell to 7.21%. ^

All industries advanced with cable, telecoms, and media outperforming, while energy, autos, and capital goods underperformed.

Trailing 12-month default rates finished the period at 1.64% (par) and 1.35% (issues). **

New issuance saw 56 issues priced, raising USD 36.7 billion in proceeds. **

Portfolio Review

The portfolio was positively impacted by strength across risk assets.

Top contributors included technology-related companies capitalizing on secular trends around artificial intelligence and cloud migration, led by three technology companies. A major electric vehicle manufacturer gained after announcing an expansion of its product offerings in a key market, a satellite telecommunications provider advanced on merger and acquisition (M&A) and financing news, and a home improvement retailer rallied following the Fed's rate cut, which was seen as beneficial to the housing market. The other top contributors to performance during the period were a financial company, a multiple hardware and software technology holdings, and a public utility.

Top detractors were led by several pharmaceutical companies, one of which consolidated year-to-date gains and another that fell on competitive concerns. A major bank declined after guiding interest income lower and expenses higher, an exploration and production company declined on acquisition headlines, and an enterprise software provider was lower on growth and pricing concerns. The other top detractors in the period were a financial technology company and positions in electronic components and semiconductors.

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

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

Outlook and Strategy

The easing cycle has begun, with the Fed cutting interest rates by 50 basis points in September as inflation normalizes and the labor market softens.

Apart from an accommodative shift in monetary policy, potential economic tailwinds include steady consumption, continued government spending, improving productivity, increasing capital expenditures, and the proliferation of artificial intelligence. Risk to the economy may increase if these trends weaken. Other potential headwinds include escalating geopolitical tensions, prolonged labor market softening, deteriorating consumer sentiment, and continued manufacturing contraction.

In the short term, US equity volatility could increase due to labor disputes, foreign conflicts, and US elections. Over the intermediate term, the equity market could move higher on continued Fed easing and economic expansion, secular growth drivers, such as artificial intelligence, and accelerating earnings growth or an earnings inflection from more companies. If economic growth or earnings growth fall short of expectations, the equity market could be challenged.

US convertible securities have an attractive asymmetric return profile, providing upside participation potential when stock prices rise and downside mitigation when stock prices fall. Higher debt financing costs have drawn issuers to the convertible market for coupon savings, resulting in accelerated new issuance at favorable terms and an expanded investment opportunity set with the desired risk/reward characteristics. While a change in market leadership is not certain, a sustained broadening of the equity market could be a positive development for the asset class.

The US high-yield market, yielding over 7%[1], offers the potential for 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 prioritize debt reduction. Given these factors, the default rate has been below the long-term average with expectations for it to trend toward the historical average in 2025. Regarding credits spreads, they can stay tight for many years. This was the case in the mid-1990s and 2000s – periods like today when high-yield balance sheets were healthy and defaults were low, the economy was stable, and interest rates were elevated.

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.

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Source: Allianz Global Investors dated 30 September 2024 unless otherwise stated.

*Source: FactSet, as at 30 September 2024.

^Source: BofA Merrill Lynch, as at 30 September 2024.

**Source: J.P. Morgan, as at 30 September 2024.

[1] Source: ICE Data Services; data as at 30 September 2024

Allianz Global Investors and Voya Investment Management (Voya IM) have entered into a long-term strategic partnership, and as such, as of 25 July 2022, the investment team transferred to Voya IM and Voya IM became the delegated manager for this fund. AllianzGI continues to provide information and services to Voya IM for this investment through a transitional service agreement.

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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 LimitedAllianz 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).