

# Allianz

## US High Yield

### Monthly commentary

- The Fund aims at long-term capital growth and income by investing in high yield rated corporate bonds of US bond markets.
- The Fund is exposed to significant risks of investment/general market, country and region, emerging market, creditworthiness/credit rating/downgrading, interest rate, default, valuation, sovereign debt, RMB and the adverse impact on RMB share classes due to currency depreciation.
- The Fund may invest in high-yield (non-investment grade and unrated) investments 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 increase the risk of loss of original investment.
- 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.

### What Happened in June

In June, high-yield finished higher on easing geopolitical tensions, further clarity around trade, and US economic resiliency. Inflation measures subsided, wage growth exceeded expectations, and employment data surprised to the upside, while consumer confidence fell, and key manufacturing and services surveys showed contraction. The Federal Reserve kept interest rates steady and continued to project two cuts by year-end. Against this backdrop, the 10-year US Treasury yield fell to 4.23% in the month.

The ICE BofA US High Yield Index returned +1.86% for the month.\* BB, B, and CCC rated bonds returned +1.74%, +2.06%, and +1.71%, respectively.\*

Spreads narrowed to 296 basis points (bp) from 322 bp, the average bond price rose to 97.12, and the market's yield fell to 7.36%.\*

Industry performance was broadly higher with metals, energy, and chemicals outperforming, while utilities, gaming, and capital goods underperformed.

Trailing 12-month default rates finished the period at 1.41% (par) and 1.03% (issues).^ The upgrade/downgrade ratio rose to 0.5.^

Monthly new issuance saw 44 issues priced, raising USD 36.7 billion in proceeds.<sup>^</sup> High-yield funds reported estimated net flows of +USD 4.2 billion.<sup>^</sup>

### Portfolio Review

The top contributors to performance in the period were financial services, energy, and healthcare. Multiple issuers in the consumer finance and lending space drove performance in financial services. Strength in energy was broad-based with all portfolio holdings finishing higher, led by issues in exploration & production, natural gas, and midstream services. Within healthcare, performance was driven by a pharmaceutical holding that indicated plans to improve cashflow and prioritize debt repayment.

Theaters & entertainment was the only industry that detracted from performance in the period. Weakness stemmed from an entertainment studio that had a weaker-than-expected box office release.

Transactions during the period consisted of new purchases in specialised REITs, commercial & residential mortgage finance, and oil & gas storage & transportation, and a complete sell in tires/rubber.

### 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 market activity has been healthy, interest rates have fallen and energy prices have declined.

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 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 reindustrialization movement are potential growth drivers.

A resumption of monetary policy easing – currently, the market is pricing in two 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.

The US high-yield market, yielding over 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 of 3-4%.

Longer-duration issues are the most likely to be impacted by high and volatile rates, but the overall high-yield market should have a dampened response due to its larger coupon relative to other fixed income alternatives. As a result, US high-yield bonds contribute from both a diversification and a relative-performance perspective, offering a very compelling yield opportunity.

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Source: Allianz Global Investors dated 30 June 2025 unless otherwise stated.

\* Source: BofA Merrill Lynch, as at 30 June 2025.

^ Source: J.P. Morgan, as at 30 June 2025.

<sup>1</sup>Source: ICE Data Services; data as at 30 June 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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