

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 October

High yield bonds finished lower in October. The third quarter earnings season got off to a strong start. Management commentary has been focused on positive credit conditions, strong artificial intelligence demand, favorable advertising traction, mixed consumer demand, China headwinds, and industrials/auto-related softness. On the economic front, third quarter gross domestic product (GDP) growth was above trend, consumer confidence rose, employment data was balanced, and core inflation increased modestly. Against this backdrop, futures markets pared back rate cut expectations to 25 basis points for the November Federal Open Market Committee (FOMC) meeting, driving treasury yields higher.

The ICE BofA US High Yield Index returned -0.55% for the month.* BB, B, and CCC rated bonds returned -0.89%, -0.45%, and +0.62%, respectively.*

Spreads narrowed to 288bp from 303bp, the average bond price fell to 95.72, and the market's yield rose to 7.51%.*

Most industries were lower with telecoms, cable, and transportation outperforming, while packaging/paper, healthcare, and real estate underperformed.

Trailing 12-month default rates finished the period at 1.39% (par) and 0.79% (issues). ^The upgrade/downgrade ratio decreased to 1.1.^

New issuance saw 39 issues priced, raising USD 27.2 billion in proceeds. ^High-yield funds reported estimated net flows of +USD 1.1 billion.^

Portfolio Review

Financial services was the only industry contributing positively to performance in the period. Strength was primarily attributable to an outperforming consumer finance issuer, with a modest additional benefit from lending services exposure.

Detractors from performance in the period were led by technology, healthcare, and building materials. Weakness in technology was broad-based, with issues in data storage, advanced materials, and cybersecurity driving underperformance. In healthcare, detractors were led by higher quality and longer duration issues in pharmaceuticals, occupational health, and medical supplies. Several positions in building materials finished lower amid the rise in rates.

Transactions during the period consisted of new purchases in casinos/gaming, cable & satellite TV, and automotive parts & equipment, and complete sells in semiconductor materials & equipment and application software.

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.

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.

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 31 October 2024 unless otherwise stated.

* Source: BofA Merrill Lynch, as at 31 October 2024.

^ Source: J.P. Morgan, as at 31 October 2024.

¹Source: ICE Data Services; data as at 31 October 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 Limited.

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