Allianz Global Investors

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 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%.

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).^ The upgrade/downgrade ratio rose to 2.6.^

Monthly new issuance saw 20 issues priced, raising USD 18.7 billion in proceeds.^ High-yield funds reported estimated net flows of + USD 2.1 billion.^

Portfolio Review

The top contributors to performance in the period were energy, metals/mining excluding steel, and aerospace. Issuers in power generation, natural gas, and distribution had the largest positive impact on performance in energy. Strength in metals/mining excluding steel was primarily attributable to an issuer in rare earth mining that rallied on the announcement of a nuclear energy deal. Within aerospace, several airframe and component manufacturers favorably impacted performance.

The top detractors from performance in the period were healthcare, support-services, and financial services. Weakness in healthcare was attributable to a pharmaceutical company that saw an executive departure. An equipment rental company had the largest negative impact in support-services. Within financial services, an underperforming consumer finance issuer was the primary source of detraction.

Transactions during the period included new purchases in electric utilities, integrated telecommunication services, and broadcasting, and complete sells in pharmaceuticals and automotive retail.

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.

The US high-yield market, yielding more than 7%[1], 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.

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.

All data are sourced from Allianz Global Investors, S&P Dow Jones Indices and FactSet dated 31 October 2025 unless otherwise stated.

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

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

[1]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").