

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 April

The high-yield bond market was flat in April. Early in the month, markets sold off after President Trump announced sweeping tariffs as well as subsequent retaliatory measures; however, over the remainder of the month, markets rallied. Several factors contributed to the positive shift in market tone, including a softened stance on tariffs, stabilization in the US dollar and 10-year US Treasury yield, trade deal optimism, and a better-than-feared start to the first quarter earnings season. On the other hand, corporate outlooks were cautious with many companies pulling full-year guidance and warning of price hikes. Economic reports released during the month were generally balanced, although most strategists expect trade policy and uncertainty to begin dragging on growth mid-year.

The ICE BofA US High Yield Index was flat for the month.* BB, B, and CCC rated bonds returned +0.17%, -0.06%, and -0.62%, respectively.*

Spreads widened to 394bp from 355bp, the average bond price fell to 94.44, and the market's yield rose to 8.05%.*

Industry performance skewed positive with healthcare, cable, and utilities outperforming, while energy, retail, and transportation underperformed.

Trailing 12-month default rates finished the period at 1.25% (par) and 0.68% (issues).[^] The upgrade/downgrade ratio fell to 0.4.[^]

Monthly new issuance saw 8 issues priced, raising USD 8.6 billion in proceeds.[^] High-yield funds reported estimated net flows of USD -9.5 billion.[^]

Portfolio Review

The top contributors to performance in the period were automotive, aerospace, and technology. Strength was broad-based in both automotive and aerospace, as all portfolio holdings across both industries finished higher following the mid-month easing of trade-related angst. Select issues in hardware, cybersecurity, and software were the primary sources of strength in technology.

The top detractors from performance in the period were energy, chemicals, and healthcare. Weakness in energy was attributable to multiple issues in exploration & production as well as midstream services that were negatively impacted by sharp declines in the price of crude oil and natural gas. Concerns over potential tariff impacts pressured specialty chemical and pharmaceutical exposure.

Transactions during the period consisted of new purchases in application software and health care equipment, and complete sells in hotels/resorts/cruise lines, automotive parts & equipment, and hotel & resort REITs.

Outlook and Strategy

The US economy could expand in 2025, but tariff, government reform, and immigration measures are becoming a bigger headwind than previously thought. However, tailwinds such as deregulation and taxation measures still exist. As trade and budgetary clarity improves, uncertainty should lessen, and spending, investment, hiring, M&A, etc. can resume. Productivity gains, industrialisation, onshoring, and private sector demand are additional potential growth drivers.

The US high-yield market, yielding over 8%¹, 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 April 2025 unless otherwise stated.

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

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

¹Source: ICE Data Services; data as at 30 April 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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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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