

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 December

The high yield market finished lower in December. The Federal Reserve cut its benchmark interest rate by 25 basis points to a range of 4.25-4.50%. However, the central bank also updated its summary of economic projections for 2025, decreasing its forecast for interest rate cuts and employment, while increasing its forecast for real gross domestic product (GDP) growth and inflation. On the economic front, nonfarm payrolls, small business optimism, and consumer sentiment rose, and inflation measures were generally in line with estimates. On the other hand, regional manufacturing gauges missed expectations. Against this backdrop, the 10-year US Treasury yield rose, steepening the yield curve and pressuring risk assets and core fixed income.

The ICE BofA US High Yield Index returned -0.43% for the month.* BB, B, and CCC rated bonds returned -0.65%, -0.32%, and +0.19%, respectively.*

Spreads widened to 292bp from 274bp, the average bond price fell to 95.48, and the market's yield rose to 7.65%.*

Industry performance skewed lower with telecoms, transportation, and media outperforming, while cable, real estate, and energy underperformed.

Trailing 12-month default rates finished the period at 1.47% (par) and 1.02% (issues).[^] The upgrade/downgrade ratio increased to 1.0.[^]

New issuance saw 17 issues priced, raising USD 11.5 billion in proceeds. [^] High-yield funds reported estimated net flows of -USD 3.7 billion.[^]

Portfolio Review

Industries that positively contributed to performance in the period were theaters & entertainment and packaging. Strength in theaters & entertainment was attributable to an issue from an entertainment studio that outpaced the broader industry. Within packaging, the portfolio benefited from exposure to multiple issues in the sustainable packaging space that outperformed peers.

Top detractors from performance in the period were led by financial services, energy, and chemicals. Weakness in financial services was primarily driven by an underperforming consumer finance issuer, with some additional detraction from lending services exposure. Multiple issues in the exploration & production space had a negative impact in energy despite crude oil price strength over the month. Several specialty chemical issuers also detracted from performance.

Transactions during the period consisted of complete sells in tires/rubber, electronic components, and passenger ground transportation.

Outlook and Strategy

The US economy should continue to expand in 2025, supported by earnings growth, further Fed easing as inflation and the labor market continue to normalize, and the new administration's pro-US growth policies.

Apart from these factors, steady consumer spending, ongoing services sector expansion, continued fiscal spending, and improving productivity aided by the proliferation of artificial intelligence are growth tailwinds. Risk to the economy may increase if these trends weaken. Other considerations include tariff and immigration policies, geopolitical tensions, prolonged labor market softening, continued manufacturing contraction, and economic weakness outside of the US.

The US high-yield market, yielding over 7%¹, is expected to deliver a coupon-like return in 2025 with upside possible. 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. Increased M&A activity and deregulation could also have a positive market impact. In this environment, new issuance is expected to remain elevated, the default rate should stay below the historical average of 3-4%, and spreads can remain tight.

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 December 2024 unless otherwise stated.

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

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

¹Source: ICE Data Services; data as at 31 December 2024.

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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