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 December

High yield bonds finished higher in December. The US Federal Reserve (Fed) cut its benchmark interest rate by 25 basis points (bps) to a range of 3.50-3.75%, while also updating its summary of economic projections for 2026 to show just one interest rate cut alongside higher real gross domestic product (GDP) growth. The resumption of economic data following the end of the government shutdown was mixed. Labour market indicators softened, while consumer spending and inflation metrics were stable. Against this backdrop, the 10-year US Treasury yield rose to 4.17% over the period.*

The ICE BofA US High Yield Index returned +0.65% for the month, bringing full-year performance to +8.50%.* BB, B, and CCC rated bonds returned +0.47%, +0.90%, and -0.84%, respectively.*

Spreads narrowed to 281 bps from 292 bps, the average bond price rose to 98.06, and the market's yield fell to 7.08%.*

Industry performance was mostly higher with Gaming, Cable, and Autos outperforming, while Media, Retail, and Services underperformed.

Trailing 12-month default rates finished the period at 1.88% (par) and 1.40% (issues).^ The upgrade/downgrade ratio rose to 1.1.^

Monthly new issuance saw 27 issues priced, raising USD 21.8 billion in proceeds, bringing the full-year total to USD 332.0 billion.^ High yield funds reported estimated net flows of +USD 1.1 billion.^

Portfolio Review

The top contributors to performance in the period were financial services, technology, and support-services. Strength in financial services was primarily attributable to a consumer finance issuer that gained on M&A headlines, with a modest additional benefit from a loan servicer. Cloud computing, cybersecurity, and enterprise software exposures had the largest positive impact on performance in technology. Support-services was driven by positions in equipment and car rental companies and a provider of mobile storage solutions.

There were no industries that detracted from performance in the period.

Transactions during the period included new purchases in property/casualty insurance and integrated telecommunication services.

Outlook and Strategy

2026 US economic growth could surpass that of 2025. Potential tailwinds include stimulus from the One Big Beautiful Bill Act (OBBBA – tax cuts/refunds and capital spending acceleration), foreign direct investment from overseas, continued monetary policy easing (including the recently announced asset purchase programme), and steady consumption. Reshoring activity, less regulation, expanding credit, and a rebound in consumer and business confidence are also potential drivers. Improvements in the housing and/or manufacturing sectors could aid growth as well. Key economic risks include heightened geopolitical tensions and elevated fiscal deficits globally. Additionally, if unemployment and/or inflation rise sharply, the odds of an economic slowdown increase.

In an environment where changes in the labour market and prices are more muted, the Fed can continue to target a neutral policy position. Currently, market odds suggest additional interest rate cuts to a range of 3.00-3.25% – a level that is consistent with the Fed's median, longer run projection of 3%.

The US high-yield market, yielding more than 7%^, 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.

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

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

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

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