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 July

High-yield bonds finished higher in July. The second quarter earnings season got off to a strong start. Thus far, most S&P 500 companies have surpassed top- and bottom-line estimates and earnings growth has paced well ahead of projections. Trade deals were announced with Japan, Vietnam, and the European Union. The One Big Beautiful Bill Act was signed into law and released economic data was mixed. Unemployment remained low, manufacturing and services surveys advanced, and retail sales and gross domestic product (GDP) growth surprised to the upside; however, inflation measures accelerated, and the housing market cooled. Against this backdrop, the US Federal Reserve (Fed) kept interest rates steady despite some dissent from the committee.

The ICE BofA US High Yield Index returned +0.40% for the month. * BB, B, and CCC rated bonds returned +0.17%, +0.45%, and +1.39%, respectively.*

Spreads narrowed to 286bp from 296bp, the average bond price fell to 97.00, and the market's yield fell to 7.33%.*

Industry performance was mostly higher with metals, media, and cable outperforming, while transportation, services, and retail underperformed.

Trailing 12-month default rates finished the period at 1.37% (par) and 0.91% (issues). ^ The upgrade/downgrade ratio rose to 1.1.^

Monthly new issuance saw 44 issues priced, raising USD 37.5 billion in proceeds. ^ High-yield funds reported estimated net flows of +USD 2.0 billion.^

## Portfolio Review

The top contributors to performance in the period were financial services, energy, and theaters & entertainment. Multiple issuers in the consumer finance and lending space drove performance in financial services. Strength in energy stemmed primarily from issues in natural gas and offshore drilling. Within theaters & entertainment, performance was driven by an issuer from an entertainment studio that was the subject of potential mergers and acquisitions (M&A) headlines.

The top detractors from performance in the period were technology, cable & satellite TV, and healthcare. Weakness in technology was driven by issues in data storage, cybersecurity, and enterprise software. An issuer in diversified telecommunications that reported a weaker-than-expected quarter was the primary detractor in cable & satellite TV. Within healthcare, issues in medical devices and medical supplies had the largest negative impact.

Transactions during the period included new purchases in wireless telecommunication services, automotive retail, and building products, and complete sells in aerospace and broadcasting.

## Outlook and Strategy

Despite a strong recovery in risk assets, the macroeconomic outlook remains clouded given uncertainty around trade, monetary policy, government spending and geopolitics. On the other hand, economic data has been resilient, trade tensions while elevated have stabilized, earnings tailwinds have begun to emerge, Fed commentary has been less hawkish, capital markets have been active, and government spending has emerged as a tailwind.

The US economy should expand in 2025, even with tariffs potentially hampering growth. Trade policy clarity could begin to improve and as the range of outcomes narrow, uncertainty should lessen, and spending, investment, hiring, and mergers and acquisitions (M&A) activity can resume. Further out, fiscal stimulus, deregulation measures, capex tailwinds, productivity gains, and a reindustrialization movement are potential growth drivers.

A resumption of monetary policy easing – currently, the market is pricing in three 25 basis point interest rate cuts in 2025 – would closer align the Fed with accommodation by central banks overseas. Early signs of labor market softening or minimal tariff price pass through could pull forward rate cuts, while steady employment or higher inflation could cause the Fed to move later.

The US high-yield market, yielding over 7%[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.

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 July 2025 unless otherwise stated.

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

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

[1]Source: ICE Data Services; data as at 31 July 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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