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 May

High-yield bonds finished higher in May. Momentum from April's mid-month rally persisted, as tariff tensions eased following announcements of de-escalation measures with both China and the UK. The earnings season wound down over the month with most of the remaining high profile companies surpassing analyst expectations. First quarter top- and bottom-line growth rates exceeded consensus estimates although many companies pulled or reduced full-year guidance on trade-related uncertainty. Economic reports released during the month were generally positive. Inflation measures decelerated, consumer confidence increased, the services sector rebounded, unemployment remained low, and second quarter estimates for real gross domestic product (GDP) growth neared 4%. Conversely, continuing jobless claims trended higher, retail sales underwhelmed, and select housing statistics remained weak. Against this backdrop, the US Federal Reserve (Fed) held interest rates steady at May's Federal Open Market Committee (FOMC) meeting, taking a "wait-and-see" approach, and the 10-year US treasury yield increased to 4.39% but finished well off the intramonth high of 4.63%.

The ICE BofA US High Yield Index returned +1.68% for the month, bringing year-to-date performance to +2.65%.* BB, B, and CCC rated bonds returned +1.52%, +1.44%, and +3.17%, respectively.*

Spreads narrowed to 332 basis points (bp) from 394 bp, the average bond price rose to 95.65, and the market's yield fell to 7.75%.*

Industry performance was broadly higher with media, energy, and telecoms outperforming, while cable, food producers, and metals underperformed.

Trailing 12-month default rates finished the period at 1.33% (par) and 1.03% (issues).^ The upgrade/downgrade ratio rose to 1.1.^

Monthly new issuance saw 35 issues priced, raising USD 32.0 billion in proceeds.^ High-yield funds reported estimated net flows of +USD 5.6 billion.^

Portfolio Review

The top contributors to performance in the period were energy, financial services, and support-services. Strength in energy was broad-based with all portfolio holdings finishing higher, led by several exploration & production issues that rallied alongside crude oil prices. Multiple issuers in the consumer finance and lending space drove performance in financial services. Within support-services, holdings with exposure to both heavy equipment and automotive rental had the largest positive impact.

The top detractors from performance in the period were steel producers/products, chemicals, and theaters & entertainment. Weakness in steel products/producers was attributable to a steel manufacturer that was negatively impacted by commodity price weakness. Concerns over potential tariff impacts pressured specialty chemical exposure, while a production studio that missed earnings drove underperformance in theaters & entertainment.

Transactions during the period consisted of new purchases in passenger ground transportation, tires/rubber, and houseware/specialties, and a complete sell in multisector holdings.

Outlook and Strategy

Despite May's notable strength in risk assets, the macro outlook remains uncertain.

The US economy is still expected to expand in 2025 with widespread effects from tariffs hampering growth. Clarity around trade policy is unlikely to improve in the near term, but as the range of outcomes continue to narrow, uncertainty should lessen, and spending, investment, hiring, and M&A activity can resume. Further out, fiscal stimulus, deregulation measures, productivity gains, and a reindustrialisation movement are potential growth drivers.

The Fed likely remains on hold as officials continue to assess the effect of tariffs on inflation, employment, and the potential for stagflation. Inflation has slowed but concerns of a second wave have risen due to tariffs. Steady employment is possible if less hiring is met with less layoffs. A resumption of monetary policy easing – currently, the market is pricing in two 25 basis point interest rate cuts in 2025 – would closer align the Fed with accommodation by central banks overseas.

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 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.

Source: Allianz Global Investors dated 31 May 2025 unless otherwise stated.

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

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

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