

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

The high yield market advanced in May. With the first quarter earnings season nearly complete, most companies surpassed consensus estimates helped by strong sales, cost cuts, and share repurchases. Full-year 2024 and 2025 earnings estimates moved higher over the month despite mixed company management outlooks. Key economic reports were neutral in aggregate. The labor market remained healthy, consumer confidence improved, and inflation showed signs of slowly ebbing. On the other hand, manufacturing fell back into contractionary territory and home and retail sales missed expectations. Finally, the US Federal Reserve (Fed) kept rates unchanged at May's Federal Open Market Committee (FOMC) meeting with Chair Powell pushing back against potential rate hikes at the press conference.

The ICE BofA US High Yield Index returned +1.13% for the month.* BB, B, and CCC rated bonds returned +1.23%, +0.96%, and +1.23%, respectively.*

Spreads widened to 320bp from 318bp, the average bond price rose to 92.54, and the market's yield fell to 8.18%.*

Most industries finished higher for the period. Healthcare, food producers, and utilities outperformed, whereas media, telecoms, and cable underperformed.

Trailing 12-month default rates fell to 2.02% (par) and 1.90% (issues). ^The upgrade/downgrade ratio decreased to 1.1.^

New issuance saw 54 issues priced, raising USD 33.6 billion in proceeds. High-yield funds reported estimated net flows of + USD 4.9 billion.

Portfolio Review

Industries contributing positively to performance in the period included theaters & entertainment, technology, and energy. Within theaters & entertainment, outperformance was attributable to an issue from a production studio that was spun into a standalone company. Strength in technology was broad-based, with issues in battery technology, cybersecurity, and semiconductor components driving gains. Issues in offshore drilling and exploration & production were the largest contributors in the energy space.

Financial services, aerospace, and media content were the only detractors from performance. Several issues in consumer finance were the main source of weakness in financial services. Within aerospace, underperformance was attributable to an issue from a helicopter manufacturer, while a television broadcasting issue was the primary detractor from performance in media content.

Transactions consisted of new purchases in automotive parts & equipment, and complete sells in casinos/gaming and trading companies/distributors. Additionally, there were both purchases and complete sells in pharmaceuticals.

Outlook and Strategy

2023's economic momentum has carried over into 2024. Economic tailwinds include a healthy labor market, steady consumption, government spending, elevated household net worth, a stabilizing manufacturing sector, an end to the rate hike cycle, and accelerating earnings. Economic headwinds include persistent inflation, restrictive monetary policy, prolonged yield curve inversion, less personal savings, and US/international political risks, among others.

The US high-yield market, currently yielding nearly 8%¹, offers the potential for equity-like returns but with much lower volatility. Credit fundamentals are stable, near-term refinancing obligations remain low, and management teams continue to prioritize debt reduction. Given these factors, defaults should remain well below historical cycle peaks. The market's attractive total return potential is a function of its deep discount to face value and increased coupon, which also serves to cushion downside volatility. Notably, after recording an annual decline, the high-yield market has historically delivered two consecutive years of positive returns in six of seven cases², and forward 12- and 24-month return projections based on the current market yield have been consistent with mid to high single digits³.

Longer-duration issues are the most likely to be impacted by rising interest 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 should 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 May 2024 unless otherwise stated.

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

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

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

² Source: ICE Data Services; data as at December 2022

³Source: JP Morgan; data as of October 2022

Allianz Global Investors and Voya Investment Management (Voya IM) have entered into a long-term strategic partnership, and as such, as of 25 July 2022, the investment team transferred to Voya IM and Voya IM became the delegated manager for this fund. AllianzGI continues to provide information and services to Voya IM for this investment through a transitional service agreement.

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