

# Allianz US Short Duration High Income Bond

## Monthly commentary

- The Fund aims at long-term income and lower volatility by investing in short duration high yield rated corporate bonds of the United States of America ("US") bond markets in accordance with environmental and social characteristics. The Fund aims to achieve the Sustainability KPI with the adoption of the Sustainability Key Performance Indicator Strategy (Absolute) ("KPI Strategy (Absolute)"). The Fund does not constitute as an ESG fund pursuant to the SFC's circular issued on 29 June 2021.
- The Fund is exposed to significant risks of investment/general market, creditworthiness/credit rating/downgrading, default, interest rate, valuation, sovereign debt, country and region, RMB and the adverse impact on RMB share classes due to currency depreciation.
- The Fund is exposed to sustainable investment risks relating to KPI Strategy (Absolute) (such as foregoing opportunities to buy certain securities when it might otherwise be advantageous to do so, selling securities when it might be disadvantageous to do so, and/or reducing risk diversifications compared to broadly based funds) which may result in the Fund being more volatile and have adverse impact on the performance of the Fund and consequently adversely affect an investor's investment in the Fund.
- The Fund may invest in high-yield (non-investment grade and unrated) investments and convertible bonds 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 adversely impact the net asset value of the Fund. Convertible may also expose to risks such as prepayment, equity movement and greater volatility than straight bond investments.
- 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 October

High-yield bonds finished higher in October. The third quarter earnings season got off to a strong start. With 64% of S&P 500 companies having reported, 83% topped estimates for an earnings growth rate of 10.7%. Management outlooks highlighted artificial intelligence demand, cautious consumer spending signals, inflationary / tariff pressures, and cost cutting measures. China trade tensions eased, and most economic reports were delayed due to the government shutdown. The US Federal Reserve (Fed) cut interest rates by 25 basis points and announced plans to end quantitative tightening. Against this backdrop the 10-year US Treasury yield fell to 4.09%.

## ALLIANZ US SHORT DURATION HIGH INCOME BOND: MONTHLY COMMENTARY

The ICE BofA US High Yield Index returned +0.20% for the month.\* BB, B, and CCC rated bonds returned +0.46%, -0.06%, and -0.42%, respectively.\*

Spreads widened to 294bp from 280bp, the average bond price fell to 97.71, and the market's yield rose to 7.17%.\*

Industry performance was generally higher with healthcare, metals, and telecoms outperforming, while packaging/paper, chemicals, and autos underperformed.

Trailing 12-month default rates finished the period at 1.40% (par) and 1.38% (issues).^ The upgrade/downgrade ratio rose to 2.6.^

Monthly new issuance saw 20 issues priced, raising USD 18.7 billion in proceeds.^ High-yield funds reported estimated net flows of + USD 2.1 billion.^

### Portfolio Review

The strategy remains focused on offering fixed income diversification with the goals of preserving capital, generating high income, and providing liquidity. Opportunity exists for new capital to invest at a discount to par.

The US Short Duration High Income Strategy remains an attractive and actively managed solution as investors adjust to high for longer rates without taking excessive credit risk or price volatility in passive fixed income strategies. In the current market environment, the US Short Duration High Income Strategy can purchase securities at discounts to par, or selectively invest in high coupon new issue producing yields well above money market accounts, management fees and hedging expenses.

Fundamental research, credit analysis, low duration, and liquidity are key tenets and goals for the US Short Duration High Income strategy that seeks to strike an attractive balance between risk, opportunity and expected return. The shorter maturity profile of the Fund should protect capital going forward as there are fewer years to repayment to close the average price discount. Goals of the strategy are unchanged to reinvest capital prudently to defend and evaluate credit risk and company fundamentals against a challenging global environment.

Since inception over fifteen years ago, the US Short Duration High Income strategy remains US centric with coupons and repayment of principal in US dollars. The portfolio is focused on energy, transportation leasing and infrastructure. The portfolio continued to stay up in quality while generally avoiding the lowest quality credits with average credit quality in the portfolio unchanged at B1/BB-. Emphasis remains on credit selection, liquidity, and downside risk mitigation versus the broader market.

The US Short Duration High Income strategy is an actively managed solution with historically relatively high security turnover. This active approach to security selection and portfolio construction should also allow the Fund to avoid some of the riskiest segments of the market further mitigating downside volatility. Passive strategies may carry greater tail risk and show greater dispersion of investment returns. The US Short Duration High Income strategy selectively invests in opportunities that may present lower price volatility, risk-adjusted returns in line within the mandate, investment philosophy and Fund guidelines and importantly seeks to side-step and avoid many of the risks not appreciated by markets.

Industries contributing the most to performance were Financial Services, Energy, and Utilities. Multiple issues in the mortgage lending space drove performance in Financial Services on rate environment optimism. Strength in Energy was broad, with several issuers across the petroleum refining and transportation spaces having the largest impact on performance. Within Utilities, a propane distributor and a power generation issuer drove performance.

Retail, Technology, and Air Transportation were the largest detractors from performance in the period. Weakness in Retail stemmed from an ultra-luxury retailer that missed expectations. A financial software provider was the largest detractor in technology. Within Air Transportation, a low-cost airline was the primary source of weakness.

Liquidity remained in focus to pay distributions, meet redemptions and to take advantage of reinvestment opportunities. Transactions in the period included new purchases in Trading Companies/Distributors, Insurance Brokers, and Independent Power Producers & Energy Traders.

### Outlook and Strategy

The macro outlook is improving following a stronger-than-expected economic rebound, an inflection in earnings estimates, a shift in the Fed's stance, the One Big Beautiful Bill Act (OBBBA) being signed into law, and increased visibility around trade policy.

US economic growth for the third quarter is tracking ahead of forecasts due to resilient consumption and strong corporate spending. Unemployment and inflation have increased but only modestly. Potential growth tailwinds include rising capex, reshoring, deregulation, and credit expansion whereas a sharp rise in either unemployment or inflation could increase the odds of an economic slowdown.

The Fed is targeting a more neutral policy position with the market expecting two 25 basis point interest rate cuts by yearend followed by two cuts in 2026. However, Chair Powell has noted that future rate decisions remain highly data dependent. The primary risk to the market's current expected interest rate path is a Fed that must act aggressively to counterbalance either a sharp rise in unemployment or inflation.

The US high-yield market, yielding more than 7%<sup>1</sup>, 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.

The Short Duration High Income strategy remains an attractive fixed income solution without taking excess credit risk, the shorter maturity puts securities first in line to repayment at par, and the strategy lessens price volatility that may be highly amplified in passively managed strategies.

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

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

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

<sup>1</sup>Source: ICE Data Services; data as at 31 October 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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