Allianz Global Investors

Allianz Yield Plus Fund

Monthly commentary

- The Fund aims at long-term income and enhanced return by investing directly and indirectly in global interest bearing securities.
- The Fund is exposed to significant risks which include investment/general market, investing in other underlying collective investment schemes and exchange traded funds, asset allocation, sovereign debt, creditworthiness/credit rating/downgrading, counterparty, interest rate changes, valuation, volatility and liquidity, and currency.
- 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.

What Happened in May

May brought some welcome respite for global equities following the recent tariff-related volatility. Investor sentiment was bolstered by de-escalating fears of a global trade war and a slew of positive corporate earnings releases. This overshadowed market jitters over the passage of President Donald Trump's 'big, beautiful' bill of sweeping tax cuts and the launch of a new trade offensive against the European Union. However, tariff whiplash was rekindled at month end, with global equities soaring on news that the New York-based Court of International Trade had blocked the US president's tariffs, before pulling back after the tariffs were reinstated by a US appeals court. Market sentiment deteriorated further after an abrupt re-escalation of US-China trade tensions and the announcement of Trump's plans to double tariffs on steel and aluminium to 50%. All but a handful of countries posted positive returns in May, led by offshore China and the US.

Global bonds sold off over May, undermined by escalating concerns that ballooning government borrowing would lead to a glut of new supply. Additionally, easing trade tensions lessened demand for safe-haven assets. Yields rose the most in the US where the 30-year Treasury yield briefly breached 5.0%. UK and Japanese long-dated bond yields also rose, although yields on euro-zone bonds closed the month little changed to slightly lower. Corporate bonds outperformed government debt, particularly high-yield bonds which were boosted by a more risk-on tone in equity markets.

De-escalating fears of a global trade war and thawing Sino-American tensions dominated the headlines for most of May. While the US Federal Reserve (Fed) kept rates on hold at its monetary policy meeting, President Trump's tariff uncertainty unleashed a wave of rate cuts at key central banks, including the Bank of England and the People's Bank of China, as policymakers grappled with heightened downside risks to growth. Turning to corporates, some robust first-quarter earnings releases, led by big tech names, eased investor concerns about the potential effects of Trump's tariffs. However, the withdrawal of forward guidance was a common theme, highlighting the ongoing uncertainty around trade policy and potential tariff-related supply disruptions.

Portfolio Review

The Fund generated a positive return over May.

During May, we have slightly reduced portfolio exposure to equities mainly through Asian markets. Within fixed income, we have reduced the overall exposure mainly through trimming high quality corporate bonds. We have increased exposure to government bonds (mildly) and short-term bonds.

Outlook and Strategy

It has become obvious during the reporting season that many listed companies are now more subdued about their business outlooks. At the same time, the “revision momentum” was weak, which means that analysts tend to revise their earnings estimates downwards rather than upwards. Uncertainty about the impact of the US trade policy on growth is probably the main reason behind this trend. US consumers’ inflation expectations have increased markedly, as the import tariffs threaten to push goods prices upwards. According to surveys, US business sentiment has deteriorated as well. It is not yet clear whether the subdued mood will feed through to the hard data and how the Fed will respond to the challenge of softer growth and rising inflation risks. From a technical vantage point, the major equity-market indices are currently stable, and the recovery after the tariff shock seems to have broadened. The situation on the equity markets looks set to remain dynamic for now. This environment may provide attractive opportunities for active investors. In particular, it might be useful to consider shifting capital towards the emerging Asian markets, which are increasingly driven by domestic demand.

As Moody's has downgraded its rating for the US and the US fiscal situation remains tense, the markets are having second thoughts about the sustainability of the US debt burden and the potential impact on long-term yields. As downside risks to growth and upside risks to inflation increase, we expect the Fed to take a “wait-and-see” approach until the impact of the Trump administration’s disruptive policies becomes clearer. In view of the considerable uncertainty, bond prices are likely to remain volatile in the coming months, and we believe that the US yield curve will steepen further. In the euro area, sluggish growth, trade-related downside risks and the slowdown in inflation will provide the European Central Bank (ECB) with some leeway to cut rates further. Overall, investors will probably learn to appreciate the defensive qualities of prime bonds in a rapidly changing macroeconomic environment. However, they should be cautious of USD risks. We recommend a differentiated approach for corporate bonds. Since spreads are very low, it makes sense to select investments carefully and analyse each bond and issuer individually.

Source: from Bloomberg and Allianz Global Investors and as at 31 May 2025 unless otherwise stated.
Information herein is based on sources we believe to be accurate and reliable as at the date it was made. We reserve the right to revise any information herein at any time without notice. No offer or solicitation to buy or sell securities and no investment advice or recommendation is made herein. In making investment decisions, investors should not rely solely on this material but should seek independent professional advice.
Investing in fixed income instruments (if applicable) may expose investors to various risks, including but not limited to creditworthiness, interest rate, liquidity and restricted flexibility risks. Changes to the economic environment and market conditions may affect these risks, resulting in an adverse effect to the value of the investment. During periods of rising nominal interest rates, the values of fixed income instruments (including short positions with respect to fixed income instruments) are generally expected to decline. Conversely, during periods of declining interest rates, the values are generally expected to rise. Liquidity risk may possibly delay or prevent account withdrawals or redemptions.
Investment involves risks, in particular, risks associated with investment in emerging and less developed markets. Past performance is not indicative of future performance. Investors should read the offering documents for further details, including the risk factors, before investing. This material and website have not been reviewed by the Securities and Futures Commission of Hong Kong. Issued by Allianz Global Investors Asia Pacific Limited.
Allianz Global Investors Asia Pacific Limited (32/F, Two Pacific Place, 88 Queensway, Admiralty, Hong Kong) is the Hong Kong Representative and is regulated by the Securities and Futures Commission of Hong Kong (54/F, One Island East, 18 Westlands Road, Quarry Bay, Hong Kong).

ADM-W4587372