

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

Global equities advanced over May. US stocks led the rally, boosted by a jump in technology companies, particularly a chipmaker which blew past earnings' forecasts. In contrast, Japanese and UK shares rose only modestly, while the MSCI Emerging Markets Index was pressured by weak returns from Brazil and Mexico among others.

Global bonds were mixed. US bonds closed a volatile month with positive returns, outperforming other bond markets as US inflation slowed. In contrast, yields rose in the eurozone as headline inflation rose for the first time this year. Japanese bonds were among the weakest performers, with the 10-year bond yield breaching 1.1% for the first time in almost 13 years amid growing speculation that the Bank of Japan (BoJ) would soon raise rates again and may start to reduce its bond purchase programme. In general, corporate bonds outperformed government debt.

In the US, US Federal Reserve (Fed) Chair Jay Powell signalled that investors would need to be "patient and let restrictive policy do its work" in reducing inflation: however, he also confirmed that the likelihood of a further increase in rates was "very small". In the eurozone, the European Central Bank (ECB) gave its strongest hint yet that rates would be cut in June, despite higher-than-expected wage growth. Hopes that the Bank of England would also cut rates in June were dashed when UK inflation fell less than forecast and the government unexpectedly called a general election, to be held on 4 July.

Portfolio Review

The Fund generated positive return over May. During May, we have maintained stable exposure to equities. Within fixed income, we have increased allocation to both corporate bonds and developed markets government bonds. At the same time, short-term bonds and cash allocation have been reduced.

Outlook and Strategy

It seems that the central banks will want to see weaker cyclical data before they decide to cut rates. So far, there are no signs of a pronounced slowdown on the labour markets either in the US or in Europe. And inflation has not yet returned to the long-term targets either. We believe that the ECB will probably reduce its key rate earlier than the Fed. After the bond-price correction triggered by the change in rate expectations the outlook for government bonds has improved. Some market participants might underestimate the size of the upcoming monetary policy loosening. Since interest rates are attractive in real (i.e. Inflation-adjusted) terms, too, we think that the environment will be quite favourable for government bonds in the coming quarters. Moreover, prime corporate bonds continue to offer additional returns, as corporate earnings are generally healthy, default rates are moderate and the monetary reins will probably be loosened. However, it seems unlikely that investment-grade bond spreads will narrow further. Chances of a general spread narrowing are small in the high-yield segment, too. That means that investors should attach even more importance to a thorough analysis of issuers' individual situations.

The momentum of the global economy was quite encouraging at the beginning of the second quarter, as most regions saw broad-based improvements. At a regional level, data from Europe and Japan improved, whereas the US figures came in somewhat weaker. The uptrend in the emerging markets continued, with the upswing in China going into its eighth month and Brazil, India, Turkey and Mexico all making progress. That means that riskier assets, in particular equities, should have room for positive developments in the coming months, above all against the background of the expected, robust trend in corporate earnings. If, however, the Fed and other major central banks do not succeed in engineering a soft landing, including low inflation in the long term and loose monetary policies, there may be some setbacks. The corrections might be exacerbated by high valuations in some asset classes. The main risk in this context is that inflation might stubbornly remain above the central banks' targets. We would recommend an active investment approach in this environment.

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hk.allianzgi.com

+852 2238 8000

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Source: from Bloomberg, IDS and Allianz Global Investors and as at 31 May 2024 unless otherwise stated.

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AdMaster: 3645519