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 July

Global equities rose modestly in July, bolstered by progress in US trade talks for most of the period. A positive start to the second-quarter earnings season also boosted stocks, although gains were capped after President Trump stepped up his campaign against US Federal Reserve (Fed) Chair Jay Powell, raising concerns about the central bank's independence, as well as by ongoing geopolitical tensions. Turning to sectors, information technology and energy were the strongest sectors in the MSCI All-Country World Index, followed by utilities. Conversely, the health care and consumer staples sectors generated negative returns in July.

Global government bonds sold off in July, with yields rising modestly over the month as a more risk-on tone returned to financial markets. Japanese government bonds (JGB) were among the weakest performers: 10-year JGB yields hit the highest level since the 2008 financial crisis amid fears the ruling coalition would lose its majority, potentially leading to political uncertainty and costly campaign pledges. In general, corporate bonds delivered positive returns, outperforming government debt, with high-yield bonds rising the most.

Trade talks dominated the headlines for much of July. President Trump's 90-day pause on 'Liberation Day' tariffs expired on 9 July and the president ramped up the pressure on the US's trading partners to sign trade deals by a new deadline of 1 August. Among the most notable trade deals the US signed in July were agreements with Japan and the European Union (EU). In monetary policy news, the European Central Bank (ECB), Fed, Bank of Japan (BoJ) and People's Bank of China (PBoC) all kept key lending rates unchanged. Policymakers adopted a cautious stance amid ongoing uncertainty about the impact of tariffs on their respective economies.

Portfolio Review

The Fund generated a positive return over July.

During July, we have slightly reduced portfolio exposure to equities and re-initiated some exposure to gold. Within fixed income, exposure to developed markets government bonds and high-quality corporate bonds have been slightly increased.

Outlook and Strategy

We remain cautiously optimistic for the equity markets overall, with Europe and Asia currently appearing more attractive than the US in a regional comparison. While corporate earnings in general look set to suffer from the subdued global growth outlook and the US import tariffs, we continue to expect moderate earnings growth in Europe in 2025 and a considerable acceleration in 2026. We foresee a positive impact from the likely improvement in the macroeconomic conditions, companies' efforts to adapt to the new tariff regime and abating foreign exchange (FX) effects. US earnings growth looks set to pick up in 2026, too, but less than that in Europe. As a result, the "earnings growth gap" between the US and Europe is likely to narrow, which means that an important reason for the current valuation discount of European versus US equities should lose significance. Numerous emerging markets appear promising as well, given that they benefit from a strong domestic momentum and solid fundamentals as well as from the US dollar depreciation, better earnings opportunities and favourable political framework conditions. However, we may be in for significant equity market volatility due to persistent geopolitical risks and the fact that markets are, at times, driven more by sentiment than by fundamentals. In the longer term, a thorough analysis at the single-stock level remains key in order to reduce company-specific risks and benefit from particular return opportunities.

Despite the ECB more accommodating monetary policy and despite the expansionary fiscal policy in Germany, the market consensus only expects growth of about 1% for the euro area. At the same time, the inflation outlook for the euro area continues to improve, with both headline and core inflation being near the ECB's target. After the latest rate cut in June, several ECB Council members have sounded more cautious about further monetary loosening. Nevertheless, negative growth and inflation surprises might make the ECB cut its key interest rates again during the remainder of the year. The US Federal Reserve (Fed) has left its Fed funds target rate unchanged, too. However, comments by Fed members suggest that the Federal Open Market Committee may decide on one or two rate cuts before the end of the year. The persistently strong uptrend in US debt is a risk for the longer end of the US yield curve. Overall, we believe that the growth and inflation environment in the euro area will support an outperformance of European government bonds over US Treasuries. Investments in selected corporate bonds still seem to be a good option to improve total returns. As risk premiums are currently low, we prefer better-quality bonds. Emerging markets bonds should continue to benefit from solid fundamentals, comfortable inflation-adjusted returns and central bank actions.