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 April

Global equities had another volatile month in April. Stocks initially plummeted amid fears that the global response to President Donald Trump's 'Liberation Day' tariff offensive would plunge the global economy into recession, but recovered most of their earlier losses when the president announced an abrupt U-turn to provide scope for trade negotiations. Trump's subsequent attack on Federal Reserve (Fed) Chair Jay Powell for not cutting interest rates heightened concerns over the central bank's independence and prompted a renewed sell-off, although easing tariff tensions and optimism around first-quarter corporate earnings releases brought some welcome respite near month end.

Global bonds advanced over April. European bonds rallied the most as hopes grew that the European Central Bank and Bank of England would continue to cut rates. In the US, the yield curve steepened, with short-term yields falling sharply while the 30-year Treasury bond yield rose, amid growing fears that President Donald Trump would interfere with the Fed's independence in his quest for lower interest rates. Credit markets generally lagged government bonds.

Escalating fears of a global trade war and slowing global growth dominated the headlines for most of April, with investors and policymakers alike grappling with President Donald Trump's whipsawing tariff chaos. The Bank of Japan and the People's Bank of China held key lending rates steady at their meetings during the month. Meanwhile, the European Central Bank cut interest rates by 25 basis points to 2.25%, as widely anticipated, citing the deteriorating growth outlook due to rising trade tensions.

Portfolio Review

The Fund generated a positive return over April.

During April, we have increased portfolio exposure to equities. We have mainly increased emerging markets exposure while reduced developed markets exposure with some regional rotation. Within fixed income, we have modestly reduced the overall exposure with rotation from government bonds to high quality corporate bonds. We have also trimmed gold exposure to take profit amid gold rally.

Outlook and Strategy

In April, our Macro Breadth Growth Index declined for the second time in a row – a development which points to a significant loss of economic momentum. The broad deterioration across key developed economies (including the US, the euro area, Japan and the UK) and a number of emerging economies was not fully offset by a recovery in China and Brazil. The import tariffs announced by President Trump at the beginning of April will probably turn the global economic and trade system upside-down. Investors will have to deal with far-reaching structural shifts, which may (particularly in the US) lead to stagflation or recession. Risk premiums for riskier asset classes, such as equities, probably do not reflect yet the increase in uncertainty and the deterioration of the growth and inflation outlook. From our vantage point, the probability of significant price movements or a longer correction period has increased, above all in highly valued market segments such as the US market. While some European and Chinese stocks might benefit from increased government spending, these regions will be faced with structural headwinds and the negative impact on demand caused by the US tariffs. Since the market environment may bring considerable surprises and is characterised by deviating regional developments, we believe that investors should pursue an active portfolio management approach based on fundamentals.

Following largely synchronised rate cuts during the past year, the international central banks will find different responses to the imminent global trade shock and its asynchronous effects on growth and inflation. As downside risks to growth and upside risks to inflation increase, we expect the Federal Reserve (Fed) in particular to take a "wait-and-see" approach until the impact of the Trump administration's disruptive policies becomes clearer. In the euro area, sluggish growth, trade-related downside risks and the recent slowdown in inflation will provide the European Central Bank (ECB) with some leeway to cut rates further. The Chinese authorities are likely to loosen their monetary policy, too. High-quality bonds should retain their defensive qualities in a quickly shifting macroeconomic environment, but some of them may be subject to increased inflation risks. Riskier bonds may be subject to market revaluations, which is why a differentiated approach seems warranted. Since some spreads are very low, it makes sense to select investments carefully and analyse each bond and issuer individually.