

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 February

Global equities delivered mixed returns over February as markets struggled to navigate President Trump's deliberately disruptive and unpredictable agenda. Chinese stocks surged, boosted by strength in technology companies. European shares also advanced, underpinned by growing optimism over a potential end to the war in Ukraine. In contrast, US and Japanese equities lost ground.

Global bonds delivered positive returns. US Treasuries were among the strongest performers, boosted by signs of slowing US economic momentum. European government bonds also rose but lagged their US counterparts in anticipation that higher European defence commitments will likely cause government spending to balloon across the continent. In contrast, Japanese government bonds sold off, with yields touching the highest level since 2009 mid-month.

February brought growing signs that the US economy was slowing, with inflation expectations jumping due to President Trump's tariffs threats. Retail sales, consumer sentiment and home sales slumped in January and early indications showed services activity in February had contracted for the first time in more than two years. While the US Federal Reserve (Fed) indicated it was in no rush to cut rates, the European Central Bank (ECB) is expected to continue to reduce borrowing costs. Conversely, accelerating Japanese inflation increased the likelihood of another rate hike from the Bank of Japan (BoJ).

Portfolio Review

The Fund generated a positive return over February.

During February, total exposure to equity investments has been slightly decreased, mainly through Asian markets exposure. Gold exposure has also been trimmed to lock in profit. We have mildly reduced fixed income exposure and rotated into short-term bonds and cash.

Outlook and Strategy

While a “soft landing” of the US economy remains the most probable scenario for us, strong US data, persistently high inflation, and uncertainty about the impact of President Trump’s policies increasingly raise doubts about both the outlook for the economy and a complete normalisation of the Fed’s monetary policy. At the same time, US equity valuations appear high in a historical comparison. Obviously, investors’ earnings growth expectations are very optimistic, above all in the tech segment. This may ultimately lead to higher volatility on the US equity market. In this environment, risk-aware investors might turn to more favourably valued markets. In fact, it seems that they have recently channelled more capital into the European markets, not least because a number of companies pursue global business models which are less affected by the weak macro environment in Europe. In addition, several political initiatives from the US, in particular the dialogue with Russia about an end to the conflict in Ukraine, might support higher investments and a better business environment. While there are considerable political uncertainties, corporate earnings should remain robust for now, and healthy corporate earnings are usually favourable for equity investments. However, in view of concentration risks it makes sense to diversify the portfolio and pursue a dynamic approach at both the sector and the individual stock level.

Against the background of robust economic data and persistently high inflation, we expect the Fed to continue its cautious monetary policy and to reduce the Fed funds rate in small steps. It may even end the rate-cut cycle or hike rates during the remainder of the year. In contrast, the euro-area economies still need to deal with cyclical and structural headwinds, which is why we believe the European Central Bank will loosen the monetary reins further in the coming months. We continue to expect a rate-curve steepening in both the US and Germany, as maturity premiums still appear too low against the background of persistent inflation risks. In this environment, investors should take only well-selected duration risks, if any. Meanwhile, high-quality corporate bonds are an attractive source of additional income in view of usually robust corporate earnings and moderate default rates. At the same time, investors should be cautious about high-yield and emerging markets bonds, as the spreads tend to hover around multi-year lows and do not compensate for the risks across all segments.

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Source: from Bloomberg and Allianz Global Investors and as at 28 February 2025 unless otherwise stated.

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