Allianz Global Investors

Allianz Yield Plus Fund

Monthly commentary

- The Fund aims at a steady level of income from a global universe of investment grade interest bearing securities and secondarily a total return in excess of a cash benchmark through a market cycle.
- The Fund is exposed to significant risks which include investment/general market, sovereign debt, creditworthiness/credit rating/downgrading, counterparty, interest rate changes, valuation, volatility and liquidity, emerging market and currency.
- The Fund may invest in asset-backed securities ("ABS") and mortgage-backed securities ("MBS") which may be highly illiquid and prone to substantial price volatility. These instruments may therefore be subject to greater credit, liquidity and interest-rate risks compared to other debt securities.
- 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.
- Note: Dividend payments may, at the sole discretion of the Investment Manager, be made out of the Fund's income and/or capital which in the latter case represents a return or withdrawal of part of the amount investors originally invested and/or capital gains attributable to the original investment. This may result in an immediate decrease in the NAV per distribution unit and the capital of the Fund available for investment in the future and capital growth may be reduced, in particular for hedged share classes for which the distribution amount and NAV of any hedged share classes (HSC) may be adversely affected by differences in the interests rates of the reference currency of the HSC and the base currency of the Fund.

What Happened in March

Market action during the month of March was dominated by the escalation in the Middle East, that started over the weekend on 28th February. Iran disrupted traffic through the Strait of Hormuz and attacked some of the energy infrastructure in the region. That led to a significant disruption in supply chains for energy and other key commodities. Performance reflected this shift in sentiment. Global Aggregate Corporate excess returns were -37bps over the month, driven by an 8bps credit spread widening. Sector performance was broadly negative, with Industrials returning -38bps, Utilities -42bps, and Financials -35bps, as spreads widened by 7bps, 6bps, and 10bps respectively. This underscores the broad-based nature of the move, rather than weakness concentrated in any single sector. By currency, USD spreads widened by 5bps to 89bps, EUR spreads by 14bps to 97bps, and GBP spreads by 6bps to 99bps, resulting in excess returns of -19bps for USD, 5bps for EUR, and -17bps for GBP.

Central bank commentary struck a cautious note in March, as soaring oil and gas prices put upward pressure on headline inflation forecasts and diminished hopes of further rate cuts. The US Federal Reserve (Fed) held the federal funds rate steady at a target rate of 3.50%–3.75%, as widely anticipated, with Fed Chair Jerome Powell stating that it was too early to gauge the impacts of rising energy inflation on the economy. Similarly, the Bank of England's Monetary Policy Committee voted unanimously to hold the base rates at 3.75%, while the European Central Bank (ECB) also kept borrowing rates steady at 2.0% but warned of a rate hike as early as April to address energy inflation from the war.

March issuance was approximately $75bn in USD, €26bn in EUR, and £3bn in GBP. Supply remained below average and was propped up by the largest corporate bond deal in Euros ever by Amazon. Excluding this deal, supply would have been nearly 40% lower than the average over the past 10 years.

A smaller but notable theme was emerging stress in private credit, particularly within non-traded Business Development Companies (BDCs), where redemption activity has picked up. While this has weighed on sentiment toward alternative asset managers, the direct read-across to investment grade remains limited, as BDCs sit largely outside core benchmarks and represent only a very small part of the universe (~1%). At this stage, the development appears contained and primarily sentiment-driven.

Portfolio Review

The Fund generated -97 bp of gross return in March, behind the +32 bp return of its cash reference index (SOFR). Term structure was the main drag as short-term yields rose markedly. To a lesser extent, wider credit spreads also detracted in March.

With a total credit spread duration of 2.6y and an average rating of 'A', the portfolio is positioned conservatively with a quality bias. With an average coupon of 6.9%, the portfolio maintains attractive income generation potential. The fund's effective (interest rate) duration stands at 2.4.

Outlook and Strategy

In our view, the US-Iran conflict constitutes a classic geopolitical volatility shock that risks morphing into a macro shock. For fixed income, oil driven inflation risks compete with risk aversion flows. Duration performance will hinge on how persistent higher energy prices prove to be and the consequent implications for central bank policy expectations. Credit risk is asymmetric, with certain countries in emerging and frontier markets most exposed. The key determinant to watch is whether elevated energy prices persist long enough to turn volatility into a broader macro problem. War outcomes can be highly binary, whereas asset prices ultimately reflect underlying fundamentals. Prioritizing quality carry, balance sheet strength, and active credit selection—rather than broad directional beta—while keeping scope to add risk is essential for navigating market uncertainty.

At a sector level, we retain our preference for financials and consumer non-cyclicals and remain cautious on consumer cyclicals. We are constructive on securitized products as relative value looks compelling to corporates. The asset class continues to benefit from stable credit trends on underlying assets. Structures include credit enhancement and other structural protections as well as tests and covenants that protect bondholders, particularly at the AAA level. The fund benefits from active management of credit risk allowing us to be dynamic in responding to the evolving market and idiosyncratic events.

Having assessed the portfolio in light of developments, we continue to see limited direct impacts. Clearly, we continue to evaluate second-order impacts but do not foresee material idiosyncratic or sectorial changes at this stage. We also flag that the markets' reaction function to the oil price shock will likely continue to be a pricing out of Fed rate cut expectations; down to 0 for 2026 from 2 pre-crisis. This will improve the absolute return outlook for the fund.

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