

American Income Strategy: A Balancing Act for Modern Day Investors

April 2021



For investors, if 2020 was about a US Federal Reserve (Fed) policy-induced party, then 2021 could be about the Fed taking the punchbowl away.

Despite the Fed's repeated reiteration of its dovish policy and playing down the impact of inflation risks, the bond market is clearly undergoing a pivotal shift from extraordinary monetary policy support to economic fundamentals taking the lead. Stronger fiscal stimulus in the US could also add fuel to the fire.

Bond investors are already having a bad start this year. Global bonds as measured by Bloomberg Barclays Global

Aggregate Index is down -4.6% while Long Term US Treasury Index is down -10.4% in Q1 this year. Long dated treasury bonds are down sharply due to its long duration and the lack of interest income to buffer adverse rate movement. Amid concern about the outlook of higher interest rates, investors are starting to question the value of holding bonds as part of a portfolio.

While it is easy to dismiss bonds when interest rates are rising, however, every bond fund is different and suits different investment goals. As such, it is important to consider the roles that various fixed income asset classes play in a portfolio.

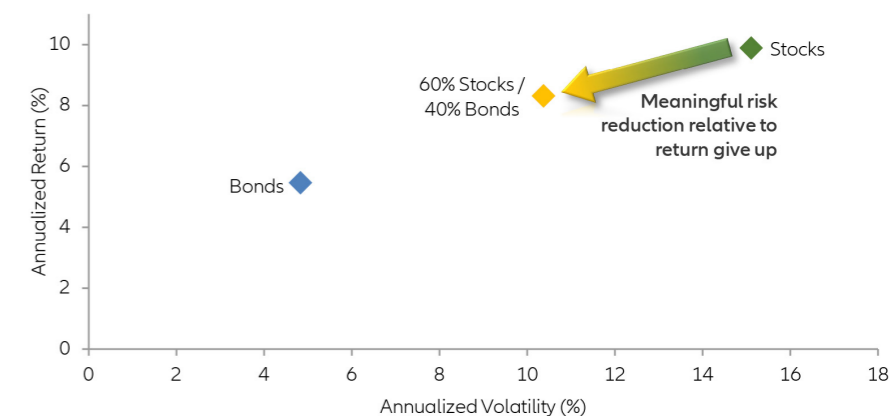
How can investors balance the risks in their portfolios?

Allianz American Income (the Fund) --- a defensive fixed income solution that focuses on balancing interest rate and credit risk --- helps bring diversification benefit and resiliency within a portfolio. The Fund invests in government bonds and investment grade corporates while adding high-yield bonds to enhance income. As the goal of the Fund is to provide yield, stability and liquidity, there are no complex securitized product or derivative instruments. This is to ensure that the Fund provides better

downside protection especially during periods of adverse stock market movements.

Although today's rising rates environment may cause bond funds to look less attractive against other investment options, it is important to look at the role of a bond fund within a portfolio context. History has demonstrated that no single asset class can be the winner all the time, and this is especially the case when the market environment is always changing with unpredictable volatilities. The bottom line for investors is that they must not allow short-term market uncertainty to derail their long-term goals. At the end of the day, having an allocation to bonds could provide diversification benefits and a traditional balanced portfolio does not go out of style.

Traditional balanced portfolio provides diversification benefit



Source: Bloomberg, ICE Data Services, Allianz Global Investors. Data as of Jan 2000 to Dec 2020. Bonds are represented by 20% ICE BofA 1-10Yr US Treasury & Agency Index/50% ICE BofA 1-10Yr US Corporate Index/30% ICE BofA US High Yield Index; Stocks represented by S&P 500 Index.

Why Allianz American Income Strategy?



May provide consistent and stable income generation – through three different coupon sources.

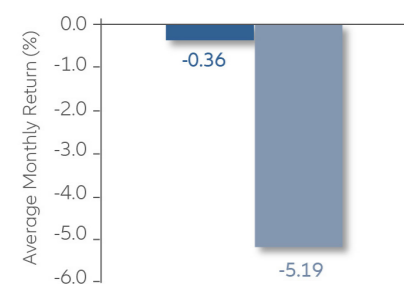


A true diversifier – With its strategic allocation to three fixed income asset classes.

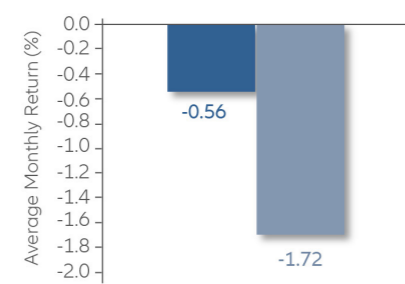


Avoidance of complexity – for potentially better downside protection.

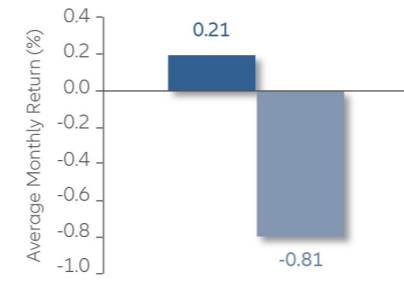
Equity S&P 500, negative months



Credit US high yield, negative months



Rising interest rates 10-year US Treasury, negative months



Source: FactSet; ICE Data Services; Allianz Global Investors. Fund inception: 1 March 2017. Past performance is not indicative of future results. This statement reflects characteristics as of the time period shown, results over a different time period may have been more or less favorable. Allianz American Income is the representative account of the Allianz American Income AM USD fund. Data as of March 2017 to December 2020.

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