

Income and Growth Strategy: An all-weather solution for modern day investors



April 2021

Risk assets entered 2021 on a strong footing as investors were optimistic on the prospect of additional fiscal stimulus from the US, continued easy monetary policy, vaccine rollout and a quicker-than-expected re-opening of the US economy.

At the same time, this positive outlook of economic recovery and higher fiscal deficits drove bond yields higher. The sharp acceleration in rates, market sell-off and concerns about higher inflation have led to broad-based moves and some volatility across various asset classes. Even within the same asset class, the rotation from COVID-beneficiaries to the COVID-laggards has also accelerated, leading to return divergences.

Higher rates also led to a steepening of the yield curve, which typically indicates stronger economic activity and generally positivity for the overall profitability of US corporations. It is also a reflection of the US Federal Reserve's commitment to accommodative policy and to prevent a repeat of the 2013 taper tantrum.

What should investors do in the current market environment where rates are trading higher but absolute yields remain low? Where and how does inflation cause market volatility?

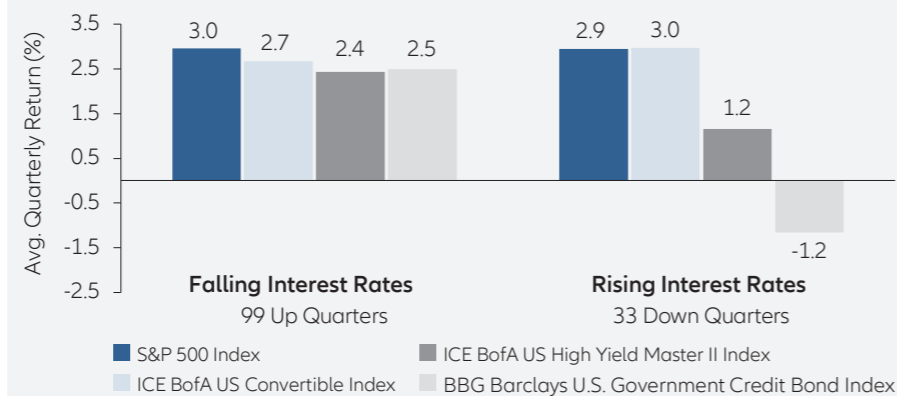
Investors need look no further than a strategy that could offer income opportunities plus capture potential capital growth, which is essential in an environment where real yields are low. Allianz Income and Growth fund is a multi-asset strategy that invests primarily in a portfolio of one-third high-quality large-cap stocks, one-third high-yield bonds and one-third convertible bonds.

Historically, high yield and convertibles have low correlation to the traditional fixed income asset classes and are slightly negatively correlated to interest rate movements. More so, the three underlying asset classes tend to perform well regardless of interest rate environments (see Chart 1). A higher rate environment accompanied by modest inflation as the US economy reopens should benefit a wide range

of companies. While there are some concerns certain companies are overvalued, there are still plenty of opportunity sets with respect to identifying companies that demonstrate the ability to improve their fundamental characteristics.

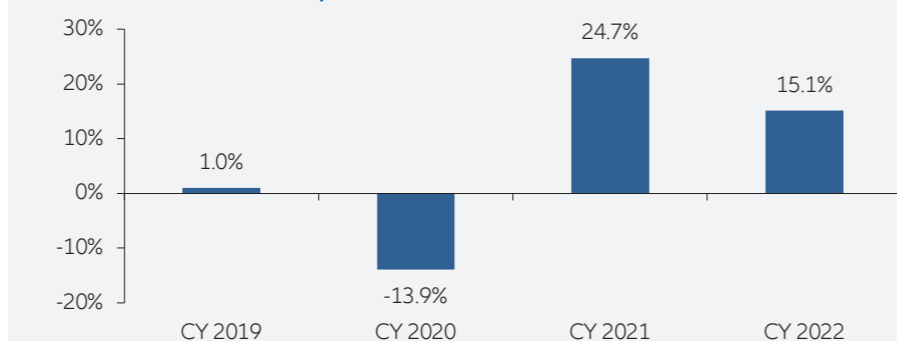
After bottoming in 2020, corporate profits should reaccelerate in 2021 amid a strong economic recovery.

Chart 1: Equities, convertibles, and high yield bonds have performed well regardless of the interest rate environment - Jan 1988 to Dec 2020



Past performance is not a reliable indicator of future results. This chart is not indicative of the past or future performance of any Allianz Global Investors product. Note: Fixed income up and down quarters are based on quarterly performance of the BBG Barclays US Government Credit Bond Index. Source: FactSet; ICE Data Services. Data as of January 1988 to December 2020.

Chart 2: S&P 500 Bottom-Up EPS Estimates



Source: Factset. Data as of 26 March 2021. Past performance, or any prediction, projection or forecast, is not indicative of future performance.

According to market strategists, quarterly earnings are expected to trend higher throughout the year, resulting in double-digit year-over-year earnings growth for the S&P 500 Index (see Chart 2). US companies are well positioned to benefit from operating leverage as strengthening top-line growth is met with productivity gains, driving margin expansion and bottom-line growth.

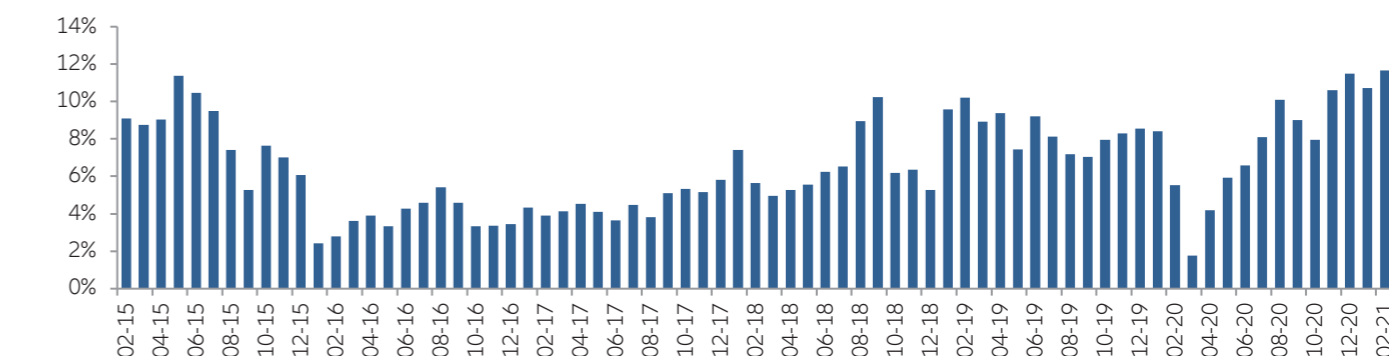
Almost any portfolio could benefit from the many advantages that income can provide, from lowering volatility to contributing to potential total return and inflation protection. The bottom line for investors is that they must not allow short-term market uncertainty to derail their long-term goals. Investors would be wise to "re-risk" their portfolios and consider a range of income-generating strategies that have historically held up well during down markets, offering both stock-like potential returns and a way to moderate volatility.

Why Allianz Income and Growth Strategy?

From a portfolio perspective, Allianz Income and Growth (the Fund) complements both core fixed income and equity allocations. The Fund could be considered as an equity surrogate, as it has historically provided equity-like returns with less volatility than stocks. It is an appropriate option for investors who are risk adverse and looking to eliminate or trim volatility from their portfolio, but still want some equity-like exposure.

The Fund is distinct and is complimentary with other investment grade fixed income allocations given that the three-sleeves are negatively correlated to the returns of investment grade credit and government debt. Based on this, the strategy's performance may not be impacted by the interest rate environment.

Allianz Income and Growth AM USD shareclass (3Y ann. rolling performance)



Source: Morningstar¹, bid to bid, dividends reinvested in USD as of 26 March 2021. Share class inception: 16 October 2012. Performance prior to AM USD share class inception is linked to oldest share class. Past performance is not a reliable indicator of future results.

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