

Allianz

American Income

Monthly commentary

Investment Objective

The Fund aims at long-term capital growth and income by investing in debt securities of American bond markets with a focus on the US bond markets.

What Happened in April

Fixed income markets were relatively flat in April. Early in the month, markets sold off after President Trump announced sweeping tariffs as well as subsequent retaliatory measures. However, over the remainder of the month, markets rallied. Several factors contributed to the positive shift in market tone, including a softened stance on tariffs, stabilisation in the US dollar and 10-year US Treasury yield, trade deal optimism, and a better-than-feared start to Q1 earnings season. On the other hand, corporate outlooks were cautious with many companies pulling full-year guidance and warning of price hikes. Economic reports released during the month were generally balanced, although most strategists expect trade policy and uncertainty to begin dragging on growth mid-year.

Investment Grade Bond Market Environment

The ICE BofA US Corporate Index returned -0.03%, underperforming the shorter-dated ICE BofA 1-10 Year US Corporate Index which returned +0.55%.^

Credit-quality subsector returns for the month^:

- AAA rated bonds: +0.03%
- AA rated bonds: +0.12%
- A rated bonds: +0.15%
- BBB rated bonds: -0.22%

Spreads widened to 109 basis points (bps), the average bond price fell to 93.28, and the market's yield was flat at 5.20%.^

Gross new issuance for the month was USD 105.0 billion.*

The 10-year US Treasury returned +0.79%.* The note's yield fell to 4.15% compared to 4.21% the prior month.*

High-Yield Bond Market Environment

The ICE BofA US High Yield Index was flat for the month.*

Credit-quality subsector returns for the month*:

- BB rated bonds: +0.17%
- B rated bonds: -0.06%
- CCC rated bonds: -0.62%

Spreads widened to 394 bps from 355 bps, the average bond price fell to 94.44, and the market's yield rose to 8.05%.*

Industry performance skewed positive with Health Care, Cable, and Utilities outperforming, while Energy, Retail, and Transportation underperformed.

Trailing 12-month default rates finished the period at 1.25% (par) and 0.68% (issues).**

Monthly new issuance saw 8 issues priced, raising USD 8.6 billion in proceeds.**

Portfolio Review

April performance was positively impacted by broad strength across the portfolio's fixed income holdings. Treasury and high yield exposures were notable drivers of gains.

Among corporate bonds, the top contributors to performance in the period included Technology, Aerospace, and Gaming. Technology and Aerospace holdings that positively impacted performance were concentrated within the electronic components and aircraft manufacturing spaces, respectively, both of which are highly import-dependent and generally benefitted from the mid-month easing of tariff impact expectations. As trade fears subsided, so too did the odds of recession, which benefitted casino and gambling holdings in the Gaming space that have considerable exposure to consumer spending and sentiment.

The top detractors from performance in the period were Energy, Chemicals, and Health Care. Weakness in Energy was attributable to multiple issues in exploration & production as well as midstream services that were negatively impacted by sharp declines in the price of crude oil and natural gas. Concerns over potential tariff impacts pressured specialty chemical and pharmaceutical exposure.

Transactions during the period included new purchases in broadcasting and multiple diversified banks, and complete sells in US Treasuries, oil & gas exploration & production, and hotels/resorts/cruise lines.

Market Outlook and Strategy

The US economy could expand in 2025, but tariffs have become a bigger headwind than previously thought, with most strategists expecting trade policy and uncertainty to begin dragging on growth mid-year. When clarity improves, uncertainty should lessen, and spending, investment, hiring, and mergers and acquisitions (M&A) activity can resume. In addition, tailwinds such as deregulation and taxation measures still exist with productivity gains and demand tied to reindustrialisation, onshoring, and the private sector acting as other potential growth drivers.

The US Federal Reserve (Fed) likely remains on hold as they assess the effect of trade policies on inflation, employment, and the potential for stagflation. Interest rate cuts could restart later this year to support their dual mandate. A resumption of monetary policy easing would closer align the Fed with accommodation by central banks overseas.

US investment grade corporate bond's risk/reward opportunity is compelling. Rising interest rates are a risk for high grade corporates, however the investment opportunity remains attractive given higher coupons and yields, and a positive fundamental outlook with limited default risk. The asset class trades at a discount to par, offering compelling total return potential and downside cushioning. If the 10-year US Treasury yield finishes 2025 near the lower bound of the expected range of 3.5-4.5%, the asset class return could exceed mid-single digits. US Treasuries – a low-risk source of reliable income – are an attractive investment given relatively high interest rates.

The US high yield market, yielding more than 8%[^], could deliver a coupon-like return in 2025. As a result, the asset class continues to offer equity-like returns but with less volatility. The market's attractive total return potential is a function of its discount to face value and higher coupon, which also serves to cushion downside volatility. Credit fundamentals are stable, near-term refinancing obligations remain low, and management teams continue to exercise balance sheet discipline. In this environment, new issuance is expected to remain steady, and the default rate should stay below the historical average of 3-4%.

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sg.allianzgi.com

+65 6438 0828

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All data are sourced from Allianz Global Investors dated 30 April 2025 unless otherwise stated.

* Source: BofA Merrill Lynch, as at 30 April 2025

^ Source: ICE Data Services, as at 30 April 2025

** Source: J.P. Morgan, as at 30 April 2025

Allianz Global Investors and Voya Investment Management entered into a long-term strategic partnership on 25 July 2022, upon which the investment team transferred to Voya Investment Management. This did not materially change the composition of the team, the investment philosophy nor the investment process. Management Company: Allianz Global Investors GmbH. Delegated Manager: Voya Investment Management Co. LLC ("Voya IM").

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