

# 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 February

Markets were mixed in February with fixed income closing broadly higher. Q4 earnings momentum persisted, with approximately three-quarters of companies topping bottom-line consensus estimates, while corporate guidance remained mixed as managements await clarity around the new administration's policies. Except for a key manufacturing survey and unemployment, both of which were better than expected, economic data generally underwhelmed. Services, retail sales, consumer confidence, and select inflation measures missed estimates. Against this backdrop, the 10-year US Treasury yield fell sharply.

### Investment Grade Bond Market Environment

The ICE BofA US Corporate Index returned +2.03%, outperforming the shorter-dated ICE BofA 1-10 Year US Corporate Index which returned +1.39%.^

Credit-quality subsector returns for the month^:

- AAA rated bonds: +2.60%
- AA rated bonds: +2.15%
- A rated bonds: +2.00%
- BBB rated bonds: +2.01%

Spreads widened to 88 basis points (bps), the average bond price rose to 94.19, and the market's yield fell to 5.13%.^

Gross new issuance for the month was USD 157.8 billion.\*

The 10-year US Treasury returned +3.09%.\* The note's yield fell to 4.20% compared to 4.55% the prior month.\*

### High-Yield Bond Market Environment

The ICE BofA US High Yield Index returned +0.65% for the month.\*

Credit-quality subsector returns for the month\*:

- BB rated bonds: +0.72%
- B rated bonds: +0.61%
- CCC rated bonds: +0.46%

Spreads widened to 287 bps from 268 bps, the average bond price rose modestly to 96.52, and the market's yield fell to 7.39%.\*

Industry performance was broadly higher with Food Producers, Health Care, and Utilities outperforming, while Autos, Retail, and Chemicals underperformed.

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

Monthly new issuance saw 26 issues priced, raising USD 18.7 billion in proceeds.\*\*

### Portfolio Review

February performance was positively impacted by broad strength across fixed income markets as interest rates moved lower.

Among corporate bonds, the top contributors to performance in the period included Technology, Financial Services, and Banking, all of which were favourably impacted by exposure to longer-duration issues. Within Technology, several holdings in the semiconductor space with exposure to artificial intelligence (AI) buildout outperformed, along with a fintech issue. Multiple issues in the payments and credit card services space had a positive impact in Financial Services alongside a move lower in rates. Strength in Banking was broad, driven by a number of issues from large multinationals that outperformed in the period.

There were no industries that detracted from performance in the period.

Transactions during the period included new purchases in air freight/couriers, consumer finance, and interactive media & services, and complete sells in US Treasuries, tires/rubber, and thrifts & mortgage finance.

### Market Outlook and Strategy

Macro factors, including newly implemented tariffs and government efficiency initiatives, could weigh on consumer spending and delay corporate investment in the near term as households and companies await clarity around current and future policies. A growth slowdown would not be unexpected if these headwinds materialise. The recent increase in equity volatility likely reflects the possibility of downward revisions to short-term earnings growth estimates.

The US economy should continue to expand in 2025, supported by earnings growth, further US Federal Reserve (Fed) easing as inflation and the labour market continue to normalise, and the new administration's pro-US growth policies.

Apart from these factors, steady consumer spending, ongoing services sector expansion, continued fiscal spending, and improving productivity aided by the proliferation of AI are growth tailwinds. Risk to the economy may increase if these trends weaken. Other considerations include tariff and immigration policies, geopolitical tensions, prolonged labour market softening, continued manufacturing contraction, and economic weakness outside of the US.

US investment grade corporate bond's risk/reward opportunity is favourable. Rising interest rates are a risk for high grade corporates, however the investment opportunity remains favourable given higher coupons and yields, and a positive fundamental outlook with limited default risk. The asset class trades at a discount to par, offering favourable 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 a favourable investment given relatively high interest rates.

The US high yield market, yielding over 7%^, is expected to deliver a coupon-like return in 2025 with upside possible. As a result, the asset class continues to offer equity-like returns but with less volatility. The market's favourable 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. Increased mergers and acquisitions (M&A) activity and deregulation could also have a positive market impact. In this environment, new issuance is expected to remain elevated, the default rate should stay below the historical average of 3-4%, and spreads can remain tight.

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All data are sourced from Allianz Global Investors dated 28 February 2025 unless otherwise stated.

\* Source: BofA Merrill Lynch, as at 28 February 2025

^ Source: ICE Data Services, as at 28 February 2025

\*\* Source: J.P. Morgan, as at 28 February 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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