

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 January

US corporate bonds finished higher in January. The Q4 earnings season got off to strong start. About one-third of the way through, nearly 80% of S&P 500 companies have surpassed bottom-line estimates with the index on pace to deliver double-digit (year-over-year) earnings growth for a fifth consecutive quarter. Geopolitical developments were volatile surrounding Venezuela, Greenland, and Iran, though markets broadly looked through the noise. Economic data underscored a resilient backdrop with firm labour and services indicators, offset by softer consumer confidence and weak housing activity. The US Federal Reserve (Fed) held rates steady as expected and markets priced in roughly 50 basis points (bps) of cumulative cuts by year-end. Additionally, President Trump nominated Fed Governor Kevin Warsh as the next head of the central bank. Against this backdrop, markets saw large rotations – including into cyclicals and small caps – and the 10-year US treasury yield rose to 4.26%.*

Investment Grade Bond Market Environment

The ICE BofA US Corporate Index returned +0.36%, underperforming the shorter-dated ICE BofA 1-10 Year US Corporate Index which returned +0.34%.^

Credit-quality subsector returns for the month^:

- AAA rated bonds: +0.01%
- AA rated bonds: +0.19%
- A rated bonds: +0.29%
- BBB rated bonds: +0.46%

Spreads narrowed to 75 bps, the average bond price was flat at 95.62, and the market's yield was modestly higher at 4.89%.^

Gross new issuance for the month was USD 223.2 billion.*

The 10-year US Treasury returned -0.27%.* The note's yield rose to 4.26% compared to 4.18% the prior month.*

High-Yield Bond Market Environment

The ICE BofA US High Yield Index returned +0.48% for the month.*

Credit-quality subsector returns for the month*:

- BB rated bonds: +0.50%
- B rated bonds: +0.50%
- CCC rated bonds: +0.25%

Spreads widened to 288 bps from 281 bps, the average bond price rose modestly to 98.09, and the market's yield rose to 7.12%.*

Industry performance was mostly higher as Energy, Telecoms, and Chemicals outperformed, while Packaging/Paper, Technology, and Services underperformed.

Trailing 12-month default rates finished the period at 1.97% (par) and 1.40% (issues).**

Monthly new issuance saw 41 issues priced, raising USD 30.0 billion in proceeds.**

Portfolio Review

Among corporate bond holdings, the top contributing industries to performance were Energy, Automotive, and Aerospace. In Energy, notable positions included an oil and gas company that merged with another producer, an exploration and production issuer with meaningful scale and diversification, and a leading liquid natural gas provider. An Automaker expected to grow margins through lower warranty spending and a more favourable sales mix helped automotive performance. Strength in Aerospace was partly driven by a commercial passenger aircraft developer.

Financial Services and Technology were the only industries that detracted from performance in the period. Weakness in Financial Services was partially attributable to a student lender pressured by rising provision concerns. Select software holdings held back performance in Technology.

Transactions during the period included new purchases in freight, telecom, insurance, and retail, among others. Complete sells were in student lending, building products, broadcasting, and health care. US Treasury exposure was also reduced in January.

Market Outlook and Strategy

2026 US economic growth could surpass that of 2025. Potential tailwinds include stimulus from the One Big Beautiful Bill Act (OBBBA – tax cuts/refunds and capital spending acceleration), foreign direct investment from overseas, continued

monetary policy easing (including the recently announced asset purchase programme), and steady consumption. Reshoring activity, less regulation, expanding credit, and a rebound in consumer and business confidence are also potential drivers. Improvements in the housing and/or manufacturing sectors could aid growth as well. Key economic risks include heightened geopolitical tensions and elevated fiscal deficits globally. Additionally, if unemployment and/or inflation rise sharply, the odds of an economic slowdown increase.

In an environment where changes in the labour market and prices are more muted, the Fed can continue to target a neutral policy position. Currently, market odds suggest additional interest rate cuts to a range of 3.00-3.25% – a level that is consistent with the Fed’s median, longer run projection of 3%.

US investment grade corporate bond’s risk/reward opportunity is compelling. A coupon-like return is possible for the asset class in 2026. 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 steady with limited default risk. In this environment, spreads can remain tight. If the 10-year US Treasury yield finishes 2026 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 7%[^], offers equity-like returns but with less volatility. The asset class is expected to deliver another year of coupon-like returns in 2026. 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. Additionally, the market’s credit quality composition has improved. In this environment, new issuance is expected to remain steady, spreads can stay tight, and the default rate should continue to reside below the historical average.

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All data are sourced from Allianz Global Investors dated 31 January 2026 unless otherwise stated.

* Source: BofA Merrill Lynch, as at 31 January 2026

^ Source: ICE Data Services, as at 31 January 2026

** Source: J.P. Morgan, as at 31 January 2026

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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