

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 March

Concerns around the pace and magnitude of tariff and government reform measures pressured most markets due to their potential impact on consumer and corporate spending, economic growth, earnings, employment, and inflation. Economic reports released during the period were balanced with durable goods and factory orders, industrial production, and a key services survey all topping expectations. Conversely, consumer confidence declined, Atlanta Fed GDPNow estimates remained subdued, and a major manufacturing survey missed projections. Inflation, housing, and labour gauges were mixed. The US Federal Reserve (Fed) kept interest rates steady, slowed its balance sheet drawdown, and updated its economic projections to show a decrease in 2025 gross domestic product (GDP) growth estimates and an increase in 2025 inflation estimates. Against this backdrop, the 10-year US Treasury yield was largely unchanged month-over-month.

Investment Grade Bond Market Environment

The ICE BofA US Corporate Index returned -0.28%, underperforming the shorter-dated ICE BofA 1-10 Year US Corporate Index which returned +0.25%.^

Credit-quality subsector returns for the month^:

- AAA rated bonds: -0.41%
- AA rated bonds: -0.26%
- A rated bonds: -0.19%
- BBB rated bonds: -0.36%

Spreads widened to 97 basis points (bps), the average bond price fell to 93.64, and the market's yield rose to 5.20%.^

Gross new issuance for the month was USD 190.4 billion.*

The 10-year US Treasury returned +0.23%.* The note's yield rose to 4.21% compared to 4.20% the prior month.*

High-Yield Bond Market Environment

The ICE BofA US High Yield Index returned -1.07% for the month.*

Credit-quality subsector returns for the month*:

- BB rated bonds: -0.56%
- B rated bonds: -1.31%
- CCC rated bonds: -2.72%

Spreads widened to 355 bps from 287 bps, the average bond price fell to 94.97, and the market's yield rose to 7.88%.*

Industry performance was broadly lower with Food Producers, Utilities, and Capital Goods outperforming, while Autos, Packaging/Paper, and Real Estate underperformed.

Trailing 12-month default rates finished the period at 1.20% (par) and 0.68% (issues).**

Monthly new issuance saw 37 issues priced, raising USD 26.6 billion in proceeds.**

Portfolio Review

March performance was negatively impacted by weakness in corporate bonds. Treasury exposure was a source of strength and benefitted the portfolio.

Among corporate bonds, Aerospace was the only industry that contributed positively in the month. Performance was primarily driven by an issue from a leading aerospace manufacturer that gained on a large contract win and a positive free cashflow outlook.

The top detractors from performance in the period were Automotive, Technology, and Energy. Within Automotive, multiple issues from component manufacturers declined in anticipation of tariff rollouts. Technology underperformance was driven by select issues in consulting, software, and hardware, all of which had perceived exposure to government efficiency and/or tariff measures. Weakness in Energy was limited to several issues in the upstream space that were impacted by crude oil volatility.

Transactions during the period included new purchases in US Treasuries, Copper, and Data Processing & Outsourced, and a complete sells in Diversified Chemicals, Oil & Gas Equipment & Services, and Consumer Finance.

Market Outlook and Strategy

The US economy could expand in 2025, but tariff, government reform, and immigration measures are becoming a bigger headwind than previously thought. However, tailwinds such as deregulation and taxation measures still exist. As trade

and budgetary clarity improves, uncertainty should lessen, and spending, investment, hiring, mergers and acquisitions (M&A, etc. can resume. Productivity gains, industrialisation, onshoring, and private sector demand are additional potential growth drivers.

The 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 nearly 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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All data are sourced from Allianz Global Investors dated 31 March 2025 unless otherwise stated.

* Source: BofA Merrill Lynch, as at 31 March 2025

^ Source: ICE Data Services, as at 31 March 2025

** Source: J.P. Morgan, as at 31 March 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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