Allianz Global Investors

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 November

Fixed income markets advanced in November, with investment grade and high yield bonds finishing higher for the period. US election results and an anticipated pro-growth agenda under the new administration were the primary drivers of market gains. In addition, the US Federal Reserve (Fed) cut interest rates by 25 basis points (bps), boosting investor sentiment further. Lastly, the Q3 earnings season ended on a strong note with both top- and bottom-line results tracking to exceed consensus estimates. On the economic front, inflation gauges were generally in line with expectations, the services sector's expansion improved, jobless claims remained low, and retail sales beat consensus. In contrast, housing market statistics were mixed, and consumer sentiment and monthly payrolls declined relative to the prior period.

Investment Grade Bond Market Environment

The ICE BofA US Corporate Index returned +1.20%, outperforming the shorter-dated ICE BofA 1-10 Year US Corporate Index which returned +0.80%.^

Credit-quality subsector returns for the month^:

- AAA rated bonds: +1.14%
- AA rated bonds: +1.04%
- A rated bonds: +1.10%
- BBB rated bonds: +1.31%

Spreads narrowed to 83 bps from 86 bps, the average bond price rose to 94.38, and the market's yield fell to 5.13%.^

Gross new issuance for the period was USD 98.3 billion.*

The 10-year US Treasury returned +1.03%.* The note's yield fell to 4.19%, compared to 4.28% the prior month.*

High-Yield Bond Market Environment

The ICE BofA US High Yield Index returned +1.15% for the month.*

Credit-quality subsector returns for the month*:

- BB rated bonds: +1.05%
- B rated bonds: +1.11%
- CCC rated bonds: +1.63%

Spreads narrowed to 274 bps from 288 bps, the average bond price rose to 96.40, and the market's yield fell to 7.38%.*

All industries advanced with Cable, Telecoms, and Energy outperforming, while Technology, Utilities, and Packaging/Paper underperformed.

Trailing 12-month default rates finished the period at 1.14% (par) and 0.91% (issues).**

New issuance saw 20 issues priced, raising USD 10.4 billion in proceeds.**

Portfolio Review

November performance was positively impacted by broad strength across fixed income markets as interest rates moved lower following the election and the Federal Open Market Committee (FOMC) meeting.

Among corporate bonds, industries that contributed positively to performance were led by Technology & Electronics, Financial Services, and Energy. Strength in Technology was driven by an issue in optical hardware that reported better-than-expected earnings and a semiconductor issue that announced a strategic partnership. Within Financial Services, several holdings in the consumer finance space with exposure to credit card services outperformed. An issue in midstream infrastructure had the largest positive impact in the Energy space, driven by a solid earnings report and boosted sentiment following the election.

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

Transactions during the period included new purchases in Cable & Satellite TV, Managed Health Care, and Oil & Gas Equipment & Services, and complete sells in Home Improvement Retail, Automobile Manufacturers, and Passenger Airlines.

Market Outlook and Strategy

The easing cycle has begun, with the Fed cutting interest rates by 75 bps through November as inflation and the labour market continue to normalise.

Apart from an accommodative shift in monetary policy, potential economic tailwinds include pro-growth policies under the Trump administration, steady consumption, continued fiscal spending, the proliferation of artificial intelligence (AI), and improving productivity, among others. Risk to the economy may increase if these trends weaken. Other potential headwinds include new tariffs, more restrictive immigration policies, geopolitical tensions, prolonged labour market softening, continued manufacturing contraction, and slower growth outside the US.

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.

US Treasuries – a low-risk source of reliable income – are an attractive investment given relatively high interest rates.

The US high yield market, yielding over 7%^, offers the potential for 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. Given these factors, the default rate is expected to remain low. Regarding credit spreads, they can stay tight for many years. This was the case in the mid-1990s and 2000s – periods like today when high yield balance sheets were healthy and defaults were low, the economy was stable, and interest rates were elevated.

All data are sourced from Allianz Global Investors dated 30 November 2024 unless otherwise stated.

* Source: BofA Merrill Lynch, as at 30 November 2024

^ Source: ICE Data Services, as at 30 November 2024

** Source: J.P. Morgan, as at 30 November 2024

Allianz Global Investors and Voya Investment Management have entered into a long-term strategic partnership, and as such, as of 25 July 2022, 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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