

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 June

In June, fixed income markets finished higher on easing geopolitical tensions, further clarity around trade, and US economic resiliency. Inflation measures subsided, wage growth exceeded expectations, and employment data surprised to the upside, while consumer confidence fell, and key manufacturing and services surveys showed contraction. The US Federal Reserve (Fed) kept interest rates steady and continued to project two cuts by year-end. Against this backdrop, the 10-year US Treasury yield fell to 4.23% in the month.*

Investment Grade Bond Market Environment

The ICE BofA US Corporate Index returned +1.82%, outperforming the shorter-dated ICE BofA 1-10 Year US Corporate Index which returned +1.32%.^

Credit-quality subsector returns for the month^:

- AAA rated bonds: +1.78%
- AA rated bonds: +1.60%
- A rated bonds: +1.76%
- BBB rated bonds: +1.92%

Spreads tightened to 86 basis points (bps), the average bond price rose to 94.44, and the market's yield fell to 5.07%.^

Gross new issuance for the month was USD 111.5 billion.*

The 10-year US Treasury returned +1.63%.* The note's yield fell to 4.23% compared to 4.39% the prior month.*

High-Yield Bond Market Environment

The ICE BofA US High Yield Index returned +1.86% for the month.*

Credit-quality subsector returns for the month*:

- BB rated bonds: +1.74%
- B rated bonds: +2.06%
- CCC rated bonds: +1.71%

Spreads narrowed to 296 bps from 322 bps, the average bond price rose to 97.12, and the market's yield fell to 7.36%.*

Industry performance was broadly higher with Metals, Energy, and Chemicals outperforming, while Utilities, Gaming, and Capital Goods underperformed.

Trailing 12-month default rates finished the period at 1.41% (par) and 1.03% (issues).**

Monthly new issuance saw 44 issues priced, raising USD 36.7 billion in proceeds.**

Portfolio Review

June performance was positively impacted by strength across the portfolio's corporate bond holdings.

Among corporate bonds, the top contributors to performance in the period included Technology, Financial Services, and Banking. Technology holdings that positively impacted performance were concentrated within the semiconductor, semi cap equipment, and networking industries, all of which benefitted from renewed optimism around artificial intelligence (AI) buildout. Issues in consumer finance and payments drove performance in Financial Services due to changing legislation. Strength in Banking was primarily attributable to a number of longer-dated issues from large multinational banks given the move in rates.

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

Transactions during the period included new purchases in Commercial & Residential Mortgage Finance, and Oil & Gas Storage & Transportation, and complete sells in Movies & Entertainment, Semiconductor Materials & Equipment, and Tires/Rubber.

Market Outlook and Strategy

Despite a strong recovery in risk assets, the macroeconomic outlook remains clouded given uncertainty around trade, monetary policy, government spending and geopolitics. On the other hand, economic data has been resilient, trade tensions while elevated have stabilised, earnings tailwinds have begun to emerge, Fed commentary has been less hawkish, capital market activity has been healthy, interest rates have fallen and energy prices have declined.

The US economy should expand in 2025, even with tariffs potentially hampering growth. Trade policy clarity could begin to improve and as the range of outcomes narrow, uncertainty should lessen, and spending, investment, hiring, and

mergers and acquisitions (M&A) activity can resume. Further out, fiscal stimulus, deregulation measures, capital expenditure (capex) tailwinds, productivity gains, and a reindustrialisation movement are potential growth drivers.

A resumption of monetary policy easing – currently, the market is pricing in two 25-bps interest rate cuts in 2025 – would closer align the Fed with accommodation by central banks overseas. Early signs of labour market softening or minimal tariff price pass through could pull forward rate cuts, while steady employment or higher inflation could cause the Fed to move later.

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 7%, 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 30 June 2025 unless otherwise stated.

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

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

** Source: J.P. Morgan, as at 30 June 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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