

Allianz Global Diversified Credit

Annual commentary

Investment Objective

The Fund aims at long-term capital growth by investing in global bond markets in accordance with environmental and social characteristics.

What Happened in 2025

December was an active month for central banks. In the US, the US Federal Reserve (Fed) delivered a 25-basis point (25-bps) rate cut. The Bank of England (BoE) also lowered its base rate by 25 bps, while the European Central Bank (ECB) and the People's Bank of China (PBoC) left their key policy rates unchanged. Japan was an outlier. The Bank of Japan (BoJ) delivered a 25-bps rate hike.

2025 was a positive year for risk assets, recovering strongly from the significant weakness which affected global markets around the time of US President Trump's "Liberation Day" tariff offensive in April. Although evaluating the impact of tariffs has remained a challenge for market participants, more positive sentiment increasingly took hold as the year went on – supported by monetary policy easing, fiscal support (especially in Europe), and the emergence of artificial intelligence (AI) as a driver of growth expectations.

Corporate credit performed well, with credit spreads tightening slightly year-on-year, and with most of the asset class returns coming from carry and falling rates. Higher carry helped global high yield outperform both investment grade and core government bonds. The strongest performing rating categories were BBBs and BBs, which make up the "sweet spot" of the Fund.

Portfolio Review

The Fund delivered a positive gross performance for December, Q4, and the full year 2025, ahead of its benchmark (US Secured Overnight Financing Rate Index in USD).

Portfolio performance in December was modestly stronger than in November. Early December was quite choppy for risk sentiment, while the second part of the month was characterised by reduced liquidity and limited new supply. Against this backdrop, trading activity in the portfolio was minimal. Performance continued to be marked by a highly diversified positive contribution from the portfolio's holdings.

Over Q4, we maintained portfolio quality and parameters generally unchanged. The great bulk of gains came from the BBB and BB rated segments and from securities with a duration between 0 and 5 years. Trading activity was moderate and mainly driven by profit taking, new ideas and portfolio risk rotation. In anticipation of a potentially more mixed risk environment up ahead, we added 5-year and 10-year US Treasuries, which added to performance over the quarter.

Looking back at the full year, credit selection and coupon income ("carry"), along with some credit spread tightening, all contributed positively. Early in 2025, we had reduced interest rate and spread duration, and cut exposure to tariff-exposed names and high-beta Financials. However, in H2, we added back to those credit exposures and to duration, as credit markets stabilised and higher conviction emerged around the path of interest rates. The portfolio ended the year with an effective duration of around 3 years, up by about 0.4 years from end-2024.

Over the year, we increased our allocation to high-rated securitised credit, including allocations to collateralised loan obligations (CLOs), as more attractive primary market opportunities presented themselves. We also used US Treasuries to help us add some interest rate duration and to "play defence" into the year-end. Both trades contributed to a year-on-year uplift in the portfolio's weighted average credit rating from BBB- to BBB. Partly offsetting the higher allocation to high-grade securities, the portfolio was rebalanced somewhat away from traditional investment grade corporates and into high-quality relative value opportunities in high yield and emerging market corporates.

Market Outlook

We remain constructive on the opportunity in global diversified credit for the first part of 2026. Not unlike 2025, we see carry as being a key element of returns, given that spreads are at the tight end of historical ranges. While default rates are expected to remain contained, careful security selection should remain crucial as we expect to see more performance dispersion between stronger and weaker issuers.

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