Allianz Global Investors

Allianz Global Diversified Credit

Monthly 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 April

The month of April was unusually complex, with "Liberation Day" on the 2 April creating all sorts of ripples across markets, not all of them in line with conventional market wisdom. For example, the S&P 500 equity index recouped substantially all of its significant losses after 2 April, even while market data and surveys showed expectations of a US recession increasing not falling. Credit spreads widened by 50 basis points (bps) for short-dated high yield (HNVC) and by 16 bps for short-dated investment grade (GVBC) while volatility spiked before partially retracing. This made it difficult to outperform versus a cash reference measure. However, given the "risk off" in credit, we benefitted, relatively speaking, from the shift upwards in credit quality we had been undertaking in Q1 and effective duration remains towards the low end of our target range. We think this makes sense in an environment where the macro picture points to slowdown and rates are behaving in unpredictable ways.

At the macro level, escalating fears of a global trade war and slowing global growth dominated the headlines for most of April, with investors and policymakers alike grappling with President Donald Trump's whipsawing tariff announcements. European bonds rallied as hopes grew that the European Central Bank (ECB) and Bank of England (BoE) would continue to cut rates. In the US, the yield curve steepened, with short-term yields falling sharply while the 30-year Treasury bond yield rose, amid growing fears that President Trump would interfere with the US Federal Reserve's (Fed's) independence in his quest for lower interest rates. Credit markets generally lagged government bonds and spreads widened. Global equities had another volatile month. Stocks initially plummeted amid fears that the global response to President Donald Trump's "Liberation Day" tariff offensive would plunge the global economy into recession but recovered most of their earlier losses when the president announced an abrupt U-turn to provide scope for trade negotiations.

Portfolio Review

The Fund underperformed its cash benchmark (the Secured Overnight Financing Rate in USD) in April. Looking at portfolio performance drivers, unsurprisingly the shortest duration bucket did best and contributed positively, while longer duration lines weighed on performance. By sector, higher beta pockets such as Energy and parts of emerging markets dragged but a range of sectors including Banks and less cyclical industries like Media, Capital Goods and Business Services added positively. There were no large single name losers. However, our decision to tactically add US interest rate duration as a hedge to a potential systemic risk-off reaction immediately after “Liberation Day” did not work because US Treasuries did not behave in their traditional “safe haven” manner – this was a drag to performance, but we closed the position once we identified it was not behaving as intended.

Credit spreads have tightened from the wides in mid-April. On the margin, we have added some securitised credit and front-end names focussing on investment grade. However, there was not much active buying as the Fund held relatively low cash balances, the bid-offer spreads widened considerably, and the names that were offered during the widening phase weren’t fundamentally attractive in our view.

Market Outlook

We think the jury is still out as to whether there will be a recession, but surveys and our internal views suggest the chances are rising, even while spreads seem unwilling to price higher defaults. In the spirit of capital preservation, we are continuing to marginally improve the credit quality of the Fund unless consistent data tells us otherwise. That said, we believe the Fund with a credit spread of circa 200 bps and duration below three years provides decent income while remaining defensive through geographic, sectoral and single name diversification and retaining the ability to add risk if the bearish sentiment is proven to be incorrect.

All data are sourced from Bloomberg and Allianz Global Investors, as at 30 April 2025 unless otherwise stated.

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