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 July

As with June, the same spread tightening dynamic was certainly in place again in July. 1-5-year global high yield Industrials (HNVC index*) spreads tightened by 26 basis points (bps) and 1-5-year global investment grade corporate (GVBC index^) spreads tightened by 10 bps. The European Central Bank (ECB) stayed put on rates in July. With the US Federal Reserve (Fed) also remaining on hold at its 30 July policy meeting and setting a wary – if not "hawkish" – tone, the market is again backing away from the likelihood of a September cut. So, uncertainty around the path of policy rates remains a critical variable.

Total returns in corporate credit were decent in almost every part of the market: global high yield (HW00 index) outperformed global investment grade (G0BC index) with CCCs (HW30 index) and emerging market high yield (EMUH index) outperforming BBs (HW10 index) and Bs (HW20 index). However, global governments (W0G0 index) generated a negative total return. Global equities moved up led by the tech-heavy US (SPX index) with other markets seeing some pullback especially towards month-end, as additional tariff headlines hit the screens.

Corporate news continues to be influenced by fluctuations in terms of tariff impacts, but we have also seen the start of the Q2 earnings season, which is presenting a mixed picture. Some sectors have been able to gain a little more certainty since April, and this is reflected in firmer guidance, for instance, for airlines. However, some Industrial businesses, likely suffering from hesitant purchasers, continue to paint a challenging picture: for example, chemicals. In the round, Q2 earnings colour has certainly not derailed the overall positive appetite for credit as the strength of low rated credit shows. And it was a very robust month for new issuance, across both investment grade and high yield.

Portfolio Review

The Fund returned positively gross in July, ahead of the return of its cash benchmark (the Secured Overnight Financing Rate in USD). While maintaining the low investment grade rating profile of the Fund, we were able to generate returns roughly in line with short-dated global high yield (HNVC index: +73 bps) and well ahead of short-dated investment grade (GVBC index: +33 bps), because we have maintained duration at the short end of our range while steepening yield curves have been a headwind to longer-dated corporate credit (more so than in June).

While we remain wary of adding meaningful duration to the portfolio complexion, rising, steepening curves are making extension trades potentially attractive. Selectively, we have done this during July. For example, we did some same-name extensions in our US bank holdings for a worthwhile yield pick-up. We also added to our holdings of corporate hybrids. Overall, the impact on duration during the month has been modest but we continue to monitor opportunities of this kind. Otherwise, there were no broad, thematic shifts as we remain generally comfortable with the rating, sector and regional profile of the Fund.

Market Outlook

Generally, we reiterate our thoughts from last month that while uncertainties remain in key areas of tariffs, interest rates and growth, the market believes that a soft-landing scenario remains the most likely outcome. A low growth environment is good enough for all but the most levered or cyclical businesses and the primary market continues to address mainly refinancing needs in the high yield market, which is a good sign of prudence. The market has tended to respond negatively to tariff news but to bounce back quickly, seeing Trump statements as only an “opening gambit”, so we need to be watchful that this dynamic does not shift especially as spreads remain tight. In that context, we do not expect significant portfolio shifts in terms of risk appetite but for careful bottom-up selection to remain a focus.

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All data are sourced from Bloomberg and Allianz Global Investors as at 31 July 2025 unless otherwise stated.

* Source: HNVC Index refers to ICE BofA 1-5 Year Global Non-Financial High Yield Constrained Index, as at 31 July 2025

^ Source: GVBC Index refers to ICE BofA 1-5 Year Global Corporate Index, as at 31 July 2025

ADM-4768279