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 August

Credit assets continued to outperform core rates markets following the August speech at Jackson Hole by US Federal Reserve (Fed) Chair Jerome Powell, which was largely received as a clear policy easing signal. This translated into generally stronger gains for US, Asian and emerging market corporate bonds compared to Europe, where France faced economic turmoil ahead of a September no-confidence vote on the government. In the global high yield market, Bs outperformed BBs and CCCs, while BBBs were in line with the broader global investment grade market.

The picture from Q2 corporate earnings was mixed by region and industry. Compared to Q1, one theme that stood out was a more measured and varied assessment of tariff implications, including more comforting views from Autos, tough demand conditions from Chemicals, and margin pressure but no demand collapse from Retail. According to Bloomberg, it has been the strongest August for mergers and acquisitions (M&A) since 2021 with close to USD 300 billion of transactions.

Portfolio Review

The Fund delivered a positive gross performance in August and year-to-date, ahead of its benchmark (US Secured Overnight Financing Rate Index in USD). Despite a more mixed environment for risk, the Fund continued to generate resilient income at a broadly similar rate to July. While credit spreads performed less well in August, interest rates generally rallied and added to total returns, with the mid-part of the US yield curve outperforming longer-dated Treasuries that were more volatile.

Exposure to US issuers and USD bonds added the most to portfolio performance in August. The contribution from our allocations to BBs and BBBs was quite balanced, whilst there were no outsized contributions from single names, in line with our objective to provide resilient and diversified income. The portfolio mix remains largely unchanged.

Market Outlook

While economic activity is holding up sufficiently for credit to perform, the tone for risk now looks more mixed. Spreads remain relatively tight, and this tends to be a busy time of the year for new bond supply, which can weigh on secondary market performance. We continue to reinforce the portfolio's resilience with a focus on high quality issuers and on the shorter end of corporate credit curves. It does not yet make sense to move further along to longer maturities until we see the kind of curve steepening that provides a meaningful pick-up in spread and yield.

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

ADM-4832761