

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 May

May was a strong month for credit with high yield spreads tightening 9 basis points (bps) and investment grade 2 bps while government bond curves steepened, with the 10-year US Treasury selling off around 25 bps as the market began to discount most headlines and focused on decent corporate and macro numbers that suggested that the world is so far untroubled by tariff pronouncements. Highlights included a technology company that designs graphics processing units saying that China does not appear to be slowing down, strong US consumer confidence, a lower-than-expected drop in US gross domestic product (GDP), and lower inflation which have reduced the consensus probability of a US recession from 50% to 35%. The expected trajectory for the US economy has flattened out - less of a V-shape to more of a saucer shape – which is better for cyclical business while interest rate sensitive sectors have longer to wait for relief. In Europe, the European Central Bank (ECB) remained expected to cut to 2% in June as growth/inflation forecasts were brought lower: further cuts will be a (much) tougher discussion with some sell-side commentators expecting a shift to a quarterly path for cuts after June.

Portfolio Review

The Fund returned positively, ahead of its cash benchmark (the Secured Overnight Financing Rate in USD). The Fund's return in May is a strong result compared to 36 bps for the 1-5 year US BBB index, given a similar average rating. We did not change the risk profile materially as we had conviction in the positions that had shown softness in April and this worked well.

On the margin, we have added a little US-domiciled credit which had cheapened on the back of a consensus negative view of US economic weakness which may be overdone. Our outlook on US corporates remains uncertain as the impact on tariffs is changing continually but currently companies appear to be able to handle them. Our European exposure is circa 30%, of which circa 19% is Financials where the investment case is more regulatory than growth. Circa 5% is asset-backed securities (ABS) and the residual 7% is corporate risk which is mostly non-cyclical BB, trading cheaper than US equivalent. We have a circa 19% in GBP risk split equally between ABS, Real Estate, Financials and Industrials, which offer an interesting relative value proposition in our view. Emerging Markets corporates remains constant at 22%, broadly spread across Latin America, Asia, Africa and CEEMEA (Central and Eastern Europe, Middle East, and Africa). Looking at the relative value across the market, US BBB and Euro BBB have similar spreads, while Euro BB are some 30bps cheaper which underlines a small bias towards Europe in this area.

Market Outlook

The fundamental outlook appears stronger than we had originally envisaged, although the drivers of uncertainty remain and could lead to rapid changes in sentiment. The strong performance in May has seen credit spreads return through long-term levels and while they can remain tight for a period, they offer limited compensation for any step up in defaults and thus we continue to be convicted in our up in quality positioning. We therefore will not chase the market and expect our portfolio structure to remain broadly similar with a focus on security selection and attractive carry and roll-down while keeping volatility under control.

Connect with Us

sg.allianzgi.com

+65 6438 0828

Search more

 Allianz Global Investors



Like us on Facebook [Allianz Global Investors Singapore](#)



Connect on LinkedIn [Allianz Global Investors](#)



Subscribe to YouTube channel [Allianz Global Investors](#)

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

The information presented here is intended for general circulation and does not constitute a recommendation to anyone; it also has not taken into account the specific investment objectives, financial situation or particular needs of any particular person. Information herein is based on sources we believe to be accurate and reliable as at the date it was made. We reserve the right to revise any information herein at any time without notice. No offer or solicitation to buy or sell securities and no investment advice or recommendation is made herein. In making investment decisions, investors should not rely solely on this publication but should seek independent professional advice. However, if you choose not to seek professional advice, you should consider the suitability of the product for yourself. Past performance of the fund manager(s) and the fund is not indicative of future performance. Prices of units in the Fund and the income from them, if any, may fall as well as rise and cannot be guaranteed. Distribution payments of the Fund, where applicable, may at the sole discretion of the Manager, be made out of either income and/or net capital gains or capital of the Fund. As a result of the payment, the Fund's net asset value is expected to be immediately reduced. The dividend yields and payouts are not guaranteed and might change depending on the market conditions or at the Manager's discretion; past payout yields and payments do not represent future payout yields and payments. Investment involves risks including the possible loss of principal amount invested and risks associated with investment in emerging and less developed markets. The Fund may invest in financial derivative instruments and/or structured products and be subject to various risks (including counterparty, liquidity, credit and market risks etc.). Investing in fixed income instruments (if applicable) may expose investors to various risks, including but not limited to creditworthiness, interest rate, liquidity and restricted flexibility risks. Changes to the economic environment and market conditions may affect these risks, resulting in an adverse effect to the value of the investment. During periods of rising nominal interest rates, the values of fixed income instruments (including short positions with respect to fixed income instruments) are generally expected to decline. Conversely, during periods of declining interest rates, the values are generally expected to rise. Liquidity risk may possibly delay or prevent account withdrawals or redemptions. Past performance, or any prediction, projection or forecast, is not indicative of future performance. Investors should read the Prospectus obtainable from Allianz Global Investors Singapore Limited or any of its appointed distributors for further details including the risk factors, before investing. The duplication, publication, extraction, or transmission of the contents, irrespective of the form is not permitted, except for the case of explicit permission by Allianz Global Investors. This publication has not been reviewed by the Monetary Authority of Singapore (MAS). MAS authorization/recognition is not a recommendation or endorsement. The issuer of this publication is Allianz Global Investors Singapore Limited (79 Robinson Road, #09-03, Singapore 068897, Company Registration No. 199907169Z).