Allianz Global Investors

Allianz Global Floating Rate Notes Plus

Monthly commentary

Investment Objective

The Fund aims to capture income from a global universe of floating-rate notes. The Fund seeks potential long-term capital growth in accordance with environmental and social characteristics.

What Happened in June

In June, global investment grade corporate spreads tightened by -5 basis points (bps) to 89 bps with USD spreads tightening by -1 bps to 87 bps, EUR spreads tightened by -8 bps to 92 bps, and GBP spreads tightened by -9 bps to 101 bps. Relative to government bonds, investment grade corporates delivered +40 bps of excess returns. Overall, the US hard data continues to provide a supportive backdrop for credit, while rate cuts in Europe support the technical picture with the 25-bps cut however, President Lagarde signalled the central bank has "nearly concluded" its easing cycle.

US non-farm payrolls came in (+139,000) modestly higher than expectations (+126,000), although we saw downward revisions. The unemployment rate remained unchanged (at 4.02%) while average hourly earnings was a touch higher. Therefore, the report showed continued labour market strength, pushing US Treasury yields higher and bear-flattening the curve, with markets further pricing out policy-easing expectations at the margin.

With geopolitical implications in the Middle East rising, attention turned briefly away from tariff talk and the potential of conflict resolution following the attacks by Israel on Iran. Oil prices have seesawed, up circa 25% at the peak before retreating to a couple of dollars per barrel above the opening level for the month. Concerns were raised for many industries directly linked to negative effects of this increased input cost with the inflationary effects being felt globally likely affecting the consumer sectors more heavily whereby oil producers eyed potential future profits.

In the US, primary supply for the month totalled USD 108.58 billion in June, taking the H1 total to USD 899.43 billion, 4.5% above this point last year. In Europe, supply totalled EUR 63 billion, taking the total for the H1 to EUR 637 billion. This is an increase of 8% versus this point last year.

Portfolio Review

The Fund generated positive gross return in June, ahead of its cash reference index. Positive absolute performance was generated by attractive underlying yields inbuilt within the Fund, with SOFR at 4.45% by the end of the period. Carry and credit spread tightening were the main positive contributors to the relative outperformance.

With circa 1.7 years of corporate contribution to spread duration (CTSD), we maintained an overall conservative position with a quality bias. The portfolio continues to hold a circa 20% liquidity buffer including cash, US Treasuries and high-quality supra & agency (SSA) paper. Towards the end of the month, we increased the share of fixed coupon bonds in the portfolio, rotating out of floating rate notes (FRNs), modestly increasing the interest rate duration. We remained tactical in trading around our credit default swap high yield (CDX HY) overlay, 0.1-year CTSD, responding to evolving valuations.

We continued to selectively participate in new issues, with notable activity in the healthy securitised primary market, adding to European and US collateralised loan obligations (CLOs) and European commercial mortgage-backed securities (CMBS), all at the top of the capital structure (ie, class A). Within our "cash" sub-component of the securitised allocation (which we define as shorter weighted average life (WAL), with less extension risk, higher quality issuers and higher quality collateral), we have added to non-agency residential mortgage-backed securities (RMBS) and Auto asset-backed securities (ABS).

Outlook

We consider the global corporate market to be at fair value following the compression from the tariff induced widening, with valuations reflecting the strong fundamentals indicated by Q1 earnings. Our focus remains on sectorial and idiosyncratic opportunities, within the context of an overall light credit risk footprint. Assuming the news flow around tariffs does not deteriorate again, spreads can continue to grind tighter given the supportive technical backdrop. We prefer Financials and domestically focused sectors, and we remain cautious on consumer cyclicals. We continue to favour higher-quality credits and to stay in the upper part of the capital structure. Our modest risk positioning and our ample liquidity buffer provide us with high flexibility to seize opportunities going forward.

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All data are sourced from Bloomberg Barclays, Bloomberg and Allianz Global Investors as of 30 June 2025 unless otherwise stated.