

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 February

In February, global investment grade corporate spreads widened by 5 basis points (bps) to 90 bps, with USD spreads wider by 7 bps to 89 bps, EUR spreads remaining flat at 91 bps, and GBP spreads widening by 4 bps to 91 bps. Relative to government bonds, investment grade corporates delivered -31 bps of excess returns. Market volatility remained the dominant theme throughout the month, as participants grappled with complex and volatile market conditions. Concerns included weaker demand from China in the East and escalating geopolitical tensions in the West.

On a global scale, uncertainty continues to weigh on sentiment. Markets have been particularly focused on President Trump's tariff policies, targeting China, Canada, and Mexico, and the potential inflationary consequences of these measures. Hopes for a diplomatic resolution to the Russia-Ukraine conflict were quickly dashed after a contentious meeting between President Trump and President Zelensky, further contributing to the fragile geopolitical backdrop.

US consumer confidence came in below expectations in February as well as a similar tone in consumer sentiment and services purchasing managers' index (PMI) raising concerns. Non-farm payrolls came in under projections at 143,000 (versus 175,000 estimate) with a prior upwardly revised read of 307,000. Conversely, consumer spending remains strong, with confidence in the growth of the underlying economy. Corporate earnings continue to hold firm in an uncertain market but looking forward, the picture is looking far more unclear as firms pause to take heed to the rapidly changing political tides. Market focus remained on tariffs and geopolitical developments with threats of tariffs on key sectors, including Autos, Semiconductors, and Pharmaceuticals. With US consumer price index (CPI) also surprising to the upside (0.5% versus 0.3% month-on-month), this will not provide welcome news.

In the US, investment grade gross supply totalled to USD 157.8 billion in February, down from USD 192.2 billion in January. February supply consisted of USD 106.8 billion non-Financials and USD 51 billion Financials. In Europe, this has been the busiest February in recent years, with issuance up sharply (+45% year-on-year), led by Financials (+65%). For the month, EUR 107 billion was brought to market which surpasses February supply over the last decade.

Portfolio Review

The Fund generated positive gross return in February, ahead of its cash reference index, secured overnight financing rate (SOFR). Positive absolute performance was generated by attractive underlying yields inbuilt within the Fund, with SOFR at 4.39% by the end of the period.

We continued to be active in the primary market, seeking to harvest new issue premiums and benefitting from an uptick in floating rate notes (FRNs) supply. Notable new issuance activity included the participation in a deal from a German wholesale retailer which attracted significant demand and performed very well on the break, demonstrating the demand for higher spread names in Europe. We invested cash into highly rated sub-sovereign and agency FRNs to continue to benefit from elevated front-end rates without increasing overall portfolio corporate risk. Consistent with our theme of moving up the capital structure in Financials, we disposed of subordinated risk in the bonds of a financial services company. Overall, we maintained our modest position of circa 2 years of spread duration.

Outlook

We consider the global corporate market to be at fair value to modestly rich, with the market pricing in strong fundamentals across the majority of sectors, as evidenced by the recent earnings season, but also discounting future growth concerns. Therefore, we maintain a modest overall credit risk in the portfolio, allowing us to maintain maximum flexibility to future positioning in response to valuations, while continuing to capture credit risk premia through carry and roll-down.

Notably, risks to growth exist from US political/policy decisions, such as tariffs, impacting growth – including in external regions such as Europe. However, expectations of fiscal loosening from Germany have supported the European growth outlook. In this context, spread levels between EUR and USD spreads have compressed meaningfully leading us to look for opportunities to rotate EUR paper into USD paper to benefit from this move.

Generally, we continue to favour Financials issuers given the benefits associated with the elevated interest rate environment and attractive valuations relative to Industrials issuers, while acknowledging the recent compression makes this less attractive at the margin. Consistent with this, we prefer instruments higher up the capital structure in general. However, we believe that selectivity is key at both the issuer and instrument level and there remain attractive opportunities in subordinated paper for high-quality, well-capitalised banks.

We remain cautious on cyclical issuers, particularly in the context of the relative value to Financials, meaning risks in the sector appear to be skewed to the downside. High yield issuers are typically more sensitive to growth, leaving us cautious on overall high yield risk. Finally, we continue to view securitised products as an attractive portfolio diversifier.

Connect with Us

sg.allianzgi.com

+65 6438 0828

Search more

 Allianz Global InvestorsLike 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 Barclays, Bloomberg and Allianz Global Investors as of 28 February 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).