

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 March

In March, global investment grade corporate spreads widened by +7 basis points (bps) to 97 bps, with USD spreads wider by +7 bps to 96 bps, EUR wider +7 bps at 98 bps, and GBP spreads widening by +20 bps to 111 bps. Relative to government bonds, investment grade corporates delivered -37 bps of excess returns. Spreads widened amid a broader rout in risk assets, with the MOVE and VIX indices reaching levels last seen late last year. EUR corporates continued to perform albeit retreating slightly versus USD counterparts, with year-to-date EUR spreads outperforming USD by 18 bps. Briefly EUR spreads traded inside of USD, the first time since January 2022. Volatility and inflation risks led the US Federal Reserve (Fed) to hold rates steady in the 4.25%–4.50% range and announced a slowing in the pace of quantitative tightening. The updated dot plot showed the median Federal Open Market Committee (FOMC) member still expects two cuts in 2025 (down from the 8 predicted in 2024).

March saw the impact from tariffs further increase as a 25% levy was imposed on imports from Canada and Mexico and double the tariff on Chinese goods to 20% on 4 March with Canada announcing tariffs on USD 100 billion of US goods and China imposing up to 15% on an array of US goods. A day later, Trump grants a one-month exemption on goods from Canada and Mexico which impacted the US auto sector. The threat to the European Union (EU) of a 200% tariff on wines and spirits was intended to stave off EU tariffs on US whiskey, which later ended up being far less than initially expected at 25%. Rounding off the month, Trump announced 25% from countries buying oil or gas from Venezuela, which would likely affect China, whilst announcing plans for new protectionist tariffs on the US auto sector to take effect on 3 April.

Turning to primary, investment grade gross supply totalled to USD 190.4 billion in March, up from USD 157.8 billion in February. For Q1, supply totalled USD 539.4 billion. In the European primary market, this year has seen a somewhat

more modest start than in the previous two years, with a decline in low-beta issuance and March ending with a 22% year-on-year decline in issuance with EUR 77.1 billion. Supply for the quarter totalled EUR 311 billion which is 6% down on 2024 at this point.

Portfolio Review

The Fund generated positive gross return in March. Positive absolute performance was generated by attractive underlying yields inbuilt within the Fund, with SOFR at 4.41% by the end of the period.

In March, we continued to be active in the primary market seeking to benefit from new issue premiums. Notable portfolio activity included the addition to a basket of AAA-rated most senior tranches of European residential mortgage-backed securities (RMBS) which we see as an attractive portfolio diversifier at attractive spreads relative to similar (or lower) rated corporates. In Utilities, we added an electric utility company following significant spread widening post the wildfire events in California, and we bought a UK-based company that offers finance for the acquisition of vehicle for disabled people, following the changes to support payments provided by the UK government. Against this, we reduced our exposure in an agricultural products company, given spread compression towards acquirer company (on a hedged basis). We also reduced our exposure in the preferred securities of a banking group on relative value considerations and our preference for senior parts of the capital structure. Elsewhere, we reduced our long protection position in US high yield credit default swap (CDS) via the CDX High Yield index, reflecting a move to take profits on spread widening.

Outlook

In the volatile market environment that followed the tariff announcements in early April, the Fund has benefitted from its conservative headline risk position with a quality bias. We have been increasing the credit quality and seniority profile of the portfolio over the past few months already as spreads had compressed and valuations had compressed. In addition, the Fund holds long protection in US high yield to reduce systemic risk and has built a liquidity buffer including cash, US Treasury floating rate notes (FRNs) and high-quality supra and agency (SSA) paper.

With lots of uncertainties remaining on the risk of escalation length and the ultimate impact on economic growth, our focus remains on sectorial and idiosyncratic opportunities, where we see winners and losers from the tariff announcements:

- Pharmaceuticals – a sector we are constructive on – is amongst the winners with a carve-out from tariff measures for the moment. Although there are risks that Pharmaceuticals attracts its own set of tariffs, similar to Automotives, the sector has significant pricing power to offset negative impacts.
- Spirits and Beverages are also amongst the relative winners, with considerably lower tariffs than feared.
- Utilities/Domestically focused sectors will see limited impact from tariffs and should benefit from increasing differentiation between domestic and export-oriented sectors.
- Autos has no “incremental” news from the reciprocal announcements on autos original equipment manufacturers (OEMs). We remain cautious on German OEMs given structural issues and challenges, but we have become more constructive on US carmakers and parts manufacturers thanks to exemptions for goods that comply with the United States Mexico Canada Agreement (USMCA).
- Sectors which have been more on the negative side are consumer goods companies including apparel, luxury, white goods manufacturers and toys as well as tech and hardware manufacturers. Many companies within these sectors had rerouted trade and moved their production facilities out of China into neighbouring countries (“friendshoring”) evading tariffs under the first Trump administration. Some of these countries, such as Vietnam, have been hit very significantly.

At the margin, we have started to take profit on some of our Financials holdings, adding to Industrial names. Our modest risk positioning and our ample liquidity buffer provide us with high flexibility to capitalise on opportunities going forward.

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