Allianz Global Investors

Allianz Global High Yield

Monthly commentary

Investment Objective

The Fund aims at long- term capital growth by investing in high yield rated debt securities of global bond markets in accordance with environmental and social characteristics.

What Happened in April

The month of April was unusually complex, with "Liberation Day" on 2 April creating all sorts of ripples across markets, not all of them in line with conventional market wisdom. For example, the S&P 500 equity index recouped substantially all of its significant losses after 2 April, even while market data and surveys showed expectations of a US recession increasing not falling. European bonds rallied as hopes grew that the European Central Bank (ECB) and Bank of England (BoE) would continue to cut rates. In the US, the yield curve steepened, with short-term yields falling sharply while the 30-year Treasury bond yield rose, amid growing fears that President Trump would interfere with the US Federal Reserve's (Fed's) independence in his quest for lower interest rates. Credit markets generally lagged government bonds and spreads widened.

The global high yield index (HW00 USD hedged) did react more to the slowdown as spreads widened 45 basis points (bps) but returns were only down 9 bps as rates rallied. By region, US spreads widened marginally less than Europe with Latin America and Asia underperforming as they absorbed tariff related news. The European market had better total returns driven by the rates element. Global BBs widened 33 bps, Bs 50 bps, and CCC 104 bps. The relatively benign total returns hide the volatility in the period, with index spreads starting the period at 355 bps, peaking at 457 bps before ending at 400 bps. The 5-year US Treasury had a similar roller coaster trading in a 43 bps range.

APRIL 2025

Portfolio Review

The Fund generated a positive return on a gross basis in April, ahead of the return of its benchmark (ICE BofA Global High Yield Constrained Index USD Hedged – HW0CUSDH).

Top-down construction was broadly neutral. Our overweight to European high yield and an underweight to emerging markets was accretive but was offset by an overweight in B versus an underweight in high BB and an underweight in CCC. Fundamental positioning was good with strong contribution in basics, Financials, Technology, Media and Telecommunications (TMT), and Utilities, offset by exposures in Retail and Energy. No single name cost the portfolio more than 5 bps.

Outlook

The high yield market continues to be dominated by news flow. While the general sentiment is that uncertainty is likely to lead to lower growth, the extent of any slowdown is far from clear as the goal posts keep being moved.

What is certain so far is that generally high yield balance sheets are in good shape and refinancing risk is relatively low for the next few years and this should keep defaults low. Q1 results have also been better than expected and the number of negative outlooks is less than consensus. The overall yield and relatively short duration of the asset class continues to make it an attractive part of a strategic asset allocation and this provides technical support.

All data are sourced from Bloomberg and Allianz Global Investors, as at 30 April 2025 unless otherwise stated.

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