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 June

A normalising of inflation in June gave succour that rate rises were off the table, allowing efficient refinancings to continue. This supposition was supported by labour markets showing signs of softening and continued progress on tariff negotiations. The combination of “not bad” news flow led to the market feeling inflation was under control and a soft landing rather than stagflation should become the base case assumption. Q1 companies' earnings surprised to the upside, especially in the US. Many of the worst-case outcomes that were on the table during Q1 earnings calls (both for tariffs and economic outcome) are now off the table. While we expect continued conservatism on the upcoming calls when discussing H2 outlooks, we believe management teams to be more positive than they were in April/May. For example, many auto parts companies, which were in the eye of the storm, withdrew full-year guidance on Q1 calls. They have recently expressed more optimism, and most will reintroduce guidance for full-year 2025 on the Q2 calls.

Global high yield (USD hedged) returned 1.6% for the mor with the US strongly outperforming Europe in both spreads and total returns. Emerging markets also performed well. B credit, especially B-, was the best performer, beating BBs by nearly 0.3%. CCCs were the worst performer driven by a step-up in stressed situations and uncertainty around the complex of a connectivity company which threatened not to pay coupons despite having available cash. At the same time, the distressed index shrunk from 5.1% to 3.4% of the US index but the yield of remaining names stepped up nearly 3%.

Portfolio Review

The Fund generated a positive return on a gross basis in June. The Fund's performance was driven by strong returns in European and Sterling high yield offsetting some weakness in the US driven by Energy where we are underweight due to the low carbon focus of the Fund with an estimated impact of 10 basis points. We also had a drag due to the higher quality bias of the portfolio as B- names performed strongly. We owned 44/50 of our top 50 performers.

Outlook

Uncertainty remains around US policy and inflation, though the market believes that a soft-landing scenario remains the most likely scenario which is positive for high yield. A low growth environment is good enough for all but the most levered or cyclical businesses. We take further comfort from a limited refinancing wall, and generally robust fundamentals metrics. As such, we believe that default rates should remain low. This view is reflected in current spreads, that are through long-term averages and are vulnerable to any challenges to the consensus. More positively, all in yields and short duration gives high yield a decent cushion for a mean reversion of spreads. Consensus returns for the global high yield market remain slightly below the current yield, but there is a wide range of outcomes depending largely on geopolitical factors.

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

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