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 the Sustainability Key Performance Indicator Strategy (Relative). In this context, the aim is to outperform the sub-fund's Sustainability KPI compared to sub-fund's benchmark to achieve the investment objective.

What Happened in September

At the beginning of September, concerns about a slowdown in the US, as well as weak Chinese growth, led to an increase in volatility, a decline in oil prices and the market pricing in more US Federal Reserve (Fed) rate cuts, which resulted in a rally in rates across the globe. The Fed cut rates by 50 basis points (bps) on 18 September and Chinese authorities announced several large stimulus measures later in the month. The impact of these market-friendly actions was negated somewhat by the Middle East tensions. During the month, the 10-year US Treasury yield declined by 12 bps to 3.78%, and equity indices rallied – led by Chinese equities gaining ~20%, while others gained between 1-2%. The ICE BofA Global High Yield Constrained Index (HW0C) hedged in USD returned 1.6%, driven by the drop of rates and a slight decrease in spreads. Looking at regional high yield (HY) indices, emerging markets (EM) returned 1.9%, followed by the US with 1.6%, while euro HY lagged with 1% of return in September.

Portfolio Review

The performance of Fund was behind its benchmark (ICE BofA Global High Yield Constrained Index USD Hedged) in September.

The main detractor from relative performance was our underweight to the C-rated/distressed segment. The distressed part of the benchmark, which in the long run tends to significantly underperform the broader market, was extremely strong, gaining circa 9% in September and circa 21% in Q3. This was driven by issuers expected to undergo debt restructurings and liability management exercises in the near future.

Based on increased evidence of Europe slowing down, as well as the Fed cutting rates faster than the European Central Bank (ECB), we further reduced our European exposure and increased our US and EM allocations.

Outlook

The past three months have painted a complex economic picture, but the fears of a hard economic shock which took place in August appear progressively to have receded. Although the Fed opted for an aggressive rate move, the latest data seems to point more to a “soft landing” than a “hard landing”. Our take is that while sentiment will remain prone to volatility, the growth outlook is certainly benign enough to support corporate credit and good quality HY companies.

The path of rates may not be smooth, but it is basically lower, and that is consistent with good performance at the front-end of yield curves, a well-functioning new issue market providing access at reasonable cost to good HY citizens and a constructive refinancing backdrop. The market pricing of rate cuts suggest less conviction in the amount of future cuts, but high conviction that each of the ECB, Fed and Bank of England (BoE) will cut by 25 bps in October.

We expect Q3 earnings which start imminently to show ongoing weaknesses in some specific pockets such as Automotive and Airlines, but some Industrial sectors may be able to show they are emerging from the worst of their cycle. The resilience of the consumer remains a key driver, so sectors like Retail and Homebuilding will be closely watched.

All data are sourced from Bloomberg and Allianz Global Investors, as at 30 September 2024 unless otherwise stated.