

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 February

Like January, February was a month of two distinct halves for risk appetite: the early days continued the strength of late January but then gave way to a more cautious mood. Almost all credit classes saw spreads widen during February, but the tailwind of lower yields ensured another month of outright positive total returns. February brought growing signs that the US economy was slowing, with inflation expectations jumping due to President Trump's tariff threats. Retail sales, consumer sentiment and home sales softened in January and early indications showed services activity in February had contracted for the first time in more than two years. While the US Federal Reserve (Fed) indicated it was in no rush to cut rates, the European Central Bank (ECB) is expected to continue to reduce borrowing costs. Against that backdrop, global equities delivered mixed returns over February as markets struggled to navigate President Trump's disruptive and unpredictable agenda. Global bonds delivered positive returns. US Treasuries were among the strongest performers, boosted by signs of slowing US economic momentum. European government bonds also rose but lagged their US counterparts in anticipation that higher European defence commitments will likely cause government spending to balloon across the continent.

Corporate credit harvested decent total returns in February with the main investor focus on tariffs, geopolitics, and Q4 earnings, where we have so far seen US earnings significantly surprise to the upside overall, while European earnings have been more mixed. Looking closer at global high yield, BBs outperformed Bs with spread moves +8 basis points (bps) versus +11 bps and more tailwind from duration. We wouldn't class this as an especially "risk off" move, as index global CCCs did better than either BBs or Bs, thanks to healthy carry buffers and distressed recovery stories playing out. Perhaps counter-intuitively in the Trump era, once again euro high yield did better than the USD bucket (H0A0 versus HE00), indeed EUR spreads outperformed by 29 bps in February.

Portfolio Review

At the index level, it was again a decent month for global high yield total returns, with unconstrained global high yield HW0C (USD) returning 0.88%, bringing the year-to-date total return to a healthy 2.10%. The index spread widened by 10 bps, but this was more than offset by the benefit of carry and the impact of falling interest rates.

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

Our allocation across currency blocs was broadly a wash during the month, as was the rating allocation. Sector contributions to the overall picture were mixed but, in any case, it was more single security selection than industry choices that supported performance. Banking and Financial Services names, notably those in the BB space with plenty of duration, did well and drove the positive impact of our (overweight) allocation to Banking and Financial Services. Energy had a much less good month in the benchmark as oil prices started to fade, we made money here both by the overall underweight to the sector and by specific long positions which did well on idiosyncratic news. During February, we modestly reduced our EUR overweight versus USD, bringing us closer to flat, which we think makes more sense given the current uncertainties.

Outlook

With Q4 earnings having mostly passed, we might expect the focus to return to more conventional macro drivers such as the March round of central bank meetings. However, there is an unconventional slant to the market dynamics at the moment. This has been catalysed by the new US regime and is creating a range of hard-to-predict evolutions across geopolitics, trade, growth, rates and fiscal policy. Against that backdrop, it is challenging to express strong thematic views in the portfolios. We expect for the near term to maintain our risk broadly close to benchmark overall with a strong emphasis on security selection to drive performance.

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