Allianz Global Income

Monthly commentary

Investment Objective

The Fund aims at long term income and capital growth by investing in a broad range of asset classes, in particular in global equity and global bond markets.

What Happened in July

Global equities and convertible securities finished higher in July, while global corporate bonds were mixed. The Q2 earnings season got off to a strong start. Thus far, most S&P 500 companies have surpassed top- and bottom-line estimates and earnings growth has paced well ahead of projections. Trade deals were announced with Japan, Vietnam, and the European Union (EU). The One Big Beautiful Bill Act was signed into law and released economic data was mixed. Unemployment remained low, manufacturing and services surveys advanced, and retail sales and gross domestic product (GDP) growth surprised to the upside; however, inflation measures accelerated, and the housing market cooled. Against this backdrop, the US Federal Reserve (Fed) kept interest rates steady despite some dissent from the committee.

In this environment, key markets were higher:

- Global equity markets, as measured by the MSCI World Index, returned +1.31%.*
- Global convertible securities, as measured by the ICE BofA Global 300 Convertible Index, returned +1.31%.**
- Global high yield bonds, as measured by the ICE BofA Global High Yield Index, returned +0.19%.**
- Global fixed income, as measured by the Bloomberg Global Aggregate Index, returned -1.49%.^

Portfolio Review

The portfolio benefitted from strength across global equities, convertibles, and high yield bonds.

Top contributors in July were driven by continued optimism around the artificial intelligence (AI) buildout following further colour from management teams around capital expenditures (capex). Beneficiaries comprised several semiconductor companies, including Nvidia, as well as hyperscalers such as Microsoft, Amazon, Alphabet, and Meta. The other top contributors in the period were a pharmaceutical company that reported a beat-and-raise quarter, a diversified asset manager that announced a share repurchase programme, and a heavy equipment manufacturer that benefitted from macro tailwinds.

Top detractors in the period included a video streaming service provider that declined on weaker outlooks for ad revenue, and an ecommerce company was lower on projected near-term margin pressures. A video game developer was impacted by tariff headwinds, an enterprise software provider faced decelerating backlog growth, and a surgical robotics company navigated regulatory uncertainty. Another software company declined early in the period but finished off the lows after boosting subscription revenue guidance. Other top detractors for the period were a specialty insurer, a marketing research company, a pet care retailer, and an internet services holding.

Exposure increased the most in Industrials, Technology, and Consumer Discretionary, and decreased in Financials and Energy. Covered call option positioning decreased month-over-month.

Market Outlook

Despite a strong recovery in risk assets, the macroeconomic outlook remains clouded given uncertainty around trade and monetary policy. On the other hand, economic data has been resilient, trade tensions while elevated have stabilised, earnings estimates may have inflected, Fed commentary has been less hawkish, capital markets have been active, and government spending has emerged as a tailwind.

Outside of the US, monetary and fiscal policy stimulus measures could help to stabilise the global economy. The US economy should expand in 2025, even with tariffs potentially hampering growth. Trade policy clarity could begin to improve and as the range of outcomes narrow, uncertainty should lessen, and spending, investment, hiring, and mergers and acquisitions (M&A) activity can resume. Further out, fiscal stimulus, deregulation measures, capex tailwinds, productivity gains, and a reindustrialisation movement are potential growth drivers.

A resumption of monetary policy easing – currently, the market is pricing in three 25-basis point (25-bps) interest rate cuts in 2025 – would closer align the Fed with accommodation by central banks overseas. Early signs of labour market softening or minimal tariff price pass through could pull forward rate cuts, while steady employment or higher inflation could cause the Fed to move later.

Global large-cap equities have recovered this year's losses as odds of a recession and global shock receded and quarterly earnings results are better than expected. Tailwinds include dollar weakness, lower oil prices, and falling interest rates, while tariffs remain a headwind, and valuations will continue to be debated. Ultimately, any change on the margin around expectations for corporate earnings, management outlooks and the economy will determine the direction of the stock market over the remainder of the year.

Global convertible securities have an attractive asymmetric return profile, providing upside participation potential when stock prices rise and downside mitigation when stock prices fall. The asset class may outperform the broad equity market if volatility continues. USD 75-80 billion of new issuance[#] is now expected in 2025 due to coupon savings demand and elevated refinancing needs. Aside from diversification benefits, new issuance expands the opportunity set of investments with attractive terms and the desired risk/reward characteristics.

The global high yield market, yielding more than 7%^^, could deliver a coupon-like return in 2025. As a result, the asset class continues to offer equity-like returns but with less volatility. The market's attractive total return potential is a function of its discount to face value and higher coupon, which also serves to cushion downside volatility. Credit fundamentals are stable, near-term refinancing obligations remain low, and management teams continue to exercise balance sheet discipline. In this environment, new issuance is expected to remain steady, and the default rate should stay below the historical average.

Global investment grade corporate bond's risk/reward opportunity is compelling. Rising interest rates are a risk for high grade corporates, however the investment opportunity remains attractive given higher coupons and yields, and a positive fundamental outlook with limited default risk. The asset class trades at a discount to par, offering compelling total return potential and downside cushioning. If the 10-year US Treasury yield finishes 2025 near the lower bound of the expected range of 3.5-4.5%, the asset class return could exceed mid-single digits.

A covered call options strategy can be utilised to generate premium income. In periods of elevated or rising equity volatility, premiums collected may translate into more attractive annualised yields.

Collectively, these asset classes can provide a steady source of income and a compelling "participate and protect" return profile.

The Fund is a client solution designed to provide high monthly income, the potential for capital appreciation, and less volatility than an equity-only fund.

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All data are sourced from Allianz Global Investors dated 31 July 2025 unless otherwise stated.

* Source: MSCI, as at 31 July 2025

^ Source: Bloomberg, as at 31 July 2025

** Source: BofA Merrill Lynch, as at 31 July 2025

^^ Source: ICE Data Services, as at 31 July 2025

[#] Source: BofA Research, as at 31 July 2025

Allianz Global Investors and Voya Investment Management entered into a long-term strategic partnership on 25 July 2022, upon which the investment team transferred to Voya Investment Management. This did not materially change the composition of the team, the investment philosophy nor the investment process. Management Company: Allianz Global Investors GmbH. Delegated Manager: Voya Investment Management Co. LLC ("Voya IM").

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