

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 January

Risk assets and safe havens finished higher in January. The Q4 earnings season got off to a strong start, with approximately three quarters of reporting companies topping bottom-line consensus estimates, although forward guidance has been mixed. Corporate managements are balancing potentially easier financial and regulatory conditions, improving business sentiment, stable employment, and a resilient consumer, against stricter trade and immigration policies, as well as global growth uncertainties. Key economic data points released in January were largely positive. Manufacturing and services surveys surpassed estimates, inflation measures were in line with expectations, and the labour markets remained solid. On the other hand, retail sales, durable goods orders, and consumer confidence were weaker. As widely expected, the US Federal Reserve (Fed) left interest rates unchanged. Against this backdrop, the 10-year US Treasury yield fell, and risk assets and core fixed income advanced.

In this environment, key markets finished higher.

- Global equity markets, as measured by the MSCI World Index, returned +3.55%.*
- Global convertible securities, as measured by the ICE BofA Global 300 Convertible Index, returned +2.68%.**
- Global high yield bonds, as measured by the ICE BofA Global High Yield Index, returned +1.24%.**
- Global fixed income, as measured by the Bloomberg Global Aggregate Index, returned +0.57%.^

Portfolio Review

The portfolio moved higher in the month.

Top contributors in the period were led by Meta following a strong top- and bottom-line beat for Q4, and Amazon on optimism around core business efficiency and margin expansion. SAP was higher on solid growth metrics for its cloud business, and a major US bank advanced after reporting net interest income ahead of expectations. In addition, an aerospace manufacturer gained on strong free cash flow guidance. An industrial conglomerate outperformed on broad organic revenue growth, and a utility operator rallied on mergers and acquisitions (M&A) headlines. The other top contributors were Alphabet, a semiconductor holding, and a consumer finance company.

Top detractors in the period were led by Nvidia, which declined as investors re-evaluated future growth potential. Apple lagged on uncertainty over tariffs and currency headwinds, but finished off the lows following a strong quarterly report, while Microsoft was negatively impacted by competitive concerns. An insurance provider moved lower following an executive departure, an electronic components manufacturer declined on end market demand uncertainty, and several retailers detracted on tariff concerns. The other top detractors were companies in Utilities, Real Estate, and Pharmaceuticals.

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

Market Outlook

Global economic growth could begin to stabilise as central banks worldwide reduce interest rates or implement stimulus to boost spending. The US economy should continue to expand in 2025, supported by earnings growth, further Fed easing as inflation and the labour market continue to normalise, and the new administration's pro-US growth policies.

Apart from these factors, steady consumer spending, ongoing services sector expansion, continued fiscal spending, and improving productivity aided by the proliferation of artificial intelligence (AI) are US growth tailwinds. Risk to the US economy may increase if these trends weaken. Other considerations include tariff and immigration policies, geopolitical tensions, prolonged labour market softening and continued manufacturing contraction in the US, and economic weakness outside of the US.

Against this backdrop, mid- to high-single-digit returns in 2025 are possible for global large-cap equities, global convertible securities, and global corporate bonds. The equity market's path will not be linear, with bouts of volatility probable throughout the year. Given their defensive characteristics, corporate bonds and convertible securities can mitigate market volatility better than equities.

The expected range of annual returns for global large-cap equities is 5-10%. The market could benefit from continued Fed easing, economic growth, and accelerating or inflecting earnings from more companies. Secular growth themes, such as AI, lower taxes, increased M&A activity, deregulation, productivity gains, and share buybacks are also catalysts. If either economic growth or earnings growth fall short of expectations, the equity market could be challenged. US valuations will continue to be debated.

Global convertible securities have a favourable 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 leadership broadens, and new issuance remains steady. USD 85-95 billion[#] of new issuance is expected in 2025 due to coupon savings demand, elevated refinancing needs, and a positive outlook for price appreciation among small- and mid-cap companies. Aside from diversification benefits, new issuance expands the opportunity set of investments with favourable terms and the desired risk/reward characteristics.

The global high yield market, yielding over 7%^{^^}, is expected to deliver a coupon-like return in 2025 with upside possible. As a result, the asset class continues to offer equity-like returns but with less volatility. The market's favourable 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. Increased M&A activity and deregulation could also have a positive market impact. In this environment, new issuance is expected to remain elevated, the default rate should stay below the historical average of 3-4%, and spreads can remain tight.

Global investment grade corporate bond's risk/reward opportunity is favourable. Rising interest rates are a risk for high grade corporates, however the investment opportunity remains favourable given higher coupons and yields, and a positive fundamental outlook with limited default risk. The asset class trades at a discount to par, offering favourable 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 digit.

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 favourable annualised yields.

Collectively, these asset classes can provide a steady source of income and a favourable "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 January 2025 unless otherwise stated.

* Source: MSCI, as at 31 January 2025

^ Source: Bloomberg, as at 31 January 2025

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

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

Source: BofA Research, as at 31 January 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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