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 February

Markets were mixed in February. Q4 earnings momentum persisted, with approximately three-quarters of companies topping bottom-line consensus estimates, while corporate guidance remained mixed as managements await clarity around the new administration's policies. Except for a key manufacturing survey and unemployment, both of which were better than expected, economic data generally underwhelmed. Services, retail sales, consumer confidence, and select inflation measures missed estimates. Against this backdrop, the 10-year US Treasury yield fell sharply.

In this environment, key markets were mixed:

- Global equity markets, as measured by the MSCI World Index, returned -0.69%.*
- Global convertible securities, as measured by the ICE BofA Global 300 Convertible Index, returned +0.51%.**
- Global high yield bonds, as measured by the ICE BofA Global High Yield Index, returned +0.90%.**
- Global fixed income, as measured by the Bloomberg Global Aggregate Index, returned +1.43%.^

Portfolio Review

The portfolio moved lower in the month as equity holdings offset strength in convertible and corporate bonds.

Top contributors included Nvidia which reported a strong beat-and-raise quarter. Apple and an ecommerce conglomerate gained after announcing a strategic partnership. An aerospace holding advanced after announcing a buyback and reinstating its dividend, and an industrial manufacturer gained on receipt of multiple new contracts. Several pharmaceutical companies also moved higher on strong long-term demand prospects. The other top contributors were holdings in consumer electronics and banking.

Top detractors included Alphabet and Microsoft, both of which were impacted by weaker-than-expected cloud growth, as well as Amazon on cautious guidance. Delivery and margin concerns weighed on an electric vehicle manufacturer, and a semiconductor company consolidated strong 2024 gains. An alternative asset manager fell after forecasting near-term insurance business headwinds, and an apparel holding saw slower-than-expected direct-to-consumer growth. The other top detractors were a health care provider on legal scrutiny, along with holdings in software and consumer products.

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

Market Outlook

Macro factors, including newly implemented tariffs and government efficiency initiatives, could weigh on consumer spending and delay corporate investment in the near term as households and companies await clarity around current and future policies. A growth slowdown in the US would not be unexpected if these headwinds materialise. The recent increase in US equity volatility likely reflects the possibility of downward revisions to short-term earnings growth estimates.

Global economic growth could begin to stabilise as central banks ease and governments increase spending. The US economy should continue to expand in 2025, supported by earnings growth, further US Federal Reserve (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, continued manufacturing contraction in the US, and economic weakness outside of the US.

Against this backdrop, low- 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 global equity market could benefit from continued economic growth and accelerating or inflecting earnings from more companies. Secular growth themes, such as AI, lower taxes, increased mergers and acquisitions (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 smalland 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 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 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 28 February 2025 unless otherwise stated.

* Source: MSCI, as at 28 February 2025

^ Source: Bloomberg, as at 28 February 2025

** Source: BofA Merrill Lynch, as at 28 February 2025

^^ Source: ICE Data Services, as at 28 February 2025

[#] Source: BofA Research, as at 28 February 2024