Allianz Global Investors

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

Global risk assets and fixed income finished higher in January. The Q4 earnings season got off to strong start. About one-third of the way through, nearly 80% of S&P 500 companies surpassed bottom-line estimates with the index on pace to deliver double-digit (year-over-year) earnings growth for a fifth consecutive quarter. Geopolitical developments were volatile surrounding Venezuela, Greenland, and Iran, though markets broadly looked through the noise. Economic data underscored a resilient backdrop with firm labour and services indicators, offset by softer consumer confidence and weak housing activity. The US Federal Reserve (Fed) held rates steady as expected and markets priced in roughly 50 basis points (bps) of cumulative cuts by year-end. Additionally, President Trump nominated Fed Governor Kevin Warsh as the next head of the central bank. Against this backdrop, markets saw large rotations – including into cyclicals and small caps – and the 10-year US Treasury yield rose to 4.26%.**

In this environment, key markets closed higher:

- Global equity markets, as measured by the MSCI World Index, returned +2.26%.*
- Global convertible securities, as measured by the ICE BofA Global 300 Convertible Index, returned +6.09%.**
- Global high yield bonds, as measured by the ICE BofA Global High Yield Index, returned +0.96%.**
- Global fixed income, as measured by the Bloomberg Global Aggregate Index, returned +0.94%.^

JANUARY 2026

Portfolio Review

The portfolio benefitted from strength across global equity and fixed income markets.

Top contributors in January consisted of multiple semiconductor companies benefitting from rising demand for capital equipment, a data storage holding that delivered a beat-and-raise quarter, and a diversified technology conglomerate profiting from memory business strength. Alphabet, which saw upward revisions to consensus sales forecasts, a financial services provider bolstering its capital base, and a mining equipment manufacturer capitalising on rising industrial and precious metal prices were also sources of strength. The other top contributors were a capital goods company profiting from demand for power generation equipment and holdings in energy services and life insurance.

Top detractors in the period included Microsoft on underwhelming cloud growth and Broadcom on margin concerns. Apple, which reported robust iPhone demand and accelerating sales, and a medical device company that topped consensus estimates but guided conservatively also finished lower. An apparel retailer with substantial earnings growth consolidated recent gains, and a payments company declined but finished well off the lows after reporting a strong quarter and better-than-feared guidance late in the month. The other top detractors were exposed to hospitality services and software.

Exposure increased the most in Industrials, Health Care, and Energy, and modestly decreased in Materials and Consumer Staples. Covered call option positioning decreased month-over-month.

Market Outlook

2026 US economic growth could surpass that of 2025, which would catalyse another strong year for the global economy. Potential tailwinds include stimulus from the One Big Beautiful Bill Act (OBBBA – tax cuts/refunds and capital spending acceleration), foreign direct investment from overseas, continued monetary policy easing (including the recently announced asset purchase programme), and steady consumption. Reshoring activity, less regulation, expanding credit, and a rebound in consumer and business confidence are also potential drivers. Improvements in the housing and/or manufacturing sectors could aid growth as well. Key economic risks include heightened geopolitical tensions and elevated fiscal deficits globally. Additionally, if unemployment and/or inflation rise sharply, the odds of an economic slowdown increase.

In an environment where changes in the labour market and prices are more muted, the Fed can continue to target a neutral policy position. Currently, market odds suggest additional interest rate cuts to a range of 3.00-3.25% – a level that is consistent with the Fed's median, longer run projection of 3%.

Accelerating year-over-year earnings growth is expected to be the primary driver of equity market strength in 2026. Aside from the proliferation of artificial intelligence (AI), earnings tailwinds include productivity gains, low oil prices, corporate buybacks, cost cutting initiatives, and lower interest rates. Expanding earnings breadth could lead to a further broadening out of gains as an increasing number of companies assume market leadership. Earnings headwinds could include rising operating expenses as well as the impact of tariffs.

Against this economic and earnings backdrop, 2026 could be a favourable year for risk assets. Convertible securities could outperform equities again and high yield bonds could deliver another year of coupon-like returns. Given their defensive characteristics, convertible securities and high yield bonds can mitigate market volatility better than equities, which historically average a mid-teens intra-year decline even in annual periods of positive returns.

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 could outperform the broad equity market again in 2026, helped by solid earnings growth, expanding market breadth, stable credit spreads, and robust new issuance. After a record year of new issuance in 2025, primary market activity likely slows in 2026 but remains elevated around USD 105-115 billion.[#] 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 nearly than 7%^^, offers equity-like returns but with less volatility. The asset class is expected to deliver another year of coupon-like returns in 2026. 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. Additionally, the market's credit quality composition has improved. In this environment, new issuance is expected to remain steady, spreads can stay tight, and the default rate should continue to reside below the historical average.

Global investment grade corporate bond's risk/reward opportunity is compelling. A coupon-like return is possible for the asset class in 2026. 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 steady with limited default risk. In this environment, spreads can remain tight. If the 10-year US Treasury yield finishes 2026 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 strategy is a client solution designed to provide high monthly income, the potential for capital appreciation, and less volatility than an equity-only fund.

All data are sourced from Allianz Global Investors dated 31 January 2026 unless otherwise stated.

* Source: MSCI, as at 31 January 2026

^ Source: Bloomberg, as at 31 January 2026

** Source: BofA Merrill Lynch, as at 31 January 2026

^^ Source: ICE Data Services, as at 31 January 2026

Source: BofA Research, as at 31 January 2026