

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 September

Global equity and fixed income markets finished higher in September, driven by a dovish shift in US monetary policy that stemmed from an array of new economic data. Multiple inflation measures continued to ease, consumer spending surprised to the upside, and the service sector remained in expansionary territory. However, some labour market measures were weaker, the manufacturing sector continued to contract, and consumer confidence declined. The simultaneous deceleration of inflation and jobs growth proved to be the catalyst for the first monetary easing campaign in four years, as the US Federal Reserve (Fed) cut interest rates by 50 basis points (bps) at the September Federal Open Market Committee (FOMC) meeting. Markets responded favourably, with risk assets moving broadly higher into the end of the month to solidify monthly gains.

In this environment, global equity markets, as measured by the MSCI World Index, returned +1.83% with non-US equities underperforming their US counterparts.* Global convertible securities, as measured by the ICE BofA Global 300 Convertible Index, returned +2.26% with non-US issues outperforming US issues.** Global high yield bonds, as measured by the ICE BofA Global High Yield Index, returned +1.55% with non-US issues underperforming US issues.** Global fixed income, as measured by the Bloomberg Global Aggregate Index, returned +1.70% with non-US exposure outperforming US exposure.^

Portfolio Review

The portfolio was positively impacted by strength across global equities, convertible securities, and corporate bonds.

Top contributors included select Chinese ecommerce and travel services positions that rallied on economic stimulus optimism. Technology-related companies capitalising on secular trends around artificial intelligence (AI) and cloud migration, such as Meta, Microsoft, Nvidia, and Amazon were also sources of strength. A US electric vehicle (EV) manufacturer gained after expanding its product offerings, as did a logistics software provider positioned to benefit from new customer wins and a growing addressable market. The other top contributors were an industrial REIT focused on data centre development, and a heating, ventilation and air conditioning (HVAC) company profiting from improved demand visibility.

Top detractors were led by multiple pharmaceutical companies, one of which consolidated year-to-date gains and another that fell on competitive concerns. The move lower in crude oil pressured an energy producer, and an enterprise software provider declined on growth and pricing concerns. The stock of an aerospace company expected to benefit from integration synergies continued to trade range bound. The other top detractors in the period were a major US bank and a British food company that released a weaker-than-expected trading outlook.

Exposure increased the most in Financial, Materials, and Utilities, and decreased in Technology, Consumer Staples, and Health Care. Covered call option positioning increased 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.

Apart from an accommodative shift in monetary policies, potential economic tailwinds include steady consumption, continued government spending, improving productivity, increasing capital expenditures, and the proliferation of AI. Risk to growth may increase if these trends weaken. Other potential headwinds include escalating geopolitical tensions, prolonged labour market softening, deteriorating consumer sentiment, and continued manufacturing contraction.

In the short term, global equity volatility could increase due to foreign conflicts and US labour disputes and elections. Over the intermediate term, markets could move higher on continued central bank easing, stabilising global growth, secular drivers, such as AI, and accelerating earnings or an earnings inflection from more companies. If economic growth or earnings growth fall short of expectations, the global equity market could be challenged.

Global convertible securities have an attractive asymmetric return profile, providing upside participation potential when stock prices rise and downside mitigation when stock prices fall. Higher debt financing costs have drawn issuers to the convertible market for coupon savings, resulting in accelerated new issuance at favourable terms and an expanded investment opportunity set with the desired risk/reward characteristics. While a change in market leadership is not certain, a sustained broadening of the equity market could be a positive development for the asset class.

The global high yield market, yielding over 7%^{^^}, offers the potential for 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 prioritise debt reduction. Given these factors, the default rate has been below the long-term average with expectations for it to trend towards the historical average in 2025. Regarding credit spreads, they can stay tight for many years. This was the case in the mid-1990s and 2000s – periods like today when high yield balance sheets were healthy and defaults were low, the economy was stable, and interest rates were elevated.

Global investment grade corporate bond's risk/reward opportunity is also 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.

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 30 September 2024 unless otherwise stated.

* Source: MSCI, as at 30 September 2024

^ Source: Bloomberg, as at 30 September 2024

** Source: BofA Merrill Lynch, as at 30 September 2024

^^ Source: ICE Data Services, as at 30 September 2024

Allianz Global Investors and Voya Investment Management have entered into a long-term strategic partnership, and as such, as of 25 July 2022, 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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