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 March

Global equity and fixed income markets finished lower in March. Escalating geopolitical tensions were the dominant macro overhang with the Iran conflict disrupting global supply chains and driving energy prices higher. The Q4 reporting season finished strong with year-over-year earnings growth nearing 14% for the S&P 500. Overall, US economic reports were positive with muted jobless claims activity, positive trends in key services and manufacturing surveys, and steady consumption balanced against mixed inflation readings and constrained housing dynamics. The US Federal Reserve (Fed), European Central Bank (ECB), Bank of Japan (BoJ), and Bank of England (BoE) left interest rates unchanged in March with Fed Chair Jerome Powell stating a cut is unlikely without progress on inflation. Against this backdrop, rate cut expectations pushed out further and global government debt yields rose sharply with the 10-year US Treasury yield settling at 4.32%.**

In this environment, key markets closed lower:

- Global equity markets, as measured by the MSCI World Index, returned -6.32%.*
- Global convertible securities, as measured by the ICE BofA Global 300 Convertible Index, returned -5.84%.**
- Global high yield bonds, as measured by the ICE BofA Global High Yield Index, returned -2.10%.**
- Global fixed income, as measured by the Bloomberg Global Aggregate Index, returned -3.07%.^

Portfolio Review

The portfolio was negatively impacted by weakness in global equity and fixed income markets.

Top contributors included exploration, production and refining positions expected to benefit from rising oil prices, as well as TechnipFMC, which continued to be a source of strength. A cloud services company advanced, capitalising on artificial intelligence (AI) related tailwinds, a specialty chemicals manufacturer gained on margin upside and cost reduction optionality, and a cyber security provider finished higher on rising demand forecasts. The other top contributors were an electricity company with a strong balance sheet focused on battery storage and renewable energy buildouts, a biopharmaceutical company with an underappreciated franchise, and multiple tech hardware and equipment holdings.

Top detractors were Alphabet on operating expense and capital expenditure (capex) concerns, an electronics conglomerate capitalising on a memory super cycle that consolidated recent gains, and an aerospace company despite topping expectations and giving upbeat guidance. Several laggards were Industrials holdings with exposure to engineering and construction, energy solutions, and power systems that had a positive impact on the portfolio this year through February. The other top detractors were a steelmaker, a pharmaceutical company that was sold in the period, a REIT alongside rising interest rates, and an industrial company expected to benefit from national security, nuclear power, and gas turbine demand.

All option positions expired below strike and the portfolio was able to retain the set premiums.

Regarding positioning, cash levels remained elevated and some cyclical exposure was reduced in favour of companies with higher operating performance visibility. Exposure increased the most in Energy, Technology, and Communication Services, and decreased the most in Industrials, Materials, and Consumer Discretionary. Covered call option positioning increased month-over-month, and convertible and high yield new issuance participation was selective.

Market Outlook

The outlook for 2026 is largely unchanged, although conflict headwinds may offset some of the AI proliferation, reindustrialisation, and fiscal and monetary policy tailwinds. Q4 results surpassed expectations, management guidance was constructive, earnings estimates continued to rise, and multiple economic datapoints indicated sustained growth.

Going forward, corporate investment, consumer spending (helped by tax cuts/refunds), less regulation, energy and defence spending, and credit expansion could support gross domestic product (GDP) growth. On the other hand, a prolonged conflict lengthens the recovery period, pushing out eventual stability in commodity markets, supply chains, and geopolitics. The investment team continues to closely monitor the situation including the potential effects of higher energy prices on consumption, margins, sales, inflation, government debt yields, monetary policy, and capex plans.

Bottom-up analysts continue to upwardly revise their 2026 (and 2027) earnings estimates due to steady growth, durable margins, productivity gains, expanding earnings breadth, AI spend, and cost controls. Expanding earnings breadth could lead to a further broadening out of market leadership. Earnings headwinds include risks cited above and rising operating expenses, among others, with the view that shifts in the use of free cash flow have trade-offs.

Return expectations for 2026 remain unchanged with risk assets having ample time to either recover or produce further gains over the remainder of the year. Convertible securities could outperform equities again and high yield bonds could deliver another year of coupon-like returns. Given their defensive characteristics, convertible securities, high yield bonds, and investment grade 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 is on pace to 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 above 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 March 2026 unless otherwise stated.

* Source: MSCI, as at 31 March 2026

^ Source: Bloomberg, as at 31 March 2026

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

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

Source: BofA Research, as at 31 March 2026

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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