Allianz Global Opportunistic Bond

Monthly commentary

Investment Objective

The Fund aims at long-term capital growth and income by investing in global bond markets.

What Happened in April

In April, market volatility rose to levels last seen during the COVID crisis in 2020 as investors grappled with the US reciprocal tariff policy announcements at the start of the month. The initial market response was uniformly negative, with risky assets selling off and financial conditions tightening globally. US economic growth expectations were revised materially lower and there is now a growing risk of a US recession over the coming quarters given that consumers' real incomes are likely to be squeezed by rising inflation. The deterioration in the US growth outlook also resulted in a downward re-assessment of global growth prospects more generally. As the month progressed, market participants did draw some comfort from tariff policy reversals from the Trump administration and the policy easing being priced in the major markets. However, with the 10% minimum portion of the reciprocal tariffs set to remain in place for now, it underscored the downside risks that remain for the global economy over the coming months. Markets re-priced monetary policy expectations lower globally, with the US Federal Reserve (Fed) now priced to cut rates a further four times in 2025. There has also been a re-pricing lower in policy rate cut expectations in other G10 markets. The European Central Bank (ECB) cut rates by a further 25 basis points (bps) to 2.25% in April, as expected, and there is scope for the ECB to continue to cut rates further given the disinflationary pressures in the region. Short interest rate markets are pricing an ECB terminal rate of 1.5% in this cycle.

Portfolio Review and Strategy

Government bond markets gyrated over the course of the month given the policy backdrop. 10-year US Treasury yields traded in a 4.0-4.6% range, before ending the month at 4.16% (4 bps lower). Erratic US trade policy and pressure from President Trump on the Fed to cut interest rates resulted in market participants questioning US policy credibility. Term premia for longer-dated bonds rose – as investors demanded greater compensation for owning US Treasury risk – while the US dollar also came under downward pressure. Against this backdrop, our long duration stance, curve steepening bias and cross-market relative value (RV) strategies all strongly added to performance.

We actively traded over the month as the extreme levels of volatility let to some dislocations in interest rate markets. In particular, US Treasury valuations became increasingly stretched in our view with 30-year Treasury yields rising as much as 40 bps. The negative growth impulse from the universal tariffs likely will put further Fed policy easing on the horizon in the coming months as the fallout from the US trade policy starts to materialise.

Over the month, we therefore rotated risk into US rates both on an outright and relative value basis. On an outright basis, we added duration via buying 30-year Treasuries around the highs of 4.91% in yield. We also rotated duration risk out of UK Treasuries into 10-year US Treasury Inflation-Protected Securities (TIPS) and bought 10-year US Treasuries against German Bunds following sharp widening in the spread. Towards the end of the month, we booked partial profit on the 10-year US/German spread following an impressive narrowing.

The Japanese curve was not immune from the global steepening trend, as trade-related uncertainty will potentially delay further policy tightening by the Bank of Japan (BoJ) and as an additional fiscal premium has been priced into the long end of the curve. Our Japanese curve flattener detracted in this environment and we elected to close the position in April.

In currency markets, the US dollar came under downward pressure, with the trade-weighted US dollar falling to its lowest levels since early 2022. The Swiss franc, Japanese yen and euro were the best performing G10 currencies versus the USD in April. We entered the month short USD versus AUD, a position that initially became challenged amidst the wider risk-off sentiment in the immediate aftermath of the significantly larger-than-expected tariff announcement on 2 April. However, the Australian dollar quickly recovered and we closed the position this month with a positive contribution to performance. From a fundamental perspective, the rising tensions between China and the US may put Asian currencies such as the AUD under pressure in the coming months. We therefore prefer to express our bias for a USD underweight against other currencies such as the EUR. Therefore, we added a long EUR versus USD position as we believe cyclical (slowing growth) and structural (twin deficits and deteriorating policy credibility) factors suggest there will be headwinds for the US dollar over the short and medium term.

Elsewhere this month, we entered a tactical trade to be long JPY versus CNH following the tariff announcement which quickly moved in our favour upon which we booked profit on the trade within the month. We also entered a new RV position to be short GBP versus NOK as we see room for more Bank of England (BoE) easing than is priced given the UK's weak economic outlook and as fiscal concerns will likely continue to weigh on GBP performance. NOK meanwhile seems attractive from a valuation perspective.

In credit markets, global investment grade (IG) corporate spreads widened 13 bps in April after having risen as much as 23 bps following the US trade announcements. Spread risk remained conservative in allocation, with a modest long via allocations to IG corporates (sector focus on Financials, EUR reverse-yankee bonds, and US regulated Utilities), plus a long position in Spanish sovereign spreads versus Germany. Overall, the positioning was a detractor from performance in the month.

Looking ahead, the reassessment of US and global growth expectations favours our long duration and curve-steepening positions. We think that bond market volatility is likely to remain elevated in the coming months, so we prefer to trade tactically around our core views.

All data are sourced from Bloomberg and Allianz Global Investors as of 30 April 2025 unless otherwise stated.