

# 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 October

In October, sovereign bond yields and the US dollar climbed higher, thanks to stronger-than-expected US activity data, especially in the labour market, and increasing focus on the US elections – with markets beginning to price the possibility of another Trump victory. 10-year US Treasury yields rose by 50 basis points (bps) to 4.29% – their highest levels since July. Government yield curves also flattened as markets re-assessed the extent of future US Federal Reserve (Fed) rate cuts; the US 7s30s curve ended the month at 25 bps (down 22 bps). With the reflation narrative gaining some traction, thanks to loose US fiscal policy and growing confidence in a US soft landing scenario, the US 10-year breakeven inflation rate also rose to 2.33%, its highest level since June. On a trade weighted basis, the US dollar rose to its highest level since early August, with the NZD, JPY and AUD being the worst performers versus the USD.

In the euro area, the European Central Bank (ECB) cut the deposit rate by 25 bps to 3.25%, as expected, given the weak underlying growth and softening inflation backdrop in the region. However, in concert with other bond markets, 10-year Bund yields also rose during the month, ending at 2.39%, their highest levels since July; the German 5s30s curve flattened back to 33 bps (down 18 bps). In Japan, the Bank of Japan (BoJ) maintained the policy rate at 0.25%, but its communications suggested that it sees the conditions building for the next rate hike and that while it would prefer to wait until January, it is keeping the option to hike earlier as it monitors foreign exchange (FX) volatility amid political uncertainty. On the political front, following Japan's lower house general election, the ruling coalition parties fell short of a majority, raising the likelihood of a future minority government led by the current coalition and some opposition parties. While the election outcome is unlikely to bring major fiscal changes, the government will be more fragile, raising the risk of more fiscal expansion ahead. 10-year Japanese Government Bond (JGB) yields ended the month at 94 bps (9 bps higher).

## Portfolio Review and Strategy

The rising yield backdrop challenged our duration basket, despite a substantial share of exposure focused outside of the US – the move in Treasury yields drove rates higher in Australia, Norway and the UK. That being said, our decision in summer to cut duration helped shield the portfolio from some of the repricing higher in yields. Our allocation to New Zealand was a relative outperformer during the month and we used the opportunity to exit the position, rotating into short-dated US Treasuries to prevent overall duration from falling. After a difficult September, UK Gilts continued to trade heavily through October – with markets nervous about the government’s budget at the end of October. Our relative value yield-spread trade long Gilts versus German Bunds detracted. During the month, we elected to add a further position in Gilts, on an outright basis (ie, increasing duration). In the event, near month-end the government presented a more expansionary budget than expected, along with a change to the fiscal rules to allow for greater borrowing to fund future investment – driving Gilt yields higher.

The Fund continues to position for yield curve steepening in the US and Germany (albeit with a lighter footprint than in the summer, following some profit taking last month). The market’s re-assessment of future Fed rate cuts drove the US curve flatter, and European curves followed in lock-step, detracting from returns.

The rising odds of a Trump victory in the upcoming US presidential election drove breakeven inflation expectations higher, to the benefit of our US Treasury Inflation Protected Securities (TIPS) exposure. We continue to believe that inflation protection is an important portfolio hedge over the medium term, especially in an environment of easing financial conditions.

October saw mixed returns across our FX strategy. Renewed weakness in the euro, from a mix of weaker activity indicators and weaker-than-expected inflation data, resulted in our short EUR/INR position adding value. During the month, we decided to rotate the EUR funding leg into USD, to reposition the exposure as a short USD/INR view.

Our NOK/SEK relative value trade also bounced, with soft Swedish gross domestic product (GDP) data, and some stability in oil prices, helping to drive the FX cross higher. At month-end, we decided to exit the position. At some stage there is scope for the Riksbank’s easing actions this year to begin turning sentiment surveys in a more positive direction relative to Norway, which may limit the scope for NOK outperformance. We are more comfortable reflecting our positive sovereign view on Norway via the bonds. Additionally, our other relative value trade to be long AUD/NZD also performed well, with AUD strengthening as forward markets repriced a rate cut out of the Reserve Bank of Australia (RBA) meetings for the remainder of this year, whilst the Reserve Bank of New Zealand’s (RBNZ’s) decision to cut 50 bps in October kept NZD on the back foot. Finally, our Latin American FX exposure in BRL and MXN was less positive, creating a performance drag, as US election expectations weighed on the region.

In credit markets, global investment grade (IG) corporate spreads tightened 8 bps in October, with EUR and GBP markets outperforming USD. The ECB’s rate cut was enough to buoy European risk sentiment. Meanwhile, USD spreads took a breather towards month-end after reaching 20-year tights mid-month. Spread risk (measured by weighted duration times spread (WDTS)) was maintained with a moderate long bias, with a focus on IG corporates (mainly Financials, EUR-credit, and US-regulated Utilities), as well as a position in Spanish 30-year sovereign spreads versus Germany – all of which positively contributed to performance.

Looking ahead, the monetary policy stance globally is setting up a supportive backdrop for global growth prospects more broadly, although we expect economic trajectories to diverge through 2025 given differences across markets in economic debt fundamentals, the transmission of monetary policy and degree of fiscal support. The outcome of the US election – and its implications for future US trade policy – could be the biggest challenge to a constructive global growth

outlook, leading to further bond and FX market volatility. The macro and geopolitical backdrop certainly raises the possibility that we may see more volatility in risk asset markets in 2025. We think the fixed income asset class looks attractive given these risks, although navigating these challenges will require a nimble investment approach between duration, yield curve, FX, spread and inflation products

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