Allianz Global Investors

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 June

June was another volatile month for fixed income markets as Middle East tensions and ongoing uncertainty about the macro impact of US trade policy drove market sentiment. The Israel-Iran conflict proved to be short-lived but resulted in oil prices trading in a USD 65-80 per barrel range during the month. On the policy front, the US Federal Reserve (Fed) kept rates on hold, leaving the fed funds target range unchanged at 4.25%-4.50% for the fourth consecutive meeting. In its latest economic projections, the Fed dialled back its growth forecast for this year to 1.4% but raised its core personal consumption expenditures (PCE) inflation forecast to 3.1% and highlighted the uncertainty around the economic outlook given US tariff policy. Since their initial post-"Liberation Day" declines in early April, equity and credit markets have rebounded sharply, reflecting market perceptions that tariff policy will be sufficiently watered down to not significantly impair corporate fundamentals. In the euro area, the European Central Bank (ECB) cut rates by 25 basis points (bps), its eighth cut in this cycle, taking the deposit rate to 2.0%. US-European Union (US-EU) trade tensions remain and euro area survey data suggests that economic activity is still anaemic, while inflationary pressures have eased. However, the monetary and fiscal policy stance is raising hopes of an economic recovery in the region over the short and medium term.

Portfolio Review and Strategy

With interest rate markets pricing up the risks to near-term growth prospects, 10-year US Treasury yields ended the month at 4.23% (17 bps lower). 10-year Bund yields meanwhile ended the month at 2.61% (11 bps higher) as the monetary and fiscal policy stance is raising hopes of an economic recovery in the region. The move lower in USD yields helped our long duration basket (comprised of the US, New Zealand, and select emerging markets (EM) local rates).

During the month, we decided to rotate the duration held in Norwegian government bonds to add to our NZD duration exposure. We also added to our position in EM local markets, buying Indonesian government bonds on an unhedged basis.

The US 7s30s yield curve continued to steepen, ending the month at 78 bps, helped by expectations of the passage of Trump's "Big Beautiful Bill". Our steepener stance contributed to performance in this environment.

In cross-market relative value (RV) trades, we saw good performance from our long UK Gilt versus German Bund position in June. Our short position to long-dated US Treasuries (paired against UK Gilts and Spanish government bonds) meanwhile detracted as USD duration outperformed within the month.

In currency markets, the US dollar continued to come under downward pressure in June, on a trade weighted basis falling to its lowest levels since early 2022 – which played well into our strategic theme to be short the USD. Early on in the month, and having reached our target levels, we booked profits on our short USD/KRW position. With the cross subsequently retracing some of the gains, we elected to re-engage in the position at a better entry level.

Our short USD/BRL and long EUR/USD position also contributed to performance, with the euro being the strongest performer in the G10 markets versus the US dollar, rising by 3.7% in June. Within the month, we decided to further add to the position, as we see further upside for the EUR to move towards a 1.20 handle.

The geopolitical crisis unfolding in the Middle East pushed the Norwegian krone higher to the benefit of our long NOK versus SEK position. We booked profits on the move during the height of the crisis. As the cross moved back to our initial entry level following the resolution of the conflict, we decided to re-instigate the position as we believe the near-term cyclical momentum remains more favourable in Norway compared to Sweden.

Elsewhere, we closed our long JPY positions (paired against the THB and GBP) at a small loss, as the tailwinds for risky assets following the constructive US-China trade talks limits the potential for near-term JPY outperformance. We also closed our short PLN/ZAR position at a small cost.

In credit markets, global investment grade (IG) corporate spreads tightened a further 6 bps in June, split evenly across EUR and USD corporates. 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), partially hedged via buying protection in credit default swap (CDS). Overall, the credit positioning added value to performance in the month.

Looking ahead, we think that sovereign bond market volatility is likely to remain elevated in the coming months given the evolving macro and policy landscape. There is some uncertainty about the near-term global economic growth and inflation path given US tariff policy and heightened geopolitical risk premium that could place some upside risks to energy prices. In the short term, downside risks remain for the global growth outlook, although much will depend on the evolution of US tariff policy. On the inflation front, the upside risks to the US inflation outlook are more evident in the near term (given the supply shock on the US economy from tariffs) than in other developed markets. In the US, our highest conviction view remains for a continued steepening of the (7s30s) yield curve given the combination of cyclical and structural forces impacting the US economy.

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