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 March

Market price action in March was dominated by the start of the US/Iran conflict, resulting in a sharp deterioration in risk sentiment and a spike in bond market volatility. Short-term interest rate markets materially re-priced monetary policy expectations in an environment where energy prices may keep inflation elevated for longer than previously anticipated. At the latest US Federal Reserve (Fed) meeting, the fed funds rate was left unchanged at 3.5-3.75%. However, while Fed Chair Powell signalled a wait-and-see approach to future policy given events in the Middle East, there was a slightly hawkish bias to the guidance. Only one committee member favoured a rate cut at the March meeting, while Powell highlighted that the unemployment rate was still broadly stable and that the oil price shock raised the risk of un-anchoring inflation expectations against a backdrop where inflation has been above target for the last five years.

Across the major markets, front-end rates re-priced higher and yield curves flattened, with US 2-year yields ending the month at 3.80% (42 basis points (bps) higher), while the US7s30s yield curve ended at 78 bps (down 13 bps). Towards month-end, there were a few glimmers of hope that a negotiated settlement between the US and Iran may emerge, helping to support risk sentiment, although there still remained little visibility about the direction or length of the conflict. The Brent crude oil price ended the month at USD 118 per barrel – around its highest level since 2022. 10-year US Treasury yields ended the month at 4.32% (38 bps higher), while the 5-year US breakeven inflation rate ended at 2.60% (15 bps higher). The poor risk environment saw the US dollar outperform versus other G10 currencies. The SEK, NZD and CHF were the worst performers versus the USD, falling by -5.0%, -4.5% and 4.0%, respectively.

MARCH 2026

Portfolio Review and Strategy

The global re-pricing higher of monetary policy paths, in light of the inflationary impulse from the surge in energy prices, resulted in an aggressive curve flattening in March. Our US curve steepening expressions (2s30s and 7s30s) detracted in this environment and we decided to reduce our curve exposure as a risk management exercise by closing the more policy sensitive 2s30s steepener at a loss.

We entered the month with a modest long duration exposure in US Treasuries, plus small long exposures to emerging markets (EM) local markets (Brazil and Peru). Early in the month, following the commencement of hostilities in the Middle East, we elected to reduce our US duration exposure by selling US Treasuries (2-year and 10-year) given the near-term inflation challenges. This reduced exposure, coupled with our long US 5-year breakeven exposure, lessened the impact on returns to some degree from the significant re-pricing in interest rate markets throughout March.

In a busy period of central bank meetings, the Bank of England (BoE) stood out, surprising interest rate markets with a hawkish policy message. As a result, UK Gilts underperformed in March. We used this opportunity – which at the highs saw four BoE hikes priced for this year – to add to our long exposure in UK rates by moving outright long 10-year Gilts, as well as add to our long in 30-year Gilts versus US Treasuries.

In currency markets, the jump in global energy prices and deteriorating risk sentiment challenged our strategic short USD theme. As a consequence, our short USD basket held against longs in JPY, NOK and EUR detracted from performance in March. While the risk of further geopolitical escalation and the US status as an energy exporter may add some near-term support to the USD, we believe this will ultimately prove short-lived amidst a longer-term USD downtrend and given a relatively more cautious Fed reaction function to the surge in energy prices compared to other G10 central banks. Therefore, we opted to express the terms-of-trade shock emanating from the US/Iran conflict via new shorter-term tactical underweight positions in EUR and GBP against overweights in CAD and USD. These tactical positions added to performance in March.

In credit sectors, global investment grade corporate spreads widened 7 bps in March, with EUR (+13 bps) materially underperforming USD (+4 bps) corporates. Overall spread risk was retained as a moderate long footprint via allocations to investment grade corporates (sector focus on senior Financials and Utilities versus cyclical Industrials). The Fund also retained short exposure to US high yield corporates via credit default swap (CDS), which added value in the month as volatility increased. Within European sovereigns, we favour Spain over Germany and France.

Looking ahead, in the short term, the US/Iran conflict has significantly reduced the chances of near-term policy rate cuts from the major central banks as inflation risks dominate the policy reaction function. However, if the conflict persists for longer than currently expected, more material downside growth risks are likely to emerge, especially for the energy importing European and Asian markets.

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All data are sourced from Bloomberg and Allianz Global Investors as of 31 March 2026 unless otherwise stated.