

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 February

February was a volatile month for sovereign fixed income markets, with softer-than-expected US activity data and uncertainty around US economic policy resulting in a re-appraisal of some of the more bullish investor sentiment on the US economic outlook for 2025. Although the minutes from the January US Federal Reserve (Fed) policy meeting signalled that most Fed members favoured a cautious approach towards additional policy easing given the uncertainties on the economic and government policy outlook, short-term interest rate markets priced the possibility of three Fed rate cuts in 2025 versus barely one priced at the start of the year. 10-year US Treasury yields rose to 4.62% in the first half of the month as both headline and core US consumer price index (CPI) inflation came in above expectations at 3% year-on-year (YoY) and 3.3% YoY, respectively, before rallying sharply to end February at 4.21% – their lowest levels since mid-December. US tariff headlines continued to unnerve markets, with President Trump ordering his administration to develop a “fair and reciprocal plan” for trade policy that matches other countries tariffs, taxes and non-tariff barriers.

Meanwhile, the new US administration also sidelined Europe in US/Russia negotiations on Ukraine, whilst also increasing pressure on Europe to raise its share of defence spending. The result of the German election – with the likelihood of a two-party Christian Democratic Union/Christian Social Union-Social Democratic Party (CDU/CSU-SPD) grand coalition – and the growing frictions between the US and Europe also raised the prospect that European leaders will agree on a common strategy to increase defence spending. 10-year Bund yields ended the month just 5 basis points (bps) lower at 2.41%, and the German 5s30s yield curve steepened to 55 bps – its highest level since mid-2022. The 10-year US Treasury/Bund spread ended February at 180 bps, its lowest level since October 2024. Elsewhere in Europe, headline UK CPI inflation surprised to the upside, coming in at 3% YoY, close to 1-year highs, strengthening the Bank of England’s (BoE’s) near-term case to remain cautious in its rate cutting cycle. 10-year Gilt yields ended the month 6 bps

lower at 4.48%, with the 10-year Gilt/Bund spread broadly unchanged at 207 bps. The US dollar weakened versus the majority of G10 currencies in February, with the Japanese yen and Swedish krona the best performers versus the USD, rising by 3% and 2.9%, respectively.

Portfolio Review and Strategy

Active duration positioning impacts were fairly muted in aggregate. With the yield rally driven by the US, markets such as Australia, Norway and the UK, where the Fund is focused, struggled to keep pace with Treasuries in February. Our more structural allocations to US Treasury duration performed well in this environment, adding to returns.

The tariff noise hitting Canada drove some relative yield outperformance, resulting in our UK versus Canada yield-spread modestly detracting. However, given the degree of uncertainty around US trade policy, Canadian asset prices are changing course on a weekly basis – for now, with the prospect of tariffs being more of a negotiation tool than a “trade war” policy, there is scope for Canadian bonds to resettle back onto fundamentals. We also retain our UK versus Germany yield-spread, on the scope for fiscal and growth divergence to drive Gilt outperformance this year.

The steepening in US and European curves was positive for performance. We increased our curve risk in February, adding a US 5s30s steepener in addition to our existing US 7s30s position. We also added back a German 5s30s steepener given the prospect of increased fiscal spending in Europe, a thesis which is now playing out. In Japan, headline CPI inflation rose to 4% YoY in January, 2-year highs, increasing pressure on the Bank of Japan (BoJ) to continue tightening monetary policy. This helped our curve flattener position add to performance.

Two new foreign exchange (FX) strategies were implemented in February, to reflect the policy shifts in both Japan and the US – a long Japanese yen position (currently versus the Thai baht) and a long Australian dollar position (versus the US dollar). Ongoing pressure on the BoJ to normalise monetary policy should be supportive for the yen, meanwhile Thailand is experiencing a period of low inflation, policy easing from the Bank of Thailand and tolerance for some FX weakness. The yield advantage of THB over JPY has been eroding, and the cross moved higher over February, to the benefit of portfolios. Elsewhere, short USD/AUD represents a first step into our more thematic view of waning support for the USD ahead. The generally soft backdrop for risky assets in February did drive AUD FX lower (given its traditional beta to moves in risk sentiment), however, over a 3-6 month horizon we expect the USD environment to be the key driver of this trade, especially upon any further weakening in US economic data.

In credit markets, global investment grade (IG) corporate spreads widened 5 bps in February, with the USD market noticeably underperforming EUR spreads. Softening US economic data (especially consumer surveys) and the heightened trade policy uncertainty have affected US sentiment. US equity underperformance, in light of some foreign investor rotation and the challenge of China’s artificial intelligence (AI) progress, has also dampened the appeal of US risk. Spread risk (measured by weighted duration times spread (WDTS)) was maintained as a modest long footprint via allocations to IG corporates (sector focus on Financials, EUR reverse-yankee bonds, and US regulated Utilities). The Fund also retains a position in Spanish 30-year sovereign spreads versus Germany – our spread positioning added value for the month overall.

Looking ahead, US trade and fiscal policy uncertainty is resulting in a re-assessment of the more bullish US growth expectations that had been priced by asset markets at the start of the year. US growth outperformance versus the rest of the world is increasingly being questioned, with the rally in US Treasuries driving a broader rally in sovereign bond markets globally. Bond market volatility may well remain elevated through 2025, so we prefer to tactically trade duration. In the UK, the macroeconomic outlook, BoE policy pricing and Gilt valuations present an attractive outlook for Gilts both on an outright basis and cross market versus Bunds and Canadian rates, markets in which a lot of rate cuts are

already in the price. In FX, the gap in 2025 growth forecasts for the US versus the rest of the world, and subsequent differential in policy rate pricing, leaves the USD vulnerable to the near-term softening in the US economic data. In the longer term, some of the policy ambitions of the US administration point to a weaker USD outlook.

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sg.allianzgi.com

+65 6438 0828

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