

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

In February, a deterioration in risk sentiment resulted in a rally in government bond markets following a variety of headlines on tariffs, the risks facing private credit markets, the sustainability of artificial intelligence (AI) capital expenditure (capex), and the growing potential of US military strikes on Iran. The sell-off in risk assets, however, contrasted with economic data in the major markets that generally presented a favourable backdrop for economic growth.

In the US, survey data suggested that the economy continued to grow around its trend-rate. In addition, the minutes from the latest US Federal Reserve (Fed) meeting indicated that the majority of committee members judged that the US labour market was showing signs of stabilisation, underscoring the Fed's desire to remain in wait-and-see mode over the near-term as it seeks further evidence to build a more compelling case for additional policy easing. Meanwhile, the US Supreme Court struck down the US administration's ability to use emergency powers to implement its tariff policy, forcing the administration to shift to alternative avenues to implement its tariff policies. This uncertainty further weighed on risk sentiment.

Against this macro and policy backdrop, short-term interest rate markets are still pricing around a further two US rate cuts this year. 10-year US Treasury yields ended the month at 3.94% (down 30 basis points (bps)), while the US7s30s yield curve steepened by 4 bps to end at 90 bps.

In the euro area, survey data showed that there were signs of improving cyclical growth momentum in the core euro economies. With core euro consumer price index (CPI) inflation also sitting around the European Central Bank's (ECB's) 2% target, it re-enforces the ECB's messaging that policy is in "a good place". 10-year German bund yields ended the

month at 2.64% (down 20 bps). In the UK, the Bank of England (BoE) left policy rates unchanged at 3.75%, but it was a closer-than-expected vote within the committee, while policy guidance was also dovish. 10-year Gilt yields ended the month at 4.23% (down 29 bps).

In Japan, the ruling Liberal Democratic Party (LDP) coalition achieved a landslide victory in the snap lower house elections. Although there are concerns about the potential path of the new administration's spending plans, 10-year Japanese government bond (JGB) yields ended the month at 2.11% (13 bps lower). The 10s30s yield curve flattened by 17 bps to end the month at 119 bps.

It was a better month for the US dollar, which rallied versus a majority of G10 currencies during the month. The GBP, SEK and JPY were the worst performing currencies, while the AUD, NOK and CHF outperformed the USD.

Portfolio Review and Strategy

The move lower in rates drove strong performance contributions from our US duration exposure in February. Our allocation to select emerging markets (EM) local markets (Peru and Brazil), however, marginally detracted from performance over the month.

In active curve exposure, our US steepening expressions (2s30s and 7s30s) had a broadly neutral impact, with the 7s30s steepening, while 2s30s flattened. In Japan, our 10s30s JGB flattener added to performance as the JGB curve reversed some of the aggressive steepening seen ahead of the general election.

Over the month, we engaged in a tactical long in Australian rates versus German Bunds as we see risks that the market is under-pricing euro area growth upside risks, while we think that Australian rates have sufficiently priced inflation risks in that market.

In currency markets, our short USD basket yielded moderately positive returns in February driven by a long in the Norwegian krone. We decided to add to the short USD theme by increasing our short USD/JPY position following the strong electoral mandate for the Takaichi government in Japan. The outperformance of NOK on the back of rising energy prices and strong inflation data further benefitted portfolios through our tactical longs against SEK and CAD. We reduced the exposure at the end of the month by booking partial profit on our long NOK/SEK trade.

In credit sectors, global investment grade corporate spreads widened 10 bps in February, with slight underperformance from USD (+11 bps) over EUR (+9 bps) corporates. The Fund retained a moderate overall credit allocation via allocations to investment grade corporates (sector focus on senior Financials and Utilities versus cyclical Industrials). Within European sovereigns, we favour Spain and Italy over Germany and France.

Looking ahead, at the time of writing, the risks of a prolonged US-Iran conflict cannot be discounted and presents a challenging backdrop for risk sentiment. Looking further ahead, however, recent events in the Middle East do not materially alter our assessment for the 2026 macro and market outlook. We think global economic growth is likely to remain supported by the pro-growth monetary and fiscal policy setting in the major economies – the US, China and euro area. In the US, we expect at least trend-like economic growth given an easy fiscal and monetary policy stance and favourable financial conditions. We expect longer-dated US Treasuries to underperform, given the monetary policy outlook, lingering medium-term inflation and fiscal concerns, and persistent fears about the erosion of Fed independence. We expect some differentiation in monetary policy cycles globally that results in greater variation across sovereign yield curves, while relative monetary policy outlooks and imbalances in the US economy are still a headwind for the US dollar through 2026.

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All data are sourced from Bloomberg and Allianz Global Investors as of 28 February 2026 unless otherwise stated.

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