

# 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

In March, risk sentiment deteriorated as the trade war rhetoric from the US administration intensified. Meanwhile, the US Federal Reserve (Fed) kept rates on hold, as expected, leaving the fed funds target range unchanged at 4.25%-4.50% for the second consecutive meeting. However, in its latest economic projections, the Fed downgraded its 2025 growth forecasts to 1.7% (from 2.1%), whilst raising its core personal consumption expenditures (PCE) inflation forecasts to 2.8% (from 2.5%) as the Fed increasingly factors in the impact of US tariff policy. Market sentiment on the US economic outlook in 2025 has shifted since the turn of the year given the trade and fiscal policy uncertainty from the new Trump administration, with US equity and credit markets beginning to price downside growth risks.

In Europe, the market consensus at the start of the year was for another anaemic year for the euro area economy, with economic growth expected to be only fractionally higher than the 0.7% sub-trend growth achieved in 2024. However, the escalation of tensions between the US and Europe on security and trade policy have upended expectations about the future path of European fiscal policy. In fact, following the outcome of the German election, the future Christian Democratic Union/Christian Social Union – Social Democratic Party (CDU/CSU – SPD) coalition announced an agreement to pass an unprecedented fiscal package that includes higher public spending on defence and infrastructure. As a consequence, market sentiment has materially shifted on future European economic growth prospects.

In the UK, the Bank of England (BoE) voted to keep rates on hold at 4.50%. UK economic activity remains weak, with the impact of the announced hikes in employers' national insurance contributions, as well as global trade policy uncertainty, weighing on consumer and business sentiment. However, with consumer price index (CPI) inflation uncomfortably above its target, BoE seems to be taking a cautious approach to policy setting, even though it views many of the drivers of short-term inflation as temporary in nature. In its Spring statement, the government signalled that it would be sticking to

its fiscal rules by taking further corrective action to cut spending to fill the hole in the public finances. A government that remains firmly committed to its fiscal rules and the risks of an escalation of trade tensions between the US and Europe, increases the risk that the BoE could cut rates in 2025 more than is currently priced.

In Japan, the Bank of Japan (BoJ) held the policy rate at 0.5% despite evidence that inflationary pressures continue to build in the economy. The wage-price cycle was reinforced in March with the country's biggest labour union securing 5.5% wage increases – the largest since 1991. Currently, the market is pricing only one further BoJ rate hike this year from the current 0.5%. The risks of a further re-pricing higher remains, although much depends on the extent to which Japan gets entangled in the escalating trade wars.

## Portfolio Review and Strategy

Directional duration positioning was a drag on performance in March as bond markets outside the US repriced rates higher on the back of the German fiscal news, with our modest long positioning in UK Gilts and Norwegian government bonds detracting. Ahead of the tariff announcements, we closed our tactical reduction in exposure to 7-10 year US Treasuries as well as the long position in Australian rates, keeping the headline duration footprint in the Fund unchanged.

Our basket of curve steepeners performed well as significant term premium started to be priced into sovereign yield curves given the prospects of increased fiscal spending in Europe and higher inflation uncertainty in the US. We elected to book profit on our tactical German and US 5s30s expressions, reducing curve risk by circa 45% overall. We continued to be engaged in a US 7s30s steepener and in the Japanese 7s30s flattener.

The German fiscal reset was also favourable to our UK/DE relative value (RV) trade, with the yield spread tightening up to 30 basis points (bps) intra-month. On the back of these moves, we elected to reduce our position by half. The trade did contribute significantly to overall performance in March.

In foreign exchange (FX) markets, towards month-end, we decided to take profit on the long JPY versus THB position as a means to de-risk ahead of the April tariff announcements. The position registered a small drag in March but has performed well overall since being added to the Fund. Our short USD/AUD contributed positively at the margin in March, and our short US dollar versus Brazilian real also added positively to returns.

In credit markets, global investment grade (IG) corporate spreads widened 7 bps in March, with the USD market noticeably underperforming EUR spreads as US sentiment continued to sour amidst increasing trade tensions and uncertainty. 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). Overall, the impact of spread widening was contained, with spread positioning – which includes a position in Spanish 30-year sovereign spreads versus Germany – only detracting at the margin from returns.

The market price action since the US tariff news reflects the rising downside growth risks globally, which would be re-enforced if other countries apply retaliatory tariffs. US growth expectations for 2025 are being revised materially lower, with a rising probability of a US recession as consumers' real incomes are squeezed by rising inflation. From a monetary policy perspective, markets are re-pricing rate cut expectations globally, with the Fed now priced to cut rates more than three times in 2025. There has also been a re-pricing lower in policy rate cut expectations in other G10 markets.

The re-assessment of US and global growth expectations continues to favour long duration positioning and curve steepeners. Bond market volatility is likely to remain elevated in the coming months, so we favour tactically trading

duration around our core views. We remain convicted in curve steepeners in the current macro and policy environment, but given recent market volatility, we may also look to tactically trade around this structural position. We have a bias to add FX risk in the short USD theme and actively assess opportunities to add.

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