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 December

In December, market focus turned to the monetary policy signals from the major central banks as they held their final meetings of 2025. As expected, the US Federal Reserve (Fed) cut the fed funds target range by a further 25 basis points (bps) to 3.50-3.75%. Although Fed Chair Powell signalled that the bar was somewhat higher for future rate cuts, he also outlined greater concerns about the downside risks facing the US labour market. The Fed also announced that it would begin buying US Treasury Bills (T-bills) in December – earlier than expected – so that reserves remain ample relative to the needs of the banking system. The relatively dovish policy signal provided a supportive backdrop for risk sentiment. The US7s30s curve steepened, ending the year at 90 bps. 10-year US Treasury yields ended December at 4.17% (15 bps higher over the month).

In the euro area, the European Central Bank (ECB) left the deposit rate unchanged at 2%, as expected. The meeting brought little news on the future policy path, with ECB President Lagarde reiterating that policy was in a “good place”. 10-year Bund yields ended December at 2.85% (17 bps higher). In the UK, the Bank of England (BoE) cut rates by 25 bps to 3.75%, indicating that inflation risks had "become somewhat less pronounced" and that the policy rate is likely to remain on a gradual downward path. 10-year Gilt yields ended the month at 4.48% (just 4 bps higher).

Meanwhile, in Japan, the Bank of Japan (BoJ) hiked rates by 25 bps to 0.75%, as expected, but Governor Ueda remained cautious on the timing of future rate hikes. 10-year Japanese government bond (JGB) yields ended the month at 2.06% (25 bps higher), their highest levels since the late 1990s. The favourable risk environment saw the US dollar ending the year on a weaker footing, falling against the vast majority of other G10 currencies. The SEK, CAD and AUD were the best performers versus the USD, while the JPY underperformed.

Portfolio Review and Strategy

Our duration allocation dragged modestly in December as global yields inched higher over the month. Outside the US, our long emerging markets (EM) local markets (Brazil and Peru) exposure retraced some of the November gains and this resulted in a small detraction from performance. Elsewhere, our active curve positioning added value in the month as the US 7s30s curve continued to steepen in December – this rounds off a strong performance contribution from the position over 2025.

Our short in long-end US Treasuries against Spain and UK Gilts added good performance in December. However, our tactical long in 5-year SEK versus USD rates continued to underperform and we closed the position within the month.

In currency markets, weakening US dollar benefitted our structural short USD theme, We also tactically traded this theme around the Fed December meeting. On a structural basis, we believe the cyclical backdrop favours longs in Asia foreign exchange (FX) due to building tailwinds in Asia from growth-supportive monetary/fiscal policy, benefits from AI-related capital expenditure (capex), strong equity momentum, and the fact that many currencies in the region remain deeply undervalued.

In the Fund, we implemented this positive view on Asia FX by adding to our short USD/KRW and initiating a new position short USD/AUD. The KRW strengthened towards the end of the month as Korean authorities announced several measures in support of the weakening currency – benefitting our short USD/KRW position.

On a tactical basis, we added back long EUR versus USD exposure ahead of the December Fed meeting. We believed that a hawkish Fed cut was well-priced by the market, and as such we thought that any re-pricing lower in future Fed rate expectations coming out of the meeting, aided by a broadly favourable cyclical global growth backdrop, could result in some near-term headwinds for the US dollar. In the event, following the rate cut, Fed Chair Powell was on the dovish end of the spectrum, benefitting the EUR/USD FX trade – which we will retain in the near-term. Elsewhere, our long exposures in NOK and NZD detracted in December.

In credit sectors, global investment grade (IG) corporate spreads tightened 3 bps in December, with equal performance from EUR and USD corporates. The Fund retained a moderate long footprint via allocations to IG corporates (sector focus on senior Financials and Utilities versus cyclical Industrials). Within European sovereigns, we continue to favour Spain over Germany.

In 2026, we think global economic growth is likely to tilt in a cyclically favourable direction given a generally pro-growth policy setting in the major economies. We currently favour a mild long headline duration bias. We maintain a structurally bearish view on the US dollar, and in IG credit, we retain a moderate overall credit allocation given that fundamentals and technicals remain supportive for the asset class.

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All data are sourced from Bloomberg and Allianz Global Investors as of 31 December 2025 unless otherwise stated.

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