

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 November

November was another volatile month for bond and foreign exchange (FX) markets, with all eyes on the outcome of the US election. In the event, not only did Trump win the presidential election with ease, but Republicans also won majorities in both the House and Senate. The implications for US domestic policy as well as policymaking globally are numerous, with future US trade policy presenting the biggest downside growth risks for both China and Europe in the years ahead. On the monetary policy front, the US Federal Reserve (Fed) cut interest rates by a further 25 basis points (bps), as expected, taking the target range for the fed funds rate to 4.5%-4.75%. US Treasury yields and the US dollar gyrated through the month as markets assessed the election outcome. 10-year US Treasury yields finally ended the month at 4.17% (having been as high as 4.45%). The US 7s30s curve ended the month broadly unchanged at 26 bps.

In the euro area, it was a month of political instability in both Germany and France. Against the backdrop of a German economy in a deep malaise and a government close to collapse, the ruling and main opposition parties agreed to hold federal elections in late February 2025. Although political parties in Germany seem increasingly open to the reform of the German debt brake, raising the prospect of potential fiscal expansion after the election, 10-year German yields still ended the month 30 bps lower at 2.09% as markets priced the downside risks to euro growth from future US tariff policy. Meanwhile, in France, concerns mounted that the government would be unable to agree a budget for 2025, with calls for a no-confidence vote in the government. The 10-year French/German bond spread widened to 86 bps – its highest level since 2012 – before ending the month at 81 bps. Elsewhere, the Bank of England (BoE) cut policy rates by 25 bps to 4.75%, although the bank was more cautious on the future pace of rate cuts. Nonetheless, following the post-budget repricing higher in Gilt yields, it was a calmer month for Gilts, with 10-year Gilt yields ending November at 4.24% (20 bps lower).

Portfolio Review and Strategy

The recovery in bond yields helped our outright duration exposure in the US, UK, Australia and Norway add value. Gilt yields had a relatively underwhelming month versus German Bunds, with the latter propelled lower by weak data and rising political risks across the euro area. As a result, our UK versus Germany relative value (RV) trade detracted. We continue to believe that Gilts are undervalued and decided to increase our exposure during the month, via a further RV addition funded by selling Canadian rates. With the risk of the budget in the UK now behind us, the scope for Gilts to find some stability is growing. By contrast, Canadian government bonds look vulnerable after a run of relative outperformance, with significant rate cuts already priced following the Bank of Canada's (BoC's) recent decision to accelerate to a 50 bps cutting pace. The UK-Canada 10-year yield-spread is around 15-year wides, highlighting the extreme divergence that has been experienced between these two markets. After taking on the position, the spread quickly moved in our favour and together with our UK versus US RV trade, this helped largely offset the performance drag from the long Gilts against Bunds expression.

Our curve steepening trades in Europe added to returns in November, as markets priced in a greater European Central Bank (ECB) reaction to tariff risks. The muted behaviour in US curve slope had a neutral impact. Meanwhile in Japan, Bank of Japan (BoJ) Governor Ueda left the door open for a potential December BoJ rate hike – which drove some curve flattening, to the benefit of our positioning.

In FX markets, our AUD/NZD RV pair continued to perform well in November, with the Australian dollar responding to a change in pricing of Reserve Bank of Australia (RBA) rate cuts (easing cycle start now delayed to May 2025, from Dec 2024). Meanwhile, NZD suffered from a continued weak domestic backdrop in New Zealand. We met our target level for the cross and took profits during the month. Elsewhere, we remain long Indian rupee versus US dollar, which was a modest detractor mainly due to the overall stronger tone for USD over the month. As such, in Latin America, our long Mexican peso versus USD also dragged, as markets assessed what US trade policy under Trump's second term could mean for the Mexican economy.

In credit markets, global investment grade (IG) corporate spreads tightened 3 bps in November, driven by an impressive rally in reaction to the US election outcome (with the USD market outperforming, meanwhile EUR spreads experienced a more sideways move). Spread risk, measured by weighted duration times spread (WDTS), was maintained a modest long footprint, with a focus on IG corporates (mainly Financials, EUR-credit, and US regulated Utilities). Through the month, we sought to tilt some EUR exposure into USD names, to benefit from the expected policy tailwinds of the incoming US government. The Fund also retains a position in Spanish 30-year sovereign spreads versus Germany – all of which positively contributed to performance.

Looking ahead, we expect policymakers across the world, especially in China and Europe, to react to the prospects of increasingly disrupted global trade dynamics and the potential for less predictable US policymaking ahead. This may drive a desire for policy easing measures in some countries to be accelerated, to support domestic economic activity, creating scope for some divergence in global bond markets and increasing the potential for RV trades. We continue to like yield curve steepeners in the US and Germany in this environment. To balance the steepening expression, we also favour curve flatteners in Japan. The BoJ is on a path towards monetary policy normalisation (via rate hikes and balance sheet reduction) as inflation finally begins to stir in the Japanese economy after more than two decades. We prefer to trade duration tactically. Country selectivity will once again be key, with markets that offer a better risk/reward for duration being preferred (the UK, Australia, and Norway currently). Our long-held exposure to US inflation-linked bonds has acted as an important counterweight to duration risk.

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