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 July

July brought some headwinds for major government bond markets as global equities posted fresh all-time highs amid optimism surrounding trade deals between the US and its key trading partners. Yields on major bond markets finished the month approximately 15 basis points (bps) higher, as a reflationary narrative was also supported by a modestly better tone in the US, with key data releases – such as nonfarm payrolls, retail sales, and Q2 gross domestic product (GDP) – exceeding market expectations. Two of the strongest-performing global macro themes of H1 – US yield curve steepeners and short US dollar positions – underwent some consolidation amid stretched positioning. After steepening by around 45 bps over H1, the US 7s30s curve ended the month flatter by 5 bps, and the US dollar gained 3% against the euro following an H1 decline of 14%.

In the euro area, the European Central Bank (ECB) kept rates unchanged after easing policy by 25 bps in June. Following eight rate cuts that have taken the deposit rate to 2.0%, members of the ECB's Governing Council have indicated that policy is likely to remain on hold for now. The US-EU trade deal has removed near-term tail risks for the euro area. Although activity levels remain weak and inflationary pressures have abated, there are few signs of further sequential deterioration in economic activity. Recent monetary and prospective fiscal policy easing make for a constructive medium-term growth outlook for the region.

Portfolio Review and Strategy

US Treasury yields ended the month 15 bps higher, predominantly driven by increased inflation expectations (with real yields only 5 bps higher). The US yield curve meanwhile took a breather from the steepening tendency in H1, with the

7s30s curve 5 bps flatter as interest rate markets started to delay expectations of US Federal Reserve (Fed) easing in 2025. A high proportion of our active US duration in exposure was concentrated in Treasury Inflation Protected Securities (TIPS) which shielded the Fund from some of the bearish momentum in July, however on balance our long duration and curve steepening positioning detracted from performance.

During the month, we decided to implement a tactical flattener position on the German yield curve – expressed via buying 10-year versus 2-year Bunds. Market pricing of yet further ECB rate cuts and high expectations on German fiscal spending have led to a significant widening of the spread between 10-year and 2-year yields in recent months. Meanwhile, the inflation trajectory in the euro area appear benign with a stronger EUR and potential re-routing of Chinese goods further presenting a disinflationary impulse. This presents a more favourable backdrop for EUR duration and some re-flattening of the yield curve. The position added to returns in July.

Fiscal jitters meanwhile briefly re-emerged in the UK following the fiscal U-turn on welfare cuts and subsequent questions emerging around Rachel Reeves' position as Chancellor. We remain invested in 30-year Gilts paired against 30-year US Treasuries, however decided to book profit on our long UK Gilts versus German Bunds position. Our short position in long-dated US Treasuries (paired against UK Gilts and Spanish government bonds) contributed to performance over the month.

In currency markets, following the impressive US dollar demise over H1, July saw a modest rebound with the trade-weighted dollar 3% higher. This presented a more challenging backdrop in July for our short USD theme (with short positions in the USD versus EUR, KRW, BRL and IDR). However, we maintain a structurally bearish view on the USD and used this temporary setback to modestly add to our long EUR versus USD position.

Meanwhile, our relative value crosses long NOK versus SEK, and long AUD versus GBP contributed to performance in July. We decided to add to our short positioning in GBP – consistent with our view that more cuts by the Bank of England (BoE) than is currently priced may be required given the weak domestic outlook – paired against a long position in CAD, where the Bank of Canada's (BoC's) monetary easing increasingly begin to stabilise the real economy. The position added to performance in July.

In credit markets, global investment grade (IG) corporate spreads tightened a further 9 bps in July, with EUR (-13 bps) corporates outperforming their US counterparts (-7). Spread risk remained conservative in allocation, with a modest long via allocations to IG corporates (sector focus on senior Financials and Utilities versus cyclical Industrials), partially hedged via buying protection in credit default swap (CDS). Overall, the credit positioning added value to performance in the month.

Looking ahead, we think sovereign bond market volatility is likely to remain elevated in the coming months, given the evolving macro and policy landscape. With several high-profile trade deals recently announced, the immediate uncertainty surrounding the global growth outlook may have been mitigated. However, US trade policy remains far too erratic for a tranquil market environment to persist. Moreover, with the US putting pressure on Russia to imminently strike a deal with Ukraine, upside risks to energy prices have re-emerged – leaving an undercurrent of stagflation risks in place. In the US, our highest conviction medium-term view remains for a continued steepening of the 7s30s yield curve, given the combination of cyclical and structural forces impacting the economy.

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