

# 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 May

In May, the US-Iran conflict continued to drive market sentiment and bond market volatility. During the first half of the month, rising inflation expectations on the back of the energy price shock saw 10-year US Treasury yields spike higher towards 4.7% by mid-month, their highest levels since early 2025, before ending May at 4.44% (still 7 basis points (bps) higher) on growing optimism of a de-escalation and eventual agreement to resolve the conflict. The 5-year US breakeven inflation rate, having touched 2.71% during the month, ended at 2.54% as oil prices came off their recent highs. Nonetheless, the data continued to signal a stagflationary tilt in the global macro environment ie, slower economic growth with supply constraints and energy-driven inflation pressures, and increasingly divergent central bank policy paths.

In the US, the macroeconomic data pointed to a resilient economy, with a stable labour market and upside inflation risks. As a consequence, short-term interest rate markets increasingly began to price the risk of a US Federal Reserve (Fed) rate hike by the end of this year. 2-year US Treasury yields ended the month at 4%, around early 2025 highs.

In the euro area, Q1 saw gross domestic product (GDP) growth of just 0.8% year-on-year, suggesting that economic growth in the region was already losing momentum prior to the energy shock, leaving the euro area entering Q2 with weak underlying momentum. 10-year Bund yields ended the month at 2.94% (10 bps lower). Meanwhile, in the UK, inflation and jobs data undershot expectations, reducing the prospects of an imminent rate hike from the Bank of England (BoE). UK Gilts performed strongly in the second half of May, supported by the global rates rally and by comments from potential future Labour leadership candidates that they would adhere to UK fiscal rules were they to win any leadership election. 10-year Gilt yields ended the month at 4.81% (20 bps lower), while the 30-year Gilt/US Treasury spread tightened back to 55 bps.

In Japan, solid Q1 GDP data and renewed JPY weakness, despite interventions in the foreign exchange (FX) market, supported the case for a Bank of Japan (BoJ) rate hike in June. Japanese government bond (JGB) yields continued to drift higher, ending the month at 2.66% (14 bps higher), around their highest levels since the mid-1990's.

In foreign exchange (FX) markets, the US dollar edged higher given the relatively more favourable US growth outlook versus other major markets and the growing risk that the Fed policy stance could turn more hawkish over the coming months. In May, the US dollar outperformed the JPY, CAD, GBP and EUR, but underperformed commodity-sensitive currencies, such as the NZD, NOK and AUD.

### Portfolio Review and Strategy

The repricing higher in US yields during the first half of May, driven by resilient macro data and firming inflation expectations, resulted in a drag from our US duration exposure – albeit with a reduced impact given the recent reduction in the US duration held on the Fund. Our duration exposure held outside of the US, and our relative value positioning, favouring the euro area and the UK versus the US, contributed positively as spreads tightened. Emerging markets (EM) local rates exposure (notably in Brazil and Peru) dragged at the margin.

Inflation strategies detracted as breakeven inflation rates, having moved higher earlier in the month, retraced as oil prices came off their recent highs.

Our yield curve positioning – particularly US steepening expressions – also weighed on performance as curves flattened, reflecting a combination of monetary policy repricing and increased uncertainty around the Fed reaction function.

In currency markets, our active positioning detracted over the month given the firmer US dollar. In this environment, our exposure to Asian currencies – including the Japanese yen and Korean won – was a notable drag on performance. Our CNH exposure delivered positive performance. We continue to favour a strategic long CNH position versus the USD and GBP. Elsewhere, commodity-sensitive currencies provided only partial offsets, with long positioning in the NOK gaining support from higher energy prices, but not sufficient to fully counter broad USD strength. Overall, FX performance reflected a challenging environment for our strategic short USD theme.

In spread sectors, our active positioning contributed positively, as global investment grade corporate spreads remained supported despite macro volatility. During the month, we closed our long-standing overweight to 30-year Spanish rates and rotated into 30-year German bunds and 30-year European Union (EU) bonds.

Looking ahead, our base case is for a period of sub-trend global growth, but a resilient US economy, with inflation remaining above central bank targets. The distribution of possible scenarios is unusually wide and depends on the outcome of the US-Iran conflict and the central bank reaction function to near-term stagflation concerns.

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