

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

May was another volatile month for sovereign fixed income markets as fiscal sustainability concerns resurfaced, especially in the US. Meanwhile, risk sentiment got a boost from slightly more constructive dialogue between the US and China on trade policy, with Trump's tariffs also receiving some pushback from the US courts. Moody's became the third major ratings agency to downgrade the credit rating of the US government, moving from their top Aaa rating to a single notch lower, Aa1. In addition, a US budget bill passed its first hurdle through the House, containing a series of unfunded tax cuts. While the bill is likely to see some amendments before it passes the Senate and is signed into law by President Trump, it highlights a growing concern amongst investors about the fiscal outlook in some of the major markets.

On the monetary policy front, the US Federal Reserve (Fed) kept the fed funds rate unchanged in the 4.25-4.50% range for the third consecutive meeting, signalling a wait-and-see approach amidst risks to both sides of its dual mandate given the uncertainty relating to the impact of the Trump administration's tariff policy. The mildly hawkish tilt saw short-term interest rate markets push out the timing of the next Fed rate cut to later in the year, with the market now pricing just two rate cuts in 2025. Government bond yield curves have steepened since the start of the year, with the US 7s30s curve ending May at 75 basis points (bps) – around its highest levels since late 2021. With the US administration keen to re-focus some of the market narrative away from tariffs and towards more growth friendly policies, such as tax cuts and deregulation, 10-year US Treasury yields ended the month at 4.40% (24 bps higher).

Portfolio Review and Strategy

With the US administration keen to re-focus some of the market narrative away from tariffs and towards more growth friendly policies, such as tax cuts and deregulation, 10-year US Treasury yields ended the month at 4.40% (24 bps higher). The move higher in yields challenged our long duration stance, which detracted in May.

Government bond yields continued the steepening trend seen since the start of the year albeit at a milder pace, with the US 7s30s curve ending May at 75 bps – around its highest levels since late 2021. This benefitted our long-held curve steepener stance in the Fund and helped counteract some of the drag from the long duration position.

In cross-market relative value (RV) trades, we closed our long 10-year US Treasury versus German Bund spread which performed well overall since initiating the position in April. We opened new positions to be long 30-year UK Treasuries and Spanish government bonds versus 30-year US Treasuries. The US fiscal policy stance, which is on an unsustainable path, contrasts with an improving fiscal outlook in Spain. The UK, meanwhile, is finding its way back to fiscal conservatism as market pressure is high on the UK Treasury to stick to its fiscal rules. In this environment, long-dated US Treasuries can underperform on a relative basis.

In foreign exchange (FX) markets, the US dollar continued to face headwinds, with the majority of G10 currencies rising versus the USD, especially in the second half of May. At the start of the month, we added to our strategic short USD position, pairing it against the KRW. This performed well in May as the focus of the pressure on the USD shifted to Asia, with the Taiwanese dollar the biggest outperformer gaining 7% followed by the Korean won which rose 3%.

During the month, we added two new RV trades, being long NOK versus SEK and long AUD versus GBP. The former position contributed to performance, whilst the latter dragged given a somewhat better growth backdrop for the UK economy. Finally, we also re-engaged in a long JPY position, paired against the THB towards the end of the month.

In credit markets, global investment grade (IG) corporate spreads tightened 16 bps in May, with US corporates outperforming their European peers at 18 bps tighter spreads versus 12 bps. Spread risk remained conservative in allocation, with a modest long via allocations to IG corporates (sector focus on Financials, EUR reverse-yankee bonds, and US regulated Utilities). Overall, the positioning added value to performance in the month.

Looking ahead, uncertainty remains about the near-term global economic growth path given the erratic nature of US tariff announcements. We currently favour a long duration and curve-steepening bias in the Fund. However, we think that bond market volatility is likely to remain elevated in the coming months, so we prefer to trade tactically around our core views.

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