Allianz Global Investors

Allianz Income and Growth

Monthly commentary

Investment Objective

The Fund aims at long-term capital growth and income by investing in United States of America ("US") and/or Canadian corporate debt securities and equities.

What Happened in February

Convertible securities and high yield bonds finished higher in February, while large-cap equities closed lower. The Q4 earnings season finished strong with the S&P 500 on pace to deliver a fifth consecutive quarter of double-digit growth. Small-cap companies are set to deliver even higher earnings growth. On the macro front, economic data remained supportive with unemployment ticking lower, consumer confidence remaining stable, and a key manufacturing survey moving into expansionary territory. On the other hand, wholesale inflation exceeded estimates, trade headlines resurfaced, and geopolitical tensions rose into month-end. Against this backdrop, the 10-year US Treasury yield fell sharply, closing below 4%.^

Equities Market Environment

The S&P 500 Index returned -0.76% for the month.*

Utilities, Energy, and Materials were the top performing sectors in the period, while Consumer Discretionary, Communication Services, and Technology were the bottom performing sectors.

Equity volatility was higher month-to-month at 19.86.*

Convertible Securities Market Environment

The ICE BofA US Convertible Index returned +1.72% for the month.^

Sector performance was mixed with Technology, Transportation, and Consumer Staples outperforming, while Telecoms, Materials, and Financials underperformed.

Below-investment grade issues outperformed investment grade issues. Equity sensitive issues outperformed yield-oriented (busted) and total return (balanced) issues.

Monthly new issuance saw 14 issues priced, raising USD 14.3 billion in proceeds.^

High-Yield Bond Market Environment

The ICE BofA US High Yield Index returned +0.17% for the month.^

Credit-quality subsector returns for the month^:

- BB rated bonds: +0.51%
- B rated bonds: -0.08%
- CCC rated bonds: -1.09%

Spreads widened to 312 basis points (bps) from 288 bps, the average bond price fell modestly to 97.88, and the market's yield rose to 7.21%.^

Industry performance was mostly higher as Energy, Food Producers, and Utilities outperformed, while Financials, Technology, and Services underperformed.

Trailing 12-month default rates finished the period at 2.06% (par) and 1.74% (issues).**

Monthly new issuance saw 32 issues priced, raising USD 28.7 billion in proceeds.**

Portfolio Review

Top contributors in February were led by Lumentum, which reported a strong beat-and-raise quarter on significant artificial intelligence (AI) related demand. Several other holdings, including Western Digital, a semiconductor manufacturer, and multiple positions with power generation exposure, also benefitted from data centre investment tailwinds. A pharmaceutical distributor exhibited solid execution across all business segments, and an industrial services provider reported robust order growth. The other top contributors were Welltower on better-than-expected profitability forecasts, and a utility operator on potentially easing regulatory scrutiny.

Top detractors in the period included hyperscalers, such as Amazon, Microsoft, and Alphabet, among others, on free cash flow concerns. Nvidia, which surpassed estimates and raised guidance, continued to trade range bound. A commercial real estate firm was lower on end market demand uncertainty, an energy storage provider declined after missing top-line expectations, and an online home goods retailer fell on margin headwinds. The other top detractors were a satellite telecom operator, and an energy component supplier well positioned to execute on centrifuge buildout plans.

All option positions expired below strike and the portfolio was able to retain the set premiums.

Exposure increased the most in Energy, Utilities, and Consumer Staples, and decreased the most in Health Care, Financials, and Consumer Discretionary. Covered call option positioning increased month-over-month.

Market Outlook and Strategy

2026 US economic growth could surpass that of 2025. Potential tailwinds include stimulus from the One Big Beautiful Bill Act (OBBBA – tax cuts/refunds and capital spending acceleration), foreign direct investment from overseas, continued monetary policy easing (including the recently announced asset purchase programme), and steady consumption. Reshoring activity, less regulation, expanding credit, and a rebound in consumer and business confidence are also potential drivers. Improvements in the housing and/or manufacturing sectors could aid growth as well. Key economic risks include heightened geopolitical tensions and elevated fiscal deficits globally. Additionally, if unemployment and/or inflation rise sharply, the odds of an economic slowdown increase.

In an environment where changes in the labour market and prices are more muted, the Fed can continue to target a neutral policy position. Currently, market odds suggest additional interest rate cuts to a range of 3.00-3.25% – a level that is consistent with the Fed's median, longer run projection of 3%.

Accelerating year-over-year earnings growth is expected to be the primary driver of equity market strength in 2026. Aside from the proliferation of AI, earnings tailwinds include productivity gains, low oil prices, corporate buybacks, cost cutting initiatives, and lower interest rates. Expanding earnings breadth could lead to a further broadening out of gains as an increasing number of companies assume market leadership. Earnings headwinds could include rising operating expenses as well as the impact of tariffs.

Against this economic and earnings backdrop, 2026 could be a favourable year for risk assets. Convertible securities could outperform equities again and high yield bonds could deliver another year of coupon-like returns. Given their defensive characteristics, convertible securities and high yield bonds can mitigate market volatility better than equities, which historically average a mid-teens intra-year decline even in annual periods of positive returns.

US convertible securities have an attractive asymmetric return profile, providing upside participation potential when stock prices rise and downside mitigation when stock prices fall. The asset class could outperform the broad equity market again in 2026, helped by solid earnings growth, expanding market breadth, stable credit spreads, and robust new issuance. After a record year of new issuance in 2025, primary market activity likely slows in 2026 but remains elevated around USD 75-80 billion.[#] Aside from diversification benefits, new issuance expands the opportunity set of investments with attractive terms and the desired risk/reward characteristics.

The US high yield market, yielding more than 7%^^, offers equity-like returns but with less volatility. The asset class is expected to deliver another year of coupon-like returns in 2026. The market's attractive total return potential is a function of its discount to face value and higher coupon, which also serves to cushion downside volatility. Credit fundamentals are stable, near-term refinancing obligations remain low, and management teams continue to exercise balance sheet discipline. Additionally, the market's credit quality composition has improved. In this environment, new issuance is expected to remain steady, spreads can stay tight, and the default rate should continue to reside below the historical average.

A covered call options strategy can be utilised to generate premium income. In periods of elevated or rising equity volatility, premiums collected may translate into more attractive annualised yields.

Collectively, these three asset classes can provide a steady source of income and a compelling "participate and protect" return profile.

The strategy is a client solution designed to provide high monthly income, the potential for capital appreciation, and less volatility than an equity-only fund.

All data are sourced from Allianz Global Investors dated 28 February 2026 unless otherwise stated.

* Source: FactSet, as at 28 February 2026

^ Source: BofA Merrill Lynch, as at 28 February 2026

** Source: J.P. Morgan, as at 28 February 2026

^^ Source: ICE Data Services, as at 28 February 2026

Source: BofA Research, as at 28 February 2026