

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 August

Equities, convertible securities, and high yield bonds finished higher in August. Q2 earnings reports for S&P 500 companies continued to surpass top- and bottom-line estimates, with quarterly earnings growth pacing for low-double-digits (versus projections for mid-single-digits) with most constituents having reported. Economic data was mixed: the Federal Reserve Bank of Atlanta's Q3 gross domestic product (GDP) estimate moved higher, the consumer price index (CPI) was below consensus, and initial claims remained subdued, while manufacturing and services surveys missed estimates, the unemployment rate ticked higher, and retail sales decelerated. Global trade remains in focus with many companies citing tariff pressures, while the Trump administration indicated that most major deals will be finalised in the next few months. The US Federal Reserve (Fed) was a focal point in August with Chair Powell's Jackson Hole speech marking a significant shift in stance, further increasing market expectations for a rate cut in September. Against this backdrop, the 10-year Treasury yield fell 14 basis points (bps) to 4.22%.^

Equities Market Environment

The S&P 500 Index returned +2.03% for the month.*

Sector performance was mostly higher in August. Materials, Health Care, and Energy were the top-performing sectors, while Utilities, Industrials, and Technology were the bottom-performing sectors in the period.

Equity volatility was lower month-to-month at 15.36.*

Convertible Securities Market Environment

The ICE BofA US Convertible Index returned +1.74% for the month.^

Convertible sector performance skewed positive. Materials, Transportation, and Industrials outperformed, whereas Consumer Staples, technology, and Energy underperformed.

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

Monthly new issuance saw 19 issues priced raising USD 10.4 billion in proceeds.^

High-Yield Bond Market Environment

The ICE BofA US High Yield Index returned +1.22% for the month.^

Credit-quality subsector returns for the month^:

- BB rated bonds: +1.20%
- B rated bonds: +1.15%
- CCC rated bonds: +1.51%

Spreads narrowed to 284 bps from 286 bps, the average bond price rose to 97.79, and the market's yield fell to 7.13%.^

Almost all industries finished higher with Energy, Health Care, and Real Estate outperforming, while Packaging/Paper, Chemicals, and Transportation underperformed.

Trailing 12-month default rates finished the period at 1.45% (par) and 1.14% (issues).**

Monthly new issuance saw 31 issues priced, raising USD 25.7 billion in proceeds.**

Portfolio Review

The portfolio benefitted from strength across equities, convertibles, and high yield bonds.

Top contributors in August were led by Apple on the back of strong quarterly results and Alphabet following the announcement of a key strategic partnership. Mastercard benefitted from strong purchase volumes and Wells Fargo gained after boosting its quarterly dividend payment. A data centre operator rallied, citing significant traction for its artificial intelligence (AI) segment, a biotech company was higher on strong clinical volumes, and a health insurance provider gained after a prominent investor disclosed a large stake. The other top contributors in the period were an electric vehicle manufacturer and an entertainment company.

Nearly all top detractors were top contributors or had a positive impact on portfolio performance in July with most equities recording new year-to-date highs heading into August. Multiple semiconductor companies, including Nvidia, and hyperscalers such as Microsoft, Meta, and Amazon, underperformed the broader market. The other top detractors were software and crypto-linked companies with favourable long-term fundamental outlooks.

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

Exposure increased the most in Technology, Utilities, and Communication Services, and decreased the most in Health Care, Industrials, and Real Estate. Covered call option positioning increased month-over-month.

Market Outlook and Strategy

Despite a strong recovery in risk assets, the macroeconomic outlook remains clouded given uncertainty around trade and monetary policy. On the other hand, economic data has been resilient, trade tensions while elevated have stabilised, earnings estimates appear to have inflected, the Fed's stance has shifted significantly, capital markets have been active, and government spending has emerged as a tailwind.

The US economy should expand in 2025, even with tariffs potentially hampering growth. Trade policy clarity could begin to improve and as the range of outcomes narrow, uncertainty should lessen, and spending, investment, hiring, and mergers and acquisitions (M&A) activity can resume. Further out, fiscal stimulus, deregulation measures, capital expenditure (capex) tailwinds, productivity gains, and a reindustrialisation movement are potential growth drivers.

A resumption of monetary policy easing – currently, the market is pricing in three 25-bps interest rate cuts in 2025 – would closer align the Fed with accommodation by central banks overseas. Early signs of labour market softening or minimal tariff price pass through could pull forward rate cuts, while steady employment or higher inflation could cause the Fed to move later.

US large-cap equities have recovered this year's losses as odds of a recession and global shock receded and quarterly earnings results came in better than expected. Tailwinds include dollar weakness, lower oil prices, and falling interest rates, while tariffs remain a headwind, and valuations will continue to be debated. Ultimately, any change on the margin around expectations for corporate earnings, management outlooks and the economy will determine the direction of the stock market over the remainder of the year.

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 may outperform the broad equity market if volatility continues. USD 75-80 billion of new issuance[#] is expected in 2025 due to coupon savings demand and elevated refinancing needs. 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%^{^^}, could deliver a coupon-like return in 2025. As a result, the asset class continues to offer equity-like returns but with less volatility. 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. 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 Fund is a client solution designed to provide high monthly income, the potential for capital appreciation, and less volatility than an equity-only fund.

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All data are sourced from Allianz Global Investors dated 31 August 2025 unless otherwise stated.

* Source: FactSet, as at 31 August 2025

^ Source: BofA Merrill Lynch, as at 31 August 2025

** Source: J.P. Morgan, as at 31 August 2025

^^ Source: ICE Data Services, as at 31 August 2025

Source: BofA Research, as at 31 August 2025

Allianz Global Investors and Voya Investment Management entered into a long-term strategic partnership on 25 July 2022, upon which the investment team transferred to Voya Investment Management. This did not materially change the composition of the team, the investment philosophy nor the investment process. Management Company: Allianz Global Investors GmbH. Delegated Manager: Voya Investment Management Co. LLC ("Voya IM").

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