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 July

Equities, convertible securities, and high yield bonds finished higher in July. The Q2 earnings season got off to a strong start. Thus far, most S&P 500 companies have surpassed top- and bottom-line estimates and earnings growth has paced well ahead of projections. Trade deals were announced with Japan, Vietnam, and the European Union (EU). The One Big Beautiful Bill Act was signed into law and released economic data was mixed. Unemployment remained low, manufacturing and services surveys advanced, and retail sales and gross domestic product (GDP) growth surprised to the upside. However, inflation measures accelerated, and the housing market cooled. Against this backdrop, the US Federal Reserve (Fed) kept interest rates steady despite some dissent from the committee.

**Equities Market Environment**

The S&P 500 Index returned +2.24% for the month.*

Sector performance was mixed in July. Technology, Utilities, and Industrials were the top-performing sectors, while Health Care, Consumer Staples, and Materials were the bottom-performing sectors in the period.

Equity volatility was unchanged month to month at 16.72.*

**Convertible Securities Market Environment**

The ICE BofA US Convertible Index returned +2.78% for the month.^

Convertible sector performance was broadly higher. Materials, Industrials, and Financials outperformed, whereas Media, Energy, and Health Care 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 9 issues priced raising USD 6.1 billion in proceeds.^

**High-Yield Bond Market Environment**

The ICE BofA US High Yield Index returned +0.40% for the month.^

Credit-quality subsector returns for the month^:

- BB rated bonds: +0.17%
- B rated bonds: +0.45%
- CCC rated bonds: +1.39%

Spreads narrowed to 286 basis points (bps) from 296 bps, the average bond price fell to 97.00, and the market's yield fell to 7.33%.^

Industry performance was mostly higher with Metals, Media, and Cable outperforming, while Transportation, Services, and Retail underperformed.

Trailing 12-month default rates finished the period at 1.37% (par) and 0.91% (issues).**

Monthly new issuance saw 44 issues priced, raising USD 37.5 billion in proceeds.**

## Portfolio Review

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

Top contributors in July were driven by continued optimism around the artificial intelligence (AI) buildout following further colour from management teams around capital expenditures. Beneficiaries comprised several semiconductor companies, including Nvidia and Broadcom, as well as hyperscalers such as Microsoft, Amazon, and Meta. The other top contributors in the period were an online real estate marketplace that has been prioritising expense management, and a heavy equipment manufacturer that benefitted from macro tailwinds.

Top detractors in the period included multiple streaming service providers in video and audio that declined on weaker outlooks for ad revenue and pricing, respectively. A fast-food chain guided for lower same-store sales, and an electric vehicle manufacturer missed free cashflow estimates, while a software company declined early in the period but finished off the lows after boosting subscription revenue guidance. Several Health Care holdings detracted, including a surgical robotics company that faced regulatory uncertainty, and a health insurance provider that reduced forecasts. Other top detractors for the period were a rideshare operator, a specialty ecommerce company, and an internet services provider.

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

Exposure increased the most in Materials, Consumer Discretionary, and Communication Services, and decreased the most in Technology, Consumer Staples, and Health Care. Covered call option positioning decreased 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 may have inflected, Fed commentary has been less hawkish, 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 are 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 now 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, and the default rate should stay 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 July 2025 unless otherwise stated.

* Source: FactSet, as at 31 July 2025

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

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

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

[#] Source: BofA Research, as at 31 July 2025