

# 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 May

Equities, convertible securities, and high yield bonds finished higher in May. Momentum from April's mid-month rally persisted, as tariff tensions eased following announcements of de-escalation measures with both China and the UK. The earnings season wound down over the month with most of the remaining high profile companies surpassing analyst expectations. Q1 top- and bottom-line growth rates exceeded consensus estimates although many companies pulled or reduced full-year guidance on trade-related uncertainty. Economic reports released during the month were generally positive. Inflation measures decelerated, consumer confidence increased, the services sector rebounded, unemployment remained low, and second quarter estimates for real gross domestic product (GDP) growth neared 4%. Conversely, continuing jobless claims trended higher, retail sales underwhelmed, and select housing statistics remained weak. Against this backdrop, the US Federal Reserve (Fed) held interest rates steady at May's Federal Open Market Committee (FOMC) meeting, taking a "wait-and-see" approach, and the 10-year US Treasury yield increased to 4.39% but finished well off the intramonth high of 4.63%.

### Equities Market Environment

The S&P 500 Index returned +6.29% for the month, bringing year-to-date performance to +1.06%.\*

Sector performance was mostly positive in May. Technology, Communication Services, and Consumer Discretionary were the top-performing sectors, while Health Care, Real Estate, and Energy were the bottom-performing sectors in the period.

Equity volatility finished lower month-to-month at 18.57.\*

### Convertible Securities Market Environment

The ICE BofA US Convertible Index returned +3.26% for the month, bringing year-to-date performance to +2.41%.^

Convertible sector performance was also mostly higher. Materials, Industrials, and Energy outperformed, whereas Telecoms, Health Care, and Utilities 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 13.5 billion in proceeds, the highest monthly issuance in more than four years.^

### High-Yield Bond Market Environment

The ICE BofA US High Yield Index returned +1.68% for the month, bringing year-to-date performance to +2.65%.^

Credit-quality subsector returns for the month^:

- BB rated bonds: +1.52%
- B rated bonds: +1.44%
- CCC rated bonds: +3.17%

Spreads narrowed to 332 basis points (bps) from 394 bps, the average bond price rose to 95.65, and the market's yield fell to 7.75%.^

Industry performance was broadly higher with Media, Energy, and Telecoms outperforming, while Cable, Food Producers, and Metals underperformed.

Trailing 12-month default rates finished the period at 1.33% (par) and 1.03% (issues).\*\*

Monthly new issuance saw 35 issues priced, raising USD 32.0 billion in proceeds.\*\*

## Portfolio Review

The portfolio was positively impacted by strength across equity, convertible security, and high yield bond markets.

Top contributors in May broadly benefitted from the trade deal announcements over the month. Several semiconductor companies notably outperformed on easing trade tensions, including Nvidia, which was also driven by strong earnings results. Microsoft and Meta both gained following beat-and-raise reports, while Amazon and Mastercard each offered positive readthroughs on consumer demand. Tesla was higher after CEO Elon Musk affirmed the Robotaxi rollout timeline and indicated plans to step away from his government role. Other top contributors to performance in the period were an aerospace manufacturer and an enterprise software provider.

Top detractors in the period included a health care provider that suspended guidance and underwent a key executive departure. Regulatory intervention on drug prices pressured a number of pharmaceutical holdings. Apple reported

positive earnings but offered weaker-than-expected guidance on tariff uncertainty, and a steel manufacturer was negatively impacted by weak commodity pricing in Q1. Other top detractors for the period were a satellite telecommunications provider and a technology company with automotive exposure.

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

Exposure increased the most in Industrials, Utilities, and Communication Services, and decreased the most in Technology, Financials, and Materials. Covered call option positioning increased month-over-month.

### Market Outlook and Strategy

Despite May's notable strength in risk assets, the macro outlook remains uncertain.

The US economy is still expected to expand in 2025 with widespread effects from tariffs hampering growth. Clarity around trade policy is unlikely to improve in the near term, but as the range of outcomes continue to narrow, uncertainty should lessen, and spending, investment, hiring, and mergers and acquisitions (M&A) activity can resume. Further out, fiscal stimulus, deregulation measures, productivity gains, and a reindustrialisation movement are potential growth drivers.

The Fed likely remains on hold as officials continue to assess the effect of tariffs on inflation, employment, and the potential for stagflation. Inflation has slowed but concerns of a second wave have risen due to tariffs. Steady employment is possible if less hiring is met with less layoffs. A resumption of monetary policy easing – currently, the market is pricing in two 25-bps interest rate cuts in 2025 – would closer align the Fed with accommodation by central banks overseas.

US large-cap equities have recovered this year's losses as odds of a recession and global shock receded and Q1 results came in better than expected. Continued strength is possible given subdued investor sentiment and positioning and a host of potential upcoming catalysts. However, tariff uncertainty could impact the short term. Ultimately, 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 60-65 billion of new issuance<sup>#</sup> 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%<sup>^^</sup>, 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 of 3-4%.

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 May 2025 unless otherwise stated.

\* Source: FactSet, as at 31 May 2025

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

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

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

# Source: BofA Research, as at 31 May 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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