

# 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

Markets were mixed in February, as high yield bonds closed higher while equities and convertible securities finished lower. Fourth quarter earnings momentum persisted, with approximately three-quarters of companies topping bottom-line consensus estimates, while corporate guidance remained mixed as managements await clarity around the new administration's policies. Except for a key manufacturing survey and unemployment, both of which were better than expected, economic data generally underwhelmed. Services, retail sales, consumer confidence, and select inflation measures missed estimates. Against this backdrop, the 10-year US Treasury yield fell sharply.

### Equities Market Environment

The S&P 500 Index returned -1.30% for the month.\*

Sector performance was mixed in February. Consumer Staples, Real Estate, and Energy were the top performing sectors, while Consumer Discretionary, Communication Services, and Industrials were the bottom performing sectors in the period.

Equity volatility was higher month to month with the VIX finishing at 19.63.\*

### Convertible Securities Market Environment

The ICE BofA US Convertible Index returned -1.99% for the month.^

Sector performance skewed negative in February. Telecommunications, Utilities, and Media outperformed, whereas Consumer Staples, Technology, and Industrials underperformed.

Investment grade issues outperformed below-investment grade issues. Yield-oriented (busted) issues outperformed total return (balanced) and equity sensitive issues.

Monthly new issuance saw 8 issues priced, raising USD 5.3 billion in proceeds.^

### High-Yield Bond Market Environment

The ICE BofA US High Yield Index returned +0.65% for the month.^

Credit-quality subsector returns for the month^:

- BB rated bonds: +0.72%
- B rated bonds: +0.61%
- CCC rated bonds: +0.46%

Spreads widened to 287 basis points (bps) from 268 bps, the average bond price rose modestly to 96.52, and the market's yield fell to 7.39%.^

Industry performance was broadly higher with Food Producers, Health Care, and Utilities outperforming, while Autos, Retail, and Chemicals underperformed.

Trailing 12-month default rates finished the period at 1.25% (par) and 0.68% (issues).\*\*

Monthly new issuance saw 26 issues priced, raising USD 18.7 billion in proceeds.\*\*

### Portfolio Review

The portfolio moved lower in the month as equity and convertible holdings offset strength in high yield bonds.

Top contributors included Nvidia which reported a strong beat-and-raise quarter. Apple and an ecommerce conglomerate gained after announcing a strategic partnership. Welltower advanced after boosting 2025 guidance, and several pharmaceutical companies gained on strong long-term demand prospects. Mastercard rallied after reporting strength across core and secondary businesses, and a utility operator was higher on execution optimism of its long-term capital plan. The other top contributors were a cellular provider and a consulting company.

Top detractors included Alphabet and Microsoft, both of which were impacted by weaker-than-expected cloud growth, as well as Amazon on cautious guidance. Delivery and margin concerns weighed on an electric vehicle manufacturer, and a semiconductor company consolidated strong 2024 gains. An alternative asset manager fell after forecasting near-term insurance business headwinds. The other top detractors were a health care provider on legal scrutiny, a software company with bitcoin exposure, and a fintech holding that missed expectations.

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

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

### Market Outlook and Strategy

Macro factors, including newly implemented tariffs and government efficiency initiatives, could weigh on consumer spending and delay corporate investment in the near term as households and companies await clarity around current and future policies. A growth slowdown would not be unexpected if these headwinds materialise. The recent increase in equity volatility likely reflects the possibility of downward revisions to short-term earnings growth estimates.

The US economy should continue to expand in 2025, supported by earnings growth, further US Federal Reserve (Fed) easing as inflation and the labour market continue to normalise, and the new administration's pro-US growth policies.

Apart from these factors, steady consumer spending, ongoing services sector expansion, continued fiscal spending, and improving productivity aided by the proliferation of artificial intelligence (AI) are growth tailwinds. Risk to the economy may increase if these trends weaken. Other considerations include tariff and immigration policies, geopolitical tensions, prolonged labour market softening, continued manufacturing contraction, and economic weakness outside of the US.

Against this backdrop, low- to high-single-digit returns in 2025 are possible for large-cap equities, convertible securities, and high yield bonds. The equity market's path will not be linear, with bouts of volatility probable throughout the year. Given their defensive characteristics, high yield bonds and convertible securities can mitigate market volatility better than equities.

The equity market could benefit from continued economic growth and accelerating or inflecting earnings from more companies. Secular growth themes, such as AI, lower taxes, increased mergers and acquisitions (M&A) activity, deregulation, productivity gains, and share buybacks are also catalysts. If either economic growth or earnings growth fall short of expectations, the equity market could be challenged. Valuations will continue to be debated.

US convertible securities have a favourable 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 leadership broadens, and new issuance remains steady. USD 60-65 billion<sup>#</sup> of new issuance is expected in 2025 due to coupon savings demand, elevated refinancing needs, and a positive outlook for price appreciation among small- and mid-cap companies. Aside from diversification benefits, new issuance expands the opportunity set of investments with favourable terms and the desired risk/reward characteristics.

The US high-yield market, yielding over 7%<sup>^^</sup>, is expected to deliver a coupon-like return in 2025 with upside possible. As a result, the asset class continues to offer equity-like returns but with less volatility. The market's favourable 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. Increased M&A activity and deregulation could also have a positive market impact. In this environment, new issuance is expected to remain elevated, the default rate should stay below the historical average of 3-4%, and spreads can remain tight.

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 favourable annualised yields.

Collectively, these three asset classes can provide a steady source of income and a favourable “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 28 February 2025 unless otherwise stated.

\* Source: FactSet, as at 28 February 2025

^ Source: BofA Merrill Lynch, as at 28 February 2025

\*\* Source: J.P. Morgan, as at 28 February 2025

^^ Source: ICE Data Services, as at 28 February 2025

# Source: BofA Research, as at 28 February 2024

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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