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 January

Equities, convertible securities, and high yield bonds finished higher in January. The Q4 earnings season got off to strong start. About one-third of the way through, nearly 80% of S&P 500 companies have surpassed bottom-line estimates with the index on pace to deliver double-digit (year-over-year) earnings growth for a fifth consecutive quarter. Geopolitical developments were volatile surrounding Venezuela, Greenland, and Iran, though markets broadly looked through the noise. Economic data underscored a resilient backdrop with firm labour and services indicators, offset by softer consumer confidence and weak housing activity. The US Federal Reserve (Fed) held rates steady as expected and markets priced in roughly 50 basis points (bps) of cumulative cuts by year-end. Additionally, President Trump nominated Fed Governor Kevin Warsh as the next head of the central bank. Against this backdrop, markets saw large rotations – including into cyclicals and small caps – and the 10-year US treasury yield rose to 4.26%.^

Equities Market Environment

The S&P 500 Index returned +1.45% for the month.*

Energy, Materials, and Consumer Staples were the top performing sectors in the period, while Financials, Technology, and Health Care were the bottom performing sectors.

Equity volatility was higher month-to-month at 17.44.*

Convertible Securities Market Environment

The ICE BofA US Convertible Index returned +4.61% for the month.^

Sector performance was mostly higher with Telecoms, Materials, and Industrials outperforming, while Media, Financials, and Consumer Discretionary 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 4.6 billion in proceeds.^

High-Yield Bond Market Environment

The ICE BofA US High Yield Index returned +0.48% for the month.^

Credit-quality subsector returns for the month^:

- BB rated bonds: +0.50%
- B rated bonds: +0.50%
- CCC rated bonds: +0.25%

Spreads widened to 288 bps from 281 bps, the average bond price rose modestly to 98.09, and the market's yield rose to 7.12%.^

Industry performance was mostly higher as Energy, Telecoms, and Chemicals outperformed, while Packaging/Paper, Technology, and Services underperformed.

Trailing 12-month default rates finished the period at 1.97% (par) and 1.40% (issues).**

Monthly new issuance saw 41 issues priced, raising USD 30.0 billion in proceeds.**

Portfolio Review

Top contributors in January were led by several semiconductor companies, including Western Digital on a beat-and-raise quarter, helped by stronger pricing and demand for storage, and Nvidia, which confirmed production and shipment timelines for its latest chip. Alphabet saw upward revisions to consensus sales forecasts during the month, and Amazon traded higher on AWS growth and ecommerce margin optimism. The other top contributors were a data storage company that topped estimates and lifted guidance, a fuel cell developer benefitting from data centre demand, and a heavy equipment manufacturer reporting broad-based business growth.

Top detractors in the period included Microsoft on underwhelming cloud growth and Broadcom on margin concerns. Apple reported robust iPhone demand and accelerating sales but finished lower, and an electric vehicle manufacturer missed consensus delivery estimates. A health insurance provider underperformed on news Medicare rates would remain largely unchanged, and a payments company declined despite reporting a strong quarter and better-than-feared guidance. The other top detractors were select software companies and an energy supplier.

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

Exposure increased the most in Energy, Industrials, and Health Care, and decreased the most in Consumer Discretionary, Technology, and Communication Services. Covered call option positioning decreased 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 artificial intelligence (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.

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All data are sourced from Allianz Global Investors dated 31 January 2026 unless otherwise stated.
* Source: FactSet, as at 31 January 2026
^ Source: BofA Merrill Lynch, as at 31 January 2026
** Source: J.P. Morgan, as at 31 January 2026
^^ Source: ICE Data Services, as at 31 January 2026
# Source: BofA Research, as at 31 January 2026

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