

Allianz Select Income and Growth

Monthly commentary

Investment Objective

The Fund aims at long term capital growth and income by investing in investment grade corporate Debt Securities and Equities of US and/or Canadian Equity and Bond markets.

What Happened in September

Equity, convertible, and investment grade markets all finished higher in September, driven by a dovish shift in monetary policy that stemmed from an array of new economic data. Multiple inflation measures continued to ease, consumer spending surprised to the upside, and the service sector remained in expansionary territory. However, some labour market measures were weaker, the manufacturing sector continued to contract, and consumer confidence declined. The simultaneous deceleration of inflation and jobs growth proved to be the catalyst for the first monetary easing campaign in four years, as the US Federal Reserve (Fed) cut interest rates by 50 basis points (bps) at the September Federal Open Market Committee (FOMC) meeting. Markets responded favourably, with risk assets moving broadly higher into the end of the month to solidify monthly gains.

Equities Market Environment

The S&P 500 Index returned +2.14% in September and closed at a new all-time high for the second consecutive month.*

Most sectors were higher in September. Consumer Discretionary, Utilities, and Communication Services were the top performing sectors, while Energy, Health Care, and Financials were the bottom performing sectors in the period.

Equity volatility was higher month-to-month, finishing at 16.73.*

Convertible Securities Market Environment

The ICE BofA US Convertible Index returned +1.94% for the month.^

Convertible securities were positively impacted by rising stock prices and credit spread tightening.

Most sectors closed higher with Media, Transportation, and Industrials outperforming, while Consumer Staples, Health Care, and Energy underperformed.

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

New issuance saw 9 issues priced, raising USD 6.9 billion in proceeds.^

Investment Grade Corporate Market Environment

The ICE BofA US Corporate Index returned +1.72%, outperforming the shorter-dated ICE BofA 1-10 Year US Corporate Index which returned +1.29%.**

Credit-quality subsector returns for the month**:

- AAA rated bonds: +1.82%
- AA rated bonds: +1.62%
- A rated bonds: +1.74%
- BBB rated bonds: +1.72%

Spreads narrowed to 92 bps from 96 bps, the average bond price rose to 96.11, and the market's yield fell to 4.81%.**

Gross new issuance for the period was USD 179.8 billion.^

The 10-year US Treasury returned +1.37%.^ The note's yield fell to 3.79%, compared to 3.92% the prior month.^

Portfolio Review

The portfolio was positively impacted by strength across risk assets.

Top contributors included technology-related companies capitalising on secular trends around artificial intelligence (AI) and cloud migration, led by a social technology company, Microsoft, and Amazon. A major electric vehicle (EV) manufacturer gained after announcing an expansion of its product offerings in a key market, a satellite telecommunications provider advanced on mergers and acquisitions (M&A) and financing news, and a home improvement retailer rallied following the Fed's rate cut, which was seen as beneficial to the housing market. The other top contributors to performance during the period were a financial services company, a live entertainment operator, a software provider, and a public utility.

Top detractors were led by several pharmaceutical companies, one of which consolidated year-to-date gains and another that fell on competitive concerns. A major bank declined after guiding interest income lower and expenses higher, an enterprise software provider was lower on growth and pricing concerns, and a payments company traded

down after providing 2025 guidance. The other top detractors in the period were positions in consumer finance, electronic components, and semiconductors.

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

Exposure increased the most in Consumer Discretionary, Utilities, and Financials, and decreased the most in Communication Services, Technology, and Real Estate. Covered call option positioning increased month-over-month.

Market Outlook and Strategy

The easing cycle has begun, with the Fed cutting interest rates by 50 bps in September as inflation normalises and the labour market softens.

Apart from an accommodative shift in monetary policy, potential economic tailwinds include steady consumption, continued government spending, improving productivity, increasing capital expenditures, and the proliferation of AI. Risk to the economy may increase if these trends weaken. Other potential headwinds include escalating geopolitical tensions, prolonged labour market softening, deteriorating consumer sentiment, and continued manufacturing contraction.

In the short term, US equity volatility could increase due to labour disputes, foreign conflicts, and US elections. Over the intermediate term, the equity market could move higher on continued Fed easing and economic expansion, secular growth drivers, such as AI, and accelerating earnings growth or an earnings inflection from more companies. If economic growth or earnings growth fall short of expectations, the equity market could be challenged.

US convertible securities have an attractive asymmetric return profile, providing upside participation potential when stock prices rise and downside mitigation when stock prices fall. Higher debt financing costs have drawn issuers to the convertible market for coupon savings, resulting in accelerated new issuance at favourable terms and an expanded investment opportunity set with the desired risk/reward characteristics. While a change in market leadership is not certain, a sustained broadening of the equity market could be a positive development for the asset class.

US investment grade corporate bond's risk/reward opportunity is also compelling. Rising interest rates are a risk for high grade corporates, however the investment opportunity remains attractive given higher coupons and yields, and a positive fundamental outlook with limited default risk. The asset class trades at a discount to par, offering compelling total return potential and downside cushioning.

A covered call options strategy can be utilised to help 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 help 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.

Connect with Us | sg.allianzgi.com | +65 6438 0828 | Search more  Allianz Global Investors

 Like us on Facebook [Allianz Global Investors Singapore](#)

 Connect on LinkedIn [Allianz Global Investors](#)

 Subscribe to YouTube channel [Allianz Global Investors](#)

All data are sourced from Allianz Global Investors dated 30 September 2024 unless otherwise stated.

* Source: FactSet, as at 30 September 2024

^ Source: BofA Merrill Lynch, as at 30 September 2024

** Source: ICE Data Services, as at 30 September 2024

Allianz Global Investors and Voya Investment Management have entered into a long-term strategic partnership, and as such, as of 25 July 2022, 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").

The information presented here is intended for general circulation and does not constitute a recommendation to anyone; it also has not taken into account the specific investment objectives, financial situation or particular needs of any particular person. Information herein is based on sources we believe to be accurate and reliable as at the date it was made. We reserve the right to revise any information herein at any time without notice. No offer or solicitation to buy or sell securities and no investment advice or recommendation is made herein. In making investment decisions, investors should not rely solely on this publication but should seek independent professional advice. However, if you choose not to seek professional advice, you should consider the suitability of the product for yourself. Past performance of the fund manager(s) and the fund is not indicative of future performance. Prices of units in the Fund and the income from them, if any, may fall as well as rise and cannot be guaranteed. Distribution payments of the Fund, where applicable, may at the sole discretion of the Manager, be made out of either income and/or net capital gains or capital of the Fund. As a result of the payment, the Fund's net asset value is expected to be immediately reduced. The dividend yields and payouts are not guaranteed and might change depending on the market conditions or at the Manager's discretion; past payout yields and payments do not represent future payout yields and payments. Investment involves risks including the possible loss of principal amount invested and risks associated with investment in emerging and less developed markets. The Fund may invest in financial derivative instruments and/or structured products and be subject to various risks (including counterparty, liquidity, credit and market risks etc.). Investing in fixed income instruments (if applicable) may expose investors to various risks, including but not limited to creditworthiness, interest rate, liquidity and restricted flexibility risks. Changes to the economic environment and market conditions may affect these risks, resulting in an adverse effect to the value of the investment. During periods of rising nominal interest rates, the values of fixed income instruments (including short positions with respect to fixed income instruments) are generally expected to decline. Conversely, during periods of declining interest rates, the values are generally expected to rise. Liquidity risk may possibly delay or prevent account withdrawals or redemptions. Past performance, or any prediction, projection or forecast, is not indicative of future performance. Investors should read the Prospectus obtainable from Allianz Global Investors Singapore Limited or any of its appointed distributors for further details including the risk factors, before investing. The duplication, publication, extraction, or transmission of the contents, irrespective of the form is not permitted, except for the case of explicit permission by Allianz Global Investors. This publication has not been reviewed by the Monetary Authority of Singapore (MAS). MAS authorization/recognition is not a recommendation or endorsement. The issuer of this publication is Allianz Global Investors Singapore Limited (79 Robinson Road, #09-03, Singapore 068897, Company Registration No. 199907169Z).