

# 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 February

Markets were mixed in February, as investment grade bonds closed higher while equities and convertible securities finished lower. Q4 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.^

### Investment Grade Corporate Market Environment

The ICE BofA US Corporate Index returned +2.03%, outperforming the shorter-dated ICE BofA 1-10 Year US Corporate Index which returned +1.39%.\*\*

Credit-quality subsector returns for the month\*\*:

- AAA rated bonds: +2.60%
- AA rated bonds: +2.15%
- A rated bonds: +2.00%
- BBB rated bonds: +2.01%

Spreads widened to 88 basis points (bps), the average bond price rose to 94.19, and the market's yield fell to 5.13%.\*\*

Gross new issuance for the month was USD 157.8 billion.^

The 10-year US Treasury returned +3.09%.^ The note's yield fell to 4.20% compared to 4.55% the prior month.^

### Portfolio Review

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

Top contributors included Nvidia which reported a strong beat-and-raise quarter. Apple and an ecommerce conglomerate gained after announcing a strategic partnership. A health care real estate investment trust (REIT) advanced after boosting 2025 guidance, several pharmaceutical companies gained on strong long-term demand prospects, and a utility operator was higher on execution optimism of its long-term capital plan. The other top contributors were Wells Fargo, a cellular provider, and a consulting company.

Top detractors included Microsoft and an internet services company, 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 cruise line operator that offered a conservative forecast.

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

Exposure increased the most in Health Care, Energy, and Real Estate, and decreased the most in Financials, Consumer Discretionary, and Industrials. 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 investment grade bonds. The equity market's path will not be linear, with bouts of volatility probable throughout the year. Given their defensive characteristics, investment grade 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.

US investment grade corporate bond's risk/reward opportunity is favourable. Rising interest rates are a risk for high grade corporates, however the investment opportunity remains favourable given higher coupons and yields, and a positive fundamental outlook with limited default risk. The asset class trades at a discount to par, offering favourable total return potential and downside cushioning. If the 10-year US Treasury yield finishes 2025 near the lower bound of the expected range of 3.5-4.5%, the asset class return could exceed mid-single digits.

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 favourable annualised yields.

Collectively, these three asset classes can help 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.

Connect with Us

[sg.allianzgi.com](https://sg.allianzgi.com)

+65 6438 0828

Search more

 Allianz Global InvestorsLike 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 28 February 2025 unless otherwise stated.

\* Source: FactSet, as at 28 February 2025

^ Source: BofA Merrill Lynch, 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").

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).