

# 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 June

In June, equities, convertibles, and investment grade all finished higher on easing geopolitical tensions, further clarity around trade, and US economic resiliency. Inflation measures subsided, wage growth exceeded expectations, and employment data surprised to the upside, while consumer confidence fell, and key manufacturing and services surveys showed contraction. The US Federal Reserve (Fed) kept interest rates steady and continued to project two cuts by year-end. Against this backdrop, the 10-year US Treasury yield fell to 4.23% in the month.

### Equities Market Environment

The S&P 500 Index returned +5.09% for the month.\*

Sector performance was mostly positive in June. Technology, Communication Services, and Energy were the top-performing sectors, while Consumer Staples, Real Estate, and Utilities were the bottom-performing sectors in the period.

Equity volatility finished lower month to month at 16.73.\*

### Convertible Securities Market Environment

The ICE BofA US Convertible Index returned +4.04% for the month.^

Convertible sector performance was mostly higher. Telecoms, Materials, and Technology outperformed, whereas Consumer Staples, Utilities, and Health Care 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 23 issues priced raising USD 17.4 billion in proceeds.^

### Investment Grade Corporate Market Environment

The ICE BofA US Corporate Index returned +1.82%, outperforming the shorter-dated ICE BofA 1-10 Year US Corporate Index which returned +1.32%.\*\*

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

- AAA rated bonds: +1.78%
- AA rated bonds: +1.60%
- A rated bonds: +1.76%
- BBB rated bonds: +1.92%

Spreads tightened to 86 basis points (bps), the average bond price rose to 94.44, and the market's yield fell to 5.07%.\*\*

Gross new issuance for the month was USD 111.5 billion.^

The 10-year US Treasury returned +1.63%.^ The note's yield fell to 4.23% compared to 4.39% the prior month.^

### Portfolio Review

The portfolio benefitted from strength across equities, convertibles, and investment grade bonds.

Top contributors in June were driven by renewed optimism around the artificial intelligence (AI) buildout, following management guidance around capital expenditure (capex) and infrastructure spending during Q2 earnings season. Beneficiaries comprised several semiconductor companies, including Nvidia, as well as hyperscalers such as Microsoft, Meta, and Amazon. The other top contributors were a major bank, a payments company, and a financial exchange operator, all of which stand to benefit from a new regulatory framework around cryptocurrency, along with a property & casualty insurance provider that had a successful initial public offering (IPO).

Top detractors in the period included multiple electric vehicle manufacturers that were negatively impacted by the possible elimination of tax credits. Potential regulatory headwinds hampered a major utility operator, while a waste collection company declined alongside industry peers. A consumer finance company fell on concerns related to changing legislation, and a digital infrastructure platform detracted after guiding for higher-than-expected annual capex. Other top detractors for the period were a big-box retailer, a travel agency, and multiple insurance providers.

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

Exposure increased the most in Technology, Industrials, and Consumer Staples, and decreased the most in Health Care, Utilities, and Consumer Discretionary. Covered call option positioning decreased month-over-month.

## Market Outlook and Strategy

Despite a strong recovery in risk assets, the macroeconomic outlook remains clouded given uncertainty around trade, monetary policy, government spending and geopolitics. On the other hand, economic data has been resilient, trade tensions while elevated have stabilised, earnings tailwinds have begun to emerge, Fed commentary has been less hawkish, capital market activity has been healthy, interest rates have fallen and energy prices have declined.

The US economy should expand in 2025, even with tariffs potentially hampering growth. Trade policy clarity could begin to improve and as the range of outcomes narrow, uncertainty should lessen, and spending, investment, hiring, and mergers and acquisitions (M&A) activity can resume. Further out, fiscal stimulus, deregulation measures, capex tailwinds, productivity gains, and a reindustrialisation movement are potential growth drivers.

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. Early signs of labour market softening or minimal tariff price pass-through could pull forward rate cuts, while steady employment or higher inflation could cause the Fed to move later.

US large-cap equities have recovered this year's losses as odds of a recession and global shock receded and Q1 earnings results came in better than expected. Market tailwinds include subdued investor sentiment and positioning, dollar weakness, lower oil prices, and a decline in interest rates, among other potential catalysts. The impact of tariffs remains a headwind, and valuations will continue to be debated. Ultimately, any 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 75-80 billion<sup>#</sup> of new issuance is now 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.

US investment grade corporate bond's risk/reward opportunity is 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. 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 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 30 June 2025 unless otherwise stated.

\* Source: FactSet, as at 30 June 2025

^ Source: BofA Merrill Lynch, as at 30 June 2025

\*\* Source: ICE Data Services, as at 30 June 2025

# Source: BofA Research, as at 30 June 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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