

# 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 April

Risk assets were mixed in April, with convertible securities finishing higher, investment grade bonds ending relatively flat, and large-cap equities closing lower. Early in the month, markets sold off after President Trump announced sweeping tariffs as well as subsequent retaliatory measures. However, over the remainder of the month, markets rallied. Several factors contributed to the positive shift in market tone, including a softened stance on tariffs, stabilisation in the US dollar and 10-year US Treasury yield, trade deal optimism, and a better-than-feared start to the Q1 earnings season. On the other hand, corporate outlooks were cautious with many companies pulling full-year guidance and warning of price hikes. Economic reports released during the month were generally balanced, although most strategists expect trade policy and uncertainty to begin dragging on growth mid-year.

### Equities Market Environment

The S&P 500 Index returned -0.68% for the month.\*

Sector performance was mixed in April. Technology, Consumer Staples, and Communication Services were the top-performing sectors, while Energy, Health Care, and Materials were the bottom-performing sectors in the period.

Equity volatility finished modestly higher month-to-month at 24.70, closing well off the intra-month high of 60.13.\*

## Convertible Securities Market Environment

The ICE BofA US Convertible Index returned +1.35% for the month.^

Convertible sector performance was also mixed. Technology, Industrials, and Consumer Discretionary outperformed, whereas Energy, Materials, and Consumer Staples underperformed.

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

Monthly new issuance saw 2 issues priced, raising USD 1.5 billion in proceeds.^

## Investment Grade Corporate Market Environment

The ICE BofA US Corporate Index returned -0.03%, underperforming the shorter-dated ICE BofA 1-10 Year US Corporate Index which returned +0.55%.\*\*

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

- AAA rated bonds: +0.03%
- AA rated bonds: +0.12%
- A rated bonds: +0.15%
- BBB rated bonds: -0.22%

Spreads widened to 109 basis points (bps), the average bond price fell to 93.28, and the market's yield was flat at 5.20%.\*\*

Gross new issuance for the month was USD 105.0 billion.^

The 10-year US Treasury returned +0.79%.^ The note's yield fell to 4.15% compared to 4.21% the prior month.^

## Portfolio Review

The portfolio was positively impacted by strength in equity, convertible security, and investment grade bond holdings.

Top contributors in the period were Microsoft on reaccelerating cloud growth and a streaming platform provider on favourable engagement, pricing and advertising trends. An electric vehicle manufacturer gained on optimism around its robotaxi and low-priced vehicle offerings, and multiple software holdings benefitted from the industry's low perceived risk to tariffs. Conversely, highly tariff-impacted positions, such as a semiconductor designer, a big-box retailer, and a pharmaceutical developer, outperformed as trade-related angst eased mid-month. An investment services company that reported strong trends in trading activity and cash balances also aided performance.

Top detractors in the period included a health care provider that reduced full-year earnings guidance. Tariff uncertainty and regulatory scrutiny pressured Amazon and a social media platform, respectively, but both stocks finished well above intramonth lows. An appliance manufacturer was also negatively impacted by tariff fears, an insurance provider missed consensus estimates, and a large coffee retailer reported a contraction in operating margins. Other top detractors for the period were Wells Fargo and several fintech holdings, among others.

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

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

### Market Outlook and Strategy

In our 2025 outlook, we wrote that the equity market's path would not be linear, with bouts of volatility throughout the year. We also noted convertible securities and investment grade bonds – given their defensive characteristics – could mitigate equity market weakness. Going forward, the portfolio is well positioned if volatility persists without sacrificing upside participation and income-generation potential.

The US economy could expand in 2025, but tariffs have become a bigger headwind than previously thought, with most strategists expecting trade policy and uncertainty to begin dragging on growth mid-year. When clarity improves, uncertainty should lessen, and spending, investment, hiring, and mergers and acquisitions (M&A) activity can resume. In addition, tailwinds such as deregulation and taxation measures still exist with productivity gains and demand tied to reindustrialisation, onshoring, and the private sector acting as other potential growth drivers.

The US Federal Reserve (Fed) likely remains on hold as they assess the effect of trade policies on inflation, employment, and the potential for stagflation. Interest rate cuts could restart later this year to support their dual mandate. A resumption of monetary policy easing would closer align the Fed with accommodation by central banks overseas.

While the range of near-term outcomes for the US equity market is broad, its directionality will likely hinge on economic and earnings growth. Evidence supporting a stabilisation or positive inflection in either of these metrics could benefit the equity market.

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 60-65 billion of new issuance<sup>#</sup> is 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 April 2025 unless otherwise stated.

\* Source: FactSet, as at 30 April 2025

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

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

# Source: BofA Research, as at 30 April 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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