

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 November

Risk assets advanced in November, with equities, convertibles, and investment grade bonds finishing higher for the period. US election results and an anticipated pro-growth agenda under the new administration were the primary drivers of market gains. In addition, the US Federal Reserve (Fed) cut interest rates by 25 basis points (bps), boosting investor sentiment further. Lastly, the Q3 earnings season ended on a strong note with both top- and bottom-line results tracking to exceed consensus estimates. On the economic front, inflation gauges were generally in line with expectations, the services sector's expansion improved, jobless claims remained low, and retail sales beat consensus. In contrast, housing market statistics were mixed, and consumer sentiment and monthly payrolls declined relative to the prior period.

Equities Market Environment

The S&P 500 Index returned +5.87% for the month.*

All sectors gained in November. Consumer Discretionary, Financials, and Industrials were the top performing sectors, while Health Care, Materials, and Communication Services were the bottom performing sectors in the period.

Equity volatility was lower month-to-month with the VIX finishing at 13.51.*

Convertible Securities Market Environment

The ICE BofA US Convertible Index returned +6.77% for the month.^

Sector gains were broad with Industrials, Technology, and Energy outperforming, while Telecoms, Health Care, and Utilities underperformed.

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

New issuance saw 15 issues priced, raising USD 9.6 billion in proceeds.^

Investment Grade Corporate Market Environment

The ICE BofA US Corporate Index returned +1.20%, outperforming the shorter-dated ICE BofA 1-10 Year US Corporate Index which returned +0.80%.**

Credit-quality subsector returns for the month**:

- AAA rated bonds: +1.14%
- AA rated bonds: +1.04%
- A rated bonds: +1.10%
- BBB rated bonds: +1.31%

Spreads narrowed to 83 bps from 86 bps, the average bond price rose to 94.38, and the market's yield fell to 5.13%.**

Gross new issuance for the period was USD 98.3 billion.^

The 10-year US Treasury returned +1.03%.^ The note's yield fell to 4.19%, compared to 4.28% the prior month.^

Portfolio Review

The portfolio was positively impacted by strength across financial markets.

Top contributors in the period were led by an electric vehicle (EV) manufacturer, as well as a software company with bitcoin exposure. Amazon, Nvidia, Apple, and Microsoft – companies capitalising on secular trends around artificial intelligence (AI) and cloud migration – were also notable contributors. A major US bank and a fintech company moved higher on election outcome optimism, with the latter also benefitting from strong growth in its lending platform. An entertainment company and a real estate services holding also advanced on better-than-expected margin expansion.

Top detractors in the period included several pharmaceutical holdings that declined on the potential for increased regulatory scrutiny. A big-box retailer and a health care diagnostics company sold off after providing cautious guidance. An ecommerce company fell on tariff-related concerns, and a residential solar provider was lower on fears tax credits may be repealed. Multiple technology holdings, including a semiconductor company with exposure to industrial and automotive end markets, also detracted from performance.

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

Exposure increased in Communication Services, and decreased the most in Financials, Materials, and Energy. Covered call option positioning decreased month-over-month.

Market Outlook and Strategy

The easing cycle has begun, with the Fed cutting interest rates by 75 bps through November as inflation and the labour market continue to normalise.

Apart from an accommodative shift in monetary policy, potential economic tailwinds include pro-growth policies under the Trump administration, steady consumption, continued fiscal spending, the proliferation of AI, and improving productivity, among others. Risk to the economy may increase if these trends weaken. Other potential headwinds include new tariffs, more restrictive immigration policies, geopolitical tensions, prolonged labour market softening, continued manufacturing contraction, and slower growth outside the US.

US equity markets could benefit from Trump's pro-growth policies should they have a notable impact on future earnings. Continued Fed easing and economic expansion, secular growth drivers, such as AI, and accelerating earnings growth or an earnings inflection from more companies are also catalysts. 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.

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

* Source: FactSet, as at 30 November 2024

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

** Source: ICE Data Services, as at 30 November 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").

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