Allianz
Global Investors

Allianz US High Yield

Monthly commentary

Investment Objective

The Fund aims at long-term capital growth and income by investing in high yield rated corporate bonds of the United States of America ("US") bond markets.

What Happened in March

High yield bonds finished lower in March. Concerns around the pace and magnitude of tariff and government reform measures pressured markets due to their potential impact on consumer and corporate spending, economic growth, earnings, employment, and inflation. Economic reports released during the period were balanced with durable goods and factory orders, industrial production, and a key services survey all topping expectations. Conversely, consumer confidence declined, Atlanta Fed GDPNow estimates remained subdued, and a major manufacturing survey missed projections. Inflation, housing, and labour gauges were mixed. The US Federal Reserve (Fed) kept interest rates steady, slowed its balance sheet drawdown, and updated its economic projections to show a decrease in 2025 gross domestic product (GDP) growth estimates and an increase in 2025 inflation estimates. Against this backdrop, the 10-year US Treasury yield was largely unchanged month-over-month.

The ICE BofA US High Yield Index returned -1.07% for the month.*

Credit-quality subsector returns for the month*:

- BB rated bonds: -0.56%
- B rated bonds: -1.31%
- CCC rated bonds: -2.72%

Spreads widened to 355 basis points (bps) from 287 bps, the average bond price fell to 94.97, and the market's yield rose to 7.88%.*

Industry performance was broadly lower with Food Producers, Utilities, and Capital Goods outperforming, while Autos, Packaging/Paper, and Real Estate underperformed.

Trailing 12-month default rates finished the period at 1.20% (par) and 0.68% (issues).^ The upgrade/downgrade ratio rose to 1.4.^

Monthly new issuance saw 37 issues priced, raising USD 26.6 billion in proceeds.^ High yield funds reported estimated net flows of +USD 2.1 billion.^

Portfolio Review

Theatres & Entertainment was the only industry that positively contributed to performance in the period. Strength was attributable to an issue from an entertainment studio following favourable management commentary around execution of strategic business initiatives.

The top detractors from performance in the period were Financial Services, Technology, and Automotive. A consumer finance issuer had the largest negative impact in Financial Services, with some additional detraction from issues in middle market investing and loan servicing. Within Technology, holdings in cyber security and software were the primary source of weakness. Automotive underperformance was relatively broad-based due to tariff uncertainty.

Transactions during the period consisted of new purchases in data processing & outsourced services, oil & gas refining & marketing, and aerospace, and complete sells in consumer finance and application software.

Market Outlook and Strategy

The US economy could expand in 2025, but tariff, government reform, and immigration measures are becoming a bigger headwind than previously thought. However, tailwinds such as deregulation and taxation measures still exist. As trade and budgetary clarity improves, uncertainty should lessen, and spending, investment, hiring, mergers and acquisitions (M&A), etc. can resume. Productivity gains, industrialisation, onshoring, and private sector demand are additional potential growth drivers.

The 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.

The US high yield market, yielding nearly 8**, could deliver a coupon-like return in 2025. As a result, the asset class continues to offer equity-like returns but with less volatility. The market's attractive total return potential is a function of its discount to face value and higher coupon, which also serves to cushion downside volatility. Credit fundamentals are stable, near-term refinancing obligations remain low, and management teams continue to exercise balance sheet discipline. In this environment, new issuance is expected to remain steady, and the default rate should stay below the historical average of 3-4%.

Longer-duration issues are the most likely to be impacted by high and volatile rates, but the overall high yield market should have a dampened response due to its larger coupon relative to other fixed income alternatives. As a result, US high yield bonds contribute from both a diversification and a relative performance perspective, offering a very compelling yield opportunity.

All data are sourced from Allianz Global Investors, S&P Dow Jones Indices and FactSet, dated 31 March 2025 unless otherwise stated.

* Source: BofA Merrill Lynch, as at 31 March 2025

^ Source: J.P. Morgan, as at 31 March 2025

** Source: ICE Data Services, as at 31 March 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").