

Allianz US Short Duration High Income Bond

Monthly commentary

Investment Objective

The Fund aims at long-term income and lower volatility by investing in short duration high yield rated corporate debt securities of US bond markets in accordance with environmental and social characteristics.

What Happened in March

High yield bonds finished lower in March. Escalating geopolitical tensions were the dominant macro overhang with the Iran conflict disrupting global supply chains and driving energy prices higher. The Q4 reporting season finished strong with year-over-year earnings growth nearing 14% for the S&P 500. Overall, economic reports were positive with muted jobless claims activity, positive trends in key services and manufacturing surveys, and steady consumption balanced against mixed inflation readings and constrained housing dynamics. The US Federal Reserve (Fed) left interest rates unchanged with Jerome Powell stating a cut is unlikely without progress on inflation. Against this backdrop, rate cut expectations pushed out further and government debt yields rose sharply with the 10-year US Treasury yield settling at 4.32%.*

The ICE BofA US High Yield Index returned -1.19% for the month.*

Credit-quality subsector returns for the month*:

- BB rated bonds: -1.38%
- B rated bonds: -0.80%
- CCC rated bonds: -1.37%

Spreads widened to 328 basis points (bps) from 312 bps, the average bond price fell to 96.18, and the market's yield rose to 7.65%.*

All industries finished lower with Energy, Technology, and Cable outperforming, while Packaging/Paper, Real Estate, and Gaming underperformed.

Trailing 12-month default rates finished the period at 2.07% (par) and 1.87% (issues).[^] The upgrade/downgrade ratio was higher at 1.1.[^]

Monthly new issuance saw 18 issues priced, raising USD 21.0 billion in proceeds.[^] High yield funds reported estimated net flows of -USD 6.3 billion.[^]

Portfolio Review

Industries contributing the most to performance were Technology, Cable & Satellite TV, and Utilities. Strength in Technology was primarily attributable to an issue from a trading solutions provider following management commentary on artificial intelligence (AI). An issue from a satellite broadcaster that reported bottom-line upside positively impacted performance in Cable & Satellite TV. Within Utilities, an energy supplier exhibiting strong free cash flow generation drove performance.

Financial Services, Support-Services, and Air Transportation were the largest detractors from performance in the period. Within Financial Services, multiple issues in mortgage services, as well as an issue in commercial financing, were sources of weakness. Performance in Support-Services was negatively impacted by issues in building products, power generation, and equipment rental. Detraction in Air Transportation was broad, with issues from commercial airlines, private charter operators, and aviation logistics companies all having a negative impact.

Liquidity remained in focus to pay distributions, meet redemptions and to take advantage of reinvestment opportunities. Transactions in the period included new purchases in Industrial Gases, Automotive Parts & Equipment, and Metal/Glass/Plastic Containers, and complete sells in Passenger Ground Transportation, Hotels/Resorts/Cruise Lines, and Casinos/Gaming.

Market Outlook

The outlook for 2026 is largely unchanged, although conflict headwinds may offset some of the AI proliferation, reindustrialisation, and fiscal and monetary policy tailwinds. Q4 results surpassed expectations, management guidance was constructive, earnings estimates continued to rise, and multiple economic datapoints indicated sustained growth.

Going forward, corporate investment, consumer spending (helped by tax cuts/refunds), less regulation, energy and defence spending, and credit expansion could support gross domestic product GDP growth. On the other hand, a prolonged conflict lengthens the recovery period, pushing out eventual stability in commodity markets, supply chains, and geopolitics. The investment team continues to closely monitor the situation including the potential effects of higher energy prices on consumption, margins, sales, inflation, government debt yields, monetary policy, and capital expenditure plans.

Bottom-up analysts continue to upwardly revise their 2026 (and 2027) earnings estimates due to steady growth, durable margins, productivity gains, expanding earnings breadth, AI spend, and cost controls. Expanding earnings breadth could lead to a further broadening out of market leadership. Earnings headwinds include risks cited above and rising operating expenses, among others, with the view that shifts in the use of free cash flow have trade-offs.

The US high yield market, yielding more than 7%**^{**}, offers equity-like returns but with less volatility. The asset class is expected to deliver another year of coupon-like returns in 2026. 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. Additionally, the market's credit quality composition has improved. In this environment, new issuance is expected to remain steady, spreads can stay tight, and the default rate should continue to reside below the historical average.

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.

The strategy remains an attractive fixed income solution without taking excess credit risk, the shorter maturity puts securities first in line to repayment at par, and the Fund lessens price volatility that may be highly amplified in passively managed strategies.

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All data are sourced from Allianz Global Investors, S&P Dow Jones Indices and FactSet, dated 31 March 2026 unless otherwise stated.

* Source: BofA Merrill Lynch, as at 31 March 2026

^ Source: J.P. Morgan, as at 31 March 2026

** Source: ICE Data Services, as at 31 March 2026

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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