

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 May

High yield bonds finished higher for the month. Corporate earnings results in May remained strong with the S&P 500 Index on pace to deliver its highest quarterly earnings growth and surprise percentage since 2021. On the economic front, unemployment declined and the manufacturing sector continued to expand, while inflation rose and personal savings, income, and consumption fell. There was no Federal Open Market Committee (FOMC) meeting in May, but Kevin Warsh was officially sworn in as the next Chairman of the US Federal Reserve (Fed). Against this backdrop, the 10-year US Treasury yield and crude oil settled well below intra-month highs on lower odds of reescalation in the Middle East.

The ICE BofA US High Yield Index returned +0.49% for the month.*

Credit-quality subsector returns for the month*:

- BB rated bonds: +0.53%
- B rated bonds: +0.69%
- CCC rated bonds: -0.48%

Spreads narrowed to 274 basis points (bps) from 283 bps, the average bond price was flat at 97.32, and the market's yield rose modestly to 7.35%.*

Most industries finished higher with Technology, Packaging/Paper, and Services outperforming, while Cable, Transportation, and Retail underperformed.

Trailing 12-month default rates finished the period at 2.02% (par) and 1.64% (issues).[^] The upgrade/downgrade ratio was lower at 0.8.[^]

Monthly new issuance saw 40 issues priced, raising USD 27.0 billion in proceeds.[^] High yield funds reported estimated net flows of +USD 0.6 billion.[^]

Portfolio Review

Industries contributing the most to performance were Financial Services, Support-Services, and Retail. Strength in Financial Services was attributable to several issues in the lending and mortgage services space along with an aircraft leasing issue. Within Support-Services, holdings in building products, equipment rental, and power generation drove performance. Multiple issuers in the automotive retail space positively impacted the portfolio in Retail.

There were no industries that detracted from performance in the period.

Liquidity remained in focus to pay distributions, meet redemptions and to take advantage of reinvestment opportunities. Transactions in the period included new purchases in Gas Utilities, Specialty Retail, and Consumer Finance, and a complete sell in Commercial & Residential Mortgage Finance.

Market Outlook

The outlook for 2026 remains unchanged. Conflict headwinds may offset some of the artificial intelligence (AI) proliferation, reindustrialisation, and fiscal and monetary policy tailwinds. On the other hand, Q1 results are surpassing expectations, management outlooks are constructive, earnings estimates continue to trend higher, and multiple datapoints indicate sustained economic 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. Conversely, a prolonged conflict in the Middle East 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.

2026 earnings estimates are trending higher driven by better-than-expected results, AI spend, earnings breadth expansion, productivity gains, durable margins, cost controls, and Energy sector strength. Earnings breadth expansion could lead to a sustained broadening out of market leadership. 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.

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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 Fund 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 May 2026 unless otherwise stated.

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

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

** Source: ICE Data Services, as at 31 May 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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