

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 February

High yield bonds finished higher in February. The Q4 earnings season finished strong with the S&P 500 on pace to deliver a fifth consecutive quarter of double-digit growth. Small-cap companies are set to deliver even higher earnings growth. On the macro front, economic data remained supportive with unemployment ticking lower, consumer confidence remaining stable, and a key manufacturing survey moving into expansionary territory. On the other hand, wholesale inflation exceeded estimates, trade headlines resurfaced, and geopolitical tensions rose into month-end. Against this backdrop, the 10-year US Treasury yield fell sharply, closing below 4%.*

The ICE BofA US High Yield Index returned +0.17% for the month.*

Credit-quality subsector returns for the month*:

- BB rated bonds: +0.51%
- B rated bonds: -0.08%
- CCC rated bonds: -1.09%

Spreads widened to 312 basis points (bps) from 288 bps, the average bond price fell modestly to 97.88, and the market's yield rose to 7.21%.*

Industry performance was mostly higher as Energy, Food Producers, and Utilities outperformed, while Financials, Technology, and Services underperformed.

Trailing 12-month default rates finished the period at 2.06% (par) and 1.74% (issues).^ The upgrade/downgrade ratio was lower at 0.8.^

Monthly new issuance saw 32 issues priced, raising USD 28.7 billion in proceeds.[^] High yield funds reported estimated net flows of -USD 0.7 billion.[^]

Portfolio Review

Industries contributing the most to performance were Financial Services, Basic Industry & Real Estate, and Air Transportation. Strength in Financial Services was primarily attributable to an issuer in payments that reported better-than-expected results. Issues from REITs exposed to hotels and renewable energy positively impacted performance in Basic Industry & Real Estate. Within Air Transportation, an issue from a low-cost airline drove performance.

Retail, Technology, and Insurance were the largest detractors from performance in the period. Within Retail, an issue from an automotive retailer was the primary source of weakness. A financial data software company detracted the most from performance in Technology. Performance in Insurance was negatively impacted by an issue from personal insurance solutions provider.

Liquidity remained in focus to pay distributions, meet redemptions and to take advantage of reinvestment opportunities. Transactions in the period included new purchases in Health Care Facilities, Integrated Telecommunication Services, and Distributors.

Market Outlook

2026 US economic growth could surpass that of 2025. Potential tailwinds include stimulus from the One Big Beautiful Bill Act (OBBBA – tax cuts/refunds and capital spending acceleration), foreign direct investment from overseas, continued monetary policy easing (including the recently announced asset purchase programme), and steady consumption. Reshoring activity, less regulation, expanding credit, and a rebound in consumer and business confidence are also potential drivers. Improvements in the housing and/or manufacturing sectors could aid growth as well. Key economic risks include heightened geopolitical tensions and elevated fiscal deficits globally. Additionally, if unemployment and/or inflation rise sharply, the odds of an economic slowdown increase.

In an environment where changes in the labour market and prices are more muted, the Fed can continue to target a neutral policy position. Currently, market odds suggest additional interest rate cuts to a range of 3.00-3.25% – a level that is consistent with the Fed's median, longer run projection of 3%.

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 strategy 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 28 February 2026 unless otherwise stated.

* Source: BofA Merrill Lynch, as at 28 February 2026

^ Source: J.P. Morgan, as at 28 February 2026

** Source: ICE Data Services, as at 28 February 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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