

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.

What Happened in November

Risk assets advanced in November, with high yield 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.

The ICE BofA US High Yield Index returned +1.15% for the month.*

Credit-quality subsector returns for the month*:

- BB rated bonds: +1.05%.
- B rated bonds: +1.11%.
- CCC rated bonds: +1.63%.

Spreads narrowed to 274 bps from 288 bps, the average bond price rose to 96.40, and the market's yield fell to 7.38%.*

All industries finished higher with Cable, Telecoms, and Energy outperforming, while Technology, Utilities, and Packaging/Paper underperformed.

Trailing 12-month default rates finished the period at 1.14% (par) and 0.91% (issues).^ The upgrade/downgrade ratio decreased to 0.8.^

New issuance saw 20 issues priced, raising USD 10.4 billion in proceeds.^ High yield funds reported estimated net flows of +USD 1.8 billion.^

Portfolio Review

The portfolio (net of fees) provided a positive monthly return and continued to serve as a fixed income diversifier with the goals of preserving capital, generating high income, and providing liquidity.

The Fund remains an attractive and actively managed solution as investors adjust to high for longer rates without taking excessive credit risk or price volatility in passive fixed income strategies. In the current market environment, the Fund can purchase securities at discounts to par, or selectively invest in high coupon new issue producing yields well above money market accounts, management fees, and hedging expenses.

Fundamental research, credit analysis, low duration, and liquidity are key tenants and goals for the Fund that seeks to strike an attractive balance between risk, opportunity and expected return. The shorter maturity profile of the Fund should protect capital going forward as there are fewer years to repayment to close the average price discount. Goals of the Fund are unchanged to reinvest capital prudently to defend and evaluate credit risk and company fundamentals against a challenging global environment.

Since inception 15 years ago, the Fund remains US centric with coupons and repayment of principal in US dollars. The portfolio is focused on Energy, Transportation Leasing and Infrastructure. The portfolio continued to stay up in quality while generally avoiding the lowest quality credits with average credit quality in the portfolio unchanged at B1/B+. Emphasis remains on credit selection, liquidity, and downside risk mitigation versus the broader market.

The Fund is an actively managed solution with historically relatively high security turnover. This active approach to security selection and portfolio construction should also allow it to avoid some of the riskiest segments of the market further mitigating downside volatility. Passive strategies may carry greater tail risk and show greater dispersion of investment returns. The Fund selectively invests in opportunities that may present lower price volatility, risk-adjusted returns in line within the mandate, investment philosophy and Fund guidelines and importantly seeks to side-step and avoid many of the risks not appreciated by markets.

Performance in the period benefitted from industry weightings and a consistent fundamental credit selection framework. Industries contributing the most to performance were Energy, Financial Services, and Media. Utilities was the only industry that detracted from performance.

Liquidity remained in focus to pay distributions, meet redemptions and to take advantage of reinvestment opportunities. New purchases included issues in Oil & Gas Storage & Transportation, Real Estate Operating Companies, and Gas Utilities. Sells consisted of issues in Specialised Finance, Consumer Finance, and Health Care Supplies.

Market Outlook

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 artificial intelligence (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.

The US high yield market, yielding over 7%***, offers the potential for 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. Given these factors, the default rate is expected to remain low. Regarding credit spreads, they can stay tight for many years. This was the case in the mid-1990s and 2000s – periods like today when high yield balance sheets were healthy and defaults were low, the economy was stable, and interest rates were elevated.

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.

Connect with Us

sg.allianzgi.com

+65 6438 0828

Search more

 Allianz Global InvestorsLike us on Facebook [Allianz Global Investors Singapore](#)Connect on LinkedIn [Allianz Global Investors](#)Subscribe to YouTube channel [Allianz Global Investors](#)

All data are sourced from Allianz Global Investors, S&P Dow Jones Indices and FactSet, dated 30 November 2024 unless otherwise stated.

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

^ Source: J.P. Morgan, 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").

The information presented here is intended for general circulation and does not constitute a recommendation to anyone; it also has not taken into account the specific investment objectives, financial situation or particular needs of any particular person. Information herein is based on sources we believe to be accurate and reliable as at the date it was made. We reserve the right to revise any information herein at any time without notice. No offer or solicitation to buy or sell securities and no investment advice or recommendation is made herein. In making investment decisions, investors should not rely solely on this publication but should seek independent professional advice. However, if you choose not to seek professional advice, you should consider the suitability of the product for yourself. Past performance of the fund manager(s) and the fund is not indicative of future performance. Prices of units in the Fund and the income from them, if any, may fall as well as rise and cannot be guaranteed. Distribution payments of the Fund, where applicable, may at the sole discretion of the Manager, be made out of either income and/or net capital gains or capital of the Fund. As a result of the payment, the Fund's net asset value is expected to be immediately reduced. The dividend yields and payouts are not guaranteed and might change depending on the market conditions or at the Manager's discretion; past payout yields and payments do not represent future payout yields and payments. Investment involves risks including the possible loss of principal amount invested and risks associated with investment in emerging and less developed markets. The Fund may invest in financial derivative instruments and/or structured products and be subject to various risks (including counterparty, liquidity, credit and market risks etc.). Investing in fixed income instruments (if applicable) may expose investors to various risks, including but not limited to creditworthiness, interest rate, liquidity and restricted flexibility risks. Changes to the economic environment and market conditions may affect these risks, resulting in an adverse effect to the value of the investment. During periods of rising nominal interest rates, the values of fixed income instruments (including short positions with respect to fixed income instruments) are generally expected to decline. Conversely, during periods of declining interest rates, the values are generally expected to rise. Liquidity risk may possibly delay or prevent account withdrawals or redemptions. Past performance, or any prediction, projection or forecast, is not indicative of future performance. Investors should read the Prospectus obtainable from Allianz Global Investors Singapore Limited or any of its appointed distributors for further details including the risk factors, before investing. The duplication, publication, extraction, or transmission of the contents, irrespective of the form is not permitted, except for the case of explicit permission by Allianz Global Investors. This publication has not been reviewed by the Monetary Authority of Singapore (MAS). MAS authorization/recognition is not a recommendation or endorsement. The issuer of this publication is Allianz Global Investors Singapore Limited (79 Robinson Road, #09-03, Singapore 068897, Company Registration No. 199907169Z).