

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 November

High yield bonds finished higher in November. Q3 earnings momentum continued. With the majority of S&P 500 companies having reported, 82% topped estimates for an earnings growth rate of 13.3%. The government shutdown concluded in the period, driving a resumption of economic data releases. Initial jobless claims were subdued, and durable goods beat expectations whereas retail sales and consumer confidence missed projections. December rate cut expectations whipsawed over period to end in favour of a 25-basis point (25-bps) reduction. Against this backdrop, the 10-year US Treasury yield fell to 4.02%.*

The ICE BofA US High Yield Index returned +0.50% for the month.*

Credit-quality subsector returns for the month*:

- BB rated bonds: +0.64%.
- B rated bonds: +0.71%.
- CCC rated bonds: -0.93%.

Spreads narrowed to 292 bps from 294 bps, the average bond price rose to 97.81, and the market's yield fell to 7.13%.*

Industry performance was mostly higher with Media, Food Producers, and Autos outperforming, while Cable, Chemicals, and Technology underperformed.

Trailing 12-month default rates finished the period at 1.82% (par) and 1.27% (issues).^ The upgrade/downgrade ratio fell to 1.0.^

Monthly new issuance saw 28 issues priced, raising USD 24.9 billion in proceeds.^ High yield funds reported estimated net flows of -USD 0.5 billion.^

Portfolio Review

The Fund remains focused on offering fixed income diversification 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 tenets 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 over fifteen 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/BB-. 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 the Fund 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.

Industries contributing the most to performance were Energy, Support-Services, and Basic Industry & Real Estate. Strength in Energy was broad, with several issuers across the refining, transportation, and infrastructure spaces having the largest impact on performance. Within Support-Services, several equipment rental holdings and a power generation issuer drove performance. Several issues within the real estate investment industry contributed in Basic Industry & Real Estate.

Financial Services and Retail were the sole detractors from performance in the period. Weakness in Financial Services stemmed from a payments company that missed expectations. An ultra-luxury retailer was the largest detractor in Retail.

Liquidity remained in focus to pay distributions, meet redemptions and to take advantage of reinvestment opportunities. Transactions in the period included a new purchase in Multi Utilities, and complete sells in Commercial & Residential Mortgage Finance, Automobile Manufacturers, and Oil & Gas Storage & Transportation. Additionally, there were both purchases and sells in Specialised Finance.

Market Outlook

The macro outlook is improving following a stronger-than-expected economic rebound, an inflection in earnings estimates, a shift in the US Federal Reserve's (Fed's) stance, the One Big Beautiful Bill Act (OBBBA) being signed into law, and increased visibility around trade policy.

US economic growth for Q3 is tracking ahead of forecasts due to resilient consumption and strong corporate spending. Unemployment and inflation have increased but only modestly. Potential growth tailwinds include rising capital expenditure (capex), reshoring, deregulation, and credit expansion, whereas a sharp rise in either unemployment or inflation could increase the odds of an economic slowdown.

The Fed is targeting a more neutral policy position with the market expecting additional interest rate cuts over the coming quarters. However, Chair Powell has noted that future rate decisions remain highly data dependent.

The US high yield market, yielding more than 7%**, offers equity-like returns but with less volatility. Currently, the asset class is on track to deliver a coupon-plus return in 2025. 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 continues to improve. 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 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 30 November 2025 unless otherwise stated.

* Source: BofA Merrill Lynch, as at 30 November 2025

^ Source: J.P. Morgan, as at 30 November 2025

** Source: ICE Data Services, as at 30 November 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").

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