

Allianz Income and Growth

Monthly commentary

Investment Objective

The Fund aims at long-term capital growth and income by investing in United States of America (“US”) and/or Canadian corporate debt securities and equities.

What Happened in April

Equity, convertible, and high yield markets declined in April, despite a solid start to Q1 earnings season. Thus far, the percentage of S&P 500 companies reporting a positive earnings surprise was above the longer-term average, as was the magnitude of the earnings surprises. In aggregate, S&P 500 companies are pacing to report year-over-year earnings growth for a third straight quarter. Key economic data points released during the month were mixed. The labour market remained healthy, the manufacturing sector moved into expansionary territory, joining the services sector, retail sales surpassed projections, and home price indices rose. On the other hand, US gross domestic product (GDP) missed growth forecasts, consumer confidence declined, and some inflation measures were higher than anticipated. As a result, market expectations for the first interest rate cut were pushed out further, driving Treasury yields higher and pressuring investor sentiment.

Equities Market Environment

The S&P 500 Index returned -4.08% for the month.*

Utilities was the only sector that advanced, while Energy and Consumer Staples also outperformed. The weakest performing sectors were Real Estate, Technology, and Health Care.

Equity volatility was higher month-to-month, finishing at 15.65.*

Convertible Securities Market Environment

The ICE BofA US Convertible Index returned -3.48% for the month.^

Convertible securities were negatively impacted by falling stock prices and credit spread widening.

All sectors finished lower with Utilities, Media, and Energy outperforming, while Consumer Discretionary, Industrials, and Technology underperformed.

Investment grade issues outperformed below-investment grade issues. Yield alternative (busted) issues outperformed total return (balanced) and equity sensitive issues.

New issuance saw 3 issues priced, raising USD 0.9 billion in proceeds.^

High-Yield Bond Market Environment

The ICE BofA US High Yield Index returned -1.00% for the month.^

Credit-quality subsector returns for the month^:

- BB rated bonds: -0.97%
- B rated bonds: -0.86%
- CCC rated bonds: -1.60%

Spreads widened to 318 basis points (bps) from 315 bps, the average bond price fell to 91.88, and the market's yield rose to 8.32%.^

All industries finished lower for the period. Health Care, Transportation, and Chemicals outperformed, whereas Cable, Telecoms, and Food Producers underperformed.

Trailing 12-month default rates fell to 2.33% (par) and 2.24% (issues).**

New issuance saw 38 issues priced, raising USD 26.4 billion in proceeds.**

Portfolio Review

The portfolio was negatively impacted by risk asset weakness.

Top contributors were led by Alphabet, which reported a beat-and-raise quarter on the back of strong cloud computing demand stemming from artificial intelligence (AI) adoption. Several holdings in aerospace and medical technology gained on strong organic sales growth, a restaurant chain reported above consensus margins, and an electric vehicle (EV) manufacturer advanced on better-than-feared results and reports of a new international revenue opportunity. Other top contributors were exposed to clean energy, satellite communications, and multimedia.

Top detractors included Microsoft and a social media company, both of which provided softer-than-expected guidance despite otherwise strong quarters. A home improvement retailer and a software company declined on acquisition-related headlines; a cosmetic retailer fell on competitive concerns; and an industrial coatings company missed sales estimates. Wells Fargo exceeded earnings expectations, but a position in a long duration convertible issue finished

lower on higher interest rates. Other detractors included a specialty REIT despite raising 2024 guidance, and Mastercard.

All option positions expired below strike and the portfolio was able to retain the set premiums.

Exposure increased in Financials, Communication Services, and Health Care, and decreased the most in Consumer Discretionary, Industrials, and Materials. Covered call option positioning decreased month-over-month.

Market Outlook and Strategy

2023's economic momentum has carried over into 2024. Economic tailwinds include a healthy labour market, steady consumption, government spending, elevated household net worth, a stabilising manufacturing sector, an end to the rate hike cycle, and accelerating earnings. Economic headwinds include persistent inflation, restrictive monetary policy, prolonged yield curve inversion, less personal savings, and US/international political risks, among others.

US equity valuations reside near long-term averages. Visibility around 2024 and 2025 earnings, US dollar and Treasury market stabilisation, and an end to the rate hike cycle could be positive developments for stocks. Any equity market volatility will present opportunities for active managers to take advantage of better prices in attractive investments.

US convertible securities should continue to provide benefits to investors, including an attractive asymmetric return profile and potentially lower volatility relative to the equity market. The shift in the universe's composition exiting 2022 remains largely unchanged heading into 2024. Many securities offer attractive current yields and exhibit defensive characteristics given lower deltas and closer proximities to bond floors. This dynamic may allow for greater downside protection if equity volatility rises. If the prices of underlying stocks advance, convertible securities could be positioned to participate in the upside. Lastly, higher debt financing costs should draw issuers to the convertible market for coupon savings. As a result, new issuance is expected to increase materially year-over-year.

The US high yield market, yielding more than 8%^{^^}, offers the potential for equity-like returns but with less volatility. Credit fundamentals are stable, near-term refinancing obligations remain low, and management teams continue to prioritise debt reduction. Given these factors, defaults should remain well below historical cycle peaks. 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. Notably, after recording an annual decline, the high yield market has historically delivered two consecutive years of positive returns in six of the seven cases[#], and forward 12- and 24-month return projections based on the current market yield have been consistent with mid to high single digits^{##}.

A covered call options strategy can be utilised to generate premium income. In periods of elevated or rising equity volatility, premiums collected may translate into more attractive annualised yields.

Collectively, these three asset classes can provide a steady source of income and a compelling "participate-and-protect" return profile.

The Fund is a client solution designed to provide high monthly income, the potential for capital appreciation, and less volatility than an equity-only fund.

Connect with Us | sg.allianzgi.com | +65 6438 0828 | Search more  Allianz Global Investors

 Like 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 dated 30 April 2024 unless otherwise stated.

* Source: FactSet, as at 30 April 2024

^ Source: BofA Merrill Lynch, as at 30 April 2024

** Source: J.P. Morgan, as at 30 April 2024

^^ Source: ICE Data Services, as at 30 April 2024

Source: ICE Data Services, as at 31 December 2022

Source: J.P. Morgan, as at 31 October 2022

Allianz Global Investors and Voya Investment Management (Voya IM) have entered into a long-term strategic partnership, and as such, as of 25 July 2022, the investment team transferred to Voya IM and Voya IM became the delegated manager for this fund. AllianzGI continues to provide information and services to Voya IM for this investment through a transitional service agreement.

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).