Allianz
Global Investors

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 May

Equity, convertible, and high yield markets advanced in May. With the Q1 earnings season nearly complete, most companies surpassed consensus estimates helped by strong sales, cost cuts, and share repurchases. Full-year 2024 and 2025 earnings estimates moved higher over the month despite mixed company management outlooks. Key economic reports were neutral in aggregate. The labour market remained healthy, consumer confidence improved, and inflation showed signs of slowly ebbing. On the other hand, manufacturing fell back into contractionary territory and home and retail sales missed expectations. Finally, the US Federal Reserve (Fed) kept rates unchanged at May's Federal Open Market Committee (FOMC) meeting, with Chair Jerome Powell pushing back against potential rate hikes at the press conference.

Equities Market Environment

The S&P 500 Index returned +4.96% for the month.*

Technology, Utilities, and Communication Services were the best-performing sectors in the period. Energy was the only sector that declined, while Consumer Discretionary and Industrials also underperformed.

Equity volatility was lower month-to-month, finishing at 12.92.*

Convertible Securities Market Environment

The ICE BofA US Convertible Index returned +2.44% for the month.^

Convertible securities were positively impacted by rising stock prices.

All sectors finished higher with Consumer Staples, Utilities, and Materials outperforming, while Telecoms, Transportation, and Technology underperformed.

Investment grade issues outperformed below-investment grade issues. Equity sensitive issues outperformed total return (balanced) and yield-oriented (busted) issues.

New issuance saw 16 issues priced, raising USD 10.5 billion in proceeds.^

High-Yield Bond Market Environment

The ICE BofA US High Yield Index returned +1.13% for the month.^

Credit-quality subsector returns for the month^:

- BB rated bonds: +1.23%
- B rated bonds: +0.96%
- CCC rated bonds: +1.23%

Spreads widened to 320 basis points (bps) from 318 bps, the average bond price rose to 92.54, and the market's yield fell to 8.18%.^

Most industries finished higher for the period. Health Care, Food Producers, and Utilities outperformed, whereas Media, Telecoms, and Cable underperformed.

Trailing 12-month default rates fell to 2.02% (par) and 1.90% (issues).**

New issuance saw 54 issues priced, raising USD 33.6 billion in proceeds.**

Portfolio Review

The portfolio was positively impacted by strength across risk assets.

Top contributors were led by several technology companies capitalising on secular trends around artificial intelligence (AI) and cloud migration, including Nvidia, Microsoft, Alphabet and a social technology company. Apple gained on strategic partnership headlines and international growth prospects. A clean energy company that expanded its management team is well positioned to benefit from increasing demand. A semiconductor manufacturer announced an increase to its quarterly dividend payment. Other top contributors were a cellular tower REIT and a specialty ecommerce company, both of which reported notable earnings beats.

Top detractors included a software provider that reported slowing revenue growth, and a payments company that offered weaker-than-expected margin guidance. An issuer in the food delivery space declined on competitive concerns, a data analytics platform was lower following an executive departure despite a strong quarter, and an online real estate marketplace weakened on reports of slowing user trends. Other top detractors were holdings in Communication Services, including issues in satellite internet, television broadcasting, media, and entertainment.

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

Exposure increased the most in Health Care, Industrials, and Financials, and decreased the most in Communication Services, Real Estate, and Information Technology. Covered call option positioning increased modestly 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, 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.

All data are sourced from Allianz Global Investors dated 31 May 2024 unless otherwise stated.

* Source: FactSet, as at 31 May 2024

^ Source: BofA Merrill Lynch, as at 31 May 2024

** Source: J.P. Morgan, as at 31 May 2024

^^ Source: ICE Data Services, as at 31 May 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.