

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 September

Equity, convertible, and high yield markets all finished higher in September, driven by a dovish shift in monetary policy that stemmed from an array of new economic data. Multiple inflation measures continued to ease, consumer spending surprised to the upside, and the service sector remained in expansionary territory. However, some labour market measures were weaker, the manufacturing sector continued to contract, and consumer confidence declined. The simultaneous deceleration of inflation and jobs growth proved to be the catalyst for the first monetary easing campaign in four years, as the US Federal Reserve (Fed) cut interest rates by 50 basis points (bps) at the September Federal Open Market Committee (FOMC) meeting. Markets responded favourably, with risk assets moving broadly higher into the end of the month to solidify monthly gains.

Equities Market Environment

The S&P 500 Index returned +2.14% in September and closed at a new all-time high for the second consecutive month.*

Most sectors were higher in September. Consumer Discretionary, Utilities, and Communication Services were the top performing sectors, while Energy, Health Care, and Financials were the bottom performing sectors in the period.

Equity volatility was higher month-to-month, finishing at 16.73.*

Convertible Securities Market Environment

The ICE BofA US Convertible Index returned +1.94% for the month.^

Convertible securities were positively impacted by rising stock prices and credit spread tightening.

Most sectors closed higher with Media, Transportation, and Industrials outperforming, while Consumer Staples, Health Care, and Energy underperformed.

Below-investment grade issues outperformed investment grade issues. Total return (balanced) issues outperformed yield-oriented (busted) and equity sensitive issues.

New issuance saw 9 issues priced, raising USD 6.9 billion in proceeds.^

High-Yield Bond Market Environment

The ICE BofA US High Yield Index returned +1.63% for the month.^

Credit-quality subsector returns for the month^:

- BB rated bonds: +1.09%
- B rated bonds: +1.18%
- CCC rated bonds: +5.20%

Spreads narrowed to 303 bps from 317 bps, the average bond price rose to 96.72, and the market's yield fell to 7.21%.^

All industries advanced with Cable, Telecoms, and Media outperforming, while Energy, Autos, and Capital Goods underperformed.

Trailing 12-month default rates finished the period at 1.64% (par) and 1.35% (issues).**

New issuance saw 56 issues priced, raising USD 36.7 billion in proceeds.**

Portfolio Review

The portfolio was positively impacted by strength across risk assets.

Top contributors included technology-related companies capitalising on secular trends around artificial intelligence (AI) and cloud migration, led by Meta, Microsoft, and Amazon. A major electric vehicle (EV) manufacturer gained after announcing an expansion of its product offerings in a key market, a satellite telecommunications provider advanced on mergers and acquisitions (M&A) and financing news, and a home improvement retailer rallied following the Fed's rate cut, which was seen as beneficial to the housing market. The other top contributors to performance during the period were Wells Fargo, multiple hardware and software technology holdings, and a public utility.

Top detractors were led by several pharmaceutical companies, one of which consolidated year-to-date gains and another that fell on competitive concerns. A major bank declined after guiding interest income lower and expenses higher, an exploration and production company declined on acquisition headlines, and an enterprise software provider

was lower on growth and pricing concerns. The other top detractors in the period were Global Payments and positions in electronic components and semiconductors.

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

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

Market Outlook and Strategy

The easing cycle has begun, with the Fed cutting interest rates by 50 bps in September as inflation normalises and the labour market softens.

Apart from an accommodative shift in monetary policy, potential economic tailwinds include steady consumption, continued government spending, improving productivity, increasing capital expenditures, and the proliferation of AI. Risk to the economy may increase if these trends weaken. Other potential headwinds include escalating geopolitical tensions, prolonged labour market softening, deteriorating consumer sentiment, and continued manufacturing contraction.

In the short term, US equity volatility could increase due to labour disputes, foreign conflicts, and US elections. Over the intermediate term, the equity market could move higher on continued Fed easing and economic expansion, secular growth drivers, such as AI, and accelerating earnings growth or an earnings inflection from more companies. If economic growth or earnings growth fall short of expectations, the equity market could be challenged.

US convertible securities have an attractive asymmetric return profile, providing upside participation potential when stock prices rise and downside mitigation when stock prices fall. Higher debt financing costs have drawn issuers to the convertible market for coupon savings, resulting in accelerated new issuance at favourable terms and an expanded investment opportunity set with the desired risk/reward characteristics. While a change in market leadership is not certain, a sustained broadening of the equity market could be a positive development for the asset class.

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 prioritise debt reduction. Given these factors, the default rate has been below the long-term average with expectations for it to trend towards the historical average in 2025. 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.

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.

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All data are sourced from Allianz Global Investors dated 30 September 2024 unless otherwise stated.

* Source: FactSet, as at 30 September 2024

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

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

^^ Source: ICE Data Services, as at 30 September 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").

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