Allianz Global Investors

Allianz Select Income and Growth

Monthly commentary

Investment Objective

The Fund aims at long term capital growth and income by investing in investment grade corporate Debt Securities and Equities of US and/or Canadian Equity and Bond markets.

What Happened in April

Equity, convertible, and investment grade 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.^

Investment Grade Corporate Market Environment

The ICE BofA US Corporate Index returned -2.33%, underperforming the shorter-dated ICE BofA 1-10 Year US Corporate Index which returned -1.25%.**

Credit-quality subsector returns for the month**:

- AAA rated bonds: -3.51%
- AA rated bonds: -2.58%
- A rated bonds: -2.35%
- BBB rated bonds: -2.24%

Spreads narrowed to 91 basis points (bps) from 94 bps, the average bond price decreased to 90.07, and the market's yield rose to 5.81%.**

Gross new issuance for the period was USD 105.0 billion.^

The 10-year US Treasury returned -3.37%.^ The note's yield rose to 4.68%, compared to 4.21% the prior month.^

Portfolio Review

The portfolio was negatively impacted by weakness across risk assets and safe havens.

Top contributors were led by a technology conglomerate, 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 a software provider offered a bullish full-year outlook due to favourable end-market demand. Other top contributors were exposed to multimedia, clean energy, data services, and testing & inspection.

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, and a cosmetic retailer fell on competitive concerns. Regulatory risk overshadowed a live entertainment company's strong quarterly results and fundamental outlook. A financial services company 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 Amazon.

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

Exposure increased the most in Technology, Communication Services, and Materials, and decreased the most in Industrials, Consumer Discretionary, and Consumer Staples. 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.

US investment grade corporate bond's risk/reward opportunity is also compelling. Rising interest rates are a risk for high grade corporates, however the investment opportunity remains attractive given higher coupons and yields, and a positive fundamental outlook with limited default risk. The asset class trades at a discount to par, offering compelling total return potential and downside cushioning.

A covered call options strategy can be utilised to help 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 help 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 30 April 2024 unless otherwise stated.

* Source: FactSet, as at 30 April 2024

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

** Source: ICE Data Systems, as at 30 April 2024

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.

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