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 January

Markets finished mixed in January as investors digested economic data, the US Federal Reserve's (Fed's) rate decision, and corporate earnings results. Retail sales and consumer sentiment topped estimates, unemployment remained low, and manufacturing data exhibited signs of bottoming. As expected, the Fed left interest rates unchanged at January's Federal Open Market Committee (FOMC) meeting. Thus far, most companies were exceeding Q4 earnings and sales estimates. Corporate management commentary has been mixed, with optimism tied to the consumer, travel, infrastructure, investment banking, and artificial intelligence (AI), and caution around freight, industrials-related destocking, and automobile inventory.

Equities Market Environment

The S&P 500 Index returned +1.68% for the month, marking an all-time high in the period.* In contrast, the index's equal-weighted version returned -0.69%.*

Five out of eleven sectors had positive performance in January. Communication Services was the best performing sector, followed by Technology, Financials, and Health Care. Real Estate was the worst performer, followed by Materials, Consumer Discretionary, and Utilities.

Equity volatility was higher month-to-month, finishing above 14.*

Convertible Securities Market Environment

The ICE BofA US Convertible Index returned -1.16% for the month.^

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

Most sectors finished lower in January. Telecom, Media, and Technology outperformed, while Materials, Consumer Discretionary, and Consumer Staples underperformed.

Below-investment grade issues outperformed investment grade issues. Equity sensitive issues outperformed yield oriented and total return issues.

New issuance saw eight issues priced, raising USD 2.3 billion in proceeds.^

Investment Grade Corporate Market Environment

The ICE BofA US Corporate Index returned +0.15%, underperforming the shorter-dated ICE BofA 1-10 Year US Corporate Index (+0.38%).**

Credit-quality subsector returns for the month**:
- AAA rated bonds: -0.42%
- AA rated bonds: -0.18%
- A rated bonds: +0.09%
- BBB rated bonds: +0.26%

Spreads narrowed to 102 basis points (bps) from 104 bps, the average bond price decreased to 93.32, and the market's yield rose to 5.21%.**

Gross new issuance increased month-over-month to USD 192.7 billion.^

The 10-year US Treasury returned -0.17%.^ The note's yield rose to 3.95%, compared to 3.89% the prior month.^

Portfolio Review

The portfolio benefitted from equity market strength.

Top contributors were primarily comprised of technology companies capitalising on secular trends around AI, cloud migration, and cyber security. Upside outliers consisted of multiple semiconductor and software positions including a graphics processing units manufacturer and Microsoft, which gained ahead of strong quarterly results. Other top contributors included a pharmaceutical company, a payment-technology company on better-than-feared guidance, and an American multinational technology conglomerate following a positive readthrough on digital advertising trends.

Top detractors were led by an electric vehicle (EV) manufacturer on growth concerns. Angst around overseas sales weakness pressured a US tech giant and a chemical company. Production issues negatively impacted an airframe manufacturer and residential demand uncertainty weighed on a solar company. A life sciences services provider, a consumer finance company, and a cellular tower REIT that sold its India business also underperformed, among others.

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

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

Market Outlook and Strategy

2023's economic momentum should carry over into 2024. Economic tailwinds include low unemployment, steady consumption, government spending, waning inflation, an improving manufacturing sector, an end to the rate hike cycle, and inflecting earnings. Economic headwinds include continued restrictive monetary policy and quantitative tightening, less savings, and US/international political risks, among others.

Corporate bonds and convertible securities should be better positioned to weather any market volatility given current asset class dynamics, which in some respects are more favourable today than they were exiting 2022. Consequently, today's market outlook resembles 2023's with mid to high single-digit returns possible by year-end 2024 for corporate bonds, convertible securities, and equities.

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

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 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.

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 31 January 2024 unless otherwise stated.

* Source: FactSet, as at 31 January 2024

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

** Source: ICE Data Systems, as at 31 January 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.