

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 June

Equity, convertible, and investment grade corporate bond markets advanced in June. Key macroeconomic and company reports were mixed over the period. On the positive, several inflation measures continued to show signs of cooling, Q1 gross domestic product (GDP) growth was revised upward, and monthly payrolls were above expectations. On the other hand, manufacturing remained in contractionary territory, home and retail sales missed estimates, the unemployment rate ticked up, and continuing claims reached their highest level in nearly three years. In addition, the US Federal Reserve (Fed) kept rates unchanged at June's Federal Open Market Committee (FOMC) meeting. The market's expectation for the first interest rate cut moved to September, with another expected by year-end.

Equities Market Environment

The S&P 500 Index returned +3.59% for the month.*

Technology, Consumer Discretionary, and Communication Services were the top performing sectors in the period, while Utilities, Materials, and Energy were the bottom performing sectors.

Equity volatility was lower month-to-month, finishing at 12.44.*

Convertible Securities Market Environment

The ICE BofA US Convertible Index returned +0.93% for the month.^

Convertible securities were positively impacted by rising stock prices.

Sector performance for the period was mixed with Consumer Discretionary, Health Care, and Technology outperforming, while Materials, Energy, and Utilities underperformed.

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

New issuance saw 13 issues priced, raising USD 7.4 billion in proceeds.^

Investment Grade Corporate Market Environment

The ICE BofA US Corporate Index returned +0.64%, underperforming the shorter-dated ICE BofA 1-10 Year US Corporate Index which returned +0.68%.**

Credit-quality subsector returns for the month**:

- AAA rated bonds: +0.90%
- AA rated bonds: +0.65%
- A rated bonds: +0.64%
- BBB rated bonds: +0.63%

Spreads widened to 96 basis points (bps) from 88 bps, the average bond price rose to 91.72, and the market's yield fell to 5.56%.**

Gross new issuance for the period was USD 102.8 billion.^

The 10-year US Treasury returned +1.27%.^ The note's yield fell to 4.37%, compared to 4.49% the prior month.^

Portfolio Review

The portfolio was positively impacted by strength across risk assets.

Top contributors were primarily technology companies capitalising on secular trends around artificial intelligence (AI) and cloud migration, including Microsoft, Amazon, and Alphabet, as well as several semiconductor companies led by Nvidia and Marvell Technology. Additionally, Apple gained after unveiling new AI capabilities, and a social media company moved higher on ad spend optimism. A pharmaceutical company advanced after an Alzheimer's drug received a positive opinion from the US Food and Drug Administration (FDA) and on favourable phase 2 trial data for a liver disease treatment.

Top detractors included a utility operator that fell on a regulatory setback and several aerospace, clean energy, and technology hardware issues consolidated after strong year-to-date gains. A mining company was negatively impacted by commodity price weakness, and competitive pricing trends weighed on a big-box retailer. Other top detractors were holdings in property and casualty insurance, among others.

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

Exposure increased in Health Care, Utilities, and Industrials, and decreased the most in Materials, Financials, and Consumer Discretionary. Covered call option positioning increased 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.

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.

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

* Source: FactSet, as at 30 June 2024

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

** Source: ICE Data Services, as at 30 June 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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