

Allianz US Short Duration High Income Bond

Monthly commentary

Investment Objective

The Fund aims at long-term income and lower volatility by investing in short duration high yield rated corporate debt securities of US bond markets.

What Happened in August

The high-yield market finished higher despite a volatile August, driven by a strong finish to earnings season, balanced economic data, and anticipated monetary policy easing. On the earnings front, blended growth for Q2 exceeded expectations by nearly 3%, helped by above-trend margin expansion. August saw another month of mixed economic data. Lower-than-expected monthly employment and contracting manufacturing data contrasted favourable consumer spending and additional evidence of decelerating inflation. Investor confidence broadened following dovish comments from US Federal Reserve (Fed) Chair Powell, stating that “the time has come for policy to adjust” at the annual Jackson Hole Economic Symposium. As such, markets are firmly anticipating a rate cut of at least 25 basis points (bps) at September’s Federal Open Market Committee (FOMC) meeting.

The ICE BofA US High Yield Index returned +1.59% for the month.*

Credit-quality subsector returns for the month*:

- BB rated bonds: +1.55%.
- B rated bonds: +1.52%.
- CCC rated bonds: +1.96%.

Spreads narrowed to 317 bps from 325 bps, the average bond price rose to 95.47, and the market’s yield fell to 7.55%.*

All industries advanced with Telecoms, Food Producers and Technology outperforming, while Autos, Travel, and Media underperformed.

Trailing 12-month default rates finished the period at 1.73% (par) and 1.46% (issues).[^] The upgrade/downgrade ratio decreased to 1.4.[^]

New issuance saw 23 issues priced, raising USD 18.1 billion in proceeds.[^] High-yield funds reported estimated net flows of +USD 0.7 billion.[^]

Portfolio Review

The portfolio (net of fees) provided a positive monthly return and continued to serve as a fixed income diversifier with the goals of preserving capital, generating high income, and providing liquidity.

The Fund remains an attractive and actively managed solution as investors adjust to high-for-longer rates without taking excessive credit risk or price volatility in passive fixed income strategies. In the current market environment, the Fund can purchase securities at discounts to par, or selectively invest in high coupon new issue producing yields well above money market accounts, management fees, and hedging expenses.

Fundamental research, credit analysis, low duration, and liquidity are key tenants and goals that seeks to strike an attractive balance between risk, opportunity and expected return. The shorter maturity profile of the Fund should protect capital going forward as there are fewer years to repayment to close the average price discount. Goals are unchanged to reinvest capital prudently to defend and evaluate credit risk and company fundamentals against a challenging global environment.

Since inception nearly 15 years ago, the Fund remains US centric with coupons and repayment of principal in US dollars. The portfolio is focused on energy, transportation leasing and infrastructure. The portfolio continued to stay up in quality while generally avoiding the lowest quality credits with average credit quality in the portfolio unchanged at B1/B+. Emphasis remains on credit selection, liquidity, and downside risk mitigation versus the broader market.

The Fund is an actively managed solution with historically relatively high security turnover. This active approach to security selection and portfolio construction should also allow the Fund to avoid some of the riskiest segments of the market further mitigating downside volatility. Passive strategies may carry greater tail risk and show greater dispersion of investment returns. The Fund selectively invests in opportunities that may present lower price volatility, risk-adjusted returns in line within the mandate, investment philosophy and Fund guidelines and importantly seeks to side-step and avoid many of the risks not appreciated by markets.

Performance in the period benefitted from industry weightings and a consistent fundamental credit selection framework. Industries contributing the most to performance were Utilities, Financial Services, and Media. Energy was the only industry that detracted from performance.

Liquidity remained in focus to pay distributions, meet redemptions and to take advantage of reinvestment opportunities. New purchases included issues in Passenger Airlines, Passenger Ground Transportation, and Steel. Sells consisted of one issue in Insurance Brokers.

Market Outlook

The US economy has been resilient, continuing to expand above historical average growth rates despite restrictive monetary policy. Going forward, growth may be more moderate and inflation should decelerate further, allowing the Fed to begin reducing interest rates.

Apart from an accommodative shift in monetary policy, economic tailwinds include steady consumption and government spending, elevated household net worth, and accelerating earnings, as well as the proliferation of artificial intelligence (AI). Risk to the economy may increase if these trends weaken. Other potential headwinds could include prolonged labour market softening or manufacturing sector contraction. In addition, US equity volatility could increase pre- and post-election, but any such volatility should present opportunities for active managers to take advantage of better prices in attractive investments.

The US high yield market, yielding nearly 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^{##}.


Longer-duration issues are the most likely to be impacted by high and volatile rates, but the overall high yield market should have a dampened response due to its larger coupon relative to other fixed income alternatives. As a result, US high yield bonds contribute from both a diversification and a relative performance perspective, offering a very compelling yield opportunity.

The Fund remains an attractive fixed income solution without taking excess credit risk, the shorter maturity puts securities first in line to repayment at par, and the Fund lessens price volatility that may be highly amplified in passively managed strategies.

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All data are sourced from Allianz Global Investors, S&P Dow Jones Indices and FactSet, dated 31 August 2024 unless otherwise stated.

* Source: BofA Merrill Lynch, as at 31 August 2024

^ Source: J.P. Morgan, as at 31 August 2024

** Source: ICE Data Services, as at 31 August 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 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 or other AGI entity]. Delegated Manager: Voya Investment Management Co. LLC ("Voya IM").

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