Allianz Global Investors

Allianz Euro High Yield Bond

Monthly commentary

Summary

- The Euro High Yield market posted a decent performance for a 4th month in a row (+0.30% for the ICE BofAML BB-B Euro High Yield Constrained Index / HEC4);
- The fund slightly outperformed its benchmark (ICE BofA BB-B Euro High Yield Constrained Index - HEC4) on a gross basis, with a beta close to 1;
- If disinflation sticks to its current path and a soft (or no) landing scenario remains valid, the appetite for risk assets should remain and volatility suppressed; in this context, we are maintaining a decent risk position to benefit from the carry while keeping an adequate credit selection to avoid negative specific credit stories.

Market environment

European bonds weakened as hopes faded that the European Central Bank may cut rates in March. The yield on the 10-year German Bund touched a three-month high of 2.5% mid-month, before closing February around 2.40%, some 25 basis points higher than its level at the end of January. Peripheral euro-zone bonds outperformed core bonds, particularly Italian debt (source all data points: Trading Economics).

The flash estimate of the HCOB euro-zone composite purchasing managers' index (PMI) improved further in February, rising to an eight-month high of 48.9. Service sector activity jumped to 50.0, the highest level in seven months. While manufacturing activity deteriorated to 46.1, it indicated activity had improved from last year's late-summer slump. The European Commission revised down its growth and inflation projections, saying it expected the euro-zone economy to grow by 0.8% in 2024, down from a prior estimate of 1.2%, while inflation is now forecast to fall to 2.7%, from a previous estimate of 3.2% (source all data points: Detstatis).

February posted a quite positive tone for the European High Yield markets. Market consensus is still focusing on the downward trend of inflation in Europe and still robust US macroeconomic data have supported risk assets, including equities. To illustrate this, the negative news coming from New York Community Bank in the US and its commercial real-estate exposure related impairments did not ignite any sustainable episode of volatility, as the event remained contained to this specific credit story. Consequently the market kept on performing, leaning on last months' positive momentum and despite an upward pressure on interest rates, mainly driven by the strong economic metrics published in the USA. The European High Yield market has also been supported by decent positive flows into the asset class, and still quite positive quarterly results released by corporates globally. This translated into a tightening in spreads across the investment universe, combined with compression between low and high rated issuers. Primary market was also active, with corporates and financial issuers catching the opportunity to issue bonds at tighter spread levels, mostly for refinancing purposes. Similarly to last month, market has been constructive about these new issues. Liquidity is still well supported.

The Euro High Yield market posted a decent performance for a 4th month in a row (+0.30% for the ICE BofAML BB-B Euro High Yield Constrained Index / HEC4).

By rating, higher rated BBs (+0.19%) underperformed lower quality Bs debt (+0.62%). By sector, real estate (+1.5%), retail (+1.1%) and insurance (+1.0%) outperformed, while technology (-1.4%), financial services (-0.5%) and energy (0.0%) underperformed in relative terms. The ICE BofAML Euro High Yield BB-B index tightened from 338 to 301 bp during the month (spread-to-worst vs Government, source Bloomberg).

Performance, activity, positioning

The fund slightly outperformed its benchmark (ICE BofA BB-B Euro High Yield Constrained Index - HEC4) on a gross basis, with a beta close to 1.

During the month, the fund has been notably positively impacted by its underexposure – or lack of exposure - to Atos, Intrum, Bayer hybrids, and its overexposure to VodafoneZiggo and Citycon. It has been negatively impacted by its overexposure to issuers such as Telenet and its underexposure to Catalent and British American Tobacco hybrids.

The fund was active on the secondary market during the month and added exposure notably to issuers such as Unicredit, Elia hybrid, Telecom Italia or Crown. It reduced its positions to issuers such as Ford, Commerzbank AT1s, Cellnex or Consolidated Energy. The fund participated to new issues from Ardonagh, Forvia, ABN (AT1), Banca Ifis, Citycon (Senior) and TUI.

Outlook

Central banks seem to keep their cautious stance regarding their monetary policies, as uncertainty about macroeconomic figures keep on giving contradictory directions. However, if disinflation sticks to its current path and soft - or no - landing scenario remains valid, the appetite for risk assets should remain and volatility suppressed. Concerning spreads, valuations are still fair to slightly rich in particular for some well rated corporates, in line with the low volatility environment in both rates and equities. In this context, we are maintaining a decent risk position to benefit from the carry while keeping an adequate credit selection to avoid negative specific credit stories. Primary market should remain active in the weeks to come, with corporates still benefiting from decent environment and demand to refinance their short-dated debt.

Opportunities

+ Particular yield potential of high-yielding corporate bonds
+ Capital gains opportunities on declining market yields
+ Sustainability aspects are taken into account by the fund management. For more information on the sustainability approach, please refer to the sales prospectus
+ Broad diversification across numerous securities
+ Possible extra returns through single security analysis and active management

Risks

– Interest rates vary, bonds suffer price declines on rising interest rates. The volatility of fund unit prices may be strongly increased.
– High-yielding corporate bonds entail above-average risk of volatility, illiquid markets and capital loss
– Sustainability approach narrows the investment universe
– Limited participation in the yield potential of single securities
– Success of single security analysis and active management not guaranteed

Investing involves risk. The value of an investment and the income from it may fall as well as rise and investors might not get back the full amount invested. Investing in fixed income instruments may expose investors to various risks, including but not limited to creditworthiness, interest rate, liquidity and restricted flexibility risks. Changes to the economic environment and market conditions may affect these risks, resulting in an adverse effect to the value of the investment. During periods of rising nominal interest rates, the values of fixed income instruments (including positions with respect to short-term fixed income instruments) are generally expected to decline. Conversely, during periods of declining interest rates, the values of these instruments are generally expected to rise. Liquidity risk may possibly delay or prevent account withdrawals or redemptions. Allianz Euro High Yield Bond is a sub-fund of Allianz Global Investors Fund SICAV, an open-ended investment company with variable share capital organised under the laws of Luxembourg. The value of the units/shares which belong to the Unit/Share Classes of the Sub-Fund that are denominated in the base currency may be subject to an increased volatility. The volatility of other Unit/Share Classes may be different and possibly higher. Past performance does not predict future returns. If the currency in which the past performance is displayed differs from the currency of the country in which the investor resides, then the investor should be aware that due to the exchange rate fluctuations the performance shown may be higher or lower if converted into the investor’s local currency. This is for information only and not to be construed as a solicitation or an invitation to make an offer, to conclude a contract, or to buy or sell any securities. The products or securities described herein may not be available for sale in all jurisdictions or to certain categories of investors. This is for distribution only as permitted by applicable law and in particular not available to residents and/or nationals of the USA. The investment opportunities described herein do not take into account the specific investment objectives, financial situation, knowledge, experience or specific needs of any particular person and are not guaranteed. The Management Company may decide to terminate the arrangements made for the marketing of its collective investment undertakings in accordance with applicable de-notification regulation. The views and opinions expressed herein, which are subject to change without notice, are those of the issuer companies at the time of publication. The data used is derived from various sources, and assumed to be correct and reliable at the time of publication. The conditions of any underlying offer or contract that may have been, or will be, made or concluded, shall prevail. The duplication, publication, or transmission of the contents, irrespective of the form, is not permitted; except for the case of explicit permission by Allianz Global Investors GmbH.

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