Allianz Global Investors

FEBRUARY 2024

Allianz
Income and Growth

Monthly commentary

Summary

- Markets advanced in February as investors digested better-than-expected corporate earnings, mixed economic data, and a shift in rate cut expectations.
- The portfolio was positively impacted by strength across markets.
- 2023's economic momentum should carry over into 2024.

General market environment

Markets advanced in February as investors digested better-than-expected corporate earnings, mixed economic data, and a shift in rate cut expectations. A strong finish to the earnings season drove fourth quarter's earnings growth to +4.0% (compared to -0.3% at the end of January) and helped lift 2024 and 2025 earnings estimates. Monthly payroll figures and the unemployment rate topped forecasts and manufacturing and services sector surveys improved. On the other hand, some inflation measures came in higher than expected. As a result, market expectations for the first interest rate cut were pushed out to June's FOMC meeting, aligning with the Fed's most recent full year forecast. Against this backdrop, treasury yields rose, and investment grade bonds fell.

Equities market environment

- The S S&P 500 Index returned +5.34% for the month, closing the period at an all-time high.
- Gains were broad based with all eleven sectors finishing higher in February. Consumer discretionary was the best performing sector, followed by industrials and materials. Utilities was the worst performer, followed by consumer staples and real estate.
- Equity volatility was lower month to month, finishing below 14.

Convertible securities market environment

- The ICE BofA US Convertible Index returned +1.20% for the month.
- Convertible securities were positively impacted by rising stock prices and credit spread tightening.
- Most sectors finished higher in February. Consumer staples, telecom, and industrials outperformed, while media, utilities, and healthcare underperformed.
- Below-investment grade issues outperformed investment grade issues. Equity sensitive issues outperformed yield oriented and total return issues.

- US new issuance increased month over month with nine issues priced, raising $7.9 billion in proceeds. February's monthly volume was the largest in more than two years.

High-yield bond market environment

- The ICE BofA US High Yield Index returned +0.30% for the month.
- BB, B, and CCC rated bonds returned -0.24%, +0.37%, and +2.33%, respectively.
- Spreads narrowed to 329bp from 359bp, the average bond price fell to 92.44, and the market's yield rose to 8.02%.
- Industry performance skewed positive. Telecom, autos, and retail outperformed whereas media, utilities, and food producers underperformed.
- Trailing 12-month default rates remained low at 2.53% (par) and 2.45% (issues). The upgrade/downgrade ratio increased to 1.1.
- US new issuance decreased month over month with 38 issues priced, raising $27.7 billion in proceeds. High-yield funds reported estimated net flows of +$10 million.

Portfolio commentary

The portfolio was positively impacted by strength across markets.

Top contributors included companies capitalizing on artificial intelligence adoption and cloud migration such as Nvidia, Amazon, Microsoft and Salesforce.com. A social media holding advanced after reporting accelerating advertising growth and instituting a dividend, and a pharmaceutical position continued to gain on R&D scalability and revenue opportunity potential. Other top contributors were Tesla, a major US bank, a power management company, and Home Depot on signs the housing market may be stabilizing.

Top detractors included a cybersecurity company that lowered guidance and a wireless services provider that reported a data breach. Substitution fears weighed on a software company, and competitive concerns adversely impacted television broadcasting exposure. Slowing demand and soft user trends pressured residential solar and social media companies, respectively. Other top detractors were in technology, healthcare, and clean energy.

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

Exposure increased the most in industrials, consumer discretionary, and real estate, and decreased the most in information technology, energy, and health care. Covered call option positioning modestly increased month over month.

Outlook

2023's economic momentum should carry over into 2024. Economic tailwinds include low unemployment, steady consumption, government spending, waning inflation, a stabilizing 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.

High-yield credit and convertible securities should be better positioned to weather any market volatility given current asset class dynamics, which in some respects are more favorable 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 high-yield credit, convertible securities, and equities.

The US high-yield market, currently yielding 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 prioritize 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[1], and forward 12- and 24-month return projections based on the current market yield have been consistent with mid to high single digits[2].

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 stabilization, 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 utilized to generate premium income. In periods of elevated or rising equity volatility, premiums collected may translate into more attractive annualized yields.

Collectively, these three asset classes can provide a steady source of income and a compelling "participate and protect" return profile.

The Income and Growth strategy is a client solution designed to provide high monthly income, the potential for capital appreciation, and less volatility than an equity-only fund.

[1]Source: ICE Data Services; data as of December 2022
[2]Source: JP Morgan; data as of October 2022

Opportunities

+ Attractive potential returns of equities, high-yield bonds and convertible bonds
+ Investments specifically in the U.S. capital market
+ Currency gains possible in unhedged share classes
+ Broad diversification across numerous securities
+ Potential additional returns from security analysis and active management

Risks

– Equities, high-yield bonds and convertible bonds may be subject to volatility and loss risks. The volatility of the fund unit price may be strongly increased.
– Underperformance of the U.S. capital market possible
– Currency losses possible in unhedged share classes
– Limited participation in the potential of individual securities
– Success of single security analysis and active management not guaranteed

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 has transferred to Voya Investment Management. This has not changed the composition of the team, the investment philosophy nor the investment process. Management Company: Allianz Global Investors GmbH. Delegated Manager: Voya Investment Management Co. LLC ("Voya IM").

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 Income and Growth 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 not 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.

For investors in Europe (excluding Switzerland & the United Kingdom)
For a free copy of the sales prospectus, incorporation documents, daily fund prices, Key Information Document, latest annual and semi-annual financial reports, contact the management company Allianz Global Investors GmbH in the fund's country of domicile, Luxembourg, or the issuer at the address indicated below or www.allianzgi-regulatory.eu. Austrian investors may also contact the Austrian information agent Erste Bank der österreichischen Sparkassen AG, Am Belvedere 1, AT-1100 Vienna. Please read these documents, which are solely binding, carefully before investing. This is a marketing communication issued by Allianz Global Investors GmbH, www.allianzgi.com, an investment company with limited liability, incorporated in Germany, with its registered office at Bockenheimer Landstrasse 42-44, 60323 Frankfurt/M, registered with the local court Frankfurt/M under HRB 9340, authorised by Bundesanstalt für Finanzdienstleistungsaufsicht (www.bafin.de). Allianz Global Investors GmbH has established branches in France, Italy, Spain, Luxembourg, Sweden, Belgium and the Netherlands. Contact details and information on the local regulation are available here (www.allianzgi.com/Info). The Summary of Investor Rights is available in English, French, German, Italian and Spanish at https://regulatory.allianzgi.com/en/investors-rights.

For investors in Switzerland
For a free copy of the sales prospectus, incorporation documents, daily fund prices, Key Information Document, latest annual and semi-annual financial reports, contact the management company Allianz Global Investors GmbH in the fund's country of domicile, Luxembourg, the Swiss funds' representative and paying agent BNP Paribas Securities Services, Paris, Zurich branch, Selnaustrasse 16, CH-8002 Zürich or the editor either electronically or by mail at the given address or regulatory.allianzgi.com. Please read these documents, which are solely binding, carefully before investing. This is a marketing communication issued by Allianz Global Investors (Schweiz) AG, a 100% subsidiary of Allianz Global Investors GmbH. The Summary of Investor Rights is available in English, French, German, Italian and Spanish at https://regulatory.allianzgi.com/en/investors-rights.

For investors in the United Kingdom
For a free copy of the sales prospectus, incorporation documents, daily fund prices, Key Investor Information Document, latest annual and semi-annual financial reports, contact the issuer at the address indicated below or regulatory.allianzgi.com. Please read these documents, which are solely binding, carefully before investing. This is a marketing communication issued by Allianz Global Investors UK Limited, 199 Bishopsgate, London, EC2M 3TY, www.allianzglobalinvestors.co.uk. Allianz Global Investors UK Limited, company number 11516839, is authorised and regulated by the Financial Conduct Authority. Details about the extent of our regulation are available from us on request and on the Financial Conduct Authority's website (www.fca.org.uk). 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 UK Limited.

February 2024