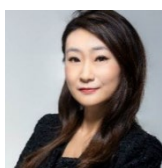


Geopolitical shock and diverging paths

“Bull markets are born on pessimism, grow on scepticism, mature on optimism and die of euphoria.” – Sir John Templeton

Key takeaways

- While most central banks held rates steady, the Iran conflict is creating **divergent policy trade-offs** for the next move.
- Sharp repricing **in core rates** markets may present attractive, tactical, relative value entry points.
- Maintaining allocations to unconventional diversifiers, such as **selective emerging market assets, renminbi and high-quality spread** products, could help to cushion portfolios against equity and rate volatility.



Jenny Zeng
CIO Fixed Income



Georgios Georgiou
Head Fixed Income
Product Specialists

What happened in April

April was information-heavy. While the Iran conflict continued to dominate headlines, central bank actions, macro data, IMF messaging and corporate earnings all competed for investor attention. Oil prices became the daily barometer, with each headline reigniting questions around inflation, consumer demand and policy. Despite the noise, major equity markets recovered all losses incurred since the outbreak of the conflict, while credit spreads tightened beyond pre-war levels. AI-driven momentum and resilient corporate earnings outweighed concerns over a fragile US-Iran ceasefire and the risk of an energy-led macro shock. Six G10 central banks kept policy rates on hold, even as core yields rose.

Our take on investment implications

As the Strait of Hormuz remains closed, the probability of a shift in the fundamental macro trajectory is rising – from accelerating growth and stable inflation towards **slower growth alongside higher prices**. Even if an agreement to reopen the Strait were reached as early as this month, clearing shipment backlogs and normalising trade flows would likely take several months.

While equity markets appear largely unfazed, **core rates have moved decisively**, repricing the implications of higher energy prices for the monetary policy path. Credit and emerging markets continue to be driven largely by equity beta. These divergent market responses underscore an important development beneath the surface: **shocks are being absorbed very differently across asset classes, regions, yield curves, sectors and individual securities**.

In the US, growth and inflation dynamics remain manageable, giving the Federal Reserve some breathing room. But the longer energy prices stay high, the more vulnerable this backdrop becomes. We favour **long US Treasury Inflation-Protected Securities (TIPS)** as protection against upside inflation risks and continue to position for **US yield curve steepening**. Weak fiscal dynamics, higher inflation volatility and diminishing fiscal and monetary policy credibility point to rising term premia at the long end of the curve.

In continental Europe, upside inflation risks and downside growth risks have intensified – we see the European Central Bank’s next move as likely to be a hike. In the UK, inflation risks remain elevated, but a softening labour market

complicates the policy path. While we see **relative value in UK Gilts** following the sell-off, we remain mindful of a challenging macro backdrop, with rising inflation and fiscal pressures compounded by elevated political risk. The Bank of Japan continues gradual normalisation, favouring a **flatter yield curve**. In emerging markets, rising energy prices act as a tailwind for exporters such as Brazil and a headwind for importers like the Philippines.

With credit spreads at historically tight levels, global credit markets are likely to be driven by equity volatility. Any reassessment of the timing or magnitude of AI-related investment returns could put pressure on multiples and amplify a risk-off move. We maintain a **moderate credit allocation**, focused on **quality carry** through floating-rate and securitised exposures, with a preference for **financials and consumer non-cyclicals** over cyclicals.

As dispersion widens, **security selection and relative value increasingly outweigh beta as the primary drivers of return**. A globally oriented, actively managed approach is critical – not only to capture emerging relative-value opportunities, but also to enhance resilience through **less conventional diversifiers**. We favour selectively taking duration risk in parts of emerging markets where real rates continue to decline; adding renminbi or Chinese government bonds and commodity-producer currency exposure to otherwise G10-centric portfolios; and maintaining a measured tilt toward **credit**.



A globally oriented, actively managed approach is critical – not only to capture emerging relative-value opportunities, but also to enhance resilience through less conventional diversifiers.



CHART OF THE MONTH

Securitized credit has outperformed corporate bonds year-to-date



Source: Allianz Global Investors, Bloomberg, as at 11 May 2026. Index returns in USD-hedged. The information is provided for illustrative purposes only, it should not be considered a recommendation to purchase or sell any particular security or strategy or as investment advice. Past performance, or any prediction, projection or forecast, is not indicative of future performance.

- ICE BofA US ABS & CMBS Index
- Bloomberg US Corporate Index
- Bloomberg Global Aggregate Securitized Index
- Bloomberg Global Aggregate Corporate Index

In today’s environment, securitized credit offers a particularly attractive combination of floating-rate features, secured capital structures, diversified collateral pools and multiple layers of credit enhancement. The asset class gives investors exposure to a set of cashflows generated by a pool of assets remote from corporate credit risk. These cashflows are “tranching”. The highest rated tranche has the first call on the cashflows and the security, but the lowest yield. The lowest rated tranche has the highest yield but could be wiped out if cashflows from the assets are lower than expected. We invest across a broad range of global securitized products, with a focus on Commercial and Residential Mortgage-Backed Securities (CMBS, RMBS) and Collateralised Loan Obligations (CLOs). Our preference is for the higher rated tranches which offer the best relative liquidity and security enhancements within the securitized universe to generate resilient income. We often see compelling relative value versus corporate credit. For example, an AAA securitized bond has a similar yield to an A-rated corporate bond. The yield pick-up comes from additional complexity and lower liquidity than corporate bonds – we tend to cap securitized allocations to protect overall portfolio liquidity.


FIXED INCOME FORWARD | WHAT TO WATCH

1 US-China summit

The fact that the Iran war has not gone as planned means that when US President Donald Trump and Chinese President Xi Jinping finally sit down, both presidents will likely have an enhanced desire for a productive meeting that could show both the world, and their respective populations, that “deals” between the world’s two economic superpowers are still possible.

2 AI debt financing

AI hyperscalers continue to tap bond markets with multi-billion, multi-tranche infrastructure financing, using investment-grade borrowing rates to lock in long-duration capital for data centre construction, electrification infrastructure and computing capacity. Watch for signs of investor unease with the volume of AI debt underwritten, especially from more challenged issuers with less diversified and resilient growth in free cashflow.

3 Inflation data

Bond markets are less sanguine about the interest rate outlook, flashing some caution through volatile longer-dated yields and rising “breakevens” (the spread between nominal and inflation-adjusted government bond yields). Pay close attention to inflation readings that could challenge current complacency around well-anchored inflation expectations and structural reasons why core inflation might not rise alongside headline inflation.


FIXED INCOME MARKET PERFORMANCE

Indicative market indices	Total return year-to-date 2026 (%)	Total return April 2026 (%)	Yield- to-worst (%)	Effective duration (years)
Data as at 30 April 2026				
Global convertible bonds	13.16	10.55	-2.4	1.6
Asian high yield	1.91	2.04	8.0	2.9
Global emerging-market sovereign bonds	1.57	2.86	7.0	6.4
US floating-rate notes	1.41	0.43	4.2	0.0
US high yield	1.14	1.70	7.0	3.0
US Treasury bonds 1-3 years	0.44	0.19	3.9	1.7
Euro high yield	0.19	1.94	5.6	3.0
Global aggregate	0.15	0.30	3.8	6.3
Asian investment grade	0.11	0.62	5.1	4.7
Global government bonds AAA-AA	0.09	0.10	3.5	7.2
US aggregate	0.07	0.11	4.6	5.9
Euro investment grade	-0.02	0.94	3.6	4.6
US investment grade	-0.09	0.45	5.1	6.9
Euro government bonds 1-3 years	-0.16	0.27	2.7	2.0
Euro aggregate	-0.18	0.46	3.3	6.3

Source: Bloomberg, ICE BofA and JP Morgan indices; Allianz Global Investors, data as at 30 April 2026. Index returns in USD-hedged except for Euro indices (in EUR). Asian and emerging-market indices represent USD denominated bonds. Yield-to-worst adjusts down the yield-to-maturity for corporate bonds which can be “called away” (redeemed optionally at predetermined times before their maturity date). Effective duration also takes into account the effect of these “call options”. The information above is provided for illustrative purposes only, it should not be considered a recommendation to purchase or sell any particular security or strategy or as investment advice. Past performance, or any prediction, projection or forecast, is not indicative of future performance.

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.

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 buy or sell any securities. The views and opinions expressed herein, which are subject to change without notice, are those of the issuer or its affiliated companies at the time of publication. The data used is derived from various sources and assumed to be accurate and reliable at the time of publication, but it has not been independently verified; its accuracy or completeness is not guaranteed and no liability is assumed for any direct or consequential losses arising from its use, unless caused by gross negligence or willful misconduct. The duplication, publication, extraction or transmission of the contents, irrespective of the form, is not permitted, except for the case of explicit permission by Allianz Global Investors.

This material has not been reviewed by any regulatory authorities.

This document is being distributed by the following Allianz Global Investors companies: In Australia, this material is presented by Allianz Global Investors Asia Pacific Limited ("AllianzGI AP") and is intended for the use of investment consultants and other institutional/professional investors only, and is not directed to the public or individual retail investors. AllianzGI AP is not licensed to provide financial services to retail clients in Australia. AllianzGI AP is exempt from the requirement to hold an Australian Foreign Financial Service License under the Corporations Act 2001 (Cth) pursuant to ASIC Class Order (CO 03/1103) with respect to the provision of financial services to wholesale clients only. AllianzGI AP is licensed and regulated by Hong Kong Securities and Futures Commission under Hong Kong laws, which differ from Australian laws; in the European Union, by Allianz Global Investors GmbH, an investment company in Germany, authorized by the German Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) and is authorized and regulated in South Africa by the Financial Sector Conduct Authority; in the UK, by Allianz Global Investors (UK) Ltd. company number 11516839, authorised and regulated by the Financial Conduct Authority (FCA); in Switzerland, by Allianz Global Investors (Schweiz) AG, authorised by the Swiss financial markets regulator (FINMA); in HK, by Allianz Global Investors Asia Pacific Ltd., licensed by the Hong Kong Securities and Futures Commission; in Singapore, by Allianz Global Investors Singapore Ltd., regulated by the Monetary Authority of Singapore [Company Registration No. 199907169Z]; in Japan, by Allianz Global Investors Japan Co., Ltd., registered in Japan as a Financial Instruments Business Operator [Registered No. The Director of Kanto Local Finance Bureau (Financial Instruments Business Operator), No. 424], Member of Japan Investment Advisers Association, the Investment Trust Association, Japan and Type II Financial Instruments Firms Association; In mainland China, it is for Qualified Domestic Institutional Investors scheme pursuant to applicable rules and regulations and is for information purpose only; in Taiwan, by Allianz Global Investors Taiwan Ltd., licensed by Financial Supervisory Commission in Taiwan; in Indonesia, by PT. Allianz Global Investors Asset Management Indonesia licensed by Indonesia Financial Services Authority (OJK); and in the Abu Dhabi Global Market by Allianz Global Investors Middle East Limited, which is authorised and regulated by the ADGM Financial Services Regulatory Authority.