

Fight volatility with global, resilient income

“Only when the tide goes out do you discover who has been swimming naked.” – Warren Buffett

Key takeaways

- **Credit markets continue to display calm and resilience** compared with equity and commodity markets, despite rising “AI bubble” concerns, scrutiny of private markets, and escalating geopolitical tensions.
- **Outperformance of non-US assets**, particularly emerging markets and Asia, reinforces the case for global diversification at this stage of the cycle.
- **Liquidity and active management are critical** in a carry-driven environment. **US Treasuries** remain **the most effective hedge** against risk asset drawdowns.

What happened in February

US markets spent February reassessing the optimism priced in during January. Investors confronted credible but slowing disinflation, a Federal Reserve (Fed) unwilling to validate near-term easing expectations, and growing scrutiny over the sustainability of earnings growth and AI-related returns. Softer inflation data helped reduce tail risks but failed to restore conviction, while hawkish Fed messaging, private-credit liquidity risk, and sharp sector rotation reinforced the view that policy, growth and valuation outcomes are less certain than markets assumed.

The result was choppy trading, higher dispersion, and a spike in volatility. Non-US markets navigated February with relative ease, and emerging markets continued to show remarkable resilience.

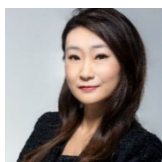
Markets stabilised toward month-end, partially reassured by constructive earnings from Nvidia, but sentiment remained fragile. Credit markets, however, largely held up. Investment grade credit remained resilient, and high yield stayed well supported.

In private credit, Blue Owl Capital’s move to restrict withdrawals from a

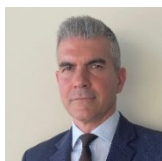
private debt fund amplified risk-off sentiment and served as a reminder of opacity and liquidity risks inherent in private markets; however, the episode remained contained.

Fourth-quarter US corporate earnings were solid overall though dispersion widened. Aggregate earnings grew at a healthy double-digit pace, driven by mega-cap technology and communication services. Other sectors delivered modest positive growth.

In the US, January’s consumer price index printed 2.4% year-on-year, below the 2.5% consensus and the lowest since mid-2025. January nonfarm payrolls showed continued job growth with only gradual cooling, while wage growth eased. The European Central Bank and Bank of England kept policy rates unchanged, reinforcing a wait-and-see stance. Across the OECD, Australia’s central bank stood out as an outlier, hiking rates by 25 basis points in response to renewed inflation pressure, strong private demand and housing momentum. Overall, most OECD curves now have a flattening bias, reflecting uncertainty over policy timing as growth and inflation prints remain anchored around expectations.



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Our take: investment implications

Carry survives; certainty does not.

We are in a classic second phase of a bull market: financial conditions remain loose, macro and corporate fundamentals are broadly sound, yet idiosyncratic risks are rising and investors are beginning to ask tougher questions. This remains a benign environment for harvesting carry – total yields are still elevated and systemic risk is low – but certainty has diminished while conviction levels are reassessed. As a result, divergence and dispersion across countries, sectors and capital structures are increasing. **This environment favours quality carry, balance-sheet strength**

and active duration management over broad, directional beta exposure. The market is no longer rewarding indiscriminate risk-taking; it is rewarding selectivity.

There are multiple ways to harvest carry in this regime. One approach is to **minimise duration volatility** through **global floating-rate notes** issued by financial institutions and corporates. Floaters continue to offer a **liquid, resilient yield pickup** over cash and government bonds, with materially lower price volatility during rate swings.

Another approach is to adopt a **global, opportunistic multi-sector strategy** – pairing government bonds

and other interest-rate-sensitive assets with growth-oriented credit exposures within a **single, diversified and dynamically managed portfolio**. In an environment where carry remains attractive, but conviction is fragile, portfolio construction and active allocation matter more than market direction.

Credit can temper equity volatility.

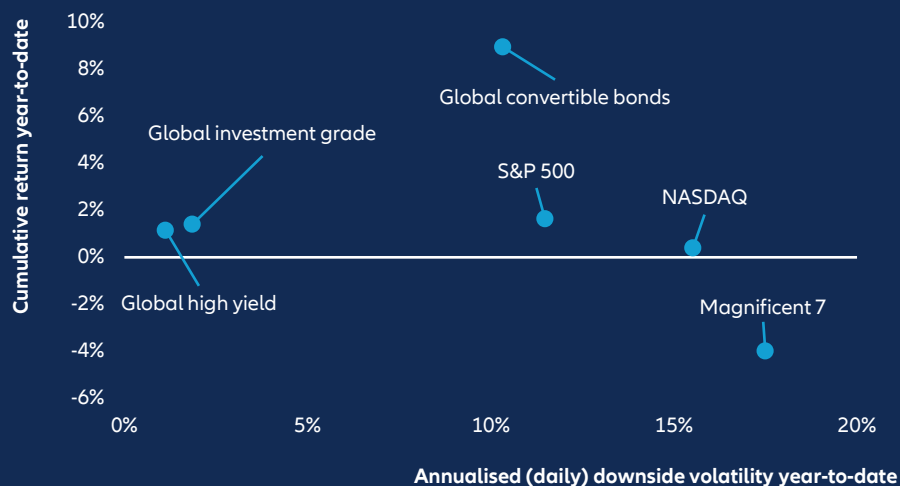
Despite elevated equity volatility, credit markets continue to trade in a historically tight and orderly range, **underscoring the stabilising role of credit even as equity sentiment has turned more fragile (see chart).**



CHART OF THE MONTH

In our view, corporate bonds, including convertible securities, can play a valuable and complementary role for investors rebalancing after a strong equity run, and where conviction in equity multiples is waning. Historically, high yield bonds have delivered equity-like returns with meaningfully lower volatility. February's market action provides a timely illustration of this dynamic. For example, Oracle's share price declined roughly 50% from its September highs, while its benchmark 2030 bond fell by just 2% over the same period. Zoominfo's share price dropped 42% from January highs, yet its benchmark 2029 bond declined roughly 9%. These divergences highlight how credit can absorb volatility without fully repricing long-term solvency risk. At the index level, global high yield and global investment grade bonds have delivered significantly more stable returns year-to-date than the S&P 500 and NASDAQ US

Corporate bonds showing greater resilience than equities



equity indices, as well as against the so-called "Magnificent Seven" of dominant US technology stocks. What is more, global convertible bonds, which encompass both debt and equity features, are outperforming by a wide margin and can be effective in dampening downside volatility without sacrificing equity upside participation.

Source: : Bloomberg, ICE BofA, S&P and NASDAQ indices; Allianz Global Investors, data as at 25 February 2026. Index data is 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.

Be selective, be active. Across our portfolios, exposure to business development companies (BDCs) – a key vehicle for private credit – is deliberately limited. This is a conscious choice rather than a reaction to recent volatility. BDCs remain a small segment yet they carry outsized complexity and asymmetric downside risk.

In credit, there will always be challenged business models that warrant scrutiny, and BDCs require particularly careful differentiation. That said, **fundamentals across the broader space remain generally sound**, reflected in the predominance of BBB-rated issuers. What matters, however, is not the headline rating but the **wide dispersion beneath the surface** – across platforms, asset mixes, underwriting discipline and liability structures. Credit quality varies meaningfully, and outcomes will be highly issuer-specific.

As defaults re-enter the headlines, our approach is straightforward: **don't**

generalise; be specific. We continue to monitor the BDC space closely and **keep our powder dry.** We are prepared to act should further widening create **selective opportunities in high-quality names** where risk-reward becomes compelling.

Emerging markets and Asia: the sweet spot. The outperformance of emerging market (EM) debt in February reinforced that these markets **offer not only diversification, but also resilience.** Performance has been supported by a weaker US dollar, easing inflation and improving central-bank credibility across many EM countries.

Local-currency debt continued to lead, while hard-currency debt delivered steady carry with contained spread volatility. Latin America and Africa were among the stronger performers, benefiting from orthodox policy frameworks and attractive carry. Africa, in particular, saw a wave of new issuance pricing at tight levels, though we remain selective in our

participation. Oil-exporting countries held up well amid heightened geopolitical noise, while more FX-sensitive markets experienced only brief and contained volatility spikes. That said, valuations across EM are increasingly tight, and indiscriminate risk-taking is unlikely to be rewarded. Our approach remains fundamentals-driven, with a focus on country-specific improvement stories, such as Côte d'Ivoire and Kenya, where macro trajectories and policy discipline continue to strengthen.

Asia fixed income delivered quieter but highly resilient performance. Asian credit has been well supported by strong technicals and improving fundamentals, while local markets traded with **lower volatility than broader EM**, reinforcing Asia's role as a stabilising allocation within global fixed income portfolios.



WHAT TO WATCH

1 Renminbi gains ground

The Chinese currency strengthened against the US dollar in February, reaching its strongest level since 2023. Unlike last year, when its moves were largely driven by broad dollar weakness, this episode reflects a more proactive stance, reinforced by strong fixings by China's central bank. In our view, this points to a meaningful shift in China's foreign exchange policy, suggesting policymakers are ready to make the renminbi strong again.

2 US bank shares

US bank equities sold off, nearly matching the decline in US software stocks. The move reflects spillover fears from private-credit stress and concerns the AI boom could pressure bank earnings. By contrast, bank credit spreads barely moved. In our view, it is too early to worry about contagion: banks' exposure to private credit is manageable. Still, these developments bear close watching as late-cycle confidence becomes fragile.

3 US-Iran talks

The US and Iran are holding a third round of talks in Geneva, mediated by Oman, amid a heavy US military buildup in the Gulf region seeking to largely debar Iran from uranium enrichment. Oil prices have hovered around seven-month highs and could spike in the event of a conflict – Iran is OPEC's third largest crude producer. Energy-related credit and other assets may be a good hedge against geopolitical and re-inflation risks.

Fixed income market performance

Indicative market indices Data as at 23 February 2026	Total return year-to-date 2026 (%)	Total return February 2026 (%)	Yield- to-worst (%)	Effective duration (years)
Global convertible bonds	7.54	5.91	-2.8	1.4
Asian high yield	2.88	2.24	7.5	2.9
Global emerging-market sovereign bonds	2.10	0.68	6.6	6.5
Global government bonds AAA-AA	1.64	0.42	3.1	7.3
Euro aggregate	1.61	0.73	2.8	6.3
US aggregate	1.42	0.11	4.2	5.9
US investment grade	1.38	0.18	4.7	6.9
Global aggregate	1.36	0.24	3.4	6.3
Euro investment grade	1.30	0.79	3.1	4.5
Euro high yield	1.07	0.68	4.8	2.8
US high yield	0.83	0.48	6.7	2.8
Asian investment grade	0.77	-0.07	4.8	4.8
US floating-rate notes	0.74	0.45	4.2	0.0
US Treasury bonds 1-3 years	0.59	0.20	3.5	1.6
Euro government bonds 1-3 years	0.54	0.32	2.1	2.0

Source: Bloomberg, ICE BofA and JP Morgan indices; Allianz Global Investors, data as at 23 February 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.

* Represents the lowest potential yield that an investor could theoretically receive on the bond up to maturity if bought at the current price (excluding the default case of the issuer). The yield to worst is determined by making worst-case scenario assumptions, calculating the returns that would be received if worst-case scenario provisions, including prepayment, call or sinking fund, are used by the issuer (excluding the default case). It is assumed that the bonds are held until maturity and interest income is reinvested on the same conditions. The yield to worst is a portfolio characteristic; in particular, it does not reflect the actual fund income. The expenses charged to the fund are not taken into account. As a result, the yield to worst does not predict future returns of a bond fund.

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.

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