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# HKD Bonds

## Anchoring Stability in A Multi-Polar World



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**Question 1: Recently HK announced a Roadmap for the Development of Fixed Income and Currency Markets to position the city strategically as a global Fixed Income and Currency hub. As a fixed income portfolio manager in HK, what do you think about it?**

Over the past decade, the HKD bond market has expanded meaningfully, alongside a clear rise in participation from overseas participation. In 2024, new HKD-denominated issuance rose 8.8%<sup>1</sup> year-on-year. Year-to-date 2025, the market has also seen issuances from high-profile supranational, most notably the World Bank's Sustainable Development Bond, representing one of the largest supranational HKD benchmark issuance to date.

<sup>1</sup> Source: Hong Kong Monetary Authority, as at March 2025

For asset managers, we believe that the Hong Kong government's new Fixed Income & Currency (FIC) Roadmap will be a clear tailwind for domestic asset markets. By lifting primary issuance, the program will broaden market depth and breadth, and in turn, drive better secondary liquidity with tighter two-way pricing, improved price discovery, better market execution. Equally important, policymakers have also addressed the demand side, by widening Southbound Bond Connect participation to include securities firms, fund managers, insurers, and wealth managers, further expanding and deepening the investor base.

Taken together, these measures should deepen the HKD fixed-income market and reinforce Hong Kong's standing as a global financial hub

**Question 2: Starting with rates, the US Federal Reserve (Fed) has elected to cut interest rates by 25 basis points (bps), what is your outlook on interest rates going forward? And how is this going to impact HK interest rates?**

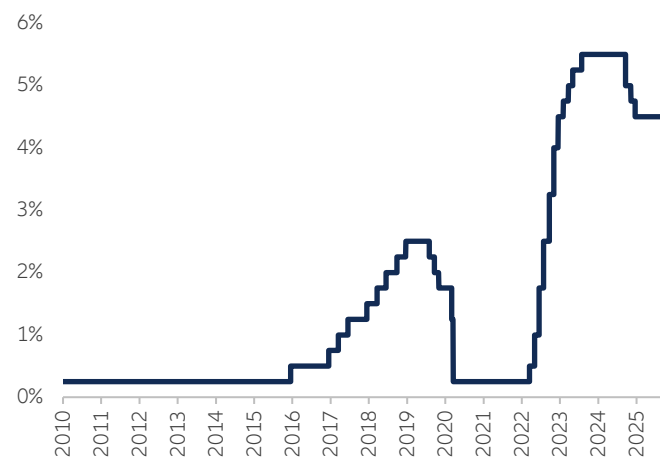
The Fed lowered the Fed Funds rate by 25bps at its September meeting, citing a shift in risks towards employment where recent data has indicated slower hiring and rising unemployment risks. While inflation concerns are likely to persist, these are likely to be overshadowed by labor market conditions going forward. As such, our base case remains that the Fed is expected to continue on a data-dependent, policy easing path into 2026.

Hong Kong operates a currency peg that keeps the HKD traded within a tight band against the USD. To maintain that stability, HK interest rates generally move in the same direction as US rates, though timing and magnitude of moves can differ, depending on domestic liquidity conditions in Hong Kong. Mirroring the Fed’s recent rate cut move, the Hong Kong Monetary Authority (HKMA) also lowered its base rate by 25 bps. As the Fed continues to ease policy rates, HKD interest rates are also likely to drift lower into 2026.

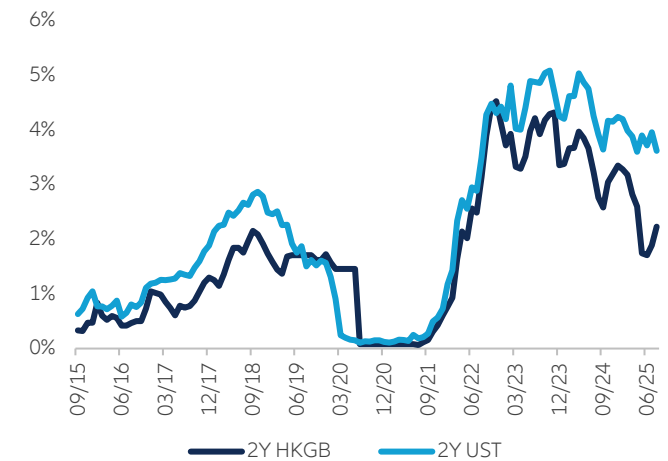
Nonetheless, while rates have declined over this year, absolute levels remain elevated by historical standards. We therefore, favor locking in income with high-quality bonds with flexible duration positioning This allows us to capture the attractive yield carry while leaving flexibility to reposition our portfolios if policy path diverges from our expectations.

**Fed Easing Paves The Way for Lower Interest Rates in Hong Kong**

**Further Fed rate cuts expected to lead the way for HK rates**  
US Federal Reserve (Fed) Funds Rate



**Hong Kong rates are likely to follow in line with the US**  
2-year Hong Kong Government Bond vs 2-year US Treasury yield



Source: Bloomberg, Allianz Global Investors, as of September 2025. The information above is provided only for illustrative purposes. It should not be considered a recommendation to purchase or sell any particular security or strategy or an investment advice. Past performance, or any prediction, projection or forecast, is not indicative of future performance. There is no guarantee that these investment strategies and processes will be effective under all market conditions and investors should evaluate their ability to invest for a long-term based on their individual risk profile especially during periods of downturn in the market.

**Question 3: Rate cuts are giving bonds a nice tailwind, but news headlines, policy unpredictability keep rattling markets. What’s then the playbook for investors to stay invested in fixed income while keeping downside risks in check?**

Despite all the headline noise, both bond and equity markets have generally performed well year-to-date, with equities generally outperforming bonds despite global investment grade bonds delivering high single digit returns.

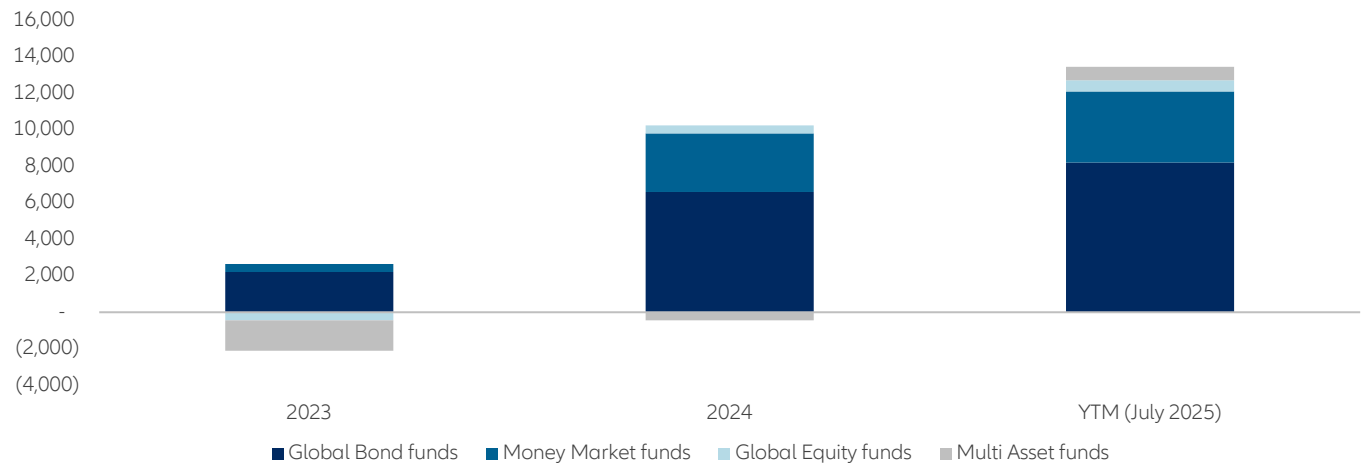
Contrary to market performance, investment flows however continue to show positive tilt towards lower volatility assets. Money market and bond funds have been attracting persistent inflows in Hong Kong, with the latest SFC–HKMA survey report<sup>2</sup> for 2024 highlighting the strong share of market by money market strategies and debt securities. This suggests that many investors are preferring to keep a core allocation to lower volatility assets, even amid strong equity markets. While elevated global uncertainty is likely to have driven this allocation preference over the near term, domestic demographics is expected to reinforce this trend. As Hong Kong’s population ages, the demand for income-oriented, low-volatility strategies is likely to remain strong, supporting the structural appeal for HKD bonds.

<sup>2</sup> Source: HKMA, as at 4 September 2025.

**Bond and Money Market Strategies Account for Larger Share of Market**

**Hong Kong Investment Funds Association**

Fund inflows (USDm)



Source: Hong Kong Investment Funds Association, Allianz Global Investors, as of July 2025. The information above is provided only for illustrative purposes. It should not be considered a recommendation to purchase or sell any particular security or strategy or an investment advice. Past performance, or any prediction, projection or forecast, is not indicative of future performance. There is no guarantee that these investment strategies and processes will be effective under all market conditions and investors should evaluate their ability to invest for a long-term based on their individual risk profile especially during periods of downturn in the market.

**Question 4: Silver Bond is a very hot topic recently with ageing population, offering 3.85% yield and higher than deposits. However, only people age 60 or above can subscribe and allocation is not much. So for HK investors looking for dependable income with lower volatility, is there other option?**

Silver Bonds appeals to many investors, but supply is capped and eligibility is limited. Considering the access to Silver Bonds are constrained, high-quality HKD bonds can be considered an attractive investment alternative for HKD-based investors.

Historically, investment-grade HKD bonds have exhibited lower volatility than equities, as well as other fixed income markets, including global investment grade bonds and US Treasuries. In periods of market stress, HKD bonds have also typically shown smaller drawdowns. The resilience of HKD-bonds makes them attractive for investors seeking consistent income with low volatility.

### HKD Bonds Exhibits Lower Volatility

	HKD Bond	Gbl IG corps	UST	Gbl equities	US equities	HK equities
1Y	2.5%	5.3%	4.5%	10.6%	11.9%	22.2%
3Y	4.4%	8.6%	6.2%	14.4%	14.9%	28.1%
5Y	4.2%	8.1%	5.6%	15.7%	16.0%	24.0%
10Y	3.6%	7.1%	4.9%	15.1%	15.4%	21.0%

Source: Bloomberg, Allianz Global Investors, as of September 2025. HKD Bond represented by the Markit iBoxx Asian Local Bond Index Hong Kong. Global Investment Grade Corporate index (Gbl IG Corps) represented by the Bloomberg Global Aggregate Corporate Index. US Treasuries (UST) represented by the Bloomberg U.S. Treasury Index. Gbl equities represented by the MSCI World Index. US equities represented by the S&P 500 Index. HK Equities represented by the Hang Seng Index. The information above is provided only for illustrative purposes. It should not be considered a recommendation to purchase or sell any particular security or strategy or an investment advice. Past performance, or any prediction, projection or forecast, is not indicative of future performance. There is no guarantee that these investment strategies and processes will be effective under all market conditions and investors should evaluate their ability to invest for a long-term based on their individual risk profile especially during periods of downturn in the market.

### With Resilience During Volatile Markets

#### With lower drawdowns during bouts of market volatility

Maximum drawdown during market events



Source: Bloomberg, Allianz Global Investors, as of September 2025. HKD Bond represented by the Markit iBoxx Asian Local Bond Index Hong Kong. Global Investment Grade Corporate index (Gbl Agg (IG) – Corp/Global IG Corps) represented by the Bloomberg Global Aggregate Corporate Index. US Treasuries represented by the Bloomberg U.S. Treasury Index. HK Equities represented by the Hang Seng Index. The information above is provided only for illustrative purposes. It should not be considered a recommendation to purchase or sell any particular security or strategy or an investment advice. Past performance, or any prediction, projection or forecast, is not indicative of future performance. There is no guarantee that these investment strategies and processes will be effective under all market conditions and investors should evaluate their ability to invest for a long-term based on their individual risk profile especially during periods of downturn in the market.

**Question 5: The HK economy is on an improving path – in fact, the latest GDP figures was above market expectations – Do you foresee this steady macro backdrop for the economy can be sustained despite some of the headwinds from geopolitics and domestic factors?**

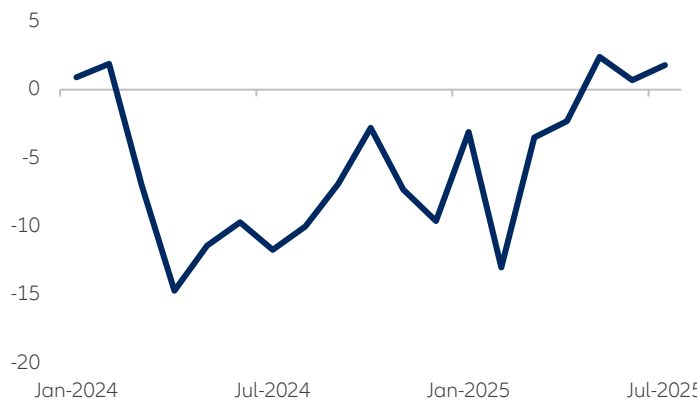
Hong Kong’s Q2 2025 gross domestic product (GDP) rose 3.1% year-on-year (yoy), marking the 10th straight quarter of economic expansion, driven by strong exports which were helped by tariff-related front-loading, as well as a parallel rebound in domestic demand. While the temporary boost from front-loading should fade, other growth drivers including services exports, recovering tourism traffic, and steadier consumption remain supportive. Domestic demand is seeing recovery, with retail sales improving since May. As such, we expect the Hong Kong economy to sustain moderate growth momentum, though the mix of growth drivers is expected to evolve.

Concurrently, near term financial conditions are also favorable. Strong year-to-date equity market performance should bolster the “wealth effect” supporting consumer confidence and spending. Coupled with the supportive macro backdrop and its’ highly-rated long term sovereign ratings (S&P AA+, Moody’s Aa3), Hong Kong and HKD bonds will continue to have a strong investment appeal for both domestic and international investors alike.

**Hong Kong Growth Remains On Steady Path**

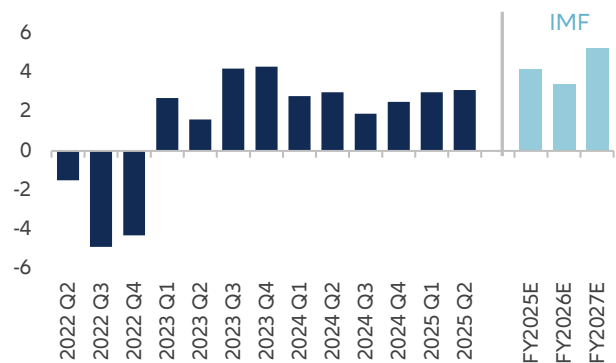
**Retail sales improved since May 2025**

Hong Kong retail sales value (year-on-year)



**Growth still on positive momentum**

Hong Kong GDP (Nominal) (year-on-year)



Source: Bloomberg, Census and Statistics Department Hong Kong, International Monetary Fund (IMF), Allianz Global Investors, as of August 2025. The information above is provided only for illustrative purposes. It should not be considered a recommendation to purchase or sell any particular security or strategy or an investment advice. Past performance, or any prediction, projection or forecast, is not indicative of future performance. There is no guarantee that these investment strategies and processes will be effective under all market conditions and investors should evaluate their ability to invest for a long-term based on their individual risk profile especially during periods of downturn in the market.

**Question 6: At the macro level, things are looking up. But HK property has been back in the headlines this year with a well-known developer coming under bond repayment pressure. Should investors worry about a China-style meltdown in the HK, or are the risks more contained?**

The Hong Kong property market has weathered multiple market downturns. The worst, during the Asian Financial Crisis (1997-2003), when home prices fell by about 70%. Yet, over that period, large high-quality property developers avoided wide-spread credit distress. By contrast, the current property downturn is materially milder, with home prices only about 30% below their 2021 price peaks. At the same time, the Hong Kong banking system remains stable and well-capitalised, with no meaningful signs of mortgage stress. Taken together, a China-style real estate meltdown looks unlikely.

Looking ahead, there are signs of stabilisation in the property market heading into 2026. Primary home transactions have posted double-digit gains and prices have also risen modestly year-to-date. With the Fed in an easing cycle

and the HKMA expected to follow in tandem, lower HKD interest rates should offer further relief to housing demand and financing conditions.

At the issuer level, well-rated blue-chip HKD property developers continue to run prudent balance sheets and maintain strong funding relationships, supported by steady rental cash flows, deep bank lines, and staged project pipelines, underpinning stable credit fundamentals. Credit stress is concentrated in a handful of highly leveraged developers that rely more on wholesale bank funding than on the HKD bond market. We expect continued headline risk at this stressed end of the market, thereby increasing the divergence between weaker credits versus high-quality IG names, which will remain our investment focus for our low volatility, income-focused income strategies.

### Quality Hong Kong Developers Stay Resilient Amid Headwinds

#### Hong Kong property prices (%)



Source: Centaline, J.P. Morgan, Allianz Global Investors, as of August 2025. The information above is provided only for illustrative purposes. It should not be considered a recommendation to purchase or sell any particular security or strategy or an investment advice. Past performance, or any prediction, projection or forecast, is not indicative of future performance. There is no guarantee that these investment strategies and processes will be effective under all market conditions and investors should evaluate their ability to invest for a long-term based on their individual risk profile especially during periods of downturn in the market.

### Question 7: Apart from property, where do you see opportunities ?

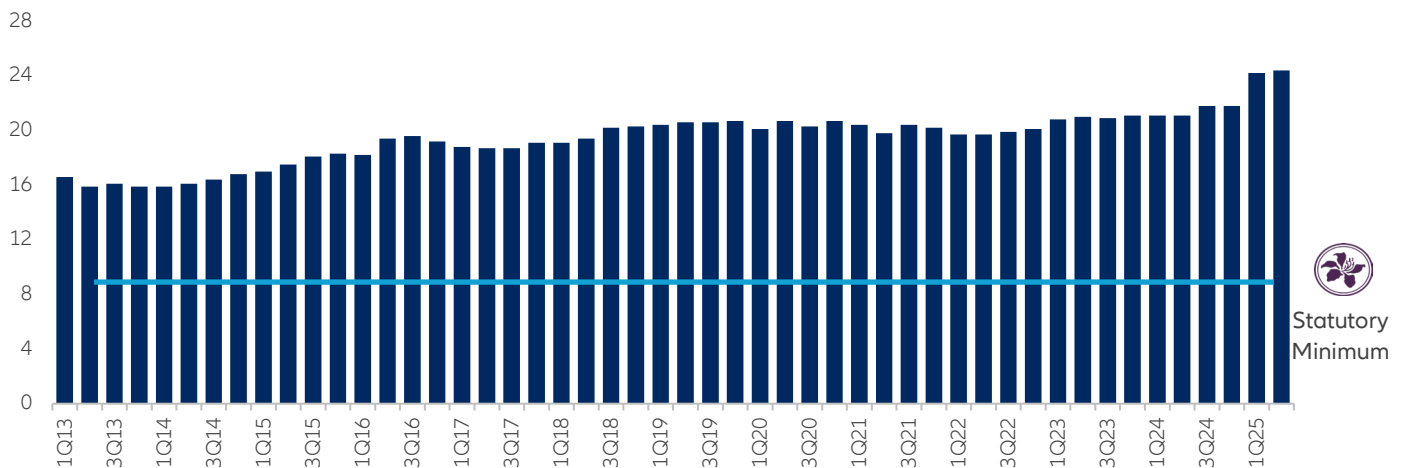
Outside of the real estate sector, we prefer high-quality financials, specifically the major Australian and New Zealand banks, as well as core bank players in the domestic Hong Kong market.

For Australia and New Zealand, the bank majors are rated among one of the strongest globally, with consistently solid long-term credit ratings. Their robust capital and asset quality, combined with strict regulatory oversight, underpin the stability and relatively low price volatility for their bonds.

In Hong Kong, the major domestic banks also similarly benefit from strong capital positions and solid asset quality. The banking system remains well capitalised, with ample capacity to absorb any potential moderate housing-related shocks. The HKMA's recent stability assessments also reinforce this view – domestic banks hold ample capital to absorb property sector risks. Mortgage delinquencies remain very low, thus limiting the transmission of property-market volatility to bank balance sheets. Even if some highly leveraged developers stumble, systemic risk remains contained.

**Hong Kong Banks are Well-Regulated and Well-Capitalised**

Capital adequacy ratio (%)



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