

# Allianz

## Asia Pacific Income\*

### Monthly commentary

- The Fund aims at long-term capital growth and income by investing in Asia-Pacific equity and bond markets.
- The Fund is exposed to significant risks of investment/general market, company-specific, interest rate, creditworthiness/credit rating/downgrading, default, valuation, sovereign debt, volatility and liquidity, country and region, emerging market, asset allocation and currency.
- The Fund may invest in high-yield (non-investment grade and unrated) investments which may subject to higher risks, such as volatility, loss of principal and interest, creditworthiness and downgrading, default, interest rate, general market and liquidity risks and therefore may adversely impact the net asset value of the Fund.
- The Fund may invest in financial derivative instruments ("FDI") which may expose to higher leverage, counterparty, liquidity, valuation, volatility, market and over the counter transaction risks. The Fund's net derivative exposure may be up to 50% of the Fund's net asset value.
- This investment may involve risks that could result in loss of part or entire amount of investors' investment.
- In making investment decisions, investors should not rely solely on this material.

**Note:** Dividend payments may, at the sole discretion of the Investment Manager, be made out of the Fund's capital or effectively out of the Fund's capital which represents a return or withdrawal of part of the amount investors originally invested and/or capital gains attributable to the original investment. This may result in an immediate decrease in the NAV per share and the capital of the Fund available for investment in the future and capital growth may be reduced, in particular for hedged share classes for which the distribution amount and NAV of any hedged share classes (HSC) may be adversely affected by differences in the interests rates of the reference currency of the HSC and the base currency of the Fund.

### What Happened in May

Asia ex China equities delivered strong returns in May, with many Asian currencies appreciating significantly against the US dollar over the month. The tech-heavy markets of Taiwan and Korea led the way, buoyed both by a recovery in global tech sentiment as well as currency gains. ASEAN equities also rallied, with Indonesia leading the way in a strong month for net foreign inflows. Indian equities finished the month moderately higher. Investor sentiment was boosted by a number of positive developments that included a 'landmark' free trade agreement with the UK, a strong gross domestic product (GDP) growth print of 7.4% year on year in Q1 2025 (up from 6.4% in the previous quarter), continued foreign investor inflows, and easing inflation data.

For fixed income, market sentiment continued to recover from the sell off post "Liberation Day" on the back of the positive development on trade talks. As of end-May, both Investment Grade and High Yield credits were already trading tighter than a month ago. On the other hand, US treasury yield rose in May with investors worried about higher budget deficit in the US would result in heavy bond issuance from the US Government. In terms of performance, Asian credit (JACI Composite) was up 0.4% in May. Investment Grade (IG) credits returned 0.1%, with spread tightening and carry contributing 1.0%, while interest rate detracted -0.9%. High Yield (HY) credits was up 1.9%, as the positive spread return of 2.3% more than offset the negative interest rate return of -0.4%.

## Fund Performance

The fund return was positive in USD terms in May.

In the equity portfolio, the top contributor was chipmaker Taiwan Semiconductor Manufacturing (TSMC). The share price rallied after the company announced plans to ramp up its European expansion with a new chip-design hub in Munich, reinforcing the market confidence that AI demand remains resilient.

On the fixed income side, both IG and HY contributed positively to return. Most of the returns from IG bonds came from spread tightening as US Treasury yields rose. Carry continues to contribute positively to returns.

## Portfolio Review

The top geographical exposures across the portfolio are in India, Korea, and Taiwan.

In the equity portfolio, key transactions over the month were focused in Korea. We initiated industrials positions as we expect the companies to benefit from the government's renewed focus on capital market reform and efforts to eliminate the "Korea Discount". We also added further to selective cosmetic positions.

Within the fixed income sleeve, the main activities revolved around relative value opportunities, as we switched out of some lower yielding bonds into yielding bonds of similar ratings. We also participated in some new issues which offer good new issuance premium. On portfolio allocation, we maintained overweight in IG over HY allocations.

## Outlook and strategy

Overall, we are quite cautious on the near-term outlook for regional equities. Global trade developments, especially the ongoing decoupling of the US and China, are likely to result in a weaker growth outlook. As well as putting pressure on corporate earnings, the visibility of growth is also reduced with some companies declining to provide their usual quarterly guidance. Offsetting this challenging macro environment to some extent is the ability of many countries to implement easier monetary and fiscal measures. In China, we think there will be more decisive policy changes including the government stepping up support for asset prices, not just in equities but in the crucial housing market as well. Across much of the region, central banks also have some flexibility to cut interest rates, especially if the US dollar continues to weaken. India is a more domestic demand driven economy and is correspondingly less exposed to US tariff risk.

On the fixed income side, despite some positive developments on trade talks in the past two months, macro sentiment is likely to continue to be volatile in the near term given unpredictable US policies. However, over the medium to longer term, market should refocus on fundamentals and technicals when the dust settled. With most of the Asian countries still on track to deliver policy easing while the expectation on rate cut was pushed back in the US, we continue to expect Asia to lead the growth in 2025. Fundamental of Asian corporates remained solid with latest earnings showing evidence of stable to improving profitability and decreasing leverage. Widening interest rate gap between Asian countries and the US should keep dollar bond issuance from Asia issuers on the lower end of market expectation. As a result, we remain constructive on Asia credit with a slight preference of high yield to investment grade and expect carry and security selection to be the key positive contributors to performance.

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Source: Bloomberg, IDS and Allianz Global Investors, as at 31 May 2025 unless otherwise stated.

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\*On 02/02/2024, Allianz Indonesia Equity was renamed to Allianz Asia Pacific Income. There was a material change of the Fund's objectives and investment strategy. The previous performance was achieved under circumstances that no longer apply. Please refer to the offering documents for details. On 09/12/2005, the assets of Dresdner RCM New Tiger Selections – Indonesia were transferred to Allianz Global Investors Selections RCM Indonesia Fund ("Allianz GIS RCM Indonesia Fund"). On 03/10/2008, the assets of Allianz GIS RCM Indonesia Fund were merged into Allianz Global Investors Fund - Allianz Indonesia Equity (formerly named: Allianz RCM Indonesia).

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