

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 September

Asia ex China equities rose September, but market returns were mixed. Overall, sentiment in the region was lifted by the US Federal Reserve's (Fed) first cut in interest rates in more than four years as well as Chinese authorities' announcement of the biggest stimulus package since the pandemic. Taiwanese shares were broadly flat, but South Korean shares lost ground as corporate reforms appeared to stall and bellweather the Korea-based chipmaker and consumer electronics manufacturer delivered results below expectations. Meanwhile, ASEAN markets advanced, benefitting from both Chinese stimulus measures and currency appreciation versus the US dollar, with equities in Thailand and Vietnam rising the most.

On the fixed income side, September was a strong month for Asian credits on the back of the US Fed's front loaded easing cycle that began with a 50bps policy rate cut. Asian credit (JACI composite) delivered 1.2% return in September. Investment Grade (IG) credits returned 1.1%, as favorable US Treasury movements contributing 0.8% and credit spread adding another 0.3%. High Yield (HY) credits delivered 1.8%, with 1.3% coming from credit spread and 0.6% from US Treasury movements.

Fund Performance

The Fund return was positive in USD terms in September.

In the equity portfolio, key contributors came from our ASEAN positions. For example, a top contributor came from the operator of convenience stores in Thailand where tourism recovery has helped to boost store sales.

On the fixed income side, both Investment Grade bonds and High Yield bonds contributed positively to performance. Most of the performance came from the Investment Grade bonds as US Treasury yields declined. Both duration and credit spread contributed positively.

Portfolio Review

In the equity portfolio, there were modest changes to positioning over the quarter. We trimmed some of our technology positions in Korea and Taiwan to take profit after the performance rally year-to-date.

Within the fixed income sleeve, we slightly reduced our high yield exposure. At the same time, we also placed excess cash to Treasury Bills for yield and carry. Other activities revolved around new issuance and risk alignments. We continue to focus on relative value opportunities, switching out of some lower yielding bonds into higher yielding bonds of similar ratings.

Outlook and strategy

We maintain a constructive longer-term view on the regional outlook. The peak of the US rate cycle should provide a supportive overall backdrop, especially if accompanied by a weaker dollar. Overall, valuations generally remain at reasonable levels. In our view, the recent pullback in the technology sector represents a healthy consolidation after the strong rally over the last year, especially in the Taiwan market. India is projected to sustain its position as the fastest-growing economy among emerging market peers, and strong domestic demand is evident through robust economic readings such as PMIs, real credit growth, and tax collections. Across India and ASEAN, growth stories are overall less impacted by geopolitical risks, while the more favorable demographics, rising consumption power, and reordering of supply chains associated with 'China +1' are boosting the growth outlook.

On the fixed income side, the market sentiment continues to be buoyant by the likelihood of a soft-landing scenario for the US economy. We expect most of the returns from Asia credits would likely come from lower rates and yield carry. We like the outlook on Asian High Yield credits given the wider credit spreads and stable to improving fundamental outlook. However, given the strong performance of the asset class, prudent credit selection is increasingly important. On Asian Investment Grade credits, we expect spreads to remain relatively resilient going into year end. We would focus on risk optimization in anticipation of higher volatility due to uncertainty due to upcoming US elections and risk aversion behavior.

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Source: Bloomberg, IDS and Allianz Global Investors, as at 30 September 2024 unless otherwise stated.

*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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