Allianz Asian Multi Income Plus

Monthly commentary

- The Fund aims at long-term capital growth and income by investing in equity and bond markets in Asia Pacific.
- The Fund is exposed to significant risks of investment/general market, interest rate, company-specific, creditworthiness/credit rating/downgrading, default, valuation, sovereign debt, country and region, emerging market, asset allocation, volatility and liquidity, currency (such as exchange controls, in particular RMB), and the adverse impact on RMB share classes due to currency depreciation.
- The Fund may invest in the China A-Shares market directly via the Stock Connect or other foreign access regimes and/or other permitted means and/or indirectly through all eligible instruments and thus is subject to the associated risks (including quota limitation, change in rule and regulations, repatriation of the Fund's monies, trade restrictions, China market volatility and uncertainty, potential clearing and/or settlement difficulties, change in economic, social and political policy in PRC and Mainland China tax risks).
- 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 increase the risk of loss of original investment.
- 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.
- Investing in share class with fixed distribution percentage (Class AMf) is not an alternative to fixed interest paying investment. Investors should note that fixed distribution percentage is not guaranteed. The percentage of distributions paid by these share classes is unrelated to expected or past income or returns of these share classes or the Fund. Distribution will continue even the fund has negative returns and may adversely impact the net asset value of the Fund. Positive distribution yield does not imply positive return.
- 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 December

Asia Pacific equities were broadly lower in December, but overall finished 2024 with positive returns. Bucking the trend, Chinese stocks moved higher in the month, buoyed by further signs that Beijing is taking steps to bolster economic growth. China loosened its monetary policy stance for the first time in 14 years, changing it from "prudent" to "moderately loose."

While stocks in Taiwan rallied modestly, South Korea stocks lost ground as sentiment was knocked by a political crisis when the nation's President tried to impose martial law. Elsewhere, Australian stocks touched a fresh all-time high in early December, but later lost ground, as commodity prices were hit by concerns over global growth. Higher US bond yields and the stronger US dollar pressured other parts of the region. ASEAN markets were broadly lower. India closed the month lower, with economic growth of 5.4% in Q3, signalling a significant slowdown from earlier in the year. Thailand was the weakest market in the region, with Indonesia and the Philippines also recording moderate declines.

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On the fixed income side, US Treasury rates remained volatile as investors were surprised by the hawkish projections from the US Federal Reserve (Fed). Asian credits reported negative returns in December, mainly due to higher US Treasury rates. December was a quiet month for the new issue market in Asia. Net supply remains negative as Asian corporates and sovereigns have ample financing optionality. Overall in 2024, Asian investment grade (IG) credits delivered 4.2% in total return, while Asian high yield (HY) credits delivered a total return of 15.2%, significantly outperforming other HY markets.

Portfolio Review

The Fund return was negative in USD terms in December, but still ended the year with a strong positive return.

In the equity portfolio, the top detractor was a leading diversified Real Estate Investment Trusts (REIT) in Australia, as the stock saw profit taking pressure amid the broader market correction last month. We maintain our positive view on the company as the peaking of the interest rate cycle globally should provide a favourable business backdrop for the company. Despite the pull back last month, the stock remains a top performance contributor to the Fund over the full year of 2024.

On a positive side, key contributions came from our Taiwan technology positions. For example, the top contributor was a chipmaker. We expect that growth momentum for the company should continue to be supported by rising demand for artificial intelligence-related (AI-related) applications, as well as recovery in the personal computer (PC) and smartphone segments.

In terms of portfolio activity for the equity sleeve, over the month we initiated a position in a semiconductor testing board company in Taiwan with business exposure to AI-related orders. On the other hand, we exited select positions in India as sources of funding.

Within the fixed income portfolio, portfolio activity was lighter due to the lower market liquidity during the seasonally quieter December.

Outlook and Strategy

We maintain a constructive longer-term view on the regional outlook. Although bond yields have risen in recent months, in longer term the peak of the US rate cycle should provide a supportive overall backdrop. Overall, valuations generally remain at reasonable levels.

A key market concern since the US elections has been to what extent higher US tariffs, across Asia and especially in China, will become a major risk factor. Our view is that the “shock factor" of a Trump presidency will be somewhat less the second time around, and that China authorities will react with further domestically focused stimulus measures in the event of a major hike in tariffs. This comes in addition to the measures required to address the more structural problems in China, especially related to the property sector as well as the broad-based deflationary pressures.

Across the region, we continue to find a number of attractively-valued structural growth stories in South Asia that are less impacted by geopolitical risks. In particular, the more favourable demographics and rising consumption power is boosting the growth outlook across ASEAN markets and India.

On the fixed income side, primary market activities should pick up after the holiday season and may put pressure on credit spread in the near term, given the tight valuation particularly for IG credits. We continue to like the corporate fundamentals in Asian credits and expect relatively limited impact from potential trade tariffs in 2025, as most of the Asian issuers do not have large direct exposures to the US market. That said, given current tight valuation and the less supportive technicals, we do not see much room for credit spreads to tighten for IG credits and expect most of the return to come from carry moving forward. For HY, although valuation is not as attractive as a year ago, we continue to favour HY in the Asian credit space as valuations look less stretched compared to IG. We also take comfort from the stable to improving fundamental outlook for most of the HY issuers. Nevertheless, prudent credit selection remains the key for outperformance given the idiosyncrasies of Asian HY. All-in yield of Asian credit remains attractive and the stable-to-improving credit fundamentals should keep spread volatility in check. We will continue to take market correction, if any, as opportunities to buy into credits that we have high conviction on.