

# Allianz

## Dynamic Asian High Yield Bond

### Monthly commentary

- The Fund aims at long-term capital growth and income by investing in high yield rated debt securities of Asian bond markets.
- The Fund is exposed to significant risks of investment/general market, interest rate, valuation, sovereign debt, creditworthiness/credit rating/downgrading, default, emerging market, country and region and 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 high-yield (non-investment grade and unrated) investments and convertible bonds 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. Convertibles may also be exposed to risks such as prepayment risk, equity movement and greater volatility than straight bond investments.
- 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

September was a strong month as risk assets outperformed on the back of US Federal Reserve's (Fed) front -loaded easing cycle that began with a 50bps policy rate cut. In Asia, the market rally continued to gather pace, following positive headlines around China policy stimulus and subsequent monetary policy easing from People's Bank of China (PBoC). Asian credit (JACI composite) delivered 1.2% return in September. Year to date, Asian credit delivered 7.1% in total return, driven by a good mix of tighter credit spreads (3.2%), as well as positive contribution for and treasury return (3.8%). Asian investment grade (IG) delivered 5.9% in total return, ahead of JP Morgan US Liquid Index's (JULI's) 5.6% total return slightly. Asian high yield (HY) continued to report outstanding return of 14.8%, significantly outperforming other HY markets.

Asian HY continued to deliver strong returns of 1.8% in the month of September as both Treasury and credit spread movements drove gains, as market sentiments were boosted by policy action by the Fed and Chinese policymakers. Within

HY, China led the gains, followed by Sri Lanka and Pakistan Sovereign, which was driven by their respective idiosyncratic situations.

China Real Estate bonds outperformed strongly, lifted by the Chinese authorities' policy stimulus announcements. Policymakers collectively delivered a comprehensive package of policy measures and stimulus that exceeded market expectations. There were positive spillover effects to China Industrials where bonds also rallied.

In Sovereign HY space, election noise in Sri Lanka drove market volatility higher, though the bond market subsequently ended the month in positive territory. Sri Lanka authorities had secured an agreement in principle (AIP) with the international and local bondholders' group. This reduced concerns about the need to re-negotiate the structure of the current proposal. Newly elected President Anura Kumara Dissanayake (AKD) had also signaled his willingness to be pragmatic and not abandon the International Monetary Fund (IMF) deal. Over in Pakistan, the IMF announced that they have approved a USD 7bn loan for Pakistan under the Extended Fund Facility to support its economy. The initial USD 1bn will be disbursed immediately, with the remaining amount to be released over the next 3 years.

### Portfolio Review

The Fund outperformed its benchmark.

It was a strong month for the Fund, mainly driven by spread compression. China Real Estate was a major contributor to absolute performance as the government unveiled a series of measures to support the economy. Our focus on security selection also contributed well as it was the major driver of active returns.

### Outlook and Strategy

As the Fed begin their rate cutting cycle, these positive sentiments would flow into the bond markets. Although Fed easing cycle is widely anticipated, the more aggressive Fed cut suggest that the policy makers are determined to ensure a soft landing and avoid any hard landing scenario. With this soft-landing backdrop, it should be overall positive for credits. One potential source of volatility would be the upcoming US elections. As we proceed closer to the election, rhetoric from both US presidential candidates could possibly lead to knee-jerk reaction to the financial markets. Therefore, we must remain vigilant on this front.

Within Asia, we remain sanguine about Asia credit with all the positive headlines from China. As market sentiment continues to be buoyant and excited by the new policy supports from China, we think that credit spreads can continue to grind tighter. However, we do feel that most of the returns from Asia credits would likely come from lower rates and yield carry, which would still be decent. We continue to favour Asian HY bonds, given the wider credit spreads, as well as stable to improving fundamental outlook. Given the strong performance of the asset class, prudent credit selection is increasingly important for outperformance.

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

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