Allianz Global Investors

# 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

Following the summer lull, the Asia credit market saw a surge in primary activity in September, with over USD 46 billion in new issuances. This influx of supply initially led to a widening of credit spreads, particularly within the investment grade segment. However, investor sentiment remained robust, as evidenced by strong orderbooks across most transactions, which supported a tightening of spreads in the latter half of the month.

On the rates front, US Treasury yields experienced significant volatility. The 10-year yield declined to 4% early in the month, driven by softer labor market data, before rebounding later on the back of stronger-than-expected economic indicators. Notably, Q2 GDP growth was at 3.8%, surpassing consensus expectations of 3.3%. At the September Federal Open Market Committee (FOMC) meeting, the US Federal Reserve (Fed) cut the benchmark interest rate by 25bps as anticipated and signaled two additional cuts in 2025.

The JACI Composite Index posted a solid return of 1.1% for the month, with 0.8% attributed to rates and 0.3% to spread compression and carry. Investment Grade (IG) credits delivered comparable performance, while High Yield (HY) outperformed with a 1.8% return, supported by a 31bps tightening in spreads. Asia Pacific USD credit issuance rebounded strongly, with 84 deals totaling USD 46.6 billion. Japan, China, and Korea dominated the primary market, accounting for over 58% of the total volume. While the majority of new issues were Investment Grade, there was a noticeable uptick in High Yield activity.

### Asian High Yield (HY)

Asia HY spreads tightened by 31bps, outperforming both US HY (-1bps) and Global HY (flat). The segment returned 1.8% in September, with gains largely driven by spread compression and carry. Hong Kong real estate led the rally, with New World Development contributing significantly to performance. After initially denying reports of a capital injection from the Cheng family, the company announced a substantial loan facility of up to HKD 5.9 billion from Deutsche Bank, secured against its flagship Victoria Dockside complex.

This development alleviated near-term liquidity concerns. Despite reporting weak H2 2025 results later in the month, bond prices remained resilient. In China's property sector, Longfor continued to perform well following a solid H1 2024 earnings release. In contrast, Vanke underperformed after reportedly missing a quarterly interest payment on an onshore loan due 19 September 2025. The company is in discussions with banks and insurers to negotiate lower interest rates. Although it was later reported that creditor banks agreed to reduce Vanke's onshore loan rates, the news failed to reverse the negative sentiment around its bonds.

## Portfolio Review

The Fund portfolio had another strong month, returning 1.78% gross and in line with benchmark performance. Key contributors were our overweight allocation to the Indian Renewables sector which did well and also our overweight allocation to Japan. The main drag that mitigated the positive contributors was our underweight to the Hong Kong Real Estate sector that enjoyed a rebound despite lingering concerns on one of the key issuers in the sector. The portfolio is focusing on higher interest carry for now with long-term performance expected to be driven by security selection and allocation.

## Outlook and Strategy

Following a robust September, primary issuance in the Asia credit market is expected to remain active over the coming two months. However, this continued supply is unlikely to prompt significant repricing, given the strong investor demand observed last month. Looking ahead, fiscal and monetary policies across major economies are anticipated to remain accommodative, providing a supportive backdrop for risk assets. Credit fundamentals in Asia remain sound, with issuers generally maintaining sufficient buffers to absorb potential shocks. Technical conditions also remain favorable, underpinned by a relatively constrained supply environment. Market sentiment is expected to stay constructive, particularly if the Federal Reserve proceeds with an additional rate cut in October. We retain a positive view on Asia credit despite current tight spread levels, with a modest preference for high yield over investment grade. In this environment, carry and prudent security selection will be key drivers of performance.

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Source: from Bloomberg, IDS and Allianz Global Investors and as at 30 September 2025 unless otherwise stated.

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