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 February

In February, Asian credit managed to deliver a total return of 1.7%, primarily driven by a rally in US Treasuries in the second half of the month while credit spreads continued to tighten. Asian high yield (HY) performed strongly with 33bps of spread compression, leading to a 2.5% total return for the month.

Year to date, Asian credit returned 2.2%, underpinned by a rally in US Treasuries and continuous spread compression. Asia HY continues to outperform IG in both total return and spread return terms.

New issue market was active with 55 deals and US$22bn printed. Issuer profiles were diverse and overall debut performances were decent. While majority of the new issues came from investment grade credits, there has been pickup in new issues from high yield names, even high-yield Chinese property names, a first in years.

Asian High Yield (HY)

Asia High Yield (HY) staged a turnaround in February after a sleepy January, returning 2.5%, and outperforming Global High Yield and US High Yield. All sectors were humming along while China and Hong Kong led the performance, as sentiments were boosted by buoyant equity performance. Within China and Hong Kong, real estate performed the best, underpinned by increasing signs of bottoming out in the property market, as well as the government's swift response to a struggling major Chinese real estate developer to avoid another leg down in confidence should the developer go under. In terms of sales performance, secondary property sales were up 33% in 2 months, driven by strong sales performance in Tier 1 cities, which increased by 46%. In addition, Tier 2 and Tier 3 cities sales also rose by 29% and 14% respectively. In the primary market, 35 listed property names delivered 4% year-on-year sales growth in February as well.

A further encouraging development this month is the successful new issue and solid debut performance by a Chinese developer, which was the first since the real estate crisis. This could open doors for perceived stronger developers to refinance debt in the public market, which is a positive development for sentiments towards the sector.

We remain constructive on Asian high-yield, thanks to an improving credit cycle, a much more diversified market profile, decent yield pickup over other high-yield markets, and gradually improving sentiment and flows towards the asset class.

Portfolio Review

The Fund returned outperformed the benchmark returns for the month.

The Fund's performance was driven by spread compression and our security selection across most countries and sectors. We remain long carry in the strategy and expect security selection to be the key positive contributor.

Outlook and Strategy

While macro narratives tend to flip week by week, particularly under an unpredictable Trump administration, fundamentally speaking, US growth remains reasonably resilient while moderating from high levels. In addition, recent high-frequency data in China have looked a little stronger as the country starts to roll out policy support. Regional growth data have also picked up in recent months. It is pretty much safe to say that APAC can still lead global growth in 2025 based on current growth trends. This is an encouraging macro backdrop for Asia to continue to perform.

The latest corporate earnings have shown evidence of stable to improving profitability and decreasing leverage with businesses right-sizing across most sectors in the Asian credit space. Therefore, despite tight spreads, solid credit fundamentals and strong technicals should continue to support Asian credit valuation. With attractive all-in yields, we remain constructive on Asia credit with a slight preference for high yield over investment grade and expect carry and security selection to be the key positive contributors to performance.

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