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 July

Amid resilient economic data from both sides of the Pacific, no further escalation in the Iranian conflict, and trade deals being reached across Asia toward the end of the month, sentiment was positive for the month of July. In the US, Non-Farm Payrolls continue to be stronger than expected at 147k against expectations of 106k, while the University of Michigan Consumer Sentiment Index rose to 61.8 despite a slight uptick in the Consumer Price Index to 2.7% year-over-year. In Asia, China's 2Q Gross Domestic Product (GDP) rose by a better-than-expected 5.2% against consensus expectations of 5.1%. Both the National Bureau of Statistics (NBS) and Caixin Manufacturing Purchasing Managers Indexes (PMIs) for June were also stronger than forecast due to the short-term de-escalation in the US-China tariff war. The market was also looking for further large stimulus measures to be announced at the China Politburo meeting at the end of July but was disappointed when nothing specific was announced. With the positive macroeconomic backdrop, Asian credit markets were in a risk-seeking mode. While credit spreads are fairly valued, absolute yields are still attractive. Asian credits were further supported by resilient fundamentals, a positive credit rating upgrade/downgrade trajectory, decreasing default rates, and bond supply that was lower than maturities. With stable to compressing credit spreads, most of the market volatility was driven by US treasuries.

Asian credit (JACI Composite) was up 0.6% in July. Investment Grade (IG) credits returned 0.5%, with spread and interest rate contributing 0.6% and -0.1% respectively. High Yield (HY) credits were up 1.4% with most of the return coming from spread return.

New issuance was very active again in July with a total issue size of USD 39 billion, similar to the previous month. With close to USD 44 billion of maturities, we had a negative net supply in July. Most of the new issuances were rated Investment Grade while Japan stood out with a few jumbo-sized new issues. On a year-to-date basis, the cumulative supply from new issuances is close to maturities.

Asian High Yield (HY)

Asian HY had another strong month of performance where returns were driven by both spread compression and carry. Given the supportive macro backdrop, sovereigns led by Pakistan and Sri Lanka performed well. The non-investment grade Macau gaming sector also performed well with the strongest Gross Gaming Revenue achieved since COVID in July. At the issuer level, a Chinese cement producer rose strongly as it recorded stronger than expected profits and outlined plans to refinance a maturing bond while a BB rated Hong Kong supply chain manager announced a partial tender on their perpetuals and issued an attractively priced new HY bond that performed well in the secondary. There were no meaningful negative contributors at the country/sector level for the month of July.

Portfolio Review

The Fund outperformed the benchmark in July. Both allocation and selection contributed positively to active performance. Our underweight in China Financials together with our overweight in China Diversified credits were the main drivers for positive allocation while our selection within Macau Gaming and higher quality China Real Estate issuers were the primary contributors for selection. We continue to have higher interest carry in the strategy compared to the benchmark and expect security selection to be the key long-term positive contributor.

Outlook and Strategy

There has been a slew of trade deals being struck with the US toward the end of July. This has reduced tariffs for most countries to within 15-20%, which is a level that markets feel consumers, companies, and the economy can absorb. With less meaningful differences in tariffs between the export-dependent Asian economies, there would not be a material change in the comparative advantage of production for each country. Although tariffs are disruptive to global trade, this outcome is less disruptive than initially feared. The resolution of tariffs has removed a key risk weighing on financial markets since the start of the year, and credit markets are likely to continue grinding higher as focus shifts towards the impending policy rate cuts in the US. Together with robust fundamentals, high absolute yields, and low new bond supply, we remain constructive on Asian credit markets.

Source: from Bloomberg, IDS and Allianz Global Investors and as at 31 July 2025 unless otherwise stated.