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 December

December was seasonally quiet, with the JACI Composite up 0.30%, driven by high yield (HY) (+0.90%) while investment grade (IG) posted a modest +0.21%. Markets traded largely sideways, though a late-month Santa Claus rally supported sentiment. This was partially offset by geopolitical tensions, including protests in Iran and Chinese military activity near the Taiwan Strait. US Treasury yields steepened, with the 10-year rising 10bps to 4.17% and the 2-year dipping 2bps to 3.47%. Short-term yields were anchored by expectations of another US Federal Reserve (Fed) rate cut, while longer-dated yields were pressured by uncertainty around President Trump's next Fed chair nomination. Given higher Treasury yields, JACI Composite performance was supported mainly by spread tightening. The JACI Composite returned 0.30%, with –0.3% from rates and +0.6% from spreads. IG was up 0.21% as tighter spreads were offset by long-end yield increases. HY outperformed at 0.90%, supported by a 65bps tightening to 414bps and its short-duration profile, as the very front end of the curve outperformed. This resilience sets a constructive tone entering 2026. Asia Pacific USD supply slowed in December, with 18 deals totaling USD 111.12 billion.

Asian High Yield (HY)

China's real estate sector rebounded after a flagship Chinese property developer November's -driven contagion, with investors turning more selective and rotating into oversold names such as a Chinese property developer and a global investor and operator in logistics real estate, digital infrastructure, and renewable energy. The former company saw CNY 994m of its CNY 1bn 4.4% 2028 onshore bond put back to the company and the firm will not reissue the amount. Default risk remains low, supported by a strong balance sheet, recurring RMB 8–9bn in earnings, and consistently transparent investor engagement. The company would also benefit from any material housing-policy easing. The latter company, meanwhile, has selected banks for a potential Hong Kong initial public offering (IPO) as early as 1H26. A successful listing would be credit-positive, bringing fresh capital and improving disclosure. Its RMB 9.4bn (the company jointly asset-backed securities (ABS) with one of the largest Chinese investment banks) has also received feedback from the Shanghai Stock Exchange. In contrast, one of China's largest real estate developers continued to lag as it seeks to extend its third-tranche onshore corporate bonds. S&P Global downgraded a large Chinese property developer to -selective default (SD) following its grace-period extension. Pakistan sovereigns outperformed on stronger reserves, record sukuk issuance, and continued multilateral support. Foreign exchange (FX) reserves rose USD 4.2bn in 2025 to USD 15.9bn. The World Bank approved USD 700m for fiscal reforms aligned with the International Monetary Fund (IMF) program, and a regional multilateral development bank provided USD 540m for state-owned enterprise (SOE) restructuring, including a state-owned infrastructure agency.

Portfolio Review

The Fund outperformed the benchmark. Performance was supported by a rebound in the China complex as the sector recovered from the previous month's correction. Our India exposure added further value, helped by the positive rating outlook on Biocon*. Conversely, holdings in Sri Lanka detracted as Cyclone Ditwah imposed a heavy toll on the country. As we begin the new year, security selection remains key, with increasing relative-value opportunities emerging in the primary market.

Outlook and Strategy

As we move through December and into 2026, we remain constructive on Asia credit. While spreads are tight, overall yields remain attractive, and there is little evidence of excessive risk taking or broad deterioration in fundamentals. Pro cyclical drivers, most notably the Fed's pivot toward easing would continue to support a more favorable backdrop, and near-term sentiment should remain positive. Risk appetite was generally stable over the month and investor positioning normalized towards neutral levels. Corporate fundamentals remain broadly stable, external risks are easing, and technicals continue to provide support. Our base case is for steady performance in Asia credit, underpinned by constructive sentiment and stable spreads. We maintain a preference for HY over IG for carry.

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

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