

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 April

April was a volatile month for all asset classes as the US administration unleashed higher than expected tariffs on the world. While attention was initially focused on Canada and Mexico, it later spread to all nations and China in particular bore the highest rates. The US administration later granted a 90 day reprieve on higher tariffs to all nations except China and this provided support for risk assets. China retaliated with tariffs on imports from the US and injected RMB500b of capital in its four largest banks to stabilise sentiment. Towards the end of the month, there were tentative signs of a potential détente between the US and China as both sides expressed willingness to discuss the easing of trade tensions. Despite the weakening in investor sentiment for the month, economic data released in April, for example China's Q1 GDP Growth at 5.4% vs expectations of 5.2%, was generally stronger than expected due to front loading of orders ahead of "Liberation Day" in April.

Asian credit (J.P. Morgan Asia Credit Index - Composite) was flat for the month of April. High Yield (HY) credits corrected by -1.7%, as the positive interest rate return of 0.4% was not sufficient to offset the negative spread return of -2.1%. Following the elevated issuance in March ahead of “Liberation Day” in April, issuance for April was a more muted USD 25 billion. In conjunction with USD 31 billion of maturities, April was a month of negative net supply. Most of the new issuance was from the Financials sector and rated Investment Grade. Primary demand was high, and most issues closed above issuance levels.

Asian High Yield (HY)

Asia HY spreads widened in April although the market staged a strong rebound and saw opportunistic buying from the second week of the month. Sri Lanka was the weakest performer as the Macro-Linked Bonds saw a pullback as investors factored in the potential economic impact of tariffs on Sri Lanka’s economy. Meanwhile, Pakistan was also weaker due to a flare up in border tensions with India when tourists were allegedly killed by Pakistan-based militants in the Kashmir region.

Despite China being subject to the highest tariffs, Chinese issuers in the HY space were one of the strongest performers in April as the issuers were more domestic focused and not directly affected by the tariffs. There was also less technical selling pressure on these bonds as there are fewer short-term holders of the bonds. Well capitalised Thai Financials and the domestically focused Macau gaming sector were also more insulated from the correction.

Portfolio Review

The Fund returned relative to benchmark returns for the month.

The Fund’s outperformance was primarily driven by our positive security selection in India and Sri Lanka, which compensated for a negative allocation effect from Hong Kong and China. Our use of cash to control the beta of the portfolio also contributed positively to performance. We remain long carry in the strategy and expect security selection to be the key long term positive contributor. Portfolio turnover has been low as we maintain our defensive positioning and look for opportunities to increase our exposure again.

Outlook and Strategy

Macro sentiment is likely to continue to be volatile driven by unpredictable US policies. While economic data has generally been stronger than expected thus far, upcoming economic releases together with earnings guidance over the next few months should bear close scrutiny as the market looks for signs of slowdown and inflation driven by the trade tariffs. In trade dependent Asia, many countries have begun bilateral negotiations with the US to reduce tariffs while China has been proactive in rolling out policy support. As the trade tariffs are global and not specific to Asia, we continue to expect Asia to lead growth in 2025.

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. Spreads are more attractive now while 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 to high yield over investment grade and expect carry and security selection to be the key positive contributors to performance.

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

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