

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 November

The decisive outcome of the US elections has ended a major source of uncertainty, while the headlines of the potential members of the Trump 2.0 team and the perceived potential policies from the new administration served and will continue to serve as new sources of uncertainty and hence volatility. Nonetheless, both October and November Asian credit market performance was a testimony of Asian credit's resilience to rates volatility and global macro headlines and its tendency to have smaller correlation with other global credit markets.

Following the US election, China's National People's Congress (NPC) didn't bring a fiscal bazooka while it has delivered and reiterated what previous leadership meetings have already committed to do. In fact, the total size of the local government debt swap was announced to be RMB10 trillion, higher than the expected 3-year and RMB6 trillion swap package reported by Reuters leading to the NPC. There have also been certain early signs of economic stabilization after end-September announcements. An interesting development was the USD2 billion newly issued China USD sovereign bond,

where aside from technical and tax-related factors, the stellar secondary performance of the bonds nonetheless demonstrates strong demand for high-quality China risks by Chinese banks and investors. As the Chinese government is committed to reset growth expectations with the latest policies, high-quality Chinese assets such as China sovereign bonds may well serve as a safe haven amid future uncertainties and volatility unleashed by Trump's victory in the US presidential election.

After a strong October, Asian high yield gave up some performance mainly driven by idiosyncrasies rather than beta as performance dispersion among different sectors were wide in November. Sri Lanka turned out to be the best performing bonds while India and Hong Kong were at the bottom. Company specific negative headlines dominated the Indian credit segment, bringing some spread widening to the Indian space, which has been trading at very tight levels with extremely low spread vol throughout the year.

Portfolio Review

The Fund's performance drag was mainly driven by idiosyncratic headlines of our positions in Hong Kong property. Company specific events in the Indian credit segment also weighed on the Fund's performance.

Outlook and Strategy

Asia Pacific region's growth resilience will be put to test in 2025 in view of the uncertainties presented by Trump's re-election. Major Asian economies are better prepared to weather through with improving current accounts, higher FX reserves and a stronger domestic economy vs the last round. Market volatility is set to pick up in 2025, and we think such volatility will mainly be expressed via local rates and FX, less so in credit. We take comfort in the healthy corporate fundamental backdrop in Asian credits and supportive technicals. Most Asian issuers don't have large direct exposures to the U.S. market and stronger sovereign fundamentals across the board vs eight years ago provides an additional buffer.

Higher all-in yield of Asian credit, moderate supply and stable-to-improving credit fundamentals have kept spread volatility in check and will adequately support the market into year end. Idiosyncratic headlines may bring reassessment of risk premium in a sector or country of risk, particularly given tight valuation, but we are not worried about default risk in Asian credit given favorable credit cycle. We will continue to take market correction, if any, as opportunities to buy into the credits that we have high conviction on.

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Source: from Bloomberg, IDS and Allianz Global Investors and as at 30 November 2024 unless otherwise stated.

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