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 May

In May, market sentiment continued to recover from the sell off post "Liberation Day" on the back of the positive development on trade talks. On 12th May, the US and China issued a joint statement to significantly slash tariffs imposed on each other. China also committed to suspend or remove the non-tariff countermeasures against the US that were put in place since Liberation Day. Within Asia, we had India and Pakistan reaching a ceasefire on 10th May, ending the most intense conflict in 25 years between the two nations. With all these positive developments, Asia credit spreads have fully recovered from the widening post Liberation Day. As of end-May, High Yield (HY) credits were already trading tighter than a month ago. On the other hand, US Treasury yields rose in May with investors worried that the higher budget deficit in the US would result in heavy bond issuance from the US Government.

Asian credit (J.P. Morgan Asia Credit Index - Composite) was up 0.4% in May. HY credits gained 1.9%, as the positive spread return of 2.3% more than offset the negative interest rate return of -0.4%.

New issuance was USD 25.7 billion in May, up 2.2% from the previous month. With close to USD 31 billion of maturities, May was another month of negative net supply. Sector breakdown was quite even between Financials and Corporates, but issuance still skewed towards IG. Primary demand remained strong and most of the issues closed flat or above issuance levels.

Asian High Yield (HY)

With further de-escalation of Global trade tensions, Asia HY continued to rebound in May with spreads reversing the widening in the previous month. Sovereigns outperformed with both Sri Lanka and Pakistan recovering all their losses since Liberation Day. Easing concerns on Global recession and dollar weakness supported the valuation of Sri Lanka's bonds, particularly for its Macro-Linked Bonds. For Pakistan, bonds rebounded immediately after the ceasefire agreement between India and Pakistan was announced. On the other hand, the weakest performer within Asia HY was New World Development as the company eventually decided not to call back one of their perpetual bonds and allowed the coupon to be reset from 6.15% to more than 10%. The decision to defer the coupon of their perpetual bonds on the last two days of May further added to the weakness of the whole curve.

Portfolio Review

The Fund outperformed relative to benchmark returns for the month.

For the Fund, our higher Beta allocation benefitted the portfolio via the liquid benchmark sectors such as Sovereigns, India Renewables and Macau Gaming as the market rebounded from the correction in April. Most of the active outperformance came from selection, where our high conviction underweight position in a Hong Kong developer contributed strongly to performance, as the issuer's bonds corrected aggressively in April. We remain long carry in the strategy and expect security selection to be the key long term positive contributor.

Outlook and Strategy

Despite some positive developments on trade talks in the past two months, macro sentiment is likely to continue to be volatile in the near term given unpredictable US policies. However, over the medium to longer term, the market should refocus on fundamentals and technicals when the dust settles. With most of the Asian countries still on track to deliver policy easing while the expectations for rate cuts were pushed back in the US, we continue to expect Asia to lead growth in 2025.

Fundamentals of Asian corporates remained solid with their latest earnings showing evidence of stable to improving profitability and decreasing leverage. The widening interest rate gap between Asian countries and the US should keep dollar bond issuance from Asia issuers on the lower end of market expectation. As a result, we remain constructive on Asia credit with a slight preference of high yield to investment grade and expect carry and security selection to be the key positive contributors to performance.

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