

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 March

In March, US Treasury yields were volatile, with 10-year Treasury yields reaching a high of 4.40% before retracing to 4.21%, which is unchanged on a month-on-month basis. US Treasuries eked out modest gains as stronger-than-expected service sector data for March was countered by concerns over the impact of high tariffs. For much of the month, escalating fears of a global trade war and slowing global growth dominated economic news, resulting in widening credit spreads. In Asia, hopes of fresh stimulus measures from China aimed at boosting consumption supported market sentiments. The National People's Congress concluded its week-long annual meeting, during which they announced an annual growth target of "about 5%" and raised the fiscal budget deficit to around 4% of gross domestic product (GDP).

Asian credit (J.P. Morgan Asia Credit Index – Composite) delivered a 0.1% return in March. High Yield (HY) credits were up 0.4%, as the positive interest rate return of 0.6% offset the negative spread return of -0.2%.

On the issuance front, the primary market picked up pace, with an estimated USD 58 billion of new issuance across Asia Pacific credit markets in March as the blackout period came to an end. Some issuers also rushed to price deals ahead of “Liberation Day” on April 2nd. There were some decent pricing discounts to the secondary curves as issuers focused more on certainty of execution and prioritizing issue sizes over pricing. However, the performance of new IG and HY issues was lackluster, reflecting some supply indigestion. Towards the end of the month, new issue spreads recovered slightly as supply slowed.

Asian High Yield (HY)

Although Asia HY spreads widened by 17 basis points in January, the total return was 0.4%. Within HY, the primary drivers of weakness were the Sri Lanka and Pakistan sovereign sectors. In Sri Lanka, comments from the Prime Minister indicated that the government would be restricted in its spending for the next two years as it balances campaign pledges to unwind tax increases and other austerity measures against limits set by the USD 3 billion IMF program. In Pakistan, despite reaching a staff-level agreement with the IMF on a new 28-month arrangement under the Resilience and Sustainability Facility (RSF), the country was mainly affected by a decline in FX reserves by USD 540 million to a six-month low of USD 10.6 billion.

On the other hand, Chinese and Hong Kong real estate sectors outperformed and contributed strongly to performance. This was primarily because the sector had sold off too much in the previous month, leading to a rebound in returns. A positive development in this sector was that a major Hong Kong property developer was in talks to secure HKD 15.6 billion in loans from banks, collateralized by one of its flagship properties. The proceeds would be used to prepay, repay, and buy back existing debt.

Portfolio Review

The Fund returned outperformed the benchmark returns for the month.

The Fund’s performance was mainly driven by strong security selection across various countries and sectors. The strategy continues to focus on long carry, with security selection expected to remain a key driver of performance. Portfolio turnover has been low as we maintain our defensive positioning and look for opportunities to increase our exposure again.

Outlook and Strategy

While macro narratives tend to flip week by week, particularly under an unpredictable Trump administration, fundamentally speaking, US growth remains reasonably resilient while moderating from high levels. In addition, recent high-frequency data in China have looked a little stronger as the country starts to roll out policy support. Regional growth data have also picked up in recent months. It is pretty much safe to say that APAC can still lead global growth in 2025 based on current growth trends. This is an encouraging macro backdrop for Asia to continue to perform.

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. Therefore, despite tight spreads, 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 for 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 31 March 2025 unless otherwise stated.

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