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 October

Asian credit markets corrected in October, moving in step with the steep rise in US Treasury rates, as expectations for policy rate cuts were tempered down following the continued strong economic data released in the US. In contrast, China announced further stimulus measures that boosted broad market sentiments. Amidst this backdrop, Asian credit (J.P. Morgan Asia Credit Index - Composite) gave up some of its' previous gains, correcting 1.0% in October. Investment Grade (IG) credits suffered the bulk of the US Treasury correction, – declining 1.3% over the month despite tighter IG credit spreads. High Yield (HY) credits outperformed, delivering positive returns of 1.1%, driven by their high carry and tighter HY credit spreads while the short duration nature of the asset class mitigated the negative Treasury impact. Year to date, Asian credit has delivered 6.1% in total return, with performance driven mainly by spread return (+4.1%) and to a smaller extent, treasury return (+1.9%). Asian high-yield continued to be the stellar outperformer, with an outstanding return of 16.0%, significantly outperforming other regional high-yield markets.

Asian HY delivered another month of firm performance, with credit spreads tightening by 58 bps, which more than compensated for the spike in US Treasury rates. Most market sectors were in positive territory, with Sri Lanka and China clearly dominating the gainers.

In Sri Lanka, the market was buoyed by better developments on the political front as the new government continued to be more pragmatic than initially feared. The country also announced that the long awaited USD12.5b sovereign debt exchange will be launched as early as November, with the aim of completion by the fourth quarter of 2024. This would allow Sri Lanka to climb out of default sooner than expected.

China Real Estate sector also saw strong gains as Chinese authorities announced further policies that demonstrated their resolve to stabilize the real estate sector and broader economy. The Ministry of Finance initially announced broad measures to reduce housing inventory, capitalize SOE banks and alleviate local government debt. This was followed by subsequent news from the Chinese government that a sum of at least RMB 10 trillion over the next few years was being considered. Further measures were also announced, which included widening of the "whitelist" of housing projects eligible for financing, removal of more home purchase and sale restrictions, as well as reduced mortgage and down payment rates. The Ministry also highlighted in a statement that the bottoming out of the property market has begun.

Portfolio Review

The Fund returned relative to benchmark for the month.

The Fund's overweight exposure to the China Real Estate sector was a positive contributor to relative performance, as the sector was buoyed by additional support measures announced by the Chinese government on support measures. Macau detracted slightly from performance due to profit taking after a strong run. Security selection was again the major positive driver of active returns.

Outlook and Strategy

Major global central banks excluding Japan have begun their respective rate cut cycles. While the terminal rates are still data dependent and evolving, the downward trajectory in rates is clear and supportive for credits as an asset class. In the short to medium term, the key event risk is the US elections and the potential changes to policies.

Within Asia, we remain sanguine about Asia credit with all the positive headlines from China. As market sentiment continue to be buoyant and excited by the new policy supports from China, we think that credit spreads can continue to grind tighter. However, we do feel that most of the returns from Asia credits would likely come from lower rates and yield carry, which would still be decent.

We continue to favour Asian HY bonds, given the wider credit spreads, as well as stable to improving fundamental outlook. Given the strong performance of the asset class, prudent credit selection is increasingly important for outperformance.

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