Allianz Global Investors

Allianz

Flexi Asia Bond

Monthly commentary

- The Fund aims at long-term capital growth and income by investing in debt securities of Asian bond markets denominated in EUR, USD, GBP, JPY, AUD, NZD or any Asian currency in accordance with environmental and social characteristics. With the adoption of the Sustainability Key Performance Indicator Strategy (Relative) ("KPI Strategy (Relative)"), the Fund aims to achieve the reduction in greenhouse gas emissions ("GHG") of the Fund's portfolio which shall be at least 20% lower than that of its benchmark index within the same period ("Sustainability KPI").
- The Fund is exposed to significant risks of investment/general market, country and region, interest rate, creditworthiness/credit rating/downgrading, default, valuation, sovereign debt, emerging market, RMB debt securities, currency (such as exchange controls, in particular RMB), and the adverse impact on RMB share classes due to currency depreciation.
- The Fund is exposed to sustainable investment risks relating to KPI Strategy (Relative) (such as foregoing opportunities to buy certain securities when it might otherwise be advantageous to do so, and/or selling securities when it might be disadvantageous to do so or relying on information and data from third party ESG research data providers and internal analyses which may be subjective, incomplete, inaccurate or unavailable). The Fund focuses on the Sustainability KPI which may reduce risk diversifications and may be more volatile compared to broadly based funds. Also, the Fund may be particularly focusing on the GHG emission efficiency of the investee companies rather than their financial performance which may have an adverse impact on the Fund's performance.
- Investing in share class with fixed distribution percentage (Class AMf) is not an alternative to fixed interest paying investment. Investors should note that fixed distribution percentage is not guaranteed. The percentage of distributions paid by these share classes is unrelated to expected or past income or returns of these share classes or the Fund. Distribution will continue even the fund has negative returns and may adversely impact the net asset value of the Fund. Positive distribution yield does not imply positive return.
- 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 expose to risks such as prepayment, 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 July

Amid resilient economic data from both sides of the Pacific, no further escalation in the Iranian conflict, and trade deals being reached across Asia toward the end of the month, sentiment was positive for the month of July. In the US, Non-Farm Payrolls continue to be stronger than expected at 147k against expectations of 106k, while the University of Michigan Consumer Sentiment Index rose to 61.8 despite a slight uptick in the Consumer Price Index to 2.7% year-over-year. In Asia, China's 2Q Gross Domestic Product (GDP) rose by a better-than-expected 5.2% against consensus expectations of 5.1%. Both the National Bureau of Statistics (NBS) and Caixin Manufacturing Purchasing Managers Indexes (PMIs) for June were also stronger than forecast due to the short-term de-escalation in the US-China tariff war. The market was also looking for further large stimulus measures to be announced at the China Politburo meeting at the end of July but was disappointed when nothing specific was announced. With the positive macroeconomic backdrop, Asian credit markets were in a risk-seeking mode. While credit spreads are fairly valued, absolute yields are still attractive. Asian credits were further supported by resilient fundamentals, a positive credit rating upgrade/downgrade trajectory, decreasing default rates, and bond supply that was lower than maturities. With stable to compressing credit spreads, most of the market volatility was driven by US treasuries.

Asian credit (JACI Composite) was up 0.6% in July. Investment Grade (IG) credits returned 0.5%, with spread and interest rate contributing 0.6% and -0.1% respectively. High Yield (HY) credits were up 1.4% with most of the return coming from spread return.

New issuance was very active again in July with a total issue size of USD 39 billion, similar to the previous month. With close to USD 44 billion of maturities, we had a negative net supply in July. Most of the new issuances were rated Investment Grade while Japan stood out with a few jumbo-sized new issues. On a year-to-date basis, the cumulative supply from new issuances is close to maturities.

Asian Investment Grade (IG)

Asian IG credit spreads compressed for the month of July, but this was offset by higher US Treasury yields. On a month-on-month basis, Asian IG yields were stable for the month and carry was a strong contributor for the month of July. US Treasury volatility was driven by tariff uncertainties and doubts over the independence of the US Federal Reserve (Fed). Indonesian credits outperformed in July as the country was one of the first to reach a trade deal with the US, which saw reduced tariffs. Macau also outperformed as Gross Gaming Revenue for July hit a post-pandemic high, reaching 90% of pre-COVID levels, driven mainly by the mass/slot segment. Within the IG universe, given the risk-seeking environment, BBB credits outperformed A-rated credits.

Asian High Yield (HY)

Asian HY had another strong month of performance where returns were driven by both spread compression and carry. Given the supportive macro backdrop, sovereigns led by Pakistan and Sri Lanka performed well. The non-investment grade Macau gaming sector also performed well with the strongest Gross Gaming Revenue achieved since COVID in July. At the issuer level, a Chinese cement producer rose strongly as it recorded stronger than expected profits and outlined plans to refinance a maturing bond while a BB rated Hong Kong supply chain manager announced a partial tender on their perpetuals and issued an attractively priced new HY bond that performed well in the secondary. There were no meaningful negative contributors at the country/sector level for the month of July.

Portfolio Review

The Fund returned slightly above the benchmark for the month.

July proved to be a constructive month for Asia Credit, with credit spreads tightening across the board. Notably, High Yield outperformed Investment Grade, and the Fund benefited from its overweight positioning in High Yield. Concurrently, the US Treasury curve experienced a bull steepening, and the Fund's overweight duration in the front end also contributed positively. Looking ahead, we intend to maintain our long duration exposure at the front end, as the Fed leans toward a potential rate cut in the upcoming meeting. At the same time, we continue to favor long carry strategies, with an overweight in High Yield—primarily through higher-quality BB-rated credits.

Outlook and Positioning

There has been a slew of trade deals being struck with the US toward the end of July. This has reduced tariffs for most countries to within 15-20%, which is a level that markets feel consumers, companies, and the economy can absorb. With less meaningful differences in tariffs between the export-dependent Asian economies, there would not be a material change in the comparative advantage of production for each country. Although tariffs are disruptive to global trade, this outcome is less disruptive than initially feared. The resolution of tariffs has removed a key risk weighing on financial markets since the start of the year, and credit markets are likely to continue grinding higher as focus shifts towards the impending policy rate cuts in the US. Together with robust fundamentals, high absolute yields, and low new bond supply, we remain constructive on Asian credit markets.

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