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 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, both Investment Grade (IG) and 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. IG credits returned 0.1%, with spread tightening and carry contributing 1.0%, while interest rate detracted -0.9%. 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 Investment Grade (IG)

Asia IG spread tightened by 19 bps during the month as the market continued to recover from the April sell off. However, the positive return from spread tightening was almost fully wiped out by the treasury movement and as a result, Asia IG return was just flat (+0.1%) in May. Overall, market continued with the compression trend since the second half of April with BBB-rated names outperforming higher quality credits. Within Asia IG, India and South-East Asia credits outperformed. India IG had been very resilient despite all the headlines on the India-Pakistan conflict. A large Indian conglomerate was the strongest outperformer within India IG with spreads almost back to year-to-date (YTD) tight following the bond buyback news. Being one of the laggards post Liberation Day, one of Thailand's largest oil refining companies was the other outperformer in May with a lot of buying interests after reporting better than expected first quarter results. For detractors, Taiwan Lifers underperformed due to concerns on the mark-to-market impact of their USD investment book given the sharp appreciation of Taiwan dollar.

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 returned slightly below the benchmark for the month.

For the Fund, the overweight allocation to BB helped to deliver positive returns while the overweight in duration detracted from performance. The credit spread tightening in May also contributed positively to returns. We maintain our defensive positioning and are long carry in this environment. We would look for opportunities to increase active exposure at a later date.

Outlook and Positioning

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.

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