

# Allianz

## HKD Income

### Monthly commentary

- The Fund aims at long-term income by investing in debt securities denominated in Hong Kong Dollar.
- The Fund is exposed to significant risks of investment/general market, country and region, emerging market, interest rate, creditworthiness/credit rating/downgrading, default, valuation, and RMB (including RMB debt securities).
- 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 June

In June, US bonds were boosted by growing hopes for US rate cuts and weaker-than-expected inflation data, while yields on euro-zone government bonds rose after the European Central Bank (ECB) cut its key interest rate by 25 basis points (bp) and suggested it may be nearing the end of its rate-cutting cycle. In general, corporate bonds outperformed sovereign debt.

In Hong Kong, lower interest rates led to carry trades which drove HKD to the weak end of the peg. Hong Kong Monetary Authority (HKMA) intervened in late June to maintain the peg and withdrew HKD 9.4 billion from the system. As a result, the 3-month HKD Hong Kong Interbank Offered Rate (HIBOR) rose 36bp in June. In economic data, unemployment rate rose slightly to 3.5% in May. Both imports and exports accelerated more than expected. Retail sales improved from previous reading but were below expectations.

### Portfolio Review

The Fund delivered a positive return in June. USD bonds outperformed HKD bonds given market repriced higher the probability of Fed rate cut for this year. On the other hand, performance of selective HKD bonds lagged, which may be

due to quarter end liquidity tightening and rising expectation of HKMA withdrawing liquidity at the weak end of the peg. The key detractor was a Hong Kong's quasi sovereign bond, and the key contributor was Japanese insurance USD bonds.

## Outlook and Strategy

Global bond markets have stayed sanguine despite the US bombardment of Iran's nuclear sites and Iran's retaliatory strike at US military bases in Qatar. The spike in oil prices and the US dollar has since dissipated and given way to a rally in risk assets, as Iran's retaliation was generally viewed as symbolic and a ceasefire appeared to take hold. Meanwhile, the US Treasury market remains largely unfazed by geopolitics. There has not been a material "flight to safety" and markets seem mainly influenced by the direction of US monetary and fiscal policy. However, there appears to be a growing contingent of US Federal Reserve voting members in favour of an imminent rate cut, though Chair Powell has signalled that he is in no hurry. We continue to expect the yield curve to steepen in the US due to economic growth risks and concerns of a deteriorating fiscal outlook.

HKD is likely to stay at the weak end of the peg until interest rates gap with US narrows. It is expected that HKMA will drain liquidity in an orderly manner. HK rates are likely to go up in such event but unlikely to go back to the level seen at the beginning of the year given the abundant liquidity.

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Source: Bloomberg, IDS and Allianz Global Investors, as at 30 June 2025 unless otherwise stated.

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