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 May

Global bonds delivered mixed performances in May. In the US, the Federal Reserve (Fed) kept rates on hold, signalling that US interest rates would likely remain higher for longer and that a cut should not be expected until the second half of the year at the earliest. Fed chair Jay Powell stressed the need to be "patient and let restrictive policy do its work". Nevertheless, the Fed chair ruled out the probability of increase in rates and alleviated the concern of further rate hikes. US bonds had a volatile month with US Treasury yields initially fell, buoyed by weaker-than-expected jobs growth and inflation data, before subsequently rising as further data releases pointed to a continued robust economic environment. The yield on the 10-year US Treasury bond saw a modest decline at month-end, resulting in a close that was nearly 20 basis points (bps) lower at around 4.5%.

Hong Kong money market rates drifted higher in May as improved market sentiment fuelled higher demand in HKD, 3-month HIBOR increased by almost 20 bps to 4.73% over the month. However, liquidity still remained abundant and allowed Hong Kong rates to continue trading lower comparing to its US counterpart. It is expected Hong Kong rates will continue to follow the US rates for direction with delayed Fed easing expectations to keep money market rates elevated in the very near term. On the economic data front, Hong Kong economy recorded moderate growth by 2.7% in the first quarter of 2024, supported by exports of services with private consumption and overall investment expenditures continued to expand.

Portfolio Review

The Fund delivered a positive return in May. Positive contribution mainly from long dated HK government bonds and long end USD investment grade credit, while intermediate HKD corporate bonds detracted performance

Outlook and Strategy

Given the shape of the yield curve, short end of the curve offers attractive income opportunities. Risk-reward profile of the intermediate term bonds has also become more well-compensated after the re-pricing of delayed Fed easing expectation. With major global central banks (i.e. European Central Bank (ECB) and Bank of Canada (BoC)) will begin the easing cycle in June, easing trajectory of global central banks with progressive disinflationary trend should be supportive for global interest rate markets. Our plan is to watch for opportunities to incrementally shift exposure from the very short end of the curve to the intermediate part of the curve with a more balanced of risk for the portfolio. Despite credit spread is at the tighter end, absolute yield looks appealing and high-grade quality bonds offer attractive carry.

Source: Bloomberg, IDS and Allianz Global Investors, as at 31 May 2024 unless otherwise stated.