

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 February

Global bond prices moved higher in February, with investors fleeing to safe haven assets on the back of President Trump's tariffs, coupled with softer than expected economic data. 10-year US Treasury yields fell by 33 bps to 4.21%. President Trump imposed tariffs of 25% on all aluminium and steel imports with no exceptions given, scheduled to take effect from March 12. In addition, tariffs on China's imports were raised to 20% from the initial 10%, with the increase taking effect on March 4. Trading partners Mexico and Canada were not spared as well, with tariffs at rates of 25% coming into effect also on March 4. The president also announced plans to impose further tariffs of 25% on imports from the European Union, as well as all automotive, semiconductors, and pharmaceutical imports at rates of 25%. On the data front, consumer sentiment slumped to a 15-month low amid tariff and inflation worries. The Michigan Consumer Sentiment index dropped 6.4 points to 64.7, the largest monthly decline since May and falling short of the 67.8 forecast. Initial jobless claims also came in higher than expected at 242k versus expectations of 221k. Meanwhile, inflation data for January came in as expected, with core personal consumption expenditures (PCE) index increasing 2.6% year-on-year.

In February, Hong Kong's money market conditions tightened, with the 3-month HIBOR rising by 20 basis points to 4.0% by the end of the month. This increase was likely driven by new initiatives to expand equity inflows, as announced in the Hong Kong budget for the fiscal year 25/26. These initiatives have strengthened the HKD, pushing up borrowing costs and leading to an appreciation of the HKD currency to 7.78 against the USD. On the economic data front, consumer price index

(CPI) printed at 2.0%, while year-on-year retail sales by value for December fell by 9.7%, indicating weak consumption spending. Despite this, unemployment rates remained low at 3.1%.

Portfolio Review

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The Fund delivered a positive return in February. Duration rally was the main contributor for performance in the month with short dated HKD bonds contributed the most to performance. On the other hand, bottom contributors were some HK quasi government issues.

Outlook and Strategy

In Hong Kong, the latest Budget introduced key measures to support future HK development, including innovation and technology, and further integration and cooperation with mainland China. Government bond issuances are expected to increase to finance higher capital works expenditures, but government debt to GDP is expected to maintain a stable and manageable level, lower than that of many advanced economies.

We see front-end rates staying well-anchored and longer end of the curve may be underperforming if a deteriorating fiscal outlook drives up term premia.

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Source: Bloomberg, IDS and Allianz Global Investors, as at 28 February 2025 unless otherwise stated.

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