

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 had a volatile month in May, driven by uncertainty around tariff policies and their impact on growth. 10-year US Treasury yields peaked at 4.6% before easing to 4.4% at the end of the month, ending 24 basis points (bps) higher compared to end April. Yields spiked initially as Moody's downgraded US's sovereign rating to Aa1 from Aaa, reflecting the increase in government debt which raised fiscal concerns. The 10-year Treasury yields then ended lower from softer than expected inflation data which gave hope to US Federal Reserve (Fed) rate cut bets down the road in 2H 2025. Corporate bonds performed better as credit spreads tightened, with high yield experiencing more compression in comparison to investment grade.

In May, Hong Kong's interbank market softened significantly, with the 3-month Hong Kong Interbank Offered Rate (HIBOR) falling by 266 bps to 1.3%. This was driven by an influx of liquidity into Hong Kong after the Hong Kong dollar (HKD) touched the strong end of the peg, triggering Hong Kong Monetary Authority (HKMA) intervention to sell HKD and buy USD, injecting liquidity into the system. In turn, the Hong Kong Aggregate balance rose sharply to 173,434 million from 45,106 million in April. The HKD weakened by 1.1% to 7.84 against the USD, as the sharp decline in short end rates weighed on the HKD. On the economic data front, Hong Kong's Q1 gross domestic product (GDP) came in higher than expected at 3.1% year-on-year against 2.1% surveyed on the back of strong exports. Exports continued its strong growth momentum in April, increasing by 14.7% year-on-year, which surpassed estimates of 12.2%. Despite this, the consumer price index (CPI)

printed higher than expected at 2.0% year-on-year, an increase from 1.4% in March. Unemployment rate also ticked higher to 3.4% from 3.2%.

Portfolio Review

The Fund delivered a positive return in May, primarily driven by our Hong Kong bond holdings, with the largest returns coming from financials. The decline in Hong Kong treasury yields resulting from the liquidity injection from the HKMA to maintain the peg as the HKD reached the strong end of the peg helped to raise bond prices, particularly in higher duration sectors. The key detractor was the fund's small exposure to longer dated USD bonds which detracted, undermined by escalating concerns that ballooning government borrowing would lead to a glut of new supply.

Outlook and Strategy

After the large liquidity injection into the HKD market by the HKMA, HK interest rates slumped with the HKD HIBOR falling continuously, widening the interest differential between US and HK and driving the HKD currency weaker. Should the weak end of the peg be reached, this would force the HKMA to drain liquidity to maintain the peg, and HKD rates may face some upward pressure.

Overall, the fund continues to favour the short to medium part of the curve which should be anchored by the Fed's easing cycle. In addition, the fund maintains a higher level of liquidity given rates volatility is expected, with the HKD trading close to the weak end of the peg.

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

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