

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 markets generally saw strong performance in February, with the major bond markets buoyed by safe-haven flows and easing inflation. US Treasuries notched their best monthly return in a year. Eurozone and UK government 10-year bond yields also fell by 20 and 29 basis points respectively. Japanese bond yields also eased, with the 10-year yield falling by 13 basis points over the month. Inflation in January slowed across the US, Eurozone, Japan and the UK.

In February, Hong Kong's interbank market liquidity continued to improve, with 3-month HIBOR falling 24 bps during the month. The Hong Kong Aggregate Balance increased slightly to HKD53.9billion over the month but was broadly stable. The Hong Kong dollar continued to weaken against the US dollar in February, with the exchange rate closing slightly above the 7.82 level. The Hong Kong base rate remained unchanged at 4.00%. A key event in the month was the announcement of the 2026 Budget by the Hong Kong Government. Hong Kong returned to a HKD2.9bn fiscal surplus last year as a strong stock and property market recovery boosted stamp duty income. The government expects the fiscal surplus to widen to HKD22bn in fiscal year 2026/2027, as higher current account surplus and bond issuance proceeds will likely offset cash outflows for Northern Metropolis investment. It targets to print HKDD160bn-220bn of bonds per annum in the next five years, and officials have guided that Hong Kong's debt/gross domestic product (GDP) will rise from 14% to 20% over the medium term. Officials are not concerned about credit rating pressure as the leverage ratio remains much below other developed markets. Elsewhere, on the data front, exports growth in January was at 33.8% yoy, surpassing expectations for

23.8% yoy growth. At the same time, inflation seemed to slow down slightly, with the January print for composite consumer price index (CPI) at 1.1% against estimates of 1.2% yoy. However, the 3-month unemployment rate was at 3.9% in January, slightly higher than expectations at 3.8%.

Portfolio Review

The Fund returned positively in February. Curve return attributed positively as short end rates advanced buoyed by safe haven flows. Carry was also a major contributor with spread return slightly negative. Over the month, the key contributors were mid tenor Hong Kong government bonds, while the key detractors were short-dated HKD bonds.

Outlook and Strategy

The sharp escalation in Middle East tensions has pushed oil prices higher and triggered a broad risk-off move across global markets. Risk of a prolonged campaign has increased, disruption to energy shipping - especially through the Strait of Hormuz - and a sustained war risk premium in oil, adding to already fragile market sentiment towards end of last month. For fixed income, oil driven inflation risks compete with risk aversion flows. Duration performance will hinge on how persistent higher energy prices prove to be, while credit risk is asymmetric, with certain countries in emerging and frontier markets most exposed. In the near term, this points to spread widening, curve flattening and stronger USD rather than a regime shift. The key determinant is whether elevated energy prices persist long enough to turn volatility into a broader macro problem.

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Source: Bloomberg, IDS and Allianz Global Investors, as at 28 February 2026 unless otherwise stated.

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