

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 September

Global bonds rallied as the US Federal Reserve (Fed) joined an increasing number of developed market central banks in starting to ease monetary policy. The Fed's larger-than-usual 50-basis-point cut was accompanied by forecasts of further cuts this year and in 2025. The European Central Bank (ECB) also reduced borrowing costs, marking its second cut this year, while the Bank of England (BoE) kept rates on hold but indicated that borrowing costs were likely to be reduced later this year. While the Bank of Japan (BoJ) also kept rates on hold, the People's Bank of China (PBoC) announced a package of measures aimed at supporting the economy and the property sector, including lowering the reserve requirement ratio for banks and cutting some loan rates.

HKD funding conditions tightened, and short dated money market rates rose towards the end of September. China announced a raft of easing policies including a liquidity backstop to shore up the equity market, leading to rally in HK equities and higher demand for HKD. HKD appreciated by 0.32% to 7.7730 per USD. On the data front, unemployment rate stayed low at 3%, while exports and imports were softer than expected in August.

Portfolio Review

The Fund delivered a positive return in September. Positive contribution mainly from a rally in global rates, while selective HK property exposure detracted performance.

Outlook and Strategy

With recent data continued to support a benign inflationary picture, market has shifted the focus from inflation to growth and we would closely monitor the labor market condition to gauge the pace of Fed easing path. The upcoming US election and a Middle East conflict can impact markets, but we would caution against drawing outright investment conclusions. Democrats and Republicans have varying approaches to trade, taxes and foreign policy, but US debt is likely to keep growing under either administration. We maintain the view that short to intermediate part of the curve would benefit from the synchronized easing cycle.

Markets are beginning to pare back expectations for US growth and the Fed has begun cutting rates by 50bps in September. With easing inflationary pressures and softening labour market, the Fed would continue to proceed the easing path with a data-dependent approach. Bond volatility may remain as markets begin to focus on the US elections in November. Uncertainty on the outcome of the Presidential election and the make-up of the next Congress may have important implications for fiscal, trade and immigration policy, driving expectations to some degree when it comes to US and global growth, inflation, as well as the future trajectory of monetary policy. We maintain the view that short to intermediate part of the curve would benefit from the synchronized easing cycle.

Connect with Us

hk.allianzgi.com

+852 2238 8000

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Source: Bloomberg, IDS and Allianz Global Investors, as at 30 September 2024 unless otherwise stated.

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