Allianz Oriental Income

Monthly commentary

- The Fund aims at long-term capital growth by investing in Asia Pacific equity and bond markets.
- The Fund is exposed to significant risks of investment/general market, country and region, company-specific, emerging market, valuation, asset allocation and currency (such as exchange controls, in particular RMB), and the adverse impact on RMB share classes due to currency depreciation. Investing in bonds may be subject to specific risks such as interest rate, creditworthiness risk/credit rating/downgrading, and default.
- The Fund may invest in the China A-Shares market directly via the Stock Connect or other foreign access regimes and/or other permitted means and/or indirectly through all eligible instruments and thus is subject to the associated risks (including quota limitation, change in rule and regulations, repatriation of the Fund's monies, trade restrictions, China market volatility and uncertainty, potential clearing and/or settlement difficulties, change in economic, social and political policy in PRC and Mainland China tax risks).
- 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 April

Equity markets in Asia Pacific rose modestly over May. In Japan, equities advanced overall, but gains were capped by rising bond yields and growing speculation that the Bank of Japan may raise interest rates to help stem the sharp decline in the Japanese yen. Economic data was a mixed bag. The Japanese economy shrank more than expected in Q1. Services activity also slid to 53.6 from April's 54.3, but manufacturing activity rose to 50.5, indicating that the sector was expanding for the first time in a year.

China markets were also mixed, with H-shares outperforming A-shares. The key event in China in May was policymakers stepping up support for the embattled Property sector. We view the combined measures – including reduced downpayment ratios, cuts to mortgages rates, and funding for local governments to buy unsold homes - as representing the biggest nationwide property easing since the property turmoil started close to three years ago.

Elsewhere, Australian stocks closed the month slightly higher, though a rising consumer price index (CPI) print raised concerns that the Reserve Bank of Australia may keep rates high for longer. Taiwan equities were lifted by robust gains from a Taiwanese chipmaker but South Korean shares lagged, with a Korea-based chipmaker and consumer electronics manufacturer announcing weak earnings. In ASEAN markets, Singapore rallied the most, but stock markets in Thailand, the Philippines, and Indonesia lost ground as early gains were eradicated by declines later in the month.

Portfolio Review

The Fund outperformed the MSCI AC Asia Pacific Index in May. Stock selection was the primary driver, with wide dispersion within key sectors. For example, three of the month's top picks came from the Technology sector, while other names in the sector were among the top detractors. We interpret this as the market digesting some of the recent gains amidst structural changes in demand for artificial intelligence (AI)-related solutions.

At a single stock level, a baseboard management controller (BMC) supplier, was a top contributor. Aspeed plays an important role in the global AI supply chain with its technology used to remotely monitor the physical state of a server. This area is benefitting from growing demand for AI chips and servers, especially in the areas of cloud computing and data centres.

Conversely, a top detractor was a South Korean company that is a global leader in inspection equipment for consumer and auto electronics. The share price has been vulnerable after a strong Q1. We continue to see opportunities ahead for the company's business in the semiconductor area and also future growth potential from AI-based smart solutions.

The overall positioning of the portfolio remains little changed over the month. We rotated into a couple of new ideas related to power grid equipment and renewable energy in Taiwan, as well as a Chinese Consumer Discretionary name. At a geography level, key overweight allocations are in Taiwan and Japan.

In Taiwan, we maintain a high exposure to Technology, especially in the semiconductor supply chain where we see an improving outlook both in demand and also in pricing power. Japan represents around 41% of the overall portfolio compared to the benchmark level of 34%. We remain broadly underweight Hong Kong/China, along with India and Australia.

At the sector level, Financials remains our largest underweight, along with the Communication Services area.

Outlook and Strategy

We continue to have a constructive view on the regional market outlook. In Japan, the combination of higher inflation as well as ongoing governance reforms should contribute both to improved earnings as well as a greater focus on shareholder value. There have been a number of high profile corporates increasing both dividends and share buybacks recently. Although the Japanese yen has been weaker year-to-date as a result of the negative real interest rate environment, fundamentally we believe the currency is significantly undervalued.

In China, while market sentiment has improved, the outlook remains quite fragile. Although near-term visibility on growth remains uncertain, nevertheless, any signals of macro stabilization could trigger a marked rally given the depressed valuations. Elsewhere in the region, there are signs of stronger momentum in the technology sector, especially for companies with AI-related business exposure. Overall, from a regional standpoint, valuations remain at reasonable levels.

All data are sourced from Bloomberg, Allianz Global Investors, as at 31 May 2024 unless otherwise stated.

Information herein is based on sources we believe to be accurate and reliable as at the date it was made. We reserve the right to revise any information herein at any time without notice. No offer or solicitation to buy or sell securities and no investment advice or recommendation is made herein. In making investment decisions, investors should not rely solely on this material but should seek independent professional advice.

Investment involves risks, in particular, risks associated with investment in emerging and less developed markets. Past performance is not indicative of future performance. Investors should read the offering documents for further details, including the risk factors, before investing. This material and website have not been reviewed by the Securities and Futures Commission of Hong Kong. Issued by Allianz Global Investors Asia Pacific Limited.

Allianz Global Investors Asia Pacific Limited (32/F, Two Pacific Place, 88 Queensway, Admiralty, Hong Kong) is the Hong Kong Representative and is regulated by the Securities and Futures Commission of Hong Kong (54/F, One Island East, 18 Westlands Road, Quarry Bay, Hong Kong).

AdMaster: 3645519