

Allianz Asian Multi Income Plus

Monthly commentary

Investment Objective

The Fund aims at long-term capital growth and income by investing in equity and bond markets in Asia Pacific.

What Happened in February

Asia Pacific ex Japan equities delivered broadly flat returns in February, with a large divergence of returns across markets. China equities rallied strongly with an emerging Chinese startup, which launched an open-sourced artificial intelligence (AI) model, being the catalyst as it became clear that China is significantly more advanced in the global technology and AI race than was previously understood. This realisation triggered a substantial re-rating of Technology stocks. The advance was also driven by hopes that US tariffs may prove to be milder than expected, although the gains were tempered by President Trump's month-end announcement of an additional 10% US tax on Chinese exports.

Elsewhere, South Korean equities also ended slightly higher, while Taiwanese stocks sold off. Australia equities retreated from historical highs as large banks reported disappointing earnings. ASEAN markets moved lower overall. Indian equities also lost ground, declining sharply to mark their worst consecutive monthly pullback in nearly three decades. Given rising trade uncertainty and with inflation falling to a 5-month low of 4.31% in January, the Reserve Bank of India (RBI) cut interest rates by 25 basis points (bps) to 6.25%, its first reduction since May 2020.

On the fixed income side, Asian credits delivered positive returns in February, primarily driven by the rally in US Treasuries in the second half of the month and tighter credit spreads. Spread performance has shown more divergencies in terms of sectors and countries. In terms of market, Thailand and India did well, while Indonesia and Philippines underperformed with slightly longer durations. Year-to-date, Asian credits returned 2.2%, with high yield credits leading the market.

Portfolio Review

The Fund return was positive in USD terms in February.

In the equity portfolio, the top contributor was Alibaba, the leading e-commerce platform in China. The share price has benefitted from the rerating of China Technology companies since the announcement of the aforementioned Chinese AI startup. Within the AI space, Alibaba has announced plans to invest significantly over the next three years to advance its cloud computing and AI infrastructure. In addition, there was a significant boost to sentiment from founder Jack Ma's appearance at a high profile symposium held by President Xi Jinping attended by prominent private sector business leaders.

On the detractor side, chipmaker Taiwan Semiconductor Manufacturing (TSMC) lagged during the month. After a strong previous rally, the share price retreated on concerns surrounding global semiconductor demand. The company has announced stronger-than-expected guidance for 2025, with demand for high performance computing chips continuing to be well supported by ongoing adoption of AI-related applications. We have maintained our position.

The asset allocation at the end of the month was 69.5% invested in Asian equities and 30.4% in Asian fixed income, with the remainder in cash.

During the month, the main activity was initiating new names in China, selectively entering companies that are expected to benefit from the more rapid adoption of AI along with other growth areas. For example, we added an AI-powered home assistant to the portfolio. On the flip side, we exited a toll road operator in China and an energy company in Australia.

Within the fixed income portfolio, we continued to look for alpha opportunities in the market and switched out some lower yielding bonds for better carry.

At the end of the month, we held 59 equities and 59 fixed income securities. The equity portfolio yield was 2.6% (based on forward 12-month estimates), and the average fixed income coupon was 5.6% with an average credit rating of BB+ and average duration of 2.4 years.

Market Outlook

We maintain a constructive longer-term view on the regional outlook. While there are clearly still risks to be faced – tariffs, property, weaker export momentum – nonetheless there does appear to have been a significant mindset change in China. For a long time, much of the focus on China has been on what could go wrong. Now attention has started to shift, encouraged by China's increasingly visible technological advances. Innovation leadership comes in addition to the measures required to address more structural problems in China, especially related to the property sector as well as broad-based deflationary pressures.

Across other parts of the region, we are finding a number of favourably valued structural growth stories in ASEAN that should be less impacted by geopolitical risks. In particular, the more favourable demographics, rising consumption power, and reordering of supply chains associated with "China +1" are boosting the growth outlook across much of South Asia. Notably, the Indian market has seen a sharp pullback since September 2024. We see this as near-term profit taking rather than a more fundamental change to the outlook.

On the fixed income side, the latest corporate earnings have shown evidence of stable to improving profitability and decreasing leverage across most sectors in Asian credit space. Therefore, despite tight spreads, solid credit fundamentals and strong technical should continue to support Asian credit valuations. With favourable all-in yields, we remain constructive on Asia credits and expect carry and security selection to be the key positive contributors to performance.

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