Allianz Global Investors

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 September

Asia Pacific equities rallied over September but market returns were mixed. Regional markets enjoyed a particularly strong end to the month following the Chinese authorities' announcement of the biggest stimulus package since the pandemic, as they attempted to kick the economy out of its doldrums and boost equity valuations. Additionally, sentiment was lifted by the US Federal Reserve's (Fed's) first cut in interest rates in more than four years, and a weaker tone to the US dollar. Taiwanese shares were broadly flat, but South Korean shares lost ground as corporate reforms appeared to stall and a bellwether stock delivered results below expectations. Meanwhile, ASEAN markets advanced, benefitting from both Chinese stimulus measures and currency appreciation versus the US dollar. Australian stocks rose modestly, with the ASX 200 Index reaching fresh highs mid-month, buoyed by gains from its heavyweight banks.

On the fixed income side, September was a strong month for Asian credits on the back of the Fed's front-loaded easing cycle that began with a 50-basis point (50-bps) policy rate cut. The market rally also gathered pace on the news around China's stimulus package, which was also followed by significant monetary policy easing from China's central bank. Asian credit (JACI composite) delivered 1.2% return in September. Investment grade (IG) credits returned 1.1%, as favourable US Treasury movements contributed 0.8% and credit spread added another 0.3%. High yield (HY) credits delivered 1.8%, with 1.3% coming from credit spread and 0.6% from US Treasury movements.

Portfolio Review

The Fund return was positive in USD terms in September.

In the equity portfolio, key contributions came from our China positions given the strong market rebound in the final days of the month in response to significant policy stimulus. For example, a top contributor was Ping An Insurance, one of the largest insurance groups in China. Ping An Insurance outperformed the broader Financials sector given the weakness in the property market has previously weighed on share price. Fund flow has also been supportive as many investors view the company as a proxy to China's macro and market recovery.

Conversely, the top detractor was an index-heavyweight – a Korea-based chipmaker and consumer electronics manufacturer. Its share price has been weak on fears that excess inventory levels in semiconductors and memory chips will lead to weaker pricing power. Overall, we believe longer-term artificial intelligence (AI) demand will accelerate the need for high bandwidth memory, where the company is a key global provider. However, given the weaker near-term outlook, we have reduced the position size.

The asset allocation at the end of the month was 66.7% invested in Asian equities and 30.1% in Asian fixed income, with the remainder in cash.

In terms of portfolio activity, over the month we added to the portfolio an automobile component maker and a pharmaceutical company in India. We also added selectively to our positions in China, including initiating a position in a smartphone camera lens producer. On the other hand, we exited a number of positions including a global bank based in Hong Kong and a power project company in India as sources of funding and to take profit.

For the fixed income sleeve, we slightly reduced our HY exposure and focused on short-term carry by adding bonds with decent yield and short duration.

At the end of the month, we held 63 equities and 62 fixed income securities. The equity portfolio yield was 2.6% (based on forward 12-month estimates), and the average fixed income coupon was 5.3%, with an average credit rating of BB+ and average duration of 1.6 years.

Market Outlook

We maintain a constructive longer-term view on the regional outlook. The peak of the US rate cycle should provide a supportive overall backdrop, especially if accompanied by a weaker dollar. Overall, valuations generally remain at reasonable levels. In our view, the recent pullback in the Technology sector represents a healthy consolidation after the strong rally over the last year, especially in the Taiwan market. Across India and ASEAN, growth stories are overall less impacted by geopolitical risks, while the more favourable demographics, rising consumption power, and reordering of supply chains associated with "China +1" are boosting the growth outlook. In China, the outlook also looks to be improving with the recent slew of policy measures. It is, nonetheless, still unclear how large the latest round of China stimulus will be and how effectively it will be implemented. While the recent policy initiatives have been successful in jumpstarting markets and boosting domestic confidence, eventually it will still be necessary to address the more structural problems, especially related to the property sector as well as the broad-based deflationary pressures.

On the fixed income side, the market sentiment continues to be buoyant by policy support from China and the likelihood of a soft-landing scenario for the US economy. We expect most of the returns from Asia credits would likely come from lower rates and yield carry. We like the outlook on Asian HY credits given the wider credit spreads and stable to improving fundamental outlook. However, given the strong performance of the asset class, prudent credit selection is increasingly important. On Asian IG credits, we expect spreads to remain relatively resilient going into year-end. We would focus on risk optimisation in anticipation of higher volatility due to uncertainty of the upcoming US elections and risk averse behaviour.

All data are sourced from Bloomberg, Allianz Global Investors and as at 30 September 2024 unless otherwise stated.