

Allianz Dynamic Asian High Yield Bond

Monthly commentary

Investment Objective

The Fund aims at long-term capital growth and income by investing in high yield rated debt securities of Asian bond markets.

What Happened in September

September was a strong month as risk assets outperformed on the back of US Federal Reserve's (Fed's) front-loaded easing cycle that began with a 50 basis points (50 bps) policy rate cut. In Asia, the market rally continued to gather pace, following positive headlines around China policy stimulus and subsequent monetary policy easing from the People's Bank of China (PBoC). Asian credit (JACI composite) delivered 1.2% return in September. Year-to-date, Asian credit delivered 7.1% in total return, driven by a good mix of tighter credit spreads (3.2%), as well as positive contribution for and Treasury return (3.8%). Asian investment grade (IG) delivered 5.9% in total return, ahead of JP Morgan US Liquid Index's (JULI's) 5.6% total return slightly. Asian high yield (HY) continued to report an outstanding return of 14.8%, significantly outperforming other HY markets.

Asian HY continued to deliver strong returns of 1.8% in the month of September as both Treasury and credit spread movements drove gains, as market sentiments were boosted by policy actions of the Fed and the Chinese policymakers. Within HY, China led the gains, followed by Sri Lanka and Pakistan Sovereign, which was driven by their respective idiosyncratic situations.

China Real Estate bonds outperformed strongly, lifted by the Chinese authorities' policy stimulus announcements. Policymakers collectively delivered a comprehensive package of policy measures and stimulus that exceeded market expectations. There were positive spillover effects to China Industrials where bonds also rallied.

In the Sovereign HY space, election noise in Sri Lanka drove market volatility higher, though the bond market subsequently ended the month in positive territory. Sri Lanka authorities had secured an Agreement in Principle (AIP) with the international and local bondholders' group. This reduced concerns about the need to renegotiate the structure

of the current proposal. Newly-elected President Anura Kumara Dissanayake had also signalled his willingness to be pragmatic and not abandon the International Monetary Fund (IMF) deal. Over in Pakistan, the IMF announced that they have approved a USD 7 billion loan for Pakistan under the Extended Fund Facility to support its economy. The initial USD 1 billion will be disbursed immediately, with the remaining amount to be released over the next three years.

Portfolio Review

The Fund returned positively, outperforming its benchmark. It was a strong month for the Fund, mainly driven by spread compression. China Real Estate was a major contributor to absolute performance as the government unveiled a series of measures to support the economy. Our focus on security selection also contributed well as it was the major driver of active returns.

Market Outlook

As the Fed begins its rate cutting cycle, the positive sentiment would flow into the bond markets. Although the Fed easing cycle is widely anticipated, the more aggressive Fed cut suggests that the policymakers are determined to ensure a soft landing and avoid any hard landing scenario. With this soft-landing backdrop, it should be overall positive for credits. One potential source of volatility would be the upcoming US elections. As we proceed closer to the election, rhetoric from both US presidential candidates could possibly lead to knee-jerk reaction to the financial markets. Therefore, we must remain vigilant on this front.

Within Asia, we remain sanguine about Asia credit with all the positive headlines from China. As market sentiment continues to be buoyant and excited by the new policy support from China, we think that credit spreads can continue to grind tighter. However, we do feel that most of the returns from Asia credits would likely come from lower rates and yield carry, which would still be decent. We continue to favour Asian HY bonds, given the wider credit spreads, as well as stable to improving fundamental outlook. Given the strong performance of the asset class, prudent credit selection is increasingly important for outperformance.

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

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