Allianz Global Investors

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 August

August saw notable volatility in US Treasury yields, with the 10-year yield peaking at 4.33% before retracing to 4.23%, marking a modest month-on-month decline of 4 basis points (bps). Despite mixed economic data, the market found support as US Federal Reserve (Fed) Chair Jerome Powell signalled at Jackson Hole that the Fed could begin easing monetary policy as early as September. This was further boosted by the 90-day extension of the Sino American trade truce. However, sentiment was occasionally unsettled by headlines suggesting the White House's attempts to influence Fed policy direction. Asia Credit mirrored this volatility, with spreads widening early in the month before tightening towards month-end. A key highlight was the upgrade of India's sovereign rating by S&P from BBB- to BBB, which provided a tailwind to Indian credit spreads.

The JACI Composite Index delivered a solid 1.2% return, with 0.9% attributed to rates and 0.3% to spread compression. Investment grade (IG) credits matched this performance, while high yield (HY) outperformed with a 1.5% return, supported by a 20-bps tightening in spreads to 492 bps – now below the 500-bps threshold. This continued strength sets a positive tone as we enter September. Asia Pacific USD credit supply picked up pace towards the end of August, with 42 new deals totalling USD 20.5 billion issued during the month.

Asia HY spreads tightened by 20 bps, delivering a 1.5% return. Hong Kong Real Estate led the rally, with a developer in the spotlight amid media speculation about a potential take-private deal with an investment firm – later denied by the company. Fresh reports suggest ongoing discussions with investors including the aforementioned investment firm and a real estate investment trust in Singapore regarding asset disposals. Bond prices have moved higher on the back of renewed buying interest.

Another Hong Kong real estate company, despite being downgraded to HY, outperformed as its current spread more than priced in a downgrade. Yet, another strong performer was a global owner, developer and operator of logistics real estate, digital infrastructure and renewable energy, which benefited from two major headlines: a potential RMB 2.5 billion (~USD 350 million) investment from a Zhejiang SOE to expand data centres, and another potential USD 1.5 billion equity injection from a sovereign wealth fund to support growth in logistics, digital infrastructure, and renewable energy.

Portfolio Review

The Fund had another strong month, returning positively and outperforming its benchmark. Key contributors included underweight allocations to Chinese Financials and the Philippines, and positive selection in Hong Kong Real Estate. A slight drag came from exposure to Hong Kong Financials. The portfolio remains positioned to benefit from strong sentiment and higher carry, with long-term performance expected to be driven by security selection and allocation.

Market Outlook

As we enter September, investor caution persists, with many awaiting new issue concessions before deploying capital. While upcoming supply may temporarily shift focus from the secondary market, it is unlikely to trigger significant repricing. Market momentum should remain intact. Political headlines continue to fluctuate, particularly around the Trump administration's attempts to influence Fed policy. Despite tight spreads, we remain bullish on Asia credit. Absolute yields are historically attractive and fundamentals remain solid. S&P's positive rating actions on India have tightened benchmark names, with potential spillover to off-benchmark credits. Recent corporate earnings indicate stable to improving profitability and reduced leverage across sectors. With strong technicals and attractive all-in yields, we maintain a constructive view on Asia credit, with a slight preference for HY over IG. Carry and security selection are expected to be key performance drivers.

All data are sourced from Bloomberg and Allianz Global Investors as at 31 August 2025 unless otherwise stated.