

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 February

In February, Asian credit managed to deliver a total return of 1.7%, primarily driven by a rally in US Treasuries in the second half of the month while credit spreads continued to tighten. Asian high yield (HY) performed strongly with 33 basis points (bps) of spread compression, leading to a 2.5% total return for the month.

Year-to-date, Asian credit returned 2.2%, underpinned by a rally in US Treasuries and continuous spread compression. Asian HY continues to outperform investment grade (IG) in both total return and spread return terms.

New issue market was active with 55 deals and USD 22 billion printed. Issuer profiles were diverse and overall debut performances were decent. While majority of the new issues came from IG credits, there has been pickup in new issues from HY names, even HY Chinese property names, a first in years.

Asian HY staged a turnaround in February after a sleepy January, returning 2.5%, and outperforming global HY and US HY. All sectors were humming along while China and Hong Kong led the performance, as sentiments were boosted by buoyant equity performance. Within China and Hong Kong, Real Estate performed the best, underpinned by increasing signs of bottoming out in the property market, as well as the government's swift response to a struggling major Chinese real estate developer to avoid another leg down in confidence should the developer go under. In terms of sales performance, secondary property sales were up 33% in two months, driven by strong sales performance in tier 1 cities, which increased by 46%. In addition, tier 2 and tier 3 cities sales also rose by 29% and 14% respectively. In the primary market, 35 listed property names delivered 4% year-on-year sales growth in February as well.

A further encouraging development this month is the successful new issue and solid debut performance by a Chinese developer, which was the first since the real estate crisis. This could open doors for perceived stronger developers to refinance debt in the public market, which is a positive development for sentiments towards the sector.

We remain constructive on Asian HY, thanks to an improving credit cycle, a much more diversified market profile, decent yield pickup over other HY markets, and gradually improving sentiment and flows towards the asset class.

Portfolio Review

The Fund returned positively (net, AMg USD), outperforming its benchmark.

The Fund's performance was driven by spread compression and our security selection across most countries and sectors. We remain long carry in the Fund and expect security selection to be the key positive contributor.

Market Outlook

While macro narratives tend to flip week by week, particularly under an unpredictable Trump administration, fundamentally speaking, US growth remains reasonably resilient while moderating from high levels. In addition, recent high frequency data in China have looked a little stronger as the country starts to roll out policy support. Regional growth data have also picked up in recent months. It is pretty much safe to say that APAC can still lead global growth in 2025 based on current growth trends. This is an encouraging macro backdrop for Asia to continue to perform.

The latest corporate earnings have shown evidence of stable to improving profitability and decreasing leverage with businesses right-sizing across most sectors in the Asian credit space. Therefore, despite tight spreads, solid credit fundamentals and strong technicals should continue to support Asian credit valuation. With attractive all-in yields, we remain constructive on Asian credit with a slight preference for HY over IG and expect carry and security selection to be the key positive contributors to performance.

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All data are sourced from Bloomberg and Allianz Global Investors as at 28 February 2025 unless otherwise stated.

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