

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 May

May saw a further recovery in the Asia credit market, with spread performance remaining broadly supportive through most of the month. The US-Iran conflict remained an important macro driver throughout the period. Market sentiment was supported at various points by signs of progress in US-Iran peace talks and hopes for de-escalation, which contributed to lower oil prices and a firmer tone in risk assets. Both investment grade (IG) and high yield (HY) spreads continued to tighten, although the path was not linear, and some profit taking emerged around mid-month, particularly in HY and selected higher-beta sectors. By month-end, spreads had retraced to levels tighter than those seen prior to the conflict, supported by resilient technicals, negative net supply, and selective demand for carry.

On the rates side, higher US Treasury yields weighed on market performance during the month amid rising inflation concerns, with both consumer price index (CPI) and producer price index (PPI) surprising to the upside. However, Treasury yields moderated later in the month as progress in US-Iran peace talks helped ease some of the broader macro pressure. As a result, the JACI returned 0.47% in May, with gains driven largely by HY performance at 1.08%, while IG posted a more modest return of 0.38%. Primary market conditions remained open throughout the month, although issuance was uneven and new issue concessions narrowed as sentiment improved. Asia Pacific dollar credit issuance declined to USD 24.6 billion, driven mainly by the spike in US Treasury yields earlier in the month.

Asia HY outperformed IG for much of May, particularly in the first half of the month, when spread compression resumed and higher-beta credits led the recovery. The broader HY backdrop remained supported by low defaults, limited net supply, and continued investor demand for carry. The 30-basis point (30-bps) tightening in HY during the month is consistent with a market that remained fundamentally constructive, albeit still vulnerable to rate volatility and tactical profit taking. Performance was again led primarily by frontier sovereigns, which continued to recover losses incurred

during the Middle East conflict. Outside the sovereign space, India and Macau HY were relatively resilient during the month, while China HY also performed strongly, helped by a few outliers such as the GLP complex and Vanke. For GLP, bond prices continued to rebound following the analyst site visit in China in the second half of May. It appears that GLP has made progress with Chinese insurance limited partners (LPs) on fund extensions, suggesting that political risk may be more contained and gradually subsiding.

Portfolio Review

The Fund returned positively on a gross-of-fee basis, outperforming the benchmark. Active returns were again largely driven by spread compression, with contribution from carry and curve remaining minimal. While the Fund's performance was not overly concentrated, the single largest contributor was GLP, as its bonds recouped some earlier losses following more constructive headlines. This was supported by stable full-year results and a reassuring investor update from management highlighting continued institutional backing. This was followed by our overweight in longer-dated bonds in Indian Utilities, which performed well amid the broader spread tightening environment.

Similar to the previous month, our active exposure to higher-beta bonds on aggregate tilted performance in our favour, benefitting from the compression in credit spreads. From a country allocation perspective, our overweight positions in China and India contributed positively to returns, while our underweight in the Philippines remained accretive as the market lagged the broader complex.

Market Outlook

The market action in May suggests that Asia Pacific USD credit remains supported by favourable technicals, although valuations have become richer and more sensitive to macro headlines. By late May, both IG and HY were reported to be trading inside pre-conflict spread levels, while net supply in Asia credit remained negative. This backdrop has continued to cushion spreads, even as Treasury volatility and geopolitical uncertainty periodically interrupted the rally. Looking ahead, the market appears to be balancing strong carry and supportive technicals against a less compelling valuation cushion. Although markets are increasingly pricing in a benign outcome, energy market disruptions have not fully normalised and the risk of renewed escalation has not disappeared. Against this backdrop, we should remain cautious in overall risk positioning and continue to focus on carry generation rather than capital appreciation. With valuations remaining at the tighter end of historical ranges, relative performance is likely to depend more on issuer selection, balance sheet resilience, and refinancing visibility than on broad beta exposure alone.

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All data are sourced from Bloomberg and Allianz Global Investors as at 31 May 2026 unless otherwise stated.

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