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

In May, market sentiment continued to recover from the sell-off post "Liberation Day" on the back of the positive development on trade talks. On 12 May, the US and China issued a joint statement to significantly slash tariffs imposed on each other. China also committed to suspend or remove the non-tariff countermeasures against the US that were put in place since the Liberation Day. Within Asia, we had India and Pakistan reaching a ceasefire on 10 May, ending the most intense conflict in 25 years between the two nations. With all these positive developments, Asia credit spreads have fully recovered from the widening post Liberation Day. As of end May, high yield (HY) credits were already trading tighter than a month ago. On the other hand, US Treasury yields rose in May with investors worried that the higher budget deficit in the US would result in heavy bond issuance from the US government.

Asia credit (JP Morgan Asia Credit Index – Composite) was up 0.4% in May. HY credits gained 1.9%, as the positive spread return of 2.3% more than offset the negative interest rate return of -0.4%.

New issuance was USD 25.7 billion in May, up 2.2% from the previous month. With close to USD 31 billion of maturities, May was another month of negative net supply. Sector breakdown was quite even between Financials and corporates, but issuance still skewed towards investment grade (IG). Primary demand remained strong and most of the issues closed flat or above issuance levels.

With further de-escalation of global trade tensions, Asia HY continued to rebound in May with spreads reversing the widening in the previous month. Sovereigns outperformed with both Sri Lanka and Pakistan recovering all their losses since Liberation Day. Easing concerns on global recession and dollar weakness supported the valuation of Sri Lanka's bonds, particularly for its macro-linked bonds. For Pakistan, bonds rebounded immediately after the ceasefire agreement between India and Pakistan was announced. On the other hand, the weakest performer within Asia HY was a Hong Kong developer as the company eventually decided not to call back one of their perpetual bonds and allowed the coupon to be reset from 6.15% to more than 10%. The decision to defer the coupon of their perpetual bonds on the last two days of May further added to the weakness of the whole curve.

Portfolio Review

Our higher beta allocation benefitted the portfolio via the liquid benchmark sectors such as sovereigns, India Renewables and Macau Gaming as the market rebounded from the correction in April. Most of the active outperformance came from selection, where our high conviction underweight position in a Hong Kong developer contributed strongly to performance, as the issuer's bonds corrected aggressively in April. We remain long carry in the Fund and expect security selection to be the key long-term positive contributor.

Market Outlook

Despite some positive developments on trade talks in the past two months, macro sentiment is likely to continue to be volatile in the near term given unpredictable US policies. However, over the medium to longer term, the market should refocus on fundamentals and technicals when the dust settles. With most of the Asian countries still on track to deliver policy easing while the expectations for rate cuts were pushed back in the US, we continue to expect Asia to lead growth in 2025.

Fundamentals of Asian corporates remained solid with their latest earnings showing evidence of stable to improving profitability and decreasing leverage. The widening interest rate gap between Asian countries and the US should keep dollar bond issuance from Asia issuers on the lower end of market expectation. As a result, we remain constructive on Asia credit with a slight preference of HY to IG and expect carry and security selection to be the key positive contributors to performance.

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

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