Allianz Global Investors

Allianz
Flexi Asia Bond

Monthly commentary

Investment Objective

The Fund aims at long-term capital growth and income by investing in debt securities of Asian bond markets denominated in EUR, USD, GBP, JPY, AUD, NZD or any Asian currency in accordance with environmental and social characteristics.

What Happened in April

April was a volatile month for all asset classes as the US administration unleashed higher-than-expected tariffs on the world. While attention was initially focused on Canada and Mexico, it later spread to all nations and China in particular bored the highest rates. The US administration later granted a 90-day reprieve on higher tariffs to all nations except China and this provided support for risk assets. China retaliated with tariffs on imports from the US and injected RMB 500 billion of capital in its four largest banks to stabilise sentiment. Towards the end of the month, there were tentative signs of a potential détente between the US and China as both sides expressed willingness to discuss the easing of trade tensions. Despite the weakening in investor sentiment for the month, economic data released in April, for example China's Q1 gross domestic product (GDP) growth at 5.4% versus expectations of 5.2%, was generally stronger than expected due to front loading of orders ahead of "Liberation Day" in April.

Asian credit (JP Morgan Asia Credit Index – Composite) was flat for the month of April. Investment grade (IG) credits returned 0.3%, with favourable US Treasury movements contributing 0.5%, while credit spreads detracted -0.3%. High yield (HY) credits corrected by -1.7%, as the positive interest rate return of 0.4% was not sufficient to offset the negative spread return of -2.1%.

Following the elevated issuance in March ahead of "Liberation Day" in April, issuance for April was a more muted USD 25 billion. In conjunction with USD 31 billion of maturities, April was a month of negative net supply. Most of the new issuance was from the Financials sector and rated IG. Primary demand was high, and most issues closed above issuance levels.

Asia IG spreads widened by 8 basis points (bps for the month, but the market was supported by lower US Treasury yields due to risk aversion and this provided positive returns for the month. After an initial weak start, the market rebounded from the second week as sentiment recovered when the tariffs were granted a temporary reprieve. Within IG credits, Indonesia sovereigns outperformed despite an initial 32% tariffs due to its larger domestic market, small trade surplus with the US and low US export share of GDP. The bonds were further supported on news that a sovereign wealth fund would pool investments with Qatar in Indonesia. There was also buying support for sovereigns and quasi-sovereigns in general due to a search for duration. This benefitted quasi-sovereigns from Korea and Philippines in particular.

In terms of laggards, the Thai Oil & Gas sector was the main drag due to the sharp drop in the price of oil in April driven by fears of a tariff-driven global slowdown. Higher beta perpetual bonds, as expected, were also amongst the weaker performers for the month.

Asia HY spreads widened in April although the market staged a strong rebound and saw opportunistic buying from the second week of the month. Sri Lanka was the weakest performer as the macro-linked bonds saw a pullback as investors factored in the potential economic impact of tariffs on Sri Lanka's economy. Meanwhile, Pakistan was also weaker due to a flare up in border tensions with India when 21 tourists were allegedly killed by Pakistan-based militants in the Kashmir region.

Despite China being subject to the highest tariffs, Chinese issuers in the HY space were one of the strongest performers in April as the issuers were more domestic focused and not directly affected by the tariffs. There was also less technical selling pressure on these bonds as there are fewer short-term holders of the bonds now. Well-capitalised Thai Financials and the domestically focused Macau Gaming sector were also more insulated from the correction.

Portfolio Review

The Fund's performance was mainly impacted by the weak risk sentiments in April, especially the spread widening in credit bonds. Our overweight allocation to HY detracted performance from the portfolio. Given the uncertainty in the trade negotiations between the US and the rest of the world, we remain cautious as headlines can cause markets to be gappy. As a result, we are nimble with our positionings and keep our positionings light. We would look for opportunities in security selection to deliver alpha to the portfolio.

Market Outlook

Macro sentiment is likely to continue to be volatile driven by unpredictable US policies. While economic data has generally been stronger than expected thus far, upcoming economic releases together with earnings guidance over the next few months should bear close scrutiny as the market looks for signs of slowdown and inflation driven by the trade tariffs. In trade-dependent Asia, many countries have begun bilateral negotiations with the US to reduce tariffs while China has been proactive in rolling out policy support. As the trade tariffs are global and not specific to Asia, we continue to expect Asia to lead growth in 2025.

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. Spreads are more attractive now while solid credit fundamentals and strong technicals should continue to support Asian credit valuation. With attractive all-in yields, we remain constructive on Asia credit with a slight preference to HY over 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 30 April 2025 unless otherwise stated.