

# 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 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. While investment grade (IG) spreads were trading in a tight range, 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 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.

In February, US Treasury narrative flipped from the fear of reflation to the fear of low growth. As a result, US Treasury rallied nearly 40 bps since the middle of the month, which drove most of the IG returns. Asian IG spreads continued to trade in a tight range and ended the month 1 bps tighter, defending the widening trend observed in most of the other credit markets.

Spread performance has shown more divergencies in terms of sectors and countries. In terms of sectors, China Technology firms were boosted by buoyant sentiments towards tech names after an open-sourced artificial intelligence

(AI) model developed by an emerging Chinese startup made a surprising debut and China asset management companies (AMCs) also tightened 3-5 bps. Bonds from a large Indian conglomerate also did well, boosted by positive corporate news. In terms of countries, Thailand, India, and China did well, while Indonesia and Philippines underperformed.

New issue market was very active in February, with new issues coming from a wide range of countries and sectors in the IG space. New issue debut performances were decent in general, despite little new issue premium, implying strong flow backdrop.

Overall, while Asian IG spreads are tight by historical standards, it is justified by solid corporate fundamentals and a strong technical picture. There remains some premium in the Asian BBB space, compared to BBB credits in the US.

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 for the month.

The Fund's performance was driven by both our overweight in duration and HY versus IG. Our security selection in Hong Kong and China has also contributed positively. Given the volatility in US Treasuries, our strategy is to be nimble on duration positioning. We maintain long credit spread via HY.

### 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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