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 March

Asia credit markets experienced elevated volatility throughout March 2026, driven primarily by escalating geopolitical tensions in the Middle East following US/Israel strikes on Iran and subsequent retaliatory actions. The ongoing conflict weighed on global risk sentiment, resulting in heightened macro uncertainty, sharp equity market swings, elevated energy prices, and constrained credit market activity across the region. Concerns around potential supply disruptions intensified as shipping activity through the Strait of Hormuz was significantly affected, adding further pressure on energy markets. Crude oil prices remained above USD 100 per barrel for much of the month, amplifying inflation concerns and contributing to renewed volatility across global fixed income markets. In response, the US Treasury yield curve shifted higher, with the 10-year US Treasury yield reaching around 4.4% at one point during March, as markets reassessed inflation risks linked to higher energy prices. Overall bond market participation remained cautious. Secondary market liquidity was lower, with investors reducing exposure to higher risk assets and focusing largely on higher quality credits. Against this backdrop, Asia credit posted negative returns in March. Both Investment Grade (IG) and High Yield (HY) segments declined, reflecting the combined effect of wider credit spreads and higher US Treasury yields. Over the month, Asia IG and HY returned -1.6% and -3.1% respectively. Primary market activity remained subdued. Only USD 24 billion of new bonds were issued in March, compared with USD 33 billion of bond maturities, resulting in negative net supply. Many issuers remained cautious, opting to wait for improved macro visibility and a more stable geopolitical backdrop before accessing the market.

Asian Investment Grade (IG)

Asian IG credit demonstrated relative resilience during the volatile market conditions in March. Despite significant macro and rates headwinds, IG credit spreads widened by only 6 bps, underscoring the defensive nature of higher quality Asian credits. Performance differentiation within the IG universe was largely driven by duration and beta exposure. Long duration bonds underperformed as US Treasury yields moved higher, with Southeast Asian sovereign and quasi sovereign issuers among the weaker performers given their generally longer duration profiles. High beta IG names also lagged amid risk off sentiment, including parts of the Adani complex in India and subordinated bonds issued by Taiwan life insurance companies. On issuer-specific developments, Zhongsheng Group was a notable detractor. The company's bonds traded down during the month following a profit warning issued in mid-March, which indicated a potential loss attributable to shareholders of up to RMB 2 billion for FY2025. Subsequently, S&P downgraded Zhongsheng Group to BBB- from BBB later in the month, adding further pressure on bond price.

Asian High Yield (HY)

Asian HY credit underperformed IG during March, with spreads widening by 77 bps amid a weaker macro backdrop, heightened geopolitical risk, and broad selling across risk assets. Market sentiment remained soft, particularly within lower quality and less liquid segments. Despite the weak monthly performance, Asia HY continued to outperform global peers on a year-to-date basis. As of end March, Asia HY delivered a -0.1% total return, compared with -0.5% for US HY and -1.1% for Global HY, highlighting the region's relative resilience over a longer time horizon.

Within the sector, sovereign and China property names were among the primary underperformers, reflecting heightened sensitivity to macro volatility and risk aversion. On individual issuers, GLP related bonds sold off sharply following reports that Chinese authorities had provided "window guidance" to domestic insurers limiting transactions with GLP China, triggering a repricing across the GLP curve. In contrast, there was a positive development for Sammaan Capital during the month. The Reserve Bank of India approved the acquisition of approximately 41.2% stake in Sammaan Capital by International Holding Company (IHC) through new equity issuance. Following this transaction, capital adequacy is expected to improve to the high 30% to low 40% range, from around 25% at the end of the December quarter, which supports the company's credit profile. Positive rating actions are expected following this development.

Portfolio Review

The Fund returned negatively in March, underperforming the benchmark amid a deterioration in global risk sentiment. Market volatility rose following the escalation of geopolitical tensions in the Middle East, which pushed oil prices higher and reignited inflation concerns, leading to a repricing of rates with US Treasury 10-year yields rising by around 15 bps. Credit spreads widened as risk aversion increased, with HY underperforming IG, weighing on relative performance given the portfolio's HY overweight. During the month, we trimmed bonds trading at tighter spreads, maintained elevated cash levels, and kept duration broadly neutral to preserve flexibility. The main detractors were our small exposure to Middle Eastern real estate developers, while shorter-dated bonds proved more resilient to higher yields and wider spreads. We continue to monitor developments closely and will look to deploy cash selectively should valuations improve on signs of de-escalation.

Market Outlook

Looking ahead, Asia credit markets are likely to face a more uncertain global macro and geopolitical environment, with market performance expected to remain uneven and sensitive to developments in global interest rates, energy prices, and political events. While the near-term impact of the Middle East conflict has already been reflected through elevated oil prices and risk sentiment, the potential longer-term implications, particularly related to sustained supply disruptions, warrant continued monitoring. Systemic risk across Asia credit markets appears limited at this stage; however, volatility is expected to persist. This reinforces the importance of diversification and selection across the Asia credit universe. Fundamentals across much of Asia remain stable, supported by generally solid balance sheets and manageable refinancing needs, while market technicals continue to benefit from disciplined issuance and a relatively contained supply backdrop. In this environment, a defensive and diversified investment stance remains an appropriate approach as markets navigate ongoing uncertainty and manage downside risks.

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