

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

In March, US Treasury yields were volatile, with 10-year Treasury yields reaching a high of 4.40% before retracing to 4.21%, which is unchanged on a month-on-month basis. US Treasuries eked out modest gains as stronger-than-expected service sector data for March was countered by concerns over the impact of high tariffs. For much of the month, escalating fears of a global trade war and slowing global growth dominated economic news, resulting in widening credit spreads. In Asia, hopes of fresh stimulus measures from China aimed at boosting consumption supported market sentiments. The National People's Congress concluded its week-long annual meeting, during which they announced an annual growth target of "about 5%" and raised the fiscal budget deficit to around 4% of gross domestic product (GDP).

Asian credit (JP Morgan Asia Credit Index – Composite) delivered a 0.1% return in March. Investment grade (IG) credits closed flat for the month, with favourable US Treasury movements contributing 0.7%, while credit spreads detracted 0.6%. High yield (HY) credits were up 0.4%, as the positive interest rate return of 0.6% offset the negative spread return of -0.2%.

On the issuance front, the primary market picked up pace, with an estimated USD 58 billion of new issuance across Asia Pacific credit markets in March as the blackout period came to an end. Some issuers also rushed to price deals ahead of "Liberation Day" on 2 April. There were some decent pricing discounts to the secondary curves as issuers focused more on certainty of execution and prioritising issue sizes over pricing. However, the performance of new IG and HY issues was lacklustre, reflecting some supply indigestion. Towards the end of the month, new issue spreads recovered slightly as supply slowed.

Asia IG spreads widened by 15 basis points (bps) on a month-on-month basis but benefitted from lower US Treasury yields, delivering flat returns for the month. Within IG credits, the lower beta Transport and Financial sectors outperformed. Conversely, the Diversified sector underperformed, mainly due to idiosyncratic news headlines around a Hong Kong conglomerate. The conglomerate's proposed disposal of its non-Hong Kong/China ports resulted in some volatility for its bonds. Chinese authorities asked state-owned enterprises (SOEs) to hold off on all new deals with the conglomerate's owner and his family, leading the firm to announce that it would delay signing any agreement to sell its Panama ports to one of the largest global asset managers.

From a country perspective, China credits outperformed. They were supported by expectations that the Chinese government would continue policy re-direction to increase support for consumption and social welfare. On the other hand, Indonesia credits underperformed due to macro uncertainties. President Prabowo's aggressive expansionary policies raised concerns about fiscal discipline, and the fast-tracking of Danantara raised questions about its objectives and governance framework.

Although Asia HY spreads widened by 17 bps in January, the total return was 0.4%. Within HY, the primary drivers of weakness were the Sri Lanka and Pakistan sovereign sectors. In Sri Lanka, comments from the Prime Minister indicated that the government would be restricted in its spending for the next two years as it balances campaign pledges to unwind tax increases and other austerity measures against limits set by the USD 3 billion International Monetary Fund (IMF) programme. In Pakistan, despite reaching a staff-level agreement with the IMF on a new 28-month arrangement under the Resilience and Sustainability Facility (RSF), the country was mainly affected by a decline in foreign exchange (FX) reserves by USD 540 million to a 6-month low of USD 10.6 billion.

On the other hand, Chinese and Hong Kong Real Estate sectors outperformed and contributed strongly to performance. This was primarily because the sector had sold off too much in the previous month, leading to a rebound in returns. A positive development in this sector was that a major Hong Kong property developer was in talks to secure HKD 15.6 billion in loans from banks, collateralised by one of its flagship properties. The proceeds would be used to prepay, repay, and buy back existing debt.

Portfolio Review

The Fund returned negatively (AMg USD, gross of fees) for the month.

The Fund's outperformance was driven by its positioning in duration and HY. On the duration front, the Fund benefitted from its long duration positioning. Its preference for HY bonds over IG bonds for better yield and carry also contributed positively to the portfolio's performance.

Fund performance benefitted from our active duration management over the month, where we managed to crystallise some gains before we moved back to a long duration positioning amidst risk-off market sentiments. On the credit side, we trimmed some credit bonds and raised cash ahead of Liberation Day, anticipating market volatility. As the primary market was active, we switched out of some lower-yielding bonds into higher-yielding bonds of similar ratings.

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, 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 of HY to 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 31 March 2025 unless otherwise stated.

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