

# 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, market sentiment was marred by concerns surrounding potential artificial intelligence (AI) driven disruption and renewed caution in private credit markets. Notwithstanding, geopolitical tension escalated in the Middle East which culminated in a US strike on Iran at the turn of the month. As a result, a rotation across asset classes saw haven demand for US Treasury bonds. The curve bull steepened with 2- and 10-year yields declining by 15 and 30 basis points (bps) respectively. Despite the less-than-encouraging backdrop, the JACI Composite returned 1.10%. This was driven primarily by carry and lower US Treasury yields. This was partly offset by a drag of 0.31% from spread returns as the Composite spread widened by 13 bps. The decompression was consistent across investment grade (IG) and high yield (HY) bonds as spreads widened by around 13-17 bps for both indices. That said, IG outperformed as they benefitted from a longer duration profile and stronger curve returns. IG returns were 1.15% as compared to HY returns of 0.77%. From a technical perspective, primary activities were subdued. Coupled with softer sentiment, it can also be explained by seasonal factors. It reflects the typical slowdown around the Lunar New Year period.

Asia IG credit posted returns of 1.15%. Long-dated bonds were the outperformers. This comprise largely of quasi or government related issuers in ASEAN and China. Spread widened by 13 bps which is a healthy correction as it retraced from the sub-100 spread region. In particular, spread widened in Indonesia following the MSCI's potential downgrade of Indonesia equity and Moody's downward revision of its credit outlook. For the latter, higher fiscal risks and greater uncertainty in the country's policymaking have led to an outlook change across several of Indonesia's quasi-issuers. This spilled over to the Philippines where its sovereign bonds also weakened. One of the spread outperformers was SK Hynix. This took place after S&P upgraded its rating by 1 notch to BBB+ while maintaining its positive outlook. As one of the

market leaders, strong sales figure and structural demand for its high-bandwidth memory (HBM) products have placed the issuer on a positive rating trajectory. Separately, Fitch also upgraded Sands China from BBB- to BBB. This reflects improved credit metrics of the overall group and a continued but slightly weaker-than-expected rebound in Macau. While its spread remains unchanged, it outperformed the rest of the complex. Most of February's new issuances were IG. Notably, we saw a rare maiden issuer out of Thailand. Advanced Info Service (AIS) is Thailand's largest mobile network operators with more than 50% of market share in both mobile and fixed broadband businesses. Given scarcity value in Thailand, there is strong demand for its USD 1 billion bonds that are priced over 2 tranches.

HY returned 0.77% for the month with modest spread widening. From a spread perspective, performance was led by a handful of Hong Kong Real Estate companies. Notably, New World Development outperformed on the back of supportive headlines, including discussions of a potential strategic equity investment. Report indicates that Blackstone was exploring becoming a major shareholder, which boosted confidence in the company's liquidity and restructuring trajectory. Similarly, Vanke rallied strongly following disclosure of an onshore bond extension framework, including 40% upfront repayment and collateral-backed maturity extensions. This kicks the restructuring can down the road and increased the odds of government-aligned support. These developments spilled over to the broader Real Estate complex and other high-beta names in China. GLP was an outlier as its bonds cheapened following a USD 500 million retap of its 2028 bond. There is supply indigestion as the issuer has earlier accessed the capital market in late 2025.

Away from China, Mongolia posted solid spread performance. Leaning on higher oil and commodity prices, Mongolia's bonds are supported by demand for stable frontier sovereign risk. On an issuer level, the main underperformer was Vista Land. This took place after the Philippines Securities and Exchange Commission (SEC) filed a criminal complaint seeking to prosecute Manuel Villar and his flagship Vista Land for alleged market manipulation and insider trading. This extends from a chain of negative events throughout 2025.

### Portfolio Review

The Fund returned positively in February. The portfolio began the month with a slight long duration bias but moved to a neutral stance towards month-end. The earlier duration positioning benefitted from lower US Treasury yields during the month. The portfolio maintained an overweight allocation to HY. However, JACI HY underperformed JACI IG as HY spreads widened by 17 bps compared to an 8-bps widening in IG, which weighed on relative performance. From a selection perspective, the main detractors were Vanke, Far East Consortium and Road King, which outperformed during the month but were not held in the portfolio. Conversely, the absence of Vista Land and eHi Car, which underperformed, contributed positively to relative returns.

### Market Outlook

Volatility has risen meaningfully as geopolitical tensions in the Middle East continue to escalate. The situation remains highly fluid, and the market reaction has been swift. Given the strong year-to-date performance, it would not be surprising to see some degree of profit taking as investors lock in returns and readjust risk in light of a more uncertain geopolitical backdrop. While we do not position for a specific geopolitical outcome, we prefer to err on the side of caution. We would like to maintain a reasonable cash balance to preserve portfolio flexibility. This would allow us to cushion the portfolio against potential bouts of volatility, and to take advantage of any dislocations that may arise should risk assets reprice. A sustained rise in the price of oil would keep inflation expectations elevated. This keeps interest rates sticky towards the upside. In an environment where interest rates are rising and spreads are decompressing, we find absolute carry to be increasingly attractive. Coupled with geopolitical uncertainty, we prefer to lean towards quality, focusing on issuers with resilient balance sheets, stable access to funding, and predictable cash

flow profiles. At the same time, Asia credit as an asset class remains structurally attractive. Unlike other markets, it is relatively insulated from AI-driven disruption and private credit concerns.

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