

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 saw a recovery in Asia credit markets following a volatile Q1, supported by improving global sentiment and expectations of a potential easing in Middle East tensions. This led to a broad-based tightening in credit spreads across both investment grade (IG) and high yield (HY) segments. Asia dollar credit spreads tightened by 11 basis points (bps) in IG and 73 bps in HY. The JACI returned 0.80% for the month, with gains largely driven by HY performance (2.04%) while IG posted more modest returns (0.62%). Performance was broad-based, with all countries ending in positive territory, led by frontier markets such as Sri Lanka. Despite the rebound in performance, markets still have to contend with a challenging macro and geopolitical environment. US Treasury yields were volatile throughout the month amid mixed economic data, shifting US Federal Reserve (Fed) expectations and oil price fluctuations linked to developments in the Middle East. As a result, while spreads tightened, total returns were slightly dragged down by higher Treasury yields and duration headwinds. Due to the improvement in sentiment, Asia dollar credit issuance rose slightly to USD 9.05 billion. That said, issuance conditions remained uneven and issuers were opportunistic at accessing the capital markets.

Asia IG credit posted returns of 0.62%. Spread over Treasury tightened to 62 bps which brings it back to pre-Iran conflict levels. Outperformers were higher beta tickers that include bonds in the Adani and Genting complex. On a country level, Indonesia stood out despite ongoing fiscal uncertainty in the country. Besides the sovereign, quasi and Energy related issuers performed relatively well against the index. While more modest, we also saw strong gains in Philippines via the sovereign bonds. Even though the country's outlook was revised to negative by Fitch, market participants were keen to capitalise on wider spreads and higher Treasury rates for longer-dated bonds in the sovereign space. In April, we saw rating upgrade for a handful of IG issuers. Taking cue from S&P earlier in February, Fitch upgraded its rating of SK Hynix

by one notch to BBB+. While this action is not surprising, spread for the issuer continue to compress. The other notable rating action took place in Shriram, a crossover name. After Fitch's upgrade of its rating to BBB-, Shriram bonds have now moved away from the HY to the IG index. This is reflected by spreads that are now trading in the sub-100 bps region. Primary activities were largely coming out from Korean issuers. That said, we saw some rare issuance from banks in Malaysia and Indonesia which come with some scarcity value

HY returned 2.04% for the month, driven by strong spread compression to 372 bps over Treasuries. The rebound in risk appetite reflects a broad-based rally across high-beta and distressed segments following improved geopolitical sentiment. This enabled a flurry of primary activities as issuers took advantage of lower credit spread. Notably, Genting Overseas was able to successfully price USD 1.25 billion in a hybrid format as they look to defend their IG status. Performance was led primarily by frontier sovereigns. Taking back some of their losses in March, Sri Lanka and Pakistan registered gains of more than 4% in April. Besides the sovereigns, other outperformers comprise of generic high-beta China credit and distressed names such as the like of Vanke and eHi Car. While there were only a handful of credit which registered negative returns, two of these are worth pointing out. Firstly, GLP traded softer amid a news vacuum. Investors are looking ahead to the company's full-year release in early May as a guidepost. Secondly, Far East Consortium weakened after the company announced that it would defer the 18 April distribution on its perpetual bond. While not surprising for this issuer, this would be a precursor to a potential future liability management exercise (LME) action by this issuer.

Portfolio Review

The Fund delivered a positive return, outperforming the benchmark on a gross-of-fee basis, as market sentiment recovered during the month. The portfolio's overweight allocation to HY was the main contributor to excess returns, as HY outperformed IG, with JACI HY spread returns more than offsetting the impact of higher US Treasury yields. IG bonds also generated positive returns, though to a lesser extent than HY. The portfolio's overweight duration position detracted from performance as US Treasuries sold off, while excess cash was deployed selectively into bonds over the course of the month.

Market Outlook

Spreads have broadly retraced to pre-conflict levels, reflecting a sharp improvement in risk sentiment as tensions eased. This recovery has been swift and partly driven by a reduction in elevated cash levels at the height of the tensions. While the macro backdrop has stabilised, with geopolitical risks moderating from their peak, uncertainty remains elevated. In particular, we need to be mindful of the persistence of higher oil prices and the potential second-order impact on inflation and growth trajectories. Against this backdrop with tighter credit spreads, we prefer to adopt a more cautious stance in overall risk positioning. Portfolio construction is therefore tilted towards carry generation rather than capital appreciation, with a reduced emphasis on duration given tighter spreads and ongoing rate volatility. At the same time, we maintain a focus on higher-quality credits with resilient balance sheets and clearer refinancing visibility. In this environment, we see selective opportunities in the primary market. Issuers have returned to tap improving conditions but remain willing to offer concessions to ensure execution, particularly amid still-erratic market sentiment. This provides a more attractive entry point relative to secondary markets, allowing us to capture incremental yield while maintaining discipline on credit selection.

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sg.allianzgi.com

+65 6438 0828

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