Allianz Global Investors

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 June

Sentiment for Asia credit was mixed in June with the positive development on trade talks being offset by the escalation of tensions in the Middle East. On the trade side, the US and China established a framework for implementing the Geneva consensus following the high-stakes trade talks in the first week of June. A deal was signed between the two nations later in the month and the US Commerce Secretary hinted to potential agreements with more major trading partners in the weeks ahead. For Middle East, Israel and Iran exchanged attacks since mid-June, with international concern growing that the crossfire will spread across the oil-producing region. A tentative ceasefire was later announced and confirmed by both parties, but the market remained sceptical of the truce. Despite all the uncertainties and volatilities in the market, Asia credit continued to demonstrate resilience with both investment grade (IG) and high yield (HY) reporting positive returns in June. On the rates side, US Treasury yields fell significantly during the month, driven by benign inflation data and dovish commentary from US Federal Reserve (Fed) governors backing an earlier rate cut.

Asian credit (JP Morgan Asia Credit Index - Composite) was up 1.2% in June. IG credits returned 1.2%, with spread returns of 0.2% and interest rate returns of 1.0%. HY credit was up 0.8% with all of the returns coming from interest rates.

New issuance was very active in June with a total issue size of USD 39 billion, up 80% from the previous month. With close to USD 37 billion of maturities, net supply was slightly positive in June. Most of the new issuance was from the Financials sector and rated IG. Primary demand remained strong and most of the issues closed flat or above issuance levels.

Asia IG bonds were trading range-bound in June given lots of uncertainties on trade development, geopolitics in the Middle East, and US interest rate direction. Although spreads were just 1 basis point (bp) tighter compared to a month ago, Asia IG still managed to report a positive total return of 1.2%, thanks to the decent carry and strong rally on US Treasuries. In terms of sector performance, higher quality names outperformed on the back of flight to quality demand. Investors were moving up the credit curve given the uncertainties ahead. As a result, Korea, Malaysia and Singapore IG outperformed given their better credit quality in general within the IG space. Taiwan IG, on the other hand, underperformed with spreads of the life insurance sector continuing to trade wider on foreign exchange (FX) and new issue supply concerns.

Despite the outbreak of the Israel-Iran conflict, Asia HY held up well in June, where spreads merely widened by 19 bps. The most dramatic name within the HY space was a major Hong Kong property developer, where the price of its perpetual bonds dropped to a historical low after the announcement of a coupon deferral for all outstanding perpetuals on the last day of May. The liquidity concern spilled over to the bullet bonds as well, dragging their prices down by 3-7 points. Subsequently, bond prices recovered gradually throughout the month as the company made progress on refinancing its existing offshore loans. Outside of this company, the sovereign space continued to perform well in June with both Pakistan and Sri Lanka ranked among the top performers. On detractors, despite the improving macro environment in the China property space, a prominent developer was one of the weakest performers in Asia HY during the month. Its bond prices fell after the company launched a consent solicitation to pay payment-in-kind (PIK) interests and waive any default.

Portfolio Review

The Fund returned positively (AMg USD, gross of fees), outperforming the benchmark for the month.

Fund performance was primarily driven by US Treasury exposures, which benefitted from declining interest rates. Spread returns were modest, as credit spreads remained largely stable. The portfolio’s overweight duration positioning and higher yield relative to the benchmark both contributed positively as well. Looking ahead, while worst-case tail risks have eased, macroeconomic uncertainty remains elevated. Spreads are still wider than year-to-date tights and are expected to stay range-bound, with limited scope for meaningful tightening or widening. All-in yields continue to offer attractive levels, supporting a carry-focused strategy. Asia IG bonds present a compelling risk-reward profile, with historically lower drawdowns during periods of market stress. Technicals remain supportive, and the portfolio maintains an overweight in HY bonds to capture enhanced carry opportunities.

Market Outlook

With the Middle East conflict being temporarily resolved, market focus is now turning back to the US economy which should remain highly uncertain given Trump’s unpredictable policies. As global investors reassess the concentration of risk in US credits, Asia stands out as a compelling destination for diversification, underpinned by the strong fundamentals with limited tariff exposure. Asian IG credits provide a resilient high-quality alternative to US issuers while HY credits offer the highest yield among peers with contained default risk. Technicals continued to be supportive to Asia credits with year-to-date net supply remaining negative after factoring in coupon payments. As a result, we remain constructive on Asia credit with a slight preference of HY to IG. We maintain our long carry position, expect security selection to be the key long-term positive contributor and look to increase credit beta on the back of global-induced selloffs.

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All data are sourced from Bloomberg and Allianz Global Investors, as at 30 June 2025 unless otherwise stated.