

# Allianz HKD Income

## Monthly commentary

### Investment Objective

The Fund concentrates on Hong Kong Dollar denominated debt markets. Up to 30% of fund assets may be invested in assets denominated in Offshore-Renminbi. The proportion of assets that at the time of acquisition are high yield issues (minimum rating: B-) may not exceed 30%. Asset- or mortgage-backed securities may not be acquired. The aim of the Fund is to attain long term capital growth and income.

### What Happened in February

Global bond prices moved higher in February, with investors fleeing to safe haven assets on the back of President Trump's tariffs, coupled with softer-than-expected economic data. 10-year US Treasury yields fell by 33 basis points (bps) to 4.21%. President Trump imposed tariffs of 25% on all aluminium and steel imports with no exceptions given, scheduled to take effect from 12 March. In addition, tariffs on China's imports were raised to 20% from the initial 10%, with the increase taking effect on 4 March. Trading partners Mexico and Canada were not spared as well, with tariffs at rates of 25% coming into effect also on 4 March. The president also announced plans to impose further tariffs of 25% on imports from the European Union (EU), as well as all automotive, semiconductors, and pharmaceutical imports at rates of 25%. On the data front, consumer sentiment slumped to a 15-month low amid tariff and inflation worries. The Michigan Consumer Sentiment index dropped 6.4 points to 64.7, the largest monthly decline since May and falling short of the 67.8 forecast. Initial jobless claims also came in higher than expected at 242,000 versus expectations of 221,000. Meanwhile, inflation data for January came in as expected, with core personal consumption expenditures (PCE) index increasing 2.6% year-on-year.

In February, Hong Kong's money market conditions tightened, with the 3-month Hong Kong Interbank Offered Rate (HIBOR) rising by 20 bps to 4.0% by the end of the month. This increase was likely driven by new initiatives to expand equity inflows, as announced in the Hong Kong budget for the fiscal year 25/26. These initiatives have strengthened the HKD, pushing up borrowing costs and leading to an appreciation of the HKD currency to 7.78 against the USD. On the economic data front, consumer price index (CPI) printed at 2.0%, while year-on-year retail sales by value for December fell by 9.7%, indicating weak consumption spending. Despite this, unemployment rates remained low at 3.1%.

## Portfolio Review

The Fund (Class AM HKD, net) returned positively for the month.

Duration rally was the main contributor for performance in the month with short-dated HKD bonds contributing the most to performance. On the other hand, bottom contributors were some Hong Kong quasi government issues.

## Market Outlook

In Hong Kong, the latest budget introduced key measures to support future Hong Kong development, including innovation and technology, and further integration and cooperation with mainland China. Government bond issuances are expected to increase to finance higher capital works expenditures, but government debt-to- gross domestic product (GDP) is expected to maintain a stable and manageable level, lower than that of many advanced economies.

We see front-end rates staying well-anchored, and the longer end of the curve may underperform if a deteriorating fiscal outlook drives up term premia.

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All data are sourced from Bloomberg, IDS, State Street Luxembourg and Allianz Global Investors as at 28 February 2025 unless otherwise stated.

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