Allianz Global Investors

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 September

Global bonds rallied as the US Federal Reserve (Fed) joined an increasing number of developed market central banks in starting to ease monetary policy. The Fed's larger-than-usual 50 basis point (50 bps) cut was accompanied by forecasts of further cuts this year and in 2025. The European Central Bank (ECB) also reduced borrowing costs, marking its second cut this year, while the Bank of England (BoE) kept rates on hold, but indicated that borrowing costs were likely to be reduced later this year. While the Bank of Japan (BoJ) also kept rates on hold, the People's Bank of China (PBoC) announced a package of measures aimed at supporting the economy and the property sector, including lowering the reserve requirement ratio for banks and cutting some loan rates.

HKD funding conditions tightened, and short-dated money market rates rose towards the end of September. China announced a raft of easing policies including a liquidity backstop to shore up the equity market, leading to a rally in Hong Kong equities and higher demand for HKD. HKD appreciated by 0.32% to 7.7730 per USD. On the data front, the unemployment rate stayed low at 3%, while exports and imports were softer than expected in August.

Portfolio Review

The Fund delivered a positive return in September. Positive contribution mainly from a rally in global rates, while selective Hong Kong property exposure detracted performance.

Market Outlook

With recent data continuing to support a benign inflationary picture, the market has shifted the focus from inflation to growth and we would closely monitor the labour market condition to gauge the pace of Fed easing path. The upcoming

US elections and a Middle East conflict can impact markets, but we would caution against drawing outright investment conclusions. Democrats and Republicans have varying approaches to trade, taxes and foreign policy, but US debt is likely to keep growing under either administration. We maintain the view that the short to intermediate part of the curve would benefit from the synchronised easing cycle.

Markets are beginning to pare back expectations for US growth and the Fed has begun cutting rates by 50 bps in September. With easing inflationary pressures and a softening labour market, the Fed would continue to proceed the easing path with a data-dependent approach. Bond volatility may remain as markets begin to focus on the US elections in November. Uncertainty on the outcome of the presidential election and the make-up of the next Congress may have important implications for fiscal, trade and immigration policy, driving expectations to some degree when it comes to US and global growth, inflation, as well as the future trajectory of monetary policy. We maintain the view that the short to intermediate part of the curve would benefit from the synchronised easing cycle.

All data are sourced from Bloomberg, IDS, State Street Luxembourg and Allianz Global Investors as at 30 September 2024 unless otherwise stated.