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 June

In June, US bonds were boosted by growing hopes for US rate cuts and weaker-than-expected inflation data, while yields on eurozone government bonds rose after the European Central Bank (ECB) cut its key interest rate by 25 basis points (bps) and suggested it may be nearing the end of its rate-cutting cycle. In general, corporate bonds outperformed sovereign debt.

In Hong Kong, lower interest rates led to carry trades which drove HKD to the weak end of the peg. Hong Kong Monetary Authority (HKMA) intervened in late June to maintain the peg and withdrew HKD 9.4 billion from the system. As a result, the 3-month HKD Hong Kong Interbank Offered Rate (HIBOR) rose 36 bps in June. In economic data, unemployment rate rose slightly to 3.5% in May. Both imports and exports accelerated more than expected. Retail sales improved from previous reading but were below expectations.

Portfolio Review

The Fund (Class AM HKD, Net) returned positively for the month. USD bonds outperformed HKD bonds given that the market has repriced the higher probability of a US Federal Reserve (Fed) rate cut this year. On the other hand, performance of selective HKD bonds lagged, which may be due to quarter-end liquidity tightening and rising expectation of HKMA withdrawing liquidity at the weak end of the peg. The key detractor was a Hong Kong's quasi sovereign bond, and the key contributor was Japanese insurance USD bonds.

JUNE 2025

Market Outlook

Global bond markets have stayed sanguine despite the US bombardment of Iran's nuclear sites and Iran's retaliatory strike at US military bases in Qatar. The spike in oil prices and the US dollar has since dissipated and given way to a rally in risk assets, as Iran's retaliation was generally viewed as symbolic and a ceasefire appeared to take hold. Meanwhile, the US Treasury market remains largely unfazed by geopolitics. There has not been a material "flight to safety" and markets seem mainly influenced by the direction of US monetary and fiscal policy. However, there appears to be a growing contingent of Fed voting members in favour of an imminent rate cut, though Chair Powell has signalled that he is in no hurry. We continue to expect the yield curve to steepen in the US due to economic growth risks and concerns of a deteriorating fiscal outlook.

HKD is likely to stay at the weak end of the peg until interest rates gap with US narrows. It is expected that HKMA will drain liquidity in an orderly manner. Hong Kong rates are likely to go up in such event but unlikely to go back to the level seen at the beginning of the year given the abundant liquidity.

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