

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 October

Global bonds sold off, with yields rising sharply in the US as polls indicated Donald Trump was likely to win November's presidential election. The former president has promised to hike import tariffs substantially, while tax cuts are likely to further swell the fiscal deficit. The yield on the 10-year US Treasury bond rose 50 basis points (bps) over the month to close just below a 4-month high of 4.3%.

In Hong Kong, the HKD funding condition tightened, with short-dated money market rates rising in October. The latest policy address by Hong Kong policymakers was also positive, with policymakers' stating clear ambitions to enhance the city's development and growth. On the currency front, the HKD was little changed.

Portfolio Review

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

The Fund delivered a negative return in October and pared back some of the year-to-date return, as positive interest income was not able to offset the negative impact from a sell-off in global rates.

Market Outlook

Following the recent backup in sovereign bond yields, duration and fixed income in general is increasingly looking attractive. Bond market volatility may remain elevated in the near term as market digests Trump's policies and its impact on the global economy. Nevertheless, with the US election results now known, markets are likely to return their focus to the economy and the path of interest rates.

In the US, the labour market is loosening from a tight position, wage growth and spending patterns do not point to a sharp slowdown. Overall, the economy is still relatively resilient and points to a soft landing, this should allow the US Federal Reserve (Fed) to proceed the easing path with a data-dependent approach.

In Hong Kong, the latest policy address should positively benefit market sentiments and allow the abundant liquidity condition in Hong Kong to remain. We maintain the view that the short to intermediate part of the curve would benefit from the synchronised easing cycle.

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All data are sourced from Bloomberg, IDS, State Street Luxembourg and Allianz Global Investors as at 31 October 2024 unless otherwise stated.

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