

Allianz

Oriental Income

Monthly commentary

Investment Objective

The Fund aims at long-term capital growth by investing in Asia Pacific equity and bond markets.

What Happened in March

Asia Pacific equities were mixed in March with a wide divergence of returns across markets as erratic tariff news was digested. India rebounded strongly after several months of weakness, led mainly by positive domestic fund flow. In contrast, Taiwan lagged with the Tech sector seeing a particularly sharp pullback in line with the semiconductor sector globally. China equities made modest gains. Tech stocks led the way for the first half of the month, continuing to rally after the success of an emerging Chinese startup, which launched an open-sourced artificial intelligence (AI) model, sparked growing interest in the sector, but closed the month on a weaker note.

Elsewhere, Japan stocks were modestly stronger. The Bank of Japan (BoJ) held rates at 0.5% at its March meeting, as expected. Preliminary data indicated that the spring “shunto” wage negotiations reflect the biggest pay hike in 34 years, with an average figure of 5.46%. ASEAN markets were mixed against a backdrop of volatility owing to trade war tensions. The Singapore market was a defensive safe haven, but elsewhere Thailand and Indonesia were notably weaker.

Portfolio Review

The Fund underperformed the benchmark in March. Stock selection in the Information Technology sector was the key driver of the relative underperformance, with the sector becoming vulnerable to tariff-related pressures. As such, our Taiwan companies were most negatively affected by trade tensions. Meanwhile, our positioning in Japan offered more resilience and delivered a positive stock selection contribution during the month.

For example, a key detractor over the month was a Taiwanese semiconductor company focused on high-complexity and high-volume chip design, which projected slower revenue growth amid uncertainty around AI chip demand, especially from its important cloud service provider customers. In this case, we maintain our longer-term conviction on the stock.

Conversely, a top contributor was a Korean industrial company that specialises in aerospace and is known for its technological innovation. The company announced a significant results “beat” with both sales and margins ahead of expectations. Management guidance was also upbeat. This sector as a whole has benefitted from geopolitical uncertainty, and this company has also expanded its product offering, including more eco-friendly products using electric engines and hydrogen fuel cells.

We have been quite active in repositioning the portfolio in recent weeks. For example, we have significantly reduced the allocation to Taiwan from 24% at the beginning of the year to 15% at the end of March. There are signs of weakening demand for certain technology companies, related in part to the fast-moving changes in AI-related developments.

Correspondingly we have added to China/Hong Kong exposure which has risen from 14% at the beginning of the year to 23% at the end of March. This includes additional investments into the China tech ecosystem as well as biotech and financial services companies.

In Japan, we continue to focus on stocks where we see potential for enhanced shareholder returns and an improved earnings outlook as a result of governance reforms and a more inflationary environment. Many of these names sit in the Industrials and Financials sectors.

Market Outlook

Shortly after the end of the month, Asian equity markets were turned on their head by Trump announcing significantly higher-than-expected tariffs. After signalling restraint earlier in the year, China in particular retaliated with a strong tit-for-tat response. Although China basically matched US actions rather than escalating further, showing it is still open to negotiation, in practice the outlook is highly uncertain. We expect a significant policy response from China focused on stimulating domestic demand.

Across the region, there could be channels for Asia to see some respite. Regional central banks have some propensity for policy easing, for example, especially if the US dollar continues to weaken. India is a more domestic demand-driven economy and is correspondingly less exposed to US tariff risk. Structural drivers also remain in place for a more positive outlook in Japan. Our focus has been on companies that have the franchise strength to better withstand tariff pressures.

While we are still facing significant uncertainty as Trump is disrupting the global economic/trade order with his tariff announcements and more time is needed to see where things settle, we are looking to add to stocks that have been overly punished in the market volatility, as well as potential beneficiaries of Asian domestic policy stimulus measures to offset the tariff impact.

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