

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 February

Asia Pacific equities were lower overall in February but there was a large divergence of returns across markets. China equities rallied strongly with an emerging Chinese startup, which launched an open-sourced artificial intelligence (AI) model, being the catalyst as it became clear that China is significantly more advanced in the global technology and AI race than was previously understood. This realisation triggered a substantial re-rating of Technology stocks. The advance was also driven by hopes that US tariffs may prove to be milder than expected, although the gains were tempered by President Trump's month-end announcement of an additional 10% US tax on Chinese exports.

Elsewhere, Japan equities were lower although returns to international investors were supported by a further appreciation of the Japanese yen. The market was pressured by concerns over President Trump's policies as well as higher bond yields, with Japan's headline inflation rate climbing to a two-year high of 4.0%. Along with this there were further signs of modest economic recovery as Japan's gross domestic product (GDP) grew at an annualised rate of 2.8% in the final three months of 2024, marking the third consecutive quarterly expansion. India was again a notable weak spot, driven by decelerating corporate earnings, uncertainty around tariffs, and domestic growth concerns.

Portfolio Review

The Fund underperformed the MSCI AC Asia Pacific Index in February. Stock selection in Japan was the key driver of the relative underperformance, with several of our holdings, which had previously performed well, becoming vulnerable to profit taking during the month. Stock selection among Technology companies was mixed during February, as AI-led euphoria from China and fears of trade tensions affected some stocks more than others.

For example, a key detractor was one of our Taiwan technology holdings, which suffered from executive changes and the fallout from a cyber security attack in late January. We retain conviction in this business, which is a global leader in the production of high-end printed circuit boards and Ajinomoto Build-up Film (ABF) substrate, a specialised material used in semiconductor packaging and interconnection processes.

Conversely, a top contributor in February 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 are maintaining the broad positioning of the portfolio, focusing primarily at the stock level to identify companies set to benefit from competent management execution and which should correspondingly deliver through-cycle earnings growth. At a geography level, the key overweight exposure is in Taiwan, especially companies expected to be key suppliers into the next generation of AI technology and related industries.

We have reduced our exposure in Japan somewhat, although it is still the largest allocation in the portfolio at around 30%. 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. This is a long duration trend, and where we have seen stronger near-term opportunities, we have used some Japan exposure as a source of funds.

While the Fund remains underweight in China, in recent months we have increased allocations to areas including insurance, ecommerce, and cloud-based software, which should benefit from macro stabilisation, as well as specific names offering favourable valuations at current levels.

Market Outlook

We maintain a constructive longer-term view on the regional outlook. Although there has been near-term volatility as a result of uncertainties related to higher tariffs, for much of the region we see resilient corporate earnings and reasonable valuations. China authorities, in particular, will likely react with further domestically focused stimulus measures in the event of a major hike in tariffs.

Elsewhere, the Indian market has seen around a significant pullback. We see this as some healthy profit taking rather than a more fundamental change. Structural drivers remain in place for a more positive outlook in Japan. And we also continue to see the region being a beneficiary of technology developments. Underlying this, we view the AI story is a structural market driver that has the potential to deliver productivity gains across many parts of the global economy.

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All data are sourced from Bloomberg and Allianz Global Investors as of 28 February 2025 unless otherwise stated.

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