

# 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 April

April was a volatile month for Asia Pacific equities. Stocks tumbled following President Donald Trump's "Liberation Day" of sweeping tariffs early in the month, with tariff-related turmoil dominating the headlines throughout the rest of April. China dragged regional equities lower amid fears that tit-for-tat tariff hikes by the world's two biggest economic powers could signal the start of a full-blown trade war. Hopes of fresh stimulus measures from Beijing and signs of de-escalating trade war tensions brought some relief towards month end.

Taiwanese stocks also moved lower, despite the bullish outlook of an index heavyweight semiconductor company. During the month, the Taiwanese government deployed a USD 15 billion financial stabilisation fund after Trump's tariff announcement spurred the stock market's biggest loss on record. Meanwhile, tech-heavy Korean equities outperformed most regional peers, even as officials warned of escalating downside risks. Elsewhere, returns to international investors in Japan were boosted by the strength of the yen, which hit the psychological barrier of USD/JPY 140 for the first time this year. Dovish commentary from the Bank of Japan (BoJ) Governor Kazuo Ueda also helped to calm market jitters.

#### Portfolio Review

The Fund underperformed the benchmark in April. Stock selection in the Information Technology sector was the main source of weakness. A Taiwanese semiconductor company focused on high-complexity and high-volume chip design was the main detractor. It is vulnerable to slower revenue growth amid uncertainty around AI chip demand in light of tariff trade barriers and broader ambiguity around what success will look like for cloud and AI solutions in a quickly evolving technology environment. We have reduced the position size.

Conversely, a top contributor was a Korean industrial company that specialises in aerospace and is particularly known for its technological innovation. The company has been benefitting from improving sales and margins, and the sector - as a whole - has been a beneficiary of global geopolitical uncertainty. We believe this company is well positioned given its expanded product range, which includes more eco-friendly products using electric engines and hydrogen fuel cells.

There is a high level of uncertainty as countries across Asia reassess their relationship with the US. We see some potential for downside risk as higher risk premiums are not fully discounted in markets. As such, we have been building a buffer for some downside protection by raising cash and adding to fixed income. We will aim to deploy the cash in periods of market weakness.

Since last year, we have increased the portfolio exposure to China. This is partly a reflection of improved valuations as well as increasingly supportive government policy action. The announcement of an open-sourced artificial intelligence (AI) model developed by an emerging Chinese startup also demonstrated China's impressive advances in technology and AI. We have added to e-commerce/Internet stocks as well as Insurance and Health Care companies.

Conversely, we have significantly reduced the allocation to Taiwan from 24% at the beginning of the year to 9% at the end of April. There are signs of weakening demand for certain Technology companies, related in part to the fast-moving changes in AI-related developments. 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.

A large proportion of the Fund remains invested in mid and small cap stocks, which can lead to shorter-term volatility but has historically been a key source of added value and an area where we believe we can find differentiated ideas that are mispriced.

## Market Outlook

In early April, 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 think it is increasingly likely there will be decisive and forceful policy changes including the government stepping up support for asset prices, not just in equities but in the crucial housing market as well.

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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