

# 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 September

Asia Pacific equities rallied over September, but market returns were mixed. Regional markets enjoyed a particularly strong end to the month following the Chinese authorities' announcement of the biggest stimulus package since the pandemic, as they attempted to kick the economy out of its doldrums and boost equity valuations. Additionally, sentiment was lifted by the US Federal Reserve's (Fed's) first cut in interest rates in more than four years, and a weaker tone to the US dollar.

In Japan, equities were broadly flat in USD terms. On the political front, Shigeru Ishiba unexpectedly became Japan's next prime minister. The market initially reacted negatively given his reputation as an advocate for fiscal discipline and being a backer of the Bank of Japan's (BoJ's) ongoing shift away from its decade-long unorthodox monetary policy. However, Ishiba subsequently signalled his opposition to further interest rate hikes which led to a jump in the equity market, as well as a weaker Japanese yen.

Elsewhere, Taiwanese shares were broadly flat, but South Korean shares lost ground as corporate reforms appeared to stall, and a bellwether stock delivered results below expectations. Meanwhile, ASEAN markets advanced, benefitting from both Chinese stimulus measures and currency appreciation versus the US dollar. Australian stocks rose modestly, with the ASX 200 Index reaching fresh highs mid-month, buoyed by gains from its heavyweight banks.

## Portfolio Review

The Fund lagged the MSCI AC Asia Pacific Index in September. Stock selection in the Information Technology sector was a key source of detraction, with several Taiwan stocks impacted by the broad pullback in the Technology space related to concerns on artificial intelligence (AI) adoption and commercialisation. Generally, we see the weakness as continued profit taking, particularly as investors look to use their previous “winners” as a source of funds to cover light China positioning.

At a market level, an underweight position in China detracted, given the sharp rally in the market although stockpicking in China contributed positively, led by Financials and ecommerce exposure. Stock selection in Thailand, South Korea, and Japan also boosted relative returns.

The broad positioning of the portfolio remains in place. At a geography level, the key overweight exposures are in Japan and Taiwan. In Japan, we continue to focus on stocks where we see potential for enhanced shareholder returns and an improved earnings outlook. In Taiwan, our focus is primarily on Technology stocks, especially in companies which we see as key suppliers into the next generation of AI technology and related industries. Underlying this, we believe the AI story is a structural market driver that has the potential to deliver productivity gains across many parts of the economy.

While the Fund remains underweight in China, we have recently added a major oil and gas producer. The stock has lagged significantly in recent months, bringing it back to attractive valuations, and as a large index constituent it should also benefit from flow of funds in a more risk-on environment.

## Market Outlook

We maintain a constructive longer-term view on the regional outlook. The peak of the US rate cycle should provide a supportive overall backdrop, especially if accompanied by a weaker dollar. Overall, valuations generally remain at reasonable levels.

The outlook in China also seems to be improving with the recent slew of policy measures. It is, nonetheless, still unclear how large the latest round of China stimulus will be and how effectively it will be implemented. While the recent policy initiatives have been successful in jumpstarting markets and boosting domestic confidence, eventually it will still be necessary to address the more structural problems, especially related to the property sector, as well as the broad-based deflationary pressures.

Finally, we believe that structural drivers remain in place for a more positive outlook in Japan. In particular, the combination of higher inflation as well as ongoing governance reforms should contribute both to improved earnings as well as a greater focus on shareholder value. We also continue to see the Japanese yen as fundamentally undervalued.

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All data are sourced from Bloomberg and Allianz Global Investors as of 30 September 2024 unless otherwise stated.

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