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 June

Asia Pacific equities rose in June, even as geopolitical jitters continued to linger in the background. South Korea was the strongest market, boosted by post-election reform optimism after the new president was inaugurated. A rally in global Technology stocks also buoyed the market as well as leading to gains in Taiwan. Chinese equities recovered from a sharp selloff in reaction to the “Liberation Day” tariff announcements. June saw a rebound, with the market benefitted from an easing in trade tensions, with the US and China agreeing a “framework” to implement the consensus reached in Geneva.

In Japan, the market closed modestly higher despite protracted trade talks between Tokyo and Washington. Trump’s tariffs are already having an impact, with Japanese exports falling by 1.7% in May compared with the same period last year. Core inflation rose to 3.7%, driven higher by surging rice prices. Prime Minister Shigeru Ishiba has promised a slew of measures to ease voter dissatisfaction about soaring food prices and low wage growth. Meanwhile, ASEAN equities generally fell as investors rotated into safe-haven assets amid soaring tensions in the Middle East. In Thailand, the index hit a 5-year low amid political turmoil as the country’s Constitutional Court suspended the prime minister.

Portfolio Review

The Fund outperformed the benchmark in June. Stock selection in the Information Technology and Health Care sectors was particularly beneficial, with names from a broad base of geographies – Japan, China, Korea, Taiwan, and Australia – being key contributors. A baseboard management control supplier from Taiwan was a particularly strong performer. This business plays a significant role in the global artificial intelligence (AI) supply chain, especially given its relationships with hyperscalers and dedicated enterprise customers. Korean Tech names were also strong during the month, represented across both memory names and digital applications for social messaging and entertainment.

Conversely, a global logistics and freight management business headquartered in New Zealand has been a detractor. We have held this stock in the portfolio for more than a decade and continue to believe it is an exceptionally well-managed business with a highly competitive service and customer-focused culture. The share price has traded sideways for most of the last year in the face of headwinds from slower global growth projections.

Given the high level of market and macro uncertainty, particularly as countries across Asia reassess their relationships with the US, we had built a buffer earlier in the year by raising cash and adding to fixed income. During June, we deployed some of the cash to take advantage of specific stock opportunities. As an example, we initiated new ideas in the areas of semiconductor equipment testing, luxury postpartum care, and a producer of thermal control components primarily used in areas such as electric vehicles (EVs) and also increasingly in humanoid robots.

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 AI model developed by an emerging Chinese startup also demonstrated China's impressive advances in technology and AI which, in our view, have not yet been widely understood. We have added to ecommerce/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 11% at the end of June. 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 significant 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

Overall, we are quite cautious about the near-term outlook for regional equities. Global trade developments, especially the ongoing decoupling of the US and China, are likely to result in weaker growth. As well as putting pressure on corporate earnings, the visibility of growth is also reduced with some companies declining to provide their usual quarterly guidance.

Offsetting this to some degree is a weaker US dollar, which has led to relative appreciation among many regional currencies and provides Asian central banks with scope to lower interest rates. In China, we anticipate there will be more decisive support in order to achieve the annual economic growth target. Structural drivers such as ongoing governance reforms also remain in place for a more positive longer-term outlook in Japan.

In this environment, we are looking for opportunities 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. Companies with strong balance sheets, exposure to long-term structural trends, and a competitive edge remain in focus.

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All data are sourced from Bloomberg and Allianz Global Investors as of 30 June 2025 unless otherwise stated.

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