

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 November

Asia Pacific equities were broadly down in November although there was diverging performance across the region. Trump's victory raised the prospect of higher tariffs on exports to the US, triggering an initial sell off in China equities before they stabilised later in the month. A stronger dollar also presented headwinds, especially for the smaller ASEAN markets.

Australian stocks advanced, with key indices touching a fresh record high towards month end as the market posted its strongest monthly gain since July. In contrast, shares retreated in Taiwan and South Korea. The Bank of Korea reduced interest rates by 25 basis points to 3.0%, marking its second consecutive monthly cut. Japan equities eased slightly in local terms, although the stronger yen improved returns to international investors. Minutes of the Bank of Japan's (BoJ's) October meeting confirmed that the central bank expects to continue to raise rates gradually. Expectations are growing that the BoJ will likely raise rates again in December or at the latest, the start of 2025.

Portfolio Review

The Fund underperformed the MSCI AC Asia Pacific Index in November. Key detractions came from stock selection in the markets of South Korea and Japan, where our large positions in Information Technology names lagged and offset better selection effects in Health Care and Financials.

For example, a key detractor was a South Korean small cap technology company, which is a global leader in inspection equipment for consumer and auto electronics. We see significant opportunities ahead for this company in artificial

intelligence (AI)-based smart solutions. However, as some other parts of the business are seeing weaker demand that may be sustained for some time, we have taken action to reduce portfolio exposure to this name. In general, we continue to favour names set to benefit from AI adoption.

The broad positioning of the portfolio remains in place. At a geography level, key overweight exposures are in Japan and Taiwan. Overall, we are using weakness in conviction stocks as an opportunity to add, with the market often being focused on the next set of quarterly results as opposed to longer-term growth potential.

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 added to exposure in recent months by increasing allocations to insurance and ecommerce, which should benefit from macro stabilisation, as well as a major oil and gas producer that has lagged significantly in recent months bringing it back to attractive valuations. We also added a new holding in India following the market pullback.

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. Overall, valuations generally remain at reasonable levels. However, a key market concern since the US elections has been to what extent higher US tariffs, across Asia and especially in China, will become a major risk factor.

As such, recent weeks have seen China equities erasing some of the earlier gains that were driven by positive policy measures. Our view is that the 'shock factor' of a Trump presidency will be somewhat less the second time around, and that China authorities will react with further domestically focused stimulus measures in the event of a major hike in tariffs. This comes in addition to the measures required to address the more structural problems in China, especially related to the Property sector as well as the broad-based deflationary pressures.

Elsewhere, the Indian market has seen around a 10% pullback over Q4. We see this as some near-term profit taking rather than a more fundamental change to the outlook. We also 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 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 November 2024 unless otherwise stated.

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