Allianz Global Investors

Allianz SGD Income Plus

Monthly commentary

Investment Objective

The Fund aims to provide a sustainable and regular income stream and potential capital appreciation over a market cycle, by investing primarily in a diversified portfolio of fixed income securities and real estate investment trusts ("REITs").

What Happened in June

In June, global bonds rallied, where the 10-year US Treasury yield fell by 17 basis points (bps) to 4.2% from growing hopes for US rate cuts on the back of weaker-than-expected inflation data. Asian credit (JP Morgan Asia Credit Index – Composite) rose 1.2% in June. Investment grade (IG) credits returned 1.2%, with spread tightening contributing 0.2%, and interest rate movements contributing 1.0%. High yield (HY) credits gained 0.8%, with all the returns coming from interest rates.

From a country perspective, Pakistan and Sri Lanka were the outperformers, returning 3.0% and 2.7% respectively. China and Vietnam were the lowest contributors at 0.9% and 0.5% returns in June. The most dramatic name within the HY space was a major Hong Kong property developer, where the price of its perpetual bonds dropped to a historical low after the announcement of a coupon deferral for all outstanding perpetuals on the last day of May. The liquidity concern spilled over to the bullet bonds as well, dragging their prices down by 3-7 points. Subsequently, bond prices recovered gradually throughout the month as the company made progress on refinancing its existing offshore loans.

Risk-on sentiment recovered early in June on easing Sino-American tensions, after the US and China agreed on a "framework" to implement the consensus reached last month in Geneva, including US access to China's critical rare earth minerals. However, later in the month, volatility returned to the forefront after Israel launched a series of strikes on Iran, with oil prices spiking in the aftermath of Washington's subsequent air strikes on Iranian nuclear facilities to USD 80 per barrel. Volatility then subsided again on an agreed ceasefire between Iran and Israel, where oil prices eased to USD 67 per barrel. On the data side, headline inflation in the US printed as expected at 2.6% year-on-year, renewing bets for US rate cuts earlier in H2. Sentiment also surprised to the upside with the University of Michigan sentiment survey coming in at 60.7, rising from 52.2 in May. The improvement was broad-based across various aspects of the economy such as business conditions. Despite June's gains, sentiment remains about 18% below December 2024 figures, reflecting continued widespread beliefs regarding upside risks to inflation.

In Singapore, 10-year Singapore government securities (SGS) yields continued to decline by 24 bps to 2.2%, likely from increased inflows from foreign investors looking to diversify away from dollar-based assets into other triple-A rated sovereigns. New issue supply remained strong as issuers took advantage of lower overall yields to tap into the credit market. On the data front, Singapore's non-oil domestic export retreated from a multi-month high as it contracted 3.5% on a year-on-year basis. This can largely be explained by a drag from petrochemicals and non-monetary gold. Of note, aggregate shipment to the US fell by approximately 20% which suggests that front-loading activities have started to moderate. Electronics remains a bright spot in the series as shipments expanded, albeit at a slower pace. Purchasing Managers' Index (PMI) edged 0.1% higher to 49.7% in May, resulting from thawing trade tensions between the world's two largest economies through their temporary suspension of tariffs. Separately, headline consumer price index (CPI) crept down to 0.8% year-on-year.

Portfolio Review

The Fund returned positively (gross, AM SGD) over the month. The performance of both our REIT holdings and fixed income holdings was positive.

For our fixed income holdings, performance was largely attributable to lower US Treasury and SGS yields, as well as spread compression. Of note, most of the compression took place in the non-SGD complex. Given the better sentiment towards the latter half of the month, longer-dated bonds and higher-beta hybrid bonds outperformed. During the month, we extended the spread duration of our holdings to capitalise on lower interest rates. This was largely done in the SGD space where we saw longer dated new issues. Separately, we also continued to reduce our allocation to USD-denominated bonds.

For our REITs holdings, Singapore REITs outperformed Australian REITs. Trade tensions cooled after the US said that the US-China trade truce was signed.

Market Outlook

Coupled with receding tensions in the middle east, risk sentiment is expected to stay supported with the passing of Trump's "big, beautiful bill". Separately, the weaker USD narrative and proxy-hedging activities have also provided a boost to liquidity in Singapore. Indeed, the money market rate, Singapore overnight rate average (SORA), plunged by more than 50 bps to end the month just slightly above 1.5%. This not only lowers the cost of funding but also increases demand for spread-related products. Accompanied by relatively attractive spread for SGD-denominated bonds, we remain constructive in this space. In contrast, we are more selective in our USD bond holdings as hedging costs have turned more punitive. Credit selection remains key as we head into July which marks the end of the 90-day trade reprieve.

For REITs, they have been beneficiaries of the trade turmoil as investors sought after safe haven assets. REITs are expected to remain volatile in the short term as the markets grapple with uncertain US Federal Reserve (Fed) policy and mixed US economic data.

All data are sourced from Bloomberg, J.P. Morgan and Allianz Global Investors as at 30 June 2025 unless otherwise stated.