

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 March

In March, global bonds ended little changed. US Treasuries eked out very marginal gains, with the 10-year Treasury yield declining 0.3 basis points (bps) to 4.2%. Investors fled to safe havens on worries of a growth slowdown and rising inflation from President Trump's tariffs despite stronger-than-expected service sector data for March. Asian credit (J.P. Morgan Asia Credit Index – Composite) ended slightly higher, returning 0.1% in March, with treasury returns of 0.7% offsetting a 0.6% loss from spread widening. Investment Grade (IG) credits were flat, with treasuries returning 0.7% against a loss of 0.6% from spread widening. High Yield (HY) credits gained 0.4%, with a positive interest rate return of 0.6% balancing out a negative spread return of 0.2%.

From a country perspective, China credits outperformed. They were supported by expectations that the Chinese government would continue policy redirection to increase support for consumption and social welfare. On the other hand, Indonesia credits underperformed due to uncertainties from President Prabowo's aggressive expansionary policies. The policies raised concerns about fiscal discipline and the fast tracking of Danantara exacerbated concerns regarding its objectives and governance framework. Sri Lanka and Pakistan sovereigns also underperformed. In Sri Lanka, the government would be restricted in its spending as it balances campaign pledges to unwind tax increases while for Pakistan, its foreign exchange reserves declined by USD 540 million to a six-month low of USD 10.6 billion.

Market volatility soared and investor sentiment plummeted with the run-up to President Trump's self-dubbed "Liberation Day" of sweeping tariffs on 2 April. This was further exacerbated when the President refused to rule out a recession, emphasising the possibility that the US will enter into a "period of transition". Recessionary fears grew as the University of Michigan's consumer sentiment index plunged to 57 in March, the lowest level since November 2022, while one- and five-year inflation expectations surged to 4.9% and 3.9% respectively. On bond supply, the Asian USD credit market was more active as some issuers rushed to price deals ahead of "Liberation Day", where USD 58 billion was issued in March. For demand, it was rather lacklustre given the weak performance of new IG and HY issues, which reflected some supply indigestion.

In Singapore, 10-year Singapore Government Securities (SGS) yields also declined in tandem with US Treasury yields but to a larger extent by 5 bps to 2.69%. Regarding the economic outlook for Singapore, the Ministry of Trade and Industry projects a 1% to 3% growth in gross domestic product (GDP), lower than the 4.4% achieved in 2024. Geopolitical tensions and uncertainty over US economic policies were cited as the foremost downside risks to GDP growth. On the data front, consumer consumption was stronger than expected with retail sales growth of 4.5% year-on-year for January against expectations of 2.1%. Non-oil domestic exports for February soared to 7.6% year-on-year from -2.1% in January, likely due to front loading before the Trump's administration tariffs come into play. Despite encouraging retail sales and export figures in March, sentiment remains fragile against the backdrop of tariff threats. Separately, consumer price index (CPI) printed softer than expected at 0.9% year-on-year versus 1.0% consensus. All these increase the prospect of Monetary Authority of Singapore (MAS) opting to ease in its upcoming Monetary Policy Committee (MPC) meeting in April.

Portfolio Review

The Fund returned positively (gross, AM SGD) over the month.

The positive performance of our REIT holdings outweighed the negative performance of our fixed income holdings.

For our fixed income holdings, performance was slightly negative in March. On the back of policy uncertainty in the US, we witnessed a widening of spread in the broader credit complex. Notwithstanding, our SGD-denominated bonds fared better, partly due to lower SGS yields. The pipeline in the primary market was strong, and accompanied by cheaper valuation, we took part in several new issues. We reduced allocation to China HY and global bank capital bonds, and the proceeds were deployed to the Indian space.

For our REIT holdings, performance was positive in March. This was driven mainly by Singapore REITs as investors sought safe havens amid the escalating global trade war.

Market Outlook

As seen on Liberation Day, Trump's tariff plans were not only non-discriminating, but they were also very punitive. In effect, these measures would greatly inhibit trade on a global level. In turn, this increases the odds of a self-induced global recession. That said, we would not be surprised if these measures were made to bring trading partners to the negotiating table with the US. Except for China, it is likely that Trump would eventually be able to find a common ground with other economies. The danger, however, lies in the risks that these trade discussions get dragged on for too long. This was observed in the first trade war between US and China. A prolonged delay would create additional uncertainty and discourage businesses from making investments. As sentiment has already been dented, we expect most countries to respond with additional easing. Similarly, we expect MAS to err on the side of caution and ease in April.

For fixed income, in an environment that is short of both clarity and consistency, we are looking to maintain our existing exposure to SGD-denominated bonds. Despite the richness of the complex, they provide added stability to our Fund. Separately, we are looking to reduce risk exposure to our USD-denominated bonds. Notwithstanding, we see opportunities in short-dated HY bonds and banks' Tier-2 papers.

On the REITs front, they have outperformed broader market indices during this period of heightened volatility given their relatively defensive characteristics. Despite concerns of rising recessionary risks, the US 10-year treasury yield has been rising, as investors flee USD-denominated assets. REITs continued to remain resilient in the current market turmoil.

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