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 April

In April, global bonds advanced. The US Treasury yield curve steepened, with the 2-year Treasury yield falling by 28 basis points (bps) while the 10-year Treasury yield fell by 4 bps to 4.2%. Fears that President Trump would interfere with the US Federal Reserve's (Fed's) independence grew as he sought for lower interest rates. Asian credit (J.P. Morgan Asia Credit Index – Composite) ended flat, with treasury returns of 0.5% offsetting a 0.5% loss from spread widening. Investment Grade (IG) credits gained 0.3%, with treasuries returning 0.5% against a loss of 0.3% from spread widening. High Yield (HY) credits fell by 1.7%, as the positive interest rate return of 0.4% was insufficient to offset the negative spread return of -2.1%.

From a country perspective, Indonesian credits outperformed despite an initial 32% tariffs due to its larger domestic market, small trade surplus with the US, and low US export share of gross domestic product (GDP). The bonds were further supported on news that the sovereign wealth fund Danantara would pool investments with Qatar in Indonesia. The weakest performer was Sri Lanka, as its macro-Linked bonds saw a pullback as investors factored in the potential economic impact of tariffs on Sri Lanka's economy. Meanwhile, Pakistan also performed poorly due to a flare up in border tensions with India where tourists were allegedly killed by Pakistan-based militants in the Kashmir region.

Market volatility soared as President Trump's 'Liberation Day' was far more extreme than many had expected. While President Trump subsequently announced a 90-day reprieve for a reduction in most tariffs to 10%, inflationary concerns ballooned as the trade war with China escalated. The US imposed a 145% tariff on Chinese goods while China imposed a 125% tariff on US goods in retaliation. The US economy unexpectedly shrank in Q1, with GDP falling 0.3% on an annualised basis, as companies front-loaded imports ahead of tariff hikes. The University of Michigan's consumer sentiment survey deteriorated to 53.8 in April, down from 57.0 in March, while 1-year inflation expectations jumped to 6.7% in April from 5.0% in March. On bond supply, following the elevated issuance in March ahead of 'Liberation Day' in April, issuance was a muted USD 25 billion. In conjunction with USD 31 billion of maturities, April had a negative net supply. For demand, it was high, and most issues closed above issuance levels.

In Singapore, 10-year Singapore Government Securities (SGS) yields also declined in tandem with US Treasury yields but to a larger extent by 21 bps to 2.48%. In April, the Monetary Authority of Singapore (MAS) continued to ease as it announced a slight reduction of the slope of the SGD nominal effective exchange rate (S$NEER) policy band with no changes to its width and level at which it is centred. Following the advance estimate of Q1 GDP which printed at -0.8% quarter-over-quarter, the Ministry of Trade and Industry lowered its full-year 2025 growth forecast to 0.0-2.0% (from 1.0-3.0% previously). For inflation, the MAS expects year-on-year core and headline inflation to average 0.5-1.5% (from 1.0-2.0% previously) in 2025. On the data front, consumer consumption was weaker than expected with February retail sales growth of -3.6% year-on-year against expectations of -0.2%. Non-oil domestic exports for March was also lower than expected at 5.4% against 13.6% surveyed, as analysts assumed higher front loading before the Trump's administration tariffs came into play. Separately, consumer price index (CPI) printed softer than expected at 0.9% year-on-year versus 1.1% consensus.

Portfolio Review

The Fund returned positively 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 April. While the bonds benefited from a decline in US Treasury and SGS yields, spread widened across the credit complex. Higher beta bonds saw wider spread decompression. Given the plunge in SGS yields, it is not surprising that SGD bonds outperformed the rest of the non-SGD holdings. Due to growing uncertainty, the new issue market was much more subdued. Towards the end of the month, we took advantage of the geopolitical tension in India to increase our exposure to Indian issuers. We also reduced our exposure to bank capital bonds.

For our REIT holdings, performance was positive in March. This was driven primarily by Australian REITs, which in turn, were driven by the outperformance of residential and retail AREITs. Market expectations of further easing by the Reserve Bank of Australia this year increased from three cuts to four and a half cuts as Australian 10-yr bond yields dropped a meaningful 26 bps following the tariff turmoil as markets whipsawed. Although the 10-year US Treasury yields were relatively stable month-on-month trading from 4.21% end-March to 4.16% end-April, the escalation in the trade war caused the yields to swing from an intra-month low of 3.99% on 4 April to 4.49% on 11 April.

Market Outlook

Sentiment improved towards the latter half of April as tariff concerns subsided with a concession to most of US's trading partners. Although this 90-day reprieve kicks the can further down the road, it demonstrates the flexibility of Trump and his willingness to negotiate. Broadly speaking, risk assets have recovered but we observe that spreads in Asia have lagged the overall rebound. With wider spread, we find valuation more attractive and would look to increase our spread exposure to capitalise on this. At the same time, the steepening of global yield curves suggest that we are looking to position in the 5Y section of the term structure.

On the REITs front, REITs 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 rotate out of US-denominated assets. Hence, REITs are expected to remain volatile in the short term due to the rising risks of slowing growth. We remain invested in REITs with resilient income streams and strong balance sheets.

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