

# 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 February

In February, global bonds delivered positive returns. US Treasuries performed well, with the 10-year Treasury yields declining 33 basis points (bps) to 4.21%, a level not seen since mid-December 2024. The falling yields reflected growing concerns that trade tariffs may hurt US’s growth outlook, exacerbated by poorer-than-expected retail sales and consumer confidence. Asian credit (JP Morgan Asia Credit Index Composite) also did well, returning 1.7% over the month, with 1.4% coming from Treasuries and 0.4% coming from spread compression. Investment grade (IG) credits delivered 1.6%, with Treasuries contributing 1.4% and spreads contributing 0.2%. High yield (HY) credits were up 2.5%, with a positive interest rate return of 1.0% complementing a positive spread return of 1.5%.

Asian credit generally performed well but spread performance was more divergent across sectors and countries. In terms of countries, China and Hong Kong led the performance. Chinese Technology firms were boosted by positive sentiments after the surprising debut of an open-sourced artificial intelligence (AI) model developed by an emerging Chinese startup, and President Xi’s show of support through a symposium with various business leaders including the co-founder of an ecommerce giant. China and Hong Kong Real Estate also delivered solid returns, with increasing signs of bottoming out in the physical market, as well as the Chinese government’s swift response to a struggling major real estate developer to avoid it from going under. For the rest of Asia, Thailand and India also did well, while Indonesia and Philippines underperformed.

Market volatility also rose with new tariffs imposed by Trump. President Trump imposed tariffs of 25% on all aluminium and steel imports with no exceptions given, scheduled to take effect from 12 March. In addition, tariffs on China’s imports were raised to 20% from the initial 10%, with the increase taking effect on 4 March. Trading partners Mexico and Canada were not spared as well, with tariffs at rates of 25% coming into effect also on 4 March. The president also announced plans to impose further tariffs of 25% on imports from the European Union (EU), as well as all automotive, semiconductors, and pharmaceutical imports at rates of 25%.

The new issue market for Asian credit was active with 55 deals and USD 22 billion printed. New issues came from a wide range of countries and sectors, where there was even an issuance from a Chinese developer, a first since the real estate crisis. For demand, it remained robust despite little new issue premium.

In Singapore, 10-year Singapore Government Securities (SGS) yields also declined in tandem with US Treasury yields by 18 bps to 2.74%. Singapore held its budget for 2025 this month, announcing a slew of fiscal packages including an SG60 package, which includes up to SGD 800 in cash vouchers to help soften cost pressure. It also revised fiscal year (FY) 2024's fiscal surplus to SGD 6.4 billion on the back of higher-than-expected corporate income tax and goods and services tax. The fiscal surplus helps expand the fiscal room to support the economy should a negative shock occur. With an eye on the future, the budget also provisioned for investments in the National Productivity Fund, Changi Airport Development Fund, and the Future Energy Fund. On the data front, despite softer retail sales of -2.9% year-on-year which was much lower than expected, year-on-year gross domestic product (GDP) growth was stronger at 4.4% against the consensus of 4.2%. Meanwhile, consumer price index (CPI) printed lower than expected at 1.2% year-on-year versus 1.5% consensus.

### Portfolio Review

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

The positive performance of our bond holdings outweighed the negative performance of our REITs holdings. The decline in US Treasury and SGS yields were the main contributors to performance. Spread movement was largely negligible as the spread compression of our USD holdings was offset by the widening of our SGD-denominated bonds. In terms of portfolio action, we took the opportunity to take profit on some of our USD bonds. The proceeds were redeployed to other non-USD bond markets.

Performance of our REIT holdings weighed on overall performance as both Singapore and Australian REITs posted negative returns for the month of February, amidst the uncertainty surrounding the impact of President Trump's tariffs.

### Market Outlook

US exceptionalism is appearing to lose its fandom. This is driven not only by softer economic data, but also by increased pressure of trade tariffs. Indeed, we see resolve from President Trump as he implements tariffs on China, Canada, and Mexico. That said, it is also the manner in which he communicates his trade policy which really fazes the market. His wavering narrative fosters an uncertain environment that is not conducive to risk sentiment. This is not helped by a breakdown in peace talk as he isolates his Ukrainian ally. Should these headwinds prevail, we expect the market to price in additional US Federal Reserve (Fed) cuts in 2025. At this juncture, we adopt a wait-and-see approach as talks of a recession appear to be premature. Granted, Trump can be fickle, and it is reasonable to assume that policies can be changed at a whim. Looking through the noise, credit selection remains the key to portfolio positioning.

On the REITs front, Asian REITs are expected to remain volatile in the short term as concerns of slowing growth are overriding the positive impact from falling Treasury yields. However, over the longer term, REITs are expected to be underpinned by declining yields in 2025 as inflation moderates, notwithstanding the risk of a recession or stagflation.

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All data are sourced from Bloomberg, J.P. Morgan and Allianz Global Investors as at 28 February 2025 unless otherwise stated.

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