

Allianz

Flexi Asia Bond

Monthly commentary

Investment Objective

The Fund aims at long-term capital growth and income by investing in debt securities of Asian bond markets denominated in EUR, USD, GBP, JPY, AUD, NZD or any Asian currency in accordance with the Sustainability Key Performance Indicator Strategy (Relative). In this context, the aim is to outperform the sub-fund's Sustainability KPI compared to sub-fund's benchmark to achieve the investment objective.

What Happened in April

Market sentiment on Asian credits turned slightly negative in April, as a result of the increasing geopolitical risk in the Middle East and also stickier inflation in the US. Performance was negatively affected by the rising US Treasury yield, but partially offset by the decent interest accrual. In April, JP Morgan Asia Credit Index (JACI) composite returned -1.2% with the investment grade (IG) sub-index returning -1.3% and high yield (HY) bonds returning -0.6%. Year-to-date, JACI composite has delivered 0.2% total return and Asia HY remained the best performing sector within global fixed income with a total return of 6.2%.

Hurt by rising US Treasury yields, Asia IG delivered negative returns in April. Nonetheless, despite a weaker macro backdrop, the stable fundamentals and strong technicals in the Asia USD bond market continued to support the tight valuation, leading to further compression of Asian IG credit spreads by 1 basis point (bp).

Within Asian IG, credit spreads for high beta sectors such as Indonesian quasi-sovereigns and Malaysia gaming were decompressing following the weaker sentiment in April. India IG remained fairly stable except for high beta tickers like an Indian conglomerate complex which widened 15-30 bps during the month. In China, Fitch revised the outlook on China's sovereign rating to negative and subsequently also put a negative outlook on a number of government-owned financial institutions and corporates. That said, spreads for China state-owned enterprise (SOE) bonds were very resilient and not really affected by the outlook change. Thailand IG were the outperformer within Asian IG space, with companies continuing to tender or buying back bonds from the market.

Portfolio Review

The Fund returned negatively (gross, USD), underperforming its benchmark for the month.

In April, US Treasury yields rose across the curve and this detracted performance as the portfolio is slightly long duration versus the benchmark. The steepener positioning also detracted from performance as the US Treasury curve flattened. The Fund's overweight in HY over IG contributed to performance as HY outperformed. However, the Fund's slight overweight in BBB over AA, A within the investment space detracted. During the month, we rebalanced the portfolio by reducing our allocation in BBB and increased the allocation to BB, as we feel that the wider spread in BB should cushion any spread volatility. We also increased our 5-year versus 30-year curve steepener positioning slightly.

Market Outlook

Despite the push-back on rate cut expectations in the US and rising geopolitical risk in the Middle East, Asia credit markets continued to demonstrate resilience in April. We expect this to continue given favourable growth and inflation dynamics in the region, well-positioned credit cycle, as well as strong market technicals with expected negative net supply.

While Asia IG spreads are fair at best, total yield level remains attractive versus historical average and should continue to attract buyers into the market. Acknowledging the beta compression in recent months and the very limited room for further compression, expected negative supply in Asian IG space will limit the extension of spread widening should global risk sentiment turn. We do not see any near-term catalyst for aggressive spread widening and continue to like the carry in Asia IG credits.

Connect with Us

sg.allianzgi.com

+65 6438 0828

Search more

 [Allianz Global Investors](#)Like us on Facebook [Allianz Global Investors Singapore](#)Connect on LinkedIn [Allianz Global Investors](#)Subscribe to YouTube channel [Allianz Global Investors](#)

All data are sourced from Bloomberg and Allianz Global Investors, as at 30 April 2024 unless otherwise stated.

The information presented here is intended for general circulation and does not constitute a recommendation to anyone; it also has not taken into account the specific investment objectives, financial situation or particular needs of any particular person. Information herein is based on sources we believe to be accurate and reliable as at the date it was made. We reserve the right to revise any information herein at any time without notice. No offer or solicitation to buy or sell securities and no investment advice or recommendation is made herein. In making investment decisions, investors should not rely solely on this publication but should seek independent professional advice. However, if you choose not to seek professional advice, you should consider the suitability of the product for yourself. Past performance of the fund manager(s) and the fund is not indicative of future performance. Prices of units in the Fund and the income from them, if any, may fall as well as rise and cannot be guaranteed. Distribution payments of the Fund, where applicable, may at the sole discretion of the Manager, be made out of either income and/or net capital gains or capital of the Fund. As a result of the payment, the Fund's net asset value is expected to be immediately reduced. The dividend yields and payouts are not guaranteed and might change depending on the market conditions or at the Manager's discretion; past payout yields and payments do not represent future payout yields and payments. Investment involves risks including the possible loss of principal amount invested and risks associated with investment in emerging and less developed markets. The Fund may invest in financial derivative instruments and/or structured products and be subject to various risks (including counterparty, liquidity, credit and market risks etc.). Investing in fixed income instruments (if applicable) may expose investors to various risks, including but not limited to creditworthiness, interest rate, liquidity and restricted flexibility risks. Changes to the economic environment and market conditions may affect these risks, resulting in an adverse effect to the value of the investment. During periods of rising nominal interest rates, the values of fixed income instruments (including short positions with respect to fixed income instruments) are generally expected to decline. Conversely, during periods of declining interest rates, the values are generally expected to rise. Liquidity risk may possibly delay or prevent account withdrawals or redemptions. Past performance, or any prediction, projection or forecast, is not indicative of future performance. Investors should read the Prospectus obtainable from Allianz Global Investors Singapore Limited or any of its appointed distributors for further details including the risk factors, before investing. The duplication, publication, extraction, or transmission of the contents, irrespective of the form is not permitted, except for the case of explicit permission by Allianz Global Investors. This publication has not been reviewed by the Monetary Authority of Singapore (MAS). MAS authorization/recognition is not a recommendation or endorsement. The issuer of this publication is Allianz Global Investors Singapore Limited (79 Robinson Road, #09-03, Singapore 068897, Company Registration No. 199907169Z).