Allianz Global Investors

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.

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