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 June

In June, amid increasing political noises around the globe, Asian credit (JACI composite) managed to deliver a decent 1.2% total return, primarily driven by rates rally and carry as spreads widened moderately across the board. Asian high yield (HY) (+1.3%) continued to perform slightly better versus investment grade (IG) (+1.2%), thanks to superior carry.

In H1, Asian credit pocketed 2.8% in total return, driven by 50-basis point (50-bps) spread tightening with 2.5% spread return, while duration remained volatile with 0.3% return. Asian IG delivered 1.6% in total return, beating JP Morgan US Liquid Index's (JULI's) -0.1% total return, thanks to strong spread performance. Asian HY returned 10.5%, significantly outperforming other HY markets, as the market reprices towards lower default risk.

For the month of June, US rate volatility and a busy new issue calendar placed pressure on Asian IG credit spreads (+7 bps), with the IG market generally widening across the board. India surprised the market with a disappointing election result as Modi failed to secure a majority. However, Indian credits remained resilient, setting it apart from the knee-jerk reaction witnessed in the foreign exchange (FX) and rates market. Overall, we find the implications of the electoral results for Indian corporate and financial credits to be neutral against a supportive pre-existing policy environment and macroeconomic backdrop that is likely to be sustained in the new term. New issue market was very active in June, with new IG issuances coming from across a wide range of countries and sectors. New issue debut performances were also diverse, with outperforming new issues being those priced with decent premium, while the underperforming ones were priced too tight despite being in certain favourable sectors.

In the Asian HY market, most of the sectors were humming along. There were a few idiosyncratic stories in the Real Estate sector that stood out which saw strong rally due to positive refinancing developments, while the frontier countries consolidated. Indonesian HY also had a strong month, thanks to positive rating stories, while Indian Renewables continued to see strong demand despite tight spread levels. China HY delivered another strong month on the headline level, driven by Utilities and Real Estate, although the Real Estate sector continues to see increasing divergence of performance among the names. On the policy front, China's policy makers during the month jointly called for a better implementation of property whitelist mechanism, while Beijing lowered the minimum down payment ratio for first homes and lowered mortgage rates, marking it the last tier 1 city to announce relaxation measures.

Frontier market has underperformed this month despite overall positive developments. For Pakistan, the ambitious fiscal targets announced mid-month are believed to be able to pave the way for a new International Monetary Fund (IMF) programme. In Sri Lanka, local media has reported that the country is engaging bondholders for a second round of talks regarding the restructuring of its defaulted USD-denominated bonds, implying further move forward towards the restructuring finish line.

Portfolio Review

The Fund returned positively (gross, USD) for the month.

Our tactical adjustments in duration positions during the month contributed positively to relative performance. In terms of country allocation, our overweight in Hong Kong and India contributed positively, while our underweight in Singapore slightly dragged. Sector-wise, our overweight to Financials and underweight in Quasi-sovereigns have contributed positively. Specifically for the Fund, we maintain our overweight HY versus IG allocation, which gives us the carry in the portfolio. We are more tactical on duration positioning and looking to add duration at the right level.

Market Outlook

For H2, as political noises set to increase around the globe, we expect overall credit beta to have higher volatility than in H1, particularly given much tighter spread levels across global credit markets. Nonetheless, we continue to expect Asia credit to deliver resilient and stable returns, thanks to the region's overall political stability, decent macro and corporate fundamentals, robust technicals, as well as attractive carry. As a result, we remain a long carry factor across our credit strategies while slightly reducing our overall spread risk.

Asia HY has outperformed other credit markets year-to-date by a large margin and remains reasonably attractive considering its higher rating composition. The favourable credit cycle of most of the sectors in Asian HY space gives us comfort to build our core holdings with stable carry, while normalisation of default rate in China offers spread compression and credit repricing opportunities. That said, as certain sectors and corporates are navigating the downcycle, credit selection in those sectors is key to outperformance.

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