

Allianz

All China Equity

Monthly commentary

Investment Objective

The Fund aims at long-term capital growth by investing in onshore and offshore People's Republic of China ("PRC"), Hong Kong and Macau equity markets.

What Happened in September

The Fund underperformed the benchmark in September, with previously resilient stocks generally lagging the strong market rebound. Stock selection in the Financials and Materials sectors were the main detractor.

At a single stock level, a leading detractor last month was China Construction Bank (CCB), one of the largest banks in China. Share price lagged the broader market rally. This is one of our favoured financial holdings because of its higher return on equity (ROE) and stronger capital ratios than peers. The stock also has a high dividend yield, and with the easier monetary policy and lower government bond yields, this should continue to provide valuation support.

Conversely, a leading contributor was a clinical-stage biotech company with a focus on oncology. The share price has rebounded strongly following positive results from a key clinical trial. We believe the company has a strong product pipeline and as it enters into the commercialisation phase, this should help to de-risk the growth outlook.

Portfolio Strategy and Outlook

Towards the end of the month, China launched a series of wide-ranging policy initiatives designed to provide support both to the real economy and, perhaps more eye-catchingly, to domestic equity markets.

The initiatives, amounting to a significant and coordinated package of easing measures, were a significant “policy beat” in our view. They included lower interest rates, reduced rates on existing mortgages (note: mortgage refinancing is only permitted in China in special circumstances approved by the central bank), and the provision of significant liquidity for share buybacks and stock purchases. There was also an unscheduled top cabinet meeting which, for the first time during the current downturn, called for property market stabilisation.

The timing and extent of these measures were triggered by two recent developments. First, the strong rally in US bond markets and the 0.5% US Federal Reserve (Fed) rate cut. With lower rate differentials between China and the US, the risk of capital outflows from China and a weaker currency were also reduced. In other words, the People’s Bank of China (PBoC) had significant additional flexibility.

The second development has been the weakness of China economic data in recent months. This is, to a large extent, because of the sustained downturn in the property market, and the associated erosion of the biggest component of household wealth. The monthly macro data was consistent with gross domestic product (GDP) growth well below the official 2024 target of “around 5%”. With just over three months to go, there was increasing urgency to take action to boost economic growth.

Equity markets reacted positively and vigorously following the announcements. China A markets rallied by around 15% in the final week of the month alone and are now in positive territory year-to-date. It was a broad-based advance with all sectors in positive territory and on high volumes.

Looking ahead, the key question for equity investors is whether this rally marks a change or will turn out to be another false dawn. Our view is this announcement should at worst provide a floor to China A markets and, in a more optimistic scenario, potentially sets the scene for a more sustained market rally.

Certainly, Beijing seems determined to reignite animal spirits in China’s onshore equity markets. The policy tools announced, including a RMB 500 billion swap facility (that could be increased to RMB 1 trillion) and a RMB 300 billion relending programme (that could be doubled if warranted) to support share buybacks and equity purchases from eligible institutions, are unprecedented measures. An equity market stabilisation fund is also under consideration.

Whether the measures have a meaningful impact on the macro situation is more questionable, with the key issues of weak consumption and the property market remaining unresolved. A key issue is whether the door is now open to further policy initiatives, and especially if they end up being the prelude to more stimulative fiscal policy which is needed to spur a more robust economic environment.

In summary, the policy initiatives undoubtedly provide important support for market valuations. The next step is to build greater confidence in the outlook for corporate earnings which has been the major drag on equities over the last year.

In terms of portfolio activity, we added selectively to Financials including initiating a position in the Hong Kong stock exchange where the share price has derated significantly. We also added to insurance exposure, where we expect the higher dividend yields should provide support, especially as China’s bond yields have continued to decline. Conversely, we trimmed some exposure to artificial intelligence (AI)-related stocks.

At month end, the portfolio has around 40% in China A shares. Sector weightings continue to be relatively close to the benchmark allocations. The largest sector overweight is Industrials (+2.8%), while the largest underweight is Communication Services (-2.4%).

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 Allianz Global Investors and Bloomberg as of 30 September 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.). 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).