

Allianz

All China Equity

Monthly commentary

Investment Objective

The Fund aims at long-term capital growth by investing in onshore and offshore Equity Markets of the PRC, Hong Kong and Macau in accordance with environmental and social characteristics.

What Happened in January

The Fund outperformed the benchmark in January. Positive stock selection in the Industrials sector was the main contributor.

At a single stock level, a key contributor last month was a company specialising in the development of high tech auto parts such as chassis, intelligent driving and anti-vibration systems. It is a key supplier to an electric vehicle (EV) maker, and the stock has seen a significant rally post the US election results. Last month, the company also announced a strong set of earnings with positive guidance for the year ahead. In the longer term, we believe the company has good growth prospects supported by expansion into humanoid robots.

Conversely, a detractor was a full-service financial services business operating across diverse segments including investment banking, brokerage and asset management. After a strong Q4, the stock saw some profit taking last month. Looking ahead, a sustained recovery in capital market sentiment should be positive for the company, given its broad investment banking capabilities.

Portfolio Strategy and Outlook

China equities started the year on a slightly weaker note. While this was partly due to the strength of the US dollar and rising bond yields globally, which have impacted most of the emerging market universe, the first two months of the calendar year are also frequently quite turbulent in Chinese markets.

A key factor is the pause in policy announcements and a vacuum in macro data availability. Because of the Chinese New Year holiday, which falls either in late January or early February depending on the lunar cycle, economic statistics for the first two months are combined and only announced in mid-March. The economic policy news cycle goes into a similar lull. Important details such as the country's annual gross domestic product (GDP) target and government budget are not announced until the annual meeting of the National People's Congress in early March.

In addition, a further market headwind has been concerns regarding US tariffs, which weighed heavily on equity market sentiment during the first Trump administration. Towards the end of January, the opening salvo was fired with the US raising tariffs on China goods by a further 10%. Although only time will tell to what extent this will escalate, overall our view is that the "shock factor" of a Trump presidency will be somewhat less the second time around.

Looking further ahead in this Lunar Year of the Snake, a fundamental issue will be the sustainability of the improved economic momentum seen in recent months. In particular, China's export momentum – a key driver of growth last year – will likely fade in 2025. As such, an improvement in domestic demand will be needed to achieve the expected GDP growth target of around 4.5-5.0%. And for this to happen, more policy support will be needed to underpin the property market in particular. The National People's Congress, held each March, is typically when more policy details are announced.

Notwithstanding the uncertainty on tariffs, overall our view is to be more optimistic on the outlook for China equities. Part of this view is based on the "Beijing put" helping to put a floor under the market. The People's Bank of China (PBoC) sent a strong signal last year that it is willing to act as the lender of last resort to backstop the market by extending significant amounts of credit for stock repurchases, which already reached a record high level in the China A-share market last year.

As such, our base case is to see relatively limited downside risk, especially given the light investor positioning and supportive valuations. And with the likely continuation of looser monetary and more expansionary fiscal policy, there is a higher probability that a more expansionary approach benefits the real economy, in turn helping to support corporate earnings.

In recent months, we have added to stocks which are more sensitive to an improvement in the domestic economy and financial markets. These include financial services companies such as investment banking and mutual fund management businesses, as well as consumption-related stocks. We also believe higher yielding stocks should be well supported given the lower interest rate environment in China. Conversely, we have trimmed exposure to previous outperformers such as selective technology and semiconductor stocks.

At year-end, the portfolio has around 41% in China A-shares. The portfolio continues to have relatively close-to-benchmark sector allocations, so that stock selection remains the key relative performance driver. At month-end, the largest sector overweight is Consumer Discretionary (+2.1%), while the largest underweight is Communication Services (-2.9%).

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All data are sourced from Allianz Global Investors and Bloomberg as of 31 January 2025 unless otherwise stated.

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