Allianz Global Investors

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 May

Initial market gains following indications of a tariff truce between the US and China gave way to profit taking in the second half of the month. Positive stock selection in the Financials sector was partially offset by a weaker contribution from Industrials stocks.

At a stock level, a key contributor last month was a biotech company focused on autoimmune and oncology related drug development. Share price momentum continued from April when the company announced positive results from their phase 3 clinical trial for a new product. The biotech sector overall has performed well year-to-date, buoyed by news of global pharmaceutical companies replenishing their product pipelines by licensing new drugs under development in China for sales around the world.

Conversely, a detractor was a leading artificial intelligence (AI) chipset supplier. After touching all-time highs towards the end of Q1, the stock has seen some profit taking in recent weeks. This was triggered partly by a capital raising to support ongoing research and development (R&D), as well as by concerns that US plans to broaden restrictions on China's technology sector may limit the company's ability to develop more advanced high-end chips. Longer term, we view the company as a beneficiary of growing demand for AI computing and also the self-sufficiency trend in China.

MAY 2025

Portfolio Strategy and Outlook

Since recovering from the tariff-induced volatility post "Liberation Day" in early April, China's equity markets have gone into something of a lull. To an extent, this has been caused by uncertainty over the direction of ongoing China-US negotiations, and the prospects of a more substantive trade deal or otherwise.

The other key unknown is to what extent China's government policy will be ramped up to offset the weakness in exports, a key driver for the economy in recent years and an important contributor to China achieving its closely watched gross domestic product (GDP) growth target. There are a number of factors at play in our view, not least that the extent of the downturn in exports – and therefore the degree of further government stimulus required to offset this with stronger domestic demand – is challenging to gauge.

Nonetheless, given that policymakers have reiterated this year's GDP target of "around 5%" several times since "Liberation Day", it is in our view a question of when, not if, we see further policy measures. This is especially the case given that the latest housing market data was modestly weaker, and showed an ongoing, albeit mild, decline in property prices.

A key issue is rebuilding consumer confidence, which took a major hit in 2022 as a result of COVID policies, the subsequent weaker employment outlook and the downturn in the property market. China's consumer confidence index is based on a scale of 0 to 200, where 200 indicates extreme optimism, 0 extreme pessimism, and 100 neutrality. In the years before COVID, China's consumer confidence index typically tracked a level close to 120. The latest reading is 88.4, which at least marks a pick-up from the low point last year.

This weaker confidence is reflected in how spending patterns have changed in recent years, resulting in a surge of household bank deposits to more than USD 20 trillion. Mobilising these resources will be an important part of China's domestic demand recovery. As such, the focus on the private sector, which accounts for around 90% of employment in China and within this, technology and AI, is likely to be an ongoing feature of policy.

While the timing of a recovery in the feel-good factor within China is hard to predict, our view is the direction of government policy will continue to be supportive for equities. Combined with the strong state support for domestic equities in the form of direct buying of exchange-traded funds (ETFs), we believe the downside in China A-shares in particular remains quite limited.

Portfolio activity in May was relatively limited. Overall, the Fund is positioned with a bias to companies that should benefit from improving domestic demand, either as a result of broader macro stabilisation, or because of other factors such as China's push for an increased level of self-sufficiency, particularly in technology-related industries. So far this year, for example, we have added to the domestic semiconductor supply chain, other AI-related applications, and health care.

At month end, the portfolio has around 35% 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 Information Technology (+2.9%), while the largest underweight is Communication Services (-3.9%).

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

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