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 February

The Fund delivered returns close to the benchmark in February. Positive stock selection in the Health Care and Industrials sectors was offset by weaker performance in the Consumer Discretionary space.

At a single stock level, a key contributor last month was Xiaomi. Previously known for its smartphones, the company has expanded across a range of consumer products including smart home devices and more recently electric vehicles. The strategy of targeting higher quality, premium priced products has been well executed so far, leading to enhanced revenue growth and profitability. Consensus sell-side growth forecasts have risen significantly, and the stock has also benefitted from the rerating of China technology companies since the announcement of an emerging Chinese startup, which launched an open-sourced artificial intelligence (AI) model.

Conversely a detractor was an online travel booking platform in China. The trigger for the recent share price weakness was management guidance for higher marketing costs as the company looks to further build out its international operations. Overall, we expect the company should continue to see sustained earnings growth as a result of increased travel volumes as well as potentially improving operational efficiency through the adoption of generative AI.

FEBRUARY 2025

Portfolio Strategy and Outlook

Recent weeks have seen the second major rally in China equities in the last six months. The underlying reasons, though, are very different.

The previous rally started last September in response to an unexpectedly strong pivot in government policy including clear support for domestic equities. The emphasis was primarily focused on reducing the risk of significant further property and equity market weakness.

The strength of the "Beijing put" helped put a floor under China A-share markets, in particular, and also triggered a recovery in domestic animal spirits. The level of margin trading, a good real-time sentiment indicator, recovered to levels last seen three years ago.

This latest rally is very different. The initial trigger was the release of a new AI model by the aforementioned Chinese startup, China's equivalent of an established artificial intelligence (AI) model. While it is not new – its first model was released in November 2023 – the timing of this latest announcement on President Trump's inauguration day catapulted the firm into global consciousness. And their announcement also focused attention on other recent innovation-driven headlines across a range of areas including humanoid robots, advanced driver assistance systems and high-speed rail capabilities.

The key takeaway is that China is more advanced in the global technology and AI race than was previously understood. And from an equity perspective, this realisation has triggered a substantial re-rating of Technology stocks. This is also the reason why offshore China equities have performed particularly well – eight of the top 10 constituents of the MSCI China Index are related to Technology, either as internet platform, ecommerce or gaming stocks.

Adding fuel to the market rally was a high-profile symposium held by President Xi Jinping and attended by prominent private sector business leaders. In a highly symbolic move, this was the first time that Jack Ma, founder of Alibaba, had publicly attended a government meeting since the initial public offering (IPO) of its fintech affiliate was pulled in 2021. The fact that Xi Jinping chaired the meeting is, in our view, clear confirmation of an important shift in policy direction with a focus on boosting private sector confidence.

While there are clearly still risks to be faced – tariffs, property, weaker export momentum – nonetheless there does appear to have been a significant mindset change in China equities. For a long time, much of the focus on China has been on what could go wrong. Now attention has started to shift. And this momentum will likely be encouraged as China's technological advances are increasingly visible.

In this environment, portfolio activity has been focused on adding selectively to companies which are expected to benefit from the more rapid adoption of AI. This includes areas related to the rise of edge AI applications as well as software development specialising in real-time translation and advanced voice transcription. Conversely, we have reduced exposure to Consumer Staples where we see some earnings risks due to intensifying competition.

At month-end, the portfolio has around 38% 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 (+1.1%), while the largest underweight is Communication Services (-3.4%).

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All data are sourced from Allianz Global Investors and Bloomberg as of 28 February 2025 unless otherwise stated.