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 March

The Fund lagged the benchmark in March. Stock selection in the Consumer Discretionary sector was the main detractor.

At a stock level, a detractor last month was Zijin Mining, a leading mining group engaged in the exploration and production of gold, copper and other base metals. The share price pullback was largely due to profit taking after a strong run earlier in the year, alongside a pullback in gold and copper prices. Over the longer term, we remain constructive on the outlook given Zijin Mining's globally diversified, low-cost resource base and strong leverage to structurally higher demand for copper and gold driven by energy transition, electrification and geopolitical uncertainty.

Conversely, a key contributor was Akeso, a clinical-stage biotech company with a focus on oncology. The company announced encouraging updates on its product pipeline development, helping to reinforce confidence in both depth and quality of its research and development (R&D) platform. Akeso is building out an increasingly diverse product pipeline with a number of promising new drugs at final stages of clinical trials. Domestic sales are ramping up quickly and we believe it is likely the company will form a partnership with a global pharmaceutical company to support sales and marketing activity outside China.

MARCH 2026

Portfolio Strategy and Outlook

China equities were weaker in March with both onshore and offshore markets reacting to events in the Middle East, before stabilising towards the month-end. Indeed, year-to-date, China A-shares have been notably resilient, continuing their outperformance of the S&P 500 and also demonstrating relatively low correlations with global equities.

Stability has also been a feature of China's fixed income and currency markets. China's 10-year government bond yield remains just above 1.8%, almost unchanged from levels before the Middle East conflict began. The renminbi has appreciated against the US dollar year-to-date and was little changed during March.

The resilience of China's financial markets reflects a number of factors, not least that China's diversified economy is relatively well positioned for extreme scenarios, especially after years of building self-reliance across energy, food, and supply chains. As such, while sell-side analysts have been trimming China gross domestic product (GDP) growth expectations for this year, there have been greater reductions in the outlook for most other global economies.

In terms of energy supply, while China is still quite heavily dependent on fossil fuels, it has looked to reduce exposure to oil and gas, and also to hedge this via pipelines from Russia and Central Asia. Less than 10% of energy in China is exposed to the Gulf. Indeed, over a sustained period, China has been developing a technology stack focused on electricity and ways of generating, using and storing energy. Whereas in 2010, electricity accounted for around 18% of energy consumption, today it is above 30%. Solar and wind have increased their share of electricity from around 1% previously to about 20% today.

Another feature of China equity markets is that energy security has been a strong theme benefitting a number of energy, renewables, power grid, energy storage and electric vehicle (EV) companies. Looking ahead, the recent experience of surging energy prices and fuel shortages, combined with heightened geopolitical uncertainty, will likely prompt more countries to prioritise energy security.

This will involve activities including building nuclear power plants, increasing renewable energy installations, accelerating EV adoption, and further electrifying economies. As China dominates many of these sectors, it stands to gain from this global shift over the longer term.

The Middle East conflict has also masked another artificial intelligence (AI) development milestone in China – the rise of agentic AI. If the "DeepSeek moment" was a game changer, which proved China was capable of producing globally competitive AI models, the recent surge of token usage – a key measure of model capacity and real-world demand – highlights how AI deployment in China is rapidly accelerating. We increasingly see a buildout of China-centric AI infrastructure, including chips, data centres, models and applications, which is set to become the backbone of future industrial growth supporting a range of areas such as autonomous driving, humanoid robotics and biotech.

In summary, in such highly unpredictable and uncertain times, we see China equities – and A-shares in particular – providing both valuable portfolio diversification as well as idiosyncratic growth opportunities.

We have not changed portfolio positioning significantly in reaction to events in the Middle East but rather have made some changes at the margin. For example, we initiated a new position in the energy storage and renewables space. We also built exposure to a leading data centre operator that provides critical infrastructure supporting areas such as cloud computing and other AI workloads.

At month-end, the Fund has around 43% 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 Industrials (+4.2%), while the largest underweight is Consumer Discretionary (-3.1%).

All data are sourced from Allianz Global Investors and Bloomberg as of 31 March 2026 unless otherwise stated.

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