

Allianz

China A-Shares

Monthly commentary

Investment Objective

The Fund aims at capital growth over the long term by investing primarily in the A-Shares equity markets of the People's Republic of China ("PRC").

What Happened in November

The Fund slightly lagged the benchmark in November. Positive stock selection in the Industrials and Consumer Discretionary sectors was offset by some weakness in Financials and Materials.

At a single stock level, a key detractor last month was Luxshare Precision Industry, a leading smartphone and consumer electronic component producer and a key supplier to a multinational technology giant. The share price saw a pullback after the US election results amid concerns about the potential impact of higher tariffs. We believe Luxshare will be able to mitigate this risk if required, for example by transferring production to other countries. Longer term, the company continues to gain market share in the afore-mentioned technology giant's supply chain by enhancing its ongoing vertical integration and supplying a broader range of capabilities.

Conversely, a leading contributor was a company specialising in the development of high-tech auto parts such as chassis systems, intelligent driving and anti-vibration systems. The company is a key supplier to an American electric vehicle manufacturer, and the stock saw a big rally post the US election results. The share price was also supported by positive Q3 results. Longer term, we believe the company has good growth prospects underpinned by new product opportunities and expansion into humanoid robots.

Portfolio Strategy and Outlook

Recent weeks have seen China equities consolidating somewhat after the very strong rally at the end of September / early October, which was spurred by a significant change in government policy focused on stabilising the economy as well as financial markets.

This has resulted in China equities being one of the better performing global asset classes year-to-date, delivering double-digit gains in US dollar terms in both onshore and offshore markets.

A key market concern since the US elections has been to what extent higher US tariffs, which weighed heavily on sentiment in China equities in 2018, will again become a major risk. Our view is that the “shock factor” of a Trump presidency will be somewhat less the second time around, and that China authorities will react with further domestically focused stimulus measures in the event of a major hike in tariffs.

Indeed, it was noticeable how China equities reacted positively in the final week of November in response to an announcement by President-elect Trump that he would impose an additional 10% tariffs on China goods on top of all existing levies. This would suggest that, to some extent, the expectation of higher tariffs is already discounted in share prices.

Looking ahead to next year, a further key issue will be concrete signs that China’s policy package is working, which would then potentially outweigh tariff concerns. While high frequency economic data has certainly improved so far in Q4, there are still questions as to the sustainability of this improved economic momentum.

In particular, China’s export momentum – a key driver of growth this year – will likely fade in 2025. As such, an improvement in domestic demand will be needed to achieve the expected gross domestic product (GDP) growth target of 4.5 - 5.0%. Unlike in other global economies, Chinese consumers have been in “saving” rather than “spending” mode since the end of COVID. Retail cash levels are close to record high levels – household deposits in banks, for example, have reached the equivalent of two times the entire market capitalisation of China A-shares.

Much of the reason for the higher savings rate, in our view, is related to fears of future income prospects and the erosion of wealth as house prices have fallen. As such, stabilising the property market will be key to start rebuilding confidence and ultimately reversing this cycle.

Notwithstanding the uncertainty regarding what the Trump presidency will bring, overall our view is to be more optimistic on the outlook for China equities. The government has sent strong signals that it will step in to support the China A-shares market in particular, which should help limit downside risks. With the likelihood of more supportive government measures to come, and with market valuations still reasonable, our view is to buy the dips rather than to sell the rallies.

In terms of portfolio activity, given our more constructive outlook, 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. Conversely, we have trimmed exposure to previous outperformers such as large banks and selective semiconductor companies.

The portfolio continues to have relatively close-to-benchmark sector allocations. At month-end, the largest sector overweight is Consumer Discretionary (+3.2%), while the largest underweight is Information Technology (-4.5%).

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All data are sourced from Bloomberg and Allianz Global Investors as at 30 November 2024 unless otherwise stated.

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