

# Allianz

## China A-Shares

### Monthly commentary

#### Investment Objective

The Fund aims at long-term capital growth by investing in China A-Shares equity markets of the PRC in accordance with environmental and social characteristics.

#### What Happened in April

The Fund lagged the benchmark in April as Trump's tariffs prompted significant intra-market volatility. Stock selection in the Industrials and Consumer Discretionary sectors was the main detractor.

At a single stock level, a detractor last month was a leading smartphone and consumer electronic component provider and a key supplier to a US smartphone, computer and communications equipment producer. The share price saw a pullback after the higher-than-expected US tariffs prompted concerns about a slowdown in smartphone demand. We reduced the position size given near-term risks. In longer term, the company continues to gain market share in the US producer's supply chain by enhancing its ongoing vertical integration and supplying a broader range of capabilities.

Conversely, a key contributor was a major pet food business. The company reported strong results with upbeat management guidance as China's pet economy continues to boom. Pet food penetration in China is still at relatively low levels compared to more developed markets, and the company's premium brands are likely to gain further share with tariffs imposed on imported competitor products.

#### Portfolio Strategy and Outlook

In line with other global markets, China equities – especially offshore markets – initially gapped lower after the tariff announcements on "Liberation Day" before subsequently recovering a good part of the losses through the rest of the month. China A-shares were notably less volatile, with government support limiting the downside.

In the near term, the tariff outlook remains uncertain. China's negotiating position has hardened notably. This is partly because of the belief they can sustain the economic attrition for longer than the US. Operating under US export controls for the last five years has resulted in a meaningfully enhanced degree of self-sufficiency in critical industries.

Having said that, the current situation will result in significant economic damage for both China and the US. There is little historical precedent for this scale of tariff increase, but sell-side estimates suggest this could, in isolation, have a close to 2% gross domestic product (GDP) impact on China. As such, it is in the interests of both sides to de-escalate the situation. Recent days suggest some early signs of a move towards negotiations.

Looking ahead, a key question is to what extent China will lean against the tariff headwinds and the looming economic slowdown with renewed efforts to stimulate domestic demand. Just a few weeks ago, China set an official GDP target for 2025 of "around 5%". Given the importance attached to achieving the annual growth target – it has been met or exceeded in each of the last 15 years with the exception of COVID in 2022 – both monetary and fiscal policy should be dialled up in coming months.

On paper, there is significant untapped potential including more than USD 20 trillion of household savings. But the consumption power and confidence of China consumers have been significantly hampered by the severe housing market downturn and labour market pressures in the post-COVID era. We think it is increasingly likely that there will be decisive and forceful policy changes, including the government stepping up support for asset prices, not just in equities but in the crucial housing market as well.

Indeed, the most evident policy move so far has been the "national team" boosting support for equity markets. Domestic exchange-traded funds (ETFs) have seen significant inflows, more than 240 China A-share companies have announced share buybacks in April, and insurance companies have been guided to increase their exposure to equities. The "Beijing put" has been in action several times over the last year, with the 3,000 level on the Shanghai Composite Index appearing to be the line in the sand. The current level of around 3,280 should therefore provide some indication of the expected downside risk.

In this environment, portfolio activity in April included adding to companies which are expected to benefit from ongoing import substitution, particularly in technology-related industries. These include the development of processor chips for artificial intelligence (AI) applications as well as other parts of the semiconductor supply chain.

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 (+4.4%), while the largest underweight is Industrials (-2.7%).

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