Allianz Global Investors

Allianz Total Return Asian Equity

Monthly commentary

Investment Objective

The Fund aims at long-term capital growth and income by investing in the equity markets of the Republic of Korea, Taiwan, Thailand, Hong Kong, Malaysia, Indonesia, the Philippines, Singapore and/or the PRC in accordance with environmental and social characteristics.

What Happened in June

Asia ex Japan equities rose in June, even as geopolitical jitters continued to linger in the background. South Korea was the strongest market, boosted by post-election reform optimism after the new president was inaugurated. A rally in global Technology stocks also buoyed the market as well as leading to gains in Taiwan. Chinese equities recovered from a sharp selloff in reaction to the "Liberation Day" tariff announcements to also record gains over the period. May and June saw a rebound, with the market benefitted from an easing in trade tensions, with the US and China agreeing a "framework" to implement the consensus reached in Geneva.

Indian equities also finished the month moderately higher. June delivered a series of favourable developments including softer inflation data, quarterly gross domestic product (GDP) growth at 7.4% year-on-year (above consensus expectations of 6.8%), a deeper-than-expected 50 basis point (50 bps) cut to the repo rate, and a 100 bps reduction in the cash reserve ratio (CRR). Meanwhile, ASEAN equities generally fell as investors rotated into safe-haven assets amid soaring tensions in the Middle East. In Thailand, the index hit a 5-year low amid political turmoil as the country's constitutional court suspended the prime minister.

Portfolio Review

From a market perspective, stock selection in Korea and Hong Kong/China was a source of relative contribution, while selection effects in the Philippines and Malaysia detracted. At the sector level, selection effects in Financials and Industrials were positive, balanced by weaker picks in Communication Services and Health Care.

At a stock level, a top contributor in June was a Korean cosmetics manufacturer. The stock was added to the portfolio in May and has benefitted from strength in the overall Korean equity market and also strong quarterly earnings. We see the company as a category leader in the K-beauty industry with significant scope to gain market share due to its ability to offer competitive quality products at affordable prices. Its deep client relationships and large-scale production capabilities also lead to high switching costs for customers.

Conversely, a key detractor was a Chinese biotechnology company specialising in skincare, especially in the area of bioactive ingredients. The company is particularly known for pioneering recombinant collagen-based skin products, which are sold across China and increasingly abroad. Despite our favourable longer-term view of the business, recent negative publicity is hurting sales performance and may pressure the share price in the near future, so we decided to exit the position.

During the month, in China we selectively added a commodities trading platform and a state-backed property developer, while reducing some of our Consumer Discretionary exposure. In Korea, we entered an automotive components supplier and a general insurer.

At the market level, the portfolio is overweight in the ASEAN region. This is balanced out by underweight positions in Hong Kong/China and Korea. At a sector level, Real Estate, Financials, and Health Care are the primary overweight positions, while Industrials and Materials are among the main underweights. Top names in the portfolio at month end included TSMC, Tencent, and Alibaba.

Market Outlook

Overall, we are quite cautious about the near-term outlook for regional equities. Global trade developments, especially the ongoing decoupling of the US and China, are likely to result in a weaker growth outlook. As well as putting pressure on corporate earnings, the visibility of growth is also reduced with some companies declining to provide their usual quarterly guidance.

Offsetting this to some degree is a weaker US dollar, which has led to relative appreciation among many regional currencies and provides Asian central banks with scope to lower interest rates. In China, we think there will be more decisive policies in order to achieve the annual economic growth target.

In this environment, we are looking for opportunities to add to stocks that have been overly punished in the market volatility, as well as potential beneficiaries of Asian domestic policy stimulus measures to offset the tariff impact. Companies with strong balance sheets, exposure to long-term structural trends, and a competitive edge remain in focus.

All data are sourced from Bloomberg and Allianz Global Investors dated 30 June 2025 unless otherwise stated.