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 March

Asia equities were mixed in March with a wide divergence of returns across markets as erratic tariff news was digested. India rebounded strongly after several months of weakness, led mainly by positive domestic fund flow. Chinese stocks also made modest gains despite ongoing trade tensions caused by the Trump administration's tariff policy. Hopes of fresh stimulus measures from Beijing aimed at boosting consumption in the wake of the country's persistent residential property woes supported markets mid-month. Tech stocks led the way for the first half of the month, continuing to rally after the success of an emerging Chinese startup, which launched an open-sourced artificial intelligence (AI) model, sparked growing interest in the sector, but closed the month on a weaker note.

Elsewhere, Taiwan lagged with the Tech sector seeing a particularly sharp pullback in line with the semiconductor sector globally. The Korea market was also weak after Trump announced tariffs on all cars imported to the US. ASEAN markets were mixed against a backdrop of volatility owing to trade war tensions. Equities in Malaysia and Thailand fell, with the Thai stock exchange suspending trading after an earthquake in neighbouring Myanmar forced officials to declare a state of emergency in Bangkok during the last week of the March. In contrast, stocks in Singapore rose slightly over the month, while Indonesia and the Philippines posted solid gains.

## Portfolio Review

The Fund underperformed the benchmark in March. From a market perspective, stock selection in Taiwan was a key source of relative detraction. Sector contributions were mixed – Real Estate and Materials contributed positively but were more than offset by weakness in Industrials and Financials picks.

At a single stock level, a key detractor for the month was a Chinese company specialising in LiDAR (light detection and ranging) sensors. These use laser technology to create detailed 3D maps and play a key role in areas such as autonomous vehicles and robotics. The stock initially saw a strong rally during the month following the latest results and reports of a partnership with a carmaker, before subsequently seeing some profit taking. In the longer term, we believe the company is well positioned to benefit from accelerating adoption of advanced driver assistance systems (ADAS) in China.

In contrast, a non-bank financial company from the India market was a top contributor. The company is dedicated to the funding of private and public projects for power generation, transmission, and distribution. Backed by the Indian government, it benefits from low wholesale funding costs, and its management has demonstrated prudent asset-liability matching with many long duration projects but few long-term loans. As India urbanises and electrifies, the power capacity growth story should remain a key market thematic, in our view.

During the month, the main activity was continuing to increase exposure to China by selectively adding to stocks expected to benefit from more advanced manufacturing processes. This includes the aforementioned LiDAR sensor manufacturer and an established manufacturer of new energy equipment. We also initiated a position in a leading wealth management firm in India, set to benefit from India's growing middle class and rising family wealth seeking investment solutions. On the flip side, we exited a Chinese biotech company given tariff-related risks.

As a result, at the market level, the top overweight markets are now Singapore and China. The portfolio also remains overweight in the ASEAN region, especially the Philippines and Thailand. This is balanced out by underweight positions in India and Korea. At a sector level, Financials and Real Estate are the primary overweight positions, while Industrials and Consumer Staples are among the main underweights. Top names in the portfolio at month end include TSMC, Tencent, and Alibaba.

## Market Outlook

Shortly after the end of the month, Asian equity markets were turned on their head by Trump announcing significantly higher-than-expected tariffs. After signalling restraint earlier in the year, China in particular retaliated with a strong tit-for-tat response. Although China basically matched US actions rather than escalating further, showing it is still open to negotiation, in practice the outlook is highly uncertain. We expect a significant policy response from China focused on stimulating domestic demand.

Across the region, there could be channels for Asia to see some respite. Regional central banks have some propensity for policy easing, for example, especially if the US dollar continues to weaken. India is a more domestic demand-driven economy and is correspondingly less exposed to US tariff risk. India equity valuations have also come down significantly.

While we are still facing significant uncertainty as Trump is disrupting the global economic/trade order with his tariff announcements and more time is needed to see where things settle, we are looking 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.

All data are sourced from Bloomberg and Allianz Global Investors dated 31 March 2025 unless otherwise stated.