

# 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 February

February was another mixed month for Asia ex Japan equities, with markets closing the month modestly higher after US President Donald Trump stepped up rhetoric on a global trade war. China was by far the strongest market in the region. In part, the advance was driven by hopes that US tariffs may prove to be milder than expected, although the gains were tempered by President Trump's month-end announcement of an additional 10% US tax on Chinese exports. Technology companies also contributed to the rally as investor interest rose following the recent success of an open-sourced artificial intelligence (AI) model developed by an emerging Chinese startup.

Elsewhere, South Korean equities ended slightly higher, while Taiwanese stocks sold off. ASEAN markets moved lower overall. During the month, the Bank of Thailand unexpectedly reduced rates by 25 basis points (bps) to 2.0%, taking borrowing costs to their lowest level since July 2023. Officials said the move was in response to a weaker growth outlook and increased risks posed by global trade uncertainty. Indian equities also lost ground, declining sharply to mark their worst consecutive monthly pullback in nearly three decades. Given rising trade uncertainty and with inflation falling to a 5-month low of 4.31% in January, the Reserve Bank of India (RBI) cut interest rates by 25 bps to 6.25%, its first reduction since May 2020.

## Portfolio Review

The Fund outperformed the benchmark in February. From a market perspective, stock selection in Hong Kong/China was a key source of relative value add. Most sectors contributed positively apart from Real Estate.

At a single stock level, a key contributor last month was Xiaomi. Previously known for its smartphones, the company has expanded across a range of consumer products including smart home devices and more recently electric vehicles. The strategy of targeting higher quality, premium priced products has been well executed so far, leading to enhanced revenue growth and profitability. Consensus sell-side growth forecasts have risen significantly, and the stock has also benefitted from the rerating of China Technology companies since the announcement of the previously mentioned Chinese AI startup.

Conversely, a key detractor was a private bank in Indonesia. Although the company's recent financial results were stable, there were concerns about potential net interest margin (NIM) compression due to interest rate cuts in Indonesia. The shares were also vulnerable to general softness in the Indonesia market given trade and tariff fears. We continue to view the company as our preferred bank in Indonesia and added to our position on the weakness.

During the month, the main activity was initiating new names in China, selectively entering companies that are expected to benefit from the more rapid adoption of AI and advanced manufacturing processes, along with other growth areas. This includes two new positions related to information technology (IT) and cloud management services, both of which assist enterprises in their digital transformation and AI journeys. On the flip side, we exited a real estate developer in India and an online travel agency in China.

As a result of these changes, at the market level, the top overweight market is now China. The portfolio also remains overweight in the ASEAN region, especially the Philippines and Indonesia. This is balanced out by an underweight position in India. At a sector level, IT and Financials 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

We maintain a constructive longer-term view on the regional outlook. While there are clearly still risks to be faced – tariffs, property, weaker export momentum – nonetheless there does appear to have been a significant mindset change in China. For a long time, much of the focus on China has been on what could go wrong. Now attention has started to shift, encouraged by China's increasingly visible technological advances. Innovation leadership comes in addition to the measures required to address more structural problems in China, especially related to the property sector as well as broad-based deflationary pressures.

Across other parts of the region, we are finding a number of favourably valued structural growth stories in ASEAN that are less impacted by geopolitical risks. In particular, the more favourable demographics, rising consumption power, and reordering of supply chains associated with "China +1" are boosting the growth outlook across much of South Asia. Notably, the Indian market has seen a sharp pullback since late September 2024. We see this as near-term profit taking rather than a more fundamental change to the outlook.

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All data are sourced from Bloomberg and Allianz Global Investors dated 28 February 2025 unless otherwise stated.

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