

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 April

April was a volatile month for Asia ex Japan equities. Stocks tumbled following President Donald Trump's "Liberation Day" of sweeping tariffs early in the month, with tariff-related turmoil dominating the headlines throughout the rest of the April. China dragged regional equities lower amid fears that tit-for-tat tariff hikes by the world's two biggest economic powers could signal the start of a full-blown trade war. Hopes of fresh stimulus measures from Beijing and signs of de-escalating trade war tensions brought some relief to equities towards month-end.

Taiwanese stocks also moved lower, despite index heavyweight Taiwan Semiconductor Manufacturing Company's (TSMC's) bullish outlook. During the month, the Taiwanese government deployed a USD 15 billion financial stabilisation fund after Trump's tariff announcement spurred the stock market's biggest loss on record. Meanwhile, tech-heavy Korean equities outperformed most regional peers, even as officials warned of escalating downside risks. ASEAN equity markets also rose in aggregate, with central banks in both the Philippines and Thailand cutting interest rates. The Reserve Bank of India (RBI) also cut interest rates, and the Indian equity market recovered strongly in April on the back of better liquidity conditions and the return of foreign inflows.

Portfolio Review

The Fund outperformed the benchmark in April. From a market perspective, stock selection in India and Singapore was a source of relative contribution. At the sector level, selection effects in the Financials and Health Care sectors also contributed positively.

A key stock contributor was a Chinese biotech name initiated during the month. The company has several innovative drugs on its commercial platform that treat autoimmune diseases and cancer, with further drugs in various stages of its development pipeline. The share price rallied in April following positive Stage 3 trial results for an important new product.

Conversely, our overweight position in Chinese ecommerce player Alibaba was a source of detractor. The share price pulled back due mainly to geopolitical uncertainties and tariff concerns. We continue to believe that Alibaba will remain a leading competitor across the verticals of ecommerce, logistics, and cloud computing and see Ali Cloud, in particular, as a top tier asset.

During the month, the main activity was to reposition somewhat in Hong Kong/China, especially in the areas of Health Care and Consumer Discretionary, by selectively adding to stocks expected to benefit from domestic demand. These include the aforementioned Chinese biotech company, as well as an online travel agency and an auto parts manufacturer in the electric vehicle (EV) and humanoid robotics supply chains. We also initiated more defensive positioning in India through Utilities and Industrials exposure. In turn, we exited several Technology names in Taiwan as signs of weakening demand, related in part to the fast-moving changes in artificial intelligence (AI) related developments, have started to surface.

At the market level, the portfolio is overweight in the ASEAN region, especially the Philippines and Indonesia. This is balanced out by underweight positions in Korea and Taiwan. At a sector level, Financials and Health Care are the primary overweight positions, while Industrials and Consumer Staples are among the main underweights. Top names in the portfolio at month end included TSMC, Tencent, and Alibaba.

Market Outlook

In early April, 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 think it is increasingly likely 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.

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. Our focus has been on companies that have the franchise strength to better withstand tariff pressures.

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.

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