

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 the Sustainability Key Performance Indicator Strategy (Relative). In this context, the aim is to outperform the Sub-Fund's Sustainability KPI compared to Sub-Fund's benchmark to achieve the investment objective.

What Happened in September

Asia ex Japan equities rallied strongly over September. Markets enjoyed a particularly strong end to the month following the Chinese authorities' announcement of the biggest stimulus package since the pandemic, as they attempted to kick the economy out of its doldrums and boost equity valuations. Additionally, sentiment was lifted by the US Federal Reserve's (Fed's) first cut in interest rates in more than four years, and a weaker tone to the US dollar.

Elsewhere, Taiwanese shares were broadly flat, but South Korean shares lost ground as corporate reforms appeared to stall. Meanwhile, ASEAN markets advanced, benefitting from both Chinese stimulus measures and currency appreciation versus the US dollar. Singapore led the advance, with the Straits Times Index touching a 17-year high, followed by Thailand and the Philippines – the country's central bank started cutting rates in August. In contrast, Indonesia and Malaysia lost ground slightly.

Portfolio Review

The Fund modestly underperformed the benchmark in September. Stock selection was the key source of detraction, with specific names in the Information Technology sector offsetting some of the gains from Financials. At a market level, stock selection in South Korea detracted, while Hong Kong and Thailand stock picks contributed positively.

A top detractor was index-heavyweight Samsung Electronics, the Korea-based chipmaker and consumer electronics manufacturer. Its share price has been weak on fears that excess inventory levels in semiconductors and memory chips will lead to weaker pricing power. Overall, we believe longer term artificial intelligence (AI) demand will accelerate the need for high bandwidth memory, where Samsung is a key global provider. However, given the weaker near-term outlook, we have reduced the position size.

Conversely, a key contributor was a banking group in Thailand. The bank's turnaround strategy looks to be on track with management executing their plan to improve shareholder returns, capital management and return on equity (ROE), with a particular focus on improved control of asset quality. As an outcome of this, we anticipate a higher dividend payout going forward, which should help support valuations.

The main activity during the month was to increase exposure to China/Hong Kong. Most of this occurred before the announcement of the new policy measures, through initiating positions in the Hong Kong Stock Exchange and a property developer. Both stocks share similar characteristics of having previously derated significantly, seen sharply lowered earnings expectations, and have strong dividend support backed by resilient balance sheets. These additions were funded by reduced exposure to Korea, mainly through selling down part of the position in Samsung Electronics.

At a sector level, Financials, Real Estate, and Health Care are the primary overweight positions, while Consumer Discretionary, Materials, and Industrials are the main underweights. Top names in the portfolio at month-end include Taiwan Semiconductor Manufacturing Company, Tencent and Hon Hai Precision.

Market Outlook

We maintain a constructive longer-term view on the regional outlook. The peak of the US rate cycle should provide a supportive overall backdrop, especially if accompanied by a weaker dollar. Overall, valuations generally remain at reasonable levels.

China also looks to be improving with the recent slew of policy measures. It is, nonetheless, still unclear how large the latest round of China stimulus will be and how effectively it will be implemented. While the recent policy initiatives have been successful in jumpstarting markets and boosting domestic confidence, eventually it will still be necessary to address the more structural problems, especially related to the property sector as well as the broad-based deflationary pressures.

Within the region, we are finding a number of attractively valued structural growth stories in South Asia 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 ASEAN markets and India.

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All data are sourced from Bloomberg and Allianz Global Investors as of 30 September 2024 unless otherwise stated.

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