Allianz Global Investors

Allianz China A-Shares

Monthly commentary

Investment Objective

The Fund aims at capital growth over the long term by investing primarily in the A-Shares equity markets of the People's Republic of China ("PRC").

What Happened in August

The Fund outperformed the benchmark in August. Stock selection in the Industrials and Financials sectors were the main contributors.

At a single stock level, a key contributor was a manufacturer of solar inverters which transform the direct current (DC) produced from solar panels into alternating current (AC) used in many devices. The company announced quarterly results ahead of market expectations, with its strong brand helping to support premium pricing. The company's other main business is energy storage systems (ESS), where the market is seeing significant growth with the ongoing shift towards renewable energy sources globally.

Conversely, a leading detractor was a maker of optical transceivers that allow high levels of data to be transmitted quickly across a network. These play an important role in areas such as the development of artificial (AI) applications, especially in data centres where high speed data transmission is required. Along with other AI-related names, the stock has seen some profit taking after a strong rally earlier in the year.

Portfolio Strategy and Outlook

China equity markets were relatively stable in August. China A-Shares were close to flat in USD terms, while offshore markets were slightly firmer, supported by internet platform stocks which generally delivered quarterly results ahead of expectations.

AUGUST 2024

One feature of last month has been the strength of the Chinese currency, which rallied by around 2% against the USD dollar. This also mirrors the strength of the Japanese yen. Indeed, for the last two years, the renminbi and the yen have moved in a broadly similar pattern versus the dollar, the main reason being the meaningfully lower interest rates in China and Japan compared to the US. That, of course, is what funded the yen carry trade which so vigorously unwound in recent weeks.

China's capital controls mean the renminbi is not a traditional carry-trade funding currency. However, the rate gap to the US still matters because of the size of China's export sector. Chinese exporters can choose when to convert their foreign earnings back into renminbi. So far this year, they have converted less than usual, as they looked to benefit from the higher returns on US dollar assets.

With markets moving to price in a peak in the US rate cycle, as well as potentially a weaker dollar, it is likely that China's exporters will opt to convert more of their holdings into renminbi. This could put some modest upward pressure on the Chinese currency in coming months. For the People's Bank of China (PBoC), this currency strength provides considerably more flexibility to further reduce interest rates.

Indeed, given the ongoing weakness of the Property sector, the economy will very likely need a further injection of government policy support to rebuild momentum if this year's economic growth target of 'around 5%' is to be met. Accordingly, we expect to see further announcements of both fiscal and monetary stimulus quite soon.

There have not been significant changes to portfolio positioning over the last month. We initiated a position in a leading semiconductor design company, where the share price has pulled back significantly. Overall, we expect growth in this sector to be supported by China's ongoing push for greater self-sufficiency. This was funded by exiting a software name. As such, the overall Information Technology weighting was little changed.

The portfolio continues to have relatively close to benchmark sector allocations. At month end, the largest sector overweight was Utilities (+1.7%), while the largest underweight was Health Care (-3.3%).

All data are sourced from Bloomberg and Allianz Global Investors as at 31 August 2024 unless otherwise stated.