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 February

The Fund slightly lagged its benchmark in February. Positive stock selection in the Industrials and Information Technology sectors was balanced by relative weakness in Financials and Health Care.

At a single stock level, a detractor was Citic Securities, a large full-service brokerage house in China. Although the stock was up during the month, it lagged the broader market recovery. Citic operates across diverse business segments including research, asset management and underwriting. The company is a key beneficiary of ongoing financial reforms given its investment banking capabilities. And it should also benefit if there is a sustained recovery in equity market sentiment.

Conversely, the top contributor was Advanced Micro-Fabrication Equipment, a leading semiconductor equipment producer. The semiconductor supply chain had a strong month across the market. The company has been gaining market share given its technological edge over other equipment players in China. In the longer term, we also see the company as set to benefit from the strategic push for increased self-sufficiency in key technological areas.

Portfolio Strategy and Outlook

China equities have had an encouraging pre- and post-Chinese New Year rally, with both onshore and offshore markets recovering in February. Having been hit hardest in the sell-off, small caps have been particularly strong in recent weeks. The ChiNext Index – sometimes referred to as China's NASDAQ – is up close to 17% since its low point year-to-date.

FEBRUARY 2024

There have been several catalysts for the rally. In particular, this year's equity market weakness has resulted in a higher-than-usual level of scrutiny from senior politicians in China. The State Council – equivalent to a government cabinet – held a meeting specifically on capital markets. And the head of the securities regulator was replaced just before markets closed for the Lunar New Year holiday.

Indeed, there is strong evidence that the so-called "national team" – a group of state-owned financial institutions under political direction – has started to buy onshore equities in considerable size. A Chinese sovereign fund, one of the main "national team" members, announced that it has begun buying exchange-traded funds (ETFs) and would continue to increase the scale of its purchases. Daily trading volume in the larger onshore ETFs has picked up significantly since mid-January.

Additionally, stock buybacks have increased notably. Large state-owned enterprises have made a series of apparently coordinated buyback announcements, and many smaller companies have also bought back stock. As well as an increase in demand for equities, the supply of equity has also reduced. Partly this is related to a managed slowdown in the pace of new initial public offerings (IPOs) where fundraising has dropped sharply. The regulator has also introduced restrictions on short selling and securities lending.

In early March, there was an important economic data indicator with China announcing its 2024 gross domestic product (GDP) target of 5.0%. Although this is similar to the 5.2% GDP growth achieved last year, this year's target will be far more of a challenge which will require a significantly increased level of policy support.

So far this year, there has already been a cut in the reserve ratio requirement for banks and the 5-year loan prime rate, the reference rate for mortgages. Together with other measures, including moves to ease the funding stress of property developers, this suggests the previous gap that existed between policy rhetoric and policy action appears to be closing.

In recent months, we have been using the market weakness to add to high quality stocks which have reached multi-year low valuations, across areas including industrial automation, power equipment, the semiconductor supply chain and artificial intelligence-related (AI-related) applications. Conversely, we reduced exposure to areas where we see potential earnings risk, for example areas related to weaker consumption.

As at month-end, the portfolio has relatively close-to-benchmark sector allocations. The largest sector overweight is Consumer Discretionary (+1.9%), while the largest underweight is Health Care (-2.2%).

Connect with Us | **sg.allianzgi.com** | **+65 6438 0828** | **Search more** Allianz Global Investors

Like us on Facebook **Allianz Global Investors Singapore**

Connect on LinkedIn **Allianz Global Investors**

Subscribe to YouTube channel **Allianz Global Investors**

All data are sourced from Bloomberg and Allianz Global Investors as at 29 February 2024 unless otherwise stated.