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 July

The Fund lagged the benchmark in July. Stock selection in the Industrials and Information Technology sectors detracted as artificial intelligence (AI) proxies saw some profit taking after their previous rally.

At a single stock level, a key detractor last month was a major oil and gas producer. The stock saw some profit taking after resilient performance in H1, with lower energy prices being the catalyst. With stronger free cash flow, we see the potential for further dividend increases which, along with the close to 5% dividend yield, should provide support to the share price.

Conversely, a leading contributor was China Construction Bank, one of the largest banks in China. This is one of our favoured financial holdings because of its higher return on equity (ROE) and stronger capital ratios than peers. The stock also has a high dividend yield which has provided valuation support, especially in an environment where domestic government bond yields have fallen significantly.

Portfolio Strategy and Outlook

The last month has been a period of consolidation for China equities. China A-shares have generally been less volatile than offshore equities, with signs that the "national team" were again providing some stability through buying onshore exchange-traded funds (ETFs).

Much of the focus recently has been on China's so-called "Third Plenum", a five-yearly gathering of top policymakers designed to set the high-level economic agenda for the coming years. While there was, as usual, a substantial official communiqué – the English translation runs to more than 17,000 words – very broadly the main thrust of government strategy remains unchanged.

Overall, it can be characterised as looking to shift resources, capital and talent from out-of-favour sectors such as real estate towards future growth areas, mostly related to technology and manufacturing. Indeed, most of the document explains how the government will do more to achieve its goal of becoming a "science and technology superpower" by 2035.

One key challenge this shift presents is timing. What has been evident for the last two years is that the growth of favoured sectors has not been large enough to fully offset the drag from property, leaving the economy as a whole with significant slack. This was, to an extent, recognised at the Third Plenum. For example, there were notable pledges to "unswervingly achieve the full-year growth target", "proactively expand domestic demand", and "enhance the consistency among various macro policies".

The backdrop is that China recently announced a Q2 gross domestic product (GDP) of 4.7%. This was a significant deceleration from the Q1 figure of 5.3%. China has only failed to meet or surpass its official GDP target once in the last 15 years – and that was in 2022 as a result of COVID.

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 growth target of "around 5%" is to be met. Accordingly, we expect to see further announcements of both fiscal and monetary stimulus.

There have not been significant changes to portfolio positioning over the last month. We selectively trimmed exposure to AI proxies which had performed well and exited a furniture business where growth trends have weakened. Overall, we continue to focus on companies with more resilient business models in the challenging macro environment.

The portfolio continues to have relatively close-to-benchmark sector allocations. At month-end, the largest sector overweight is Energy (+1.7%), while the largest underweight is Health Care (-3.2%).

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