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 May

The Fund lagged the benchmark in May. Stock selection in the Information Technology sector was the key detractor with a number of tech stocks giving back some of their recent gains in the rotational market.

As an example, a top 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 intelligence (AI) applications, especially in data centres where high speed data transmission is required. The stock had previously performed well following a good set of results. We view this month's pull-back as some profit taking and expect the company to benefit over the longer term from rising AI-driven demand.

Conversely, a top contributor was a producer of electricity transformers and other power equipment that play a key role in efficient electricity distribution. There was little company-specific news during the month. Overall, we see the stock benefitting from an ongoing pick-up in distribution grid capital expenditure (capex) both in China and around the world. Production lead times for transformers have already extended significantly. In addition, the recent results of a technology company that designs graphics processing units ,in particular reinforced expectations of strong power consumption by AI data centres.

MAY 2024

Portfolio Strategy and Outlook

May was generally a month of consolidation for China equities, after the previous good run post-Chinese New Year. Onshore equities traded in a narrow range, while offshore markets continued their period of outperformance.

To some extent, the outperformance of offshore equities reflects a degree of catch-up after lagging previously. However, several other fundamental and technical factors are also at play. Recent quarterly results for internet companies – big constituents in offshore indices – were above expectations and included significant share buyback announcements.

Another catalyst was a report that Mainland China retail investors would be exempted from paying the 20% dividend tax on Hong Kong stocks bought through Stock Connect. No details have been confirmed but the report prompted a significant rally in higher-yielding offshore stocks.

While we do not have a strong view on the relative allocation of onshore versus offshore at this stage, nonetheless for China equities overall, we continue to be encouraged by recent news flow and policy initiatives.

The most important development, in our view, has been the way Chinese policymakers have significantly stepped up their efforts to help stabilise the property sector, with measures to address both the lack of demand and excess supply.

Down-payment ratios have been reduced to 15% for first-time buyers and 25% for second home buyers. The nationwide floor to mortgage rates will be removed. And for cities with higher levels of housing inventory, local governments can now purchase part of the unsold homes and convert them into public housing. In combination, we view these measures as representing the biggest nationwide property easing since the property turmoil started close to three years ago.

And while the RMB 300 billion (approximately USD 42 billion) quota provided by the China central bank for local governments to purchase existing housing inventory makes a somewhat modest dent in the overall oversupply situation, nonetheless the government has sent a strong message about its intentions to put a floor under the property market.

With the more encouraging news on the housing market, we initiated a position in a property company during the month. As a state-owned enterprise with relatively stronger financial backing, we believe the company should gain market share as well as benefitting from improved activity levels over time. The portfolio continues to have relatively close-to-benchmark sector allocations. At month-end, the largest sector overweight is Industrials (+3.3%), while the largest underweight is Health Care (-3.5%).

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