

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 October

The Fund underperformed the benchmark in October. There has been significant market rotation in recent weeks, with previously resilient stocks generally lagging. It has been noticeable, for example, how small cap stocks have rebounded strongly with increasing retail investor participation. Stock selection in the Information Technology sector was the main detractor.

At a single stock level, a key detractor last month was a hydraulic components maker. The share price gave back its gains from the previous month with a slightly disappointing set of quarterly results. Looking ahead, we expect the company to benefit from improving domestic excavator demand supported by a replacement cycle. It has also been actively diversifying its business and the recently opened factory automation division should also become a future growth driver.

Conversely, a key contributor was a thermal management solution provider for data centres, energy storage and artificial intelligence (AI) chips. The company posted another good set of results with management remaining upbeat on its growth outlook. It continues to have a robust order pipeline both in China and overseas, particularly Southeast Asia where data centre cooling demand remains strong.

Portfolio Strategy and Outlook

Recent weeks have seen a slew of economic stimulus measures. There have been numerous announcements at both national level as well as local government initiatives piggybacking on the change of central government direction to a more pro-growth policy setting.

The outcome has been a rollercoaster ride for China equity investors with an initial market surge followed by some welcome consolidation as investors assess the extent to which the measures are likely to alter China's economic growth path.

The long-term economic objective is, in our view, still very much about building a more diversified future growth model based on technology-intensive manufacturing, and in doing so to reduce the reliance on property and infrastructure. Going hand-in-hand with this is the focus on national security, especially through the enhancement of self-sufficiency in critical industries.

As such, we view recent policy initiatives as an important change of approach which increases the likelihood of economic stabilisation, rather than being the precursor to a new growth surge. This stabilisation is much needed if China's longer-term vision is to be achievable. If successful, this should remove some of the headwinds that have been blowing hard in the face of China equities, undermining both valuations and corporate earnings.

Indeed, a key aspect of the policy announcements is the eye-catching focus on financial markets, with the provision of significant liquidity for share buybacks and stock purchases as well as a potential equity market stabilisation fund. There have now been three key moments this year when the government has stepped in to stabilise equity markets during periods of particular weakness.

Our view is that this should at least provide a floor to China equity markets and, in a more optimistic scenario, potentially sets the scene for a more sustained market rally. In summary, we are now in a situation where the government is easing both monetary and fiscal policies, and actively looking to boost asset prices. This is a different position from just a few weeks ago.

In terms of portfolio activity, given our more optimistic view of the China A-shares market outlook, we have added to stocks which are more sensitive to an improvement in the domestic economy. These include insurance companies, consumption-related stocks as well as selective industrial names. Conversely, we have trimmed more defensive areas such as banks.

The portfolio continues to have relatively close-to-benchmark sector allocations. At month-end, the largest sector overweight is Consumer Discretionary (+2.7%), while the largest underweight is Information Technology (-5.0%).

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

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