

Allianz All China Equity

Monthly commentary

- The Fund aims at long-term capital growth by investing in onshore and offshore People's Republic of China ("PRC"), Hong Kong and Macau equity markets in accordance with environmental and social characteristics. The Fund aims to achieve an outperformance (i.e. achieve a higher Environment, Social and Governance ("ESG") score) of the Fund's weighted average ESG score compared to weighted average ESG score of Fund's benchmark index by the adoption of the ESG Score Strategy. The Fund does not constitute as an ESG fund pursuant to the SFC's circular issued on 29 June 2021.
- The Fund is exposed to significant risks of investment/general market, country and region, emerging market, company-specific, currency (such as exchange controls, in particular RMB), and the adverse impact on RMB share classes due to currency depreciation.
- The Fund may invest in the China A-Shares market directly via the Stock Connect or other foreign access regimes and/or other permitted means and/or indirectly through all eligible instruments and thus is subject to the associated risks (including quota limitation, change in rule and regulations, repatriation of the Fund's monies, trade restrictions, China market volatility and uncertainty, potential clearing and/or settlement difficulties, change in economic, social and political policy in PRC and Mainland China tax risks).
- The Fund is exposed to risks relating to ESG Score Strategy investment (such as foregoing opportunities to buy certain securities when it might otherwise be advantageous to do so, selling securities when it might be disadvantageous to do so, and/or reducing risk diversifications compared to broadly based funds) which may result in the Fund being more volatile and have adverse impact on the performance of the Fund and consequently adversely affect an investor's investment in the Fund.
- The Fund may invest in financial derivative instruments ("FDI") which may expose to higher leverage, counterparty, liquidity, valuation, volatility, market and over the counter transaction risks. The Fund's net derivative exposure may be up to 50% of the Fund's net asset value.
- This investment may involve risks that could result in loss of part or entire amount of investors' investment.
- In making investment decisions, investors should not rely solely on this material.

Note: Dividend payments may, at the sole discretion of the Investment Manager, be made out of the Fund's capital or effectively out of the Fund's capital which represents a return or withdrawal of part of the amount investors originally invested and/or capital gains attributable to the original investment. This may result in an immediate decrease in the NAV per share and the capital of the Fund available for investment in the future and capital growth may be reduced, in particular for hedged share classes for which the distribution amount and NAV of any hedged share classes (HSC) may be adversely affected by differences in the interests rates of the reference currency of the HSC and the base currency of the Fund.

What Happened in December

The Fund outperformed the benchmark in December. Stock selection in the information technology and industrials sectors was the main contributor.

At a stock level, a key contributor was a leading thermal management solution provider for data centers, energy storage, and artificial intelligence (AI) chips. The share price reacted positively to news that Nvidia would resume shipments of AI chips to China, as well as expectations of market share gains with key clients such as Google. We believe the company is well-positioned to benefit from healthy AI-related demand both in China and overseas.

Conversely, a detractor last month was a biotech company focused on autoimmune and oncology-related drug development. The pullback reflected some broader profit-taking across the biotech space. We see the company as having a number of future share price catalysts given its drug development pipeline. We also expect further out-licensing deals as global pharmaceutical companies look to replenish product portfolios in the face of looming patent cliffs.

Outlook and Strategy

After a punishing period for China's equity markets, 2025 was a comeback year. Not only did both China A and H markets each return close to 30% (USD), but more broadly China started to regain a sense of global leadership after a prolonged stretch when its long-term economic direction was being questioned.

Initially, it was the release of DeepSeek's model, timed to coincide with President Trump's inauguration, that showed how China's AI capabilities had advanced more quickly than was widely appreciated. However, throughout the course of the year, it became clear that China is also developing fast in a range of other technologies. While some of these were already well-known – electric vehicles, high-speed rail, and renewable energy – others, such as battery technology, humanoid robots, and the burgeoning biotech space, have increasingly come onto investor radars this year.

China clearly still has significant economic challenges. Domestic demand remains weak. Property prices continue to edge lower. We do not think this is likely to change much, at least for the time being. With the government prioritizing domestic technological development and reducing reliance on Western supply chains, there is little incentive to reallocate resources to the housing market so long as the slowdown does not pose a more systemic risk.

Nonetheless, just as China equities often did not deliver great returns when there was eye-catching gross domestic product (GDP) growth, we also do not see the current environment of slower headline growth being a barrier to future equity upside. One of the lessons we can take from the last year is that the "macro" is not the "market."

This is especially the case given how the structure of China's equity markets has evolved. The MSCI China A Onshore Index has around a 25% weighting in the tech sector, for example. This weighting has more than doubled in the last decade. In contrast, real estate accounts for less than 1% of the index.

Indeed, as we look ahead to the new year, we are optimistic on the outlook for China equities. As well as a supportive policy backdrop – the weaker economic data should lead to continued accommodative monetary and fiscal policy – other key factors include strong domestic liquidity and valuations.

In terms of liquidity, cash levels in China are high. There is an estimated USD 7 trillion of excess household deposit savings accumulated since the end of China's Covid-related policies. We expect these to be incrementally deployed into equities, particularly given the low interest rate environment and muted outlook for other investment options. There is also a push to encourage longer-term "patient" capital into China A markets. Insurance companies, for example, are being encouraged to invest 30% of new premiums into equities, significantly higher than current levels.

While valuations are no longer as depressed as they once were, still the equity risk premium remains above long-term average levels. To give some sense from a bottom-up perspective, the market cap of the largest listed Chinese company (Tencent) is USD 700 billion. This is less than half of any of the "Mag7" stocks.

Overall, therefore, our base case for 2026 is for another year of decent returns for China equities. And in terms of bull/bear scenarios, the potential for large gains looks to us to be higher than the risk of substantial losses. This is especially the case for China A-shares, where the government has consistently backstopped the market to cushion volatility over the last couple of years.

Against this backdrop, portfolio activity during recent months has focused on taking profits in some previous outperformers – for example related to battery technology – and using the pullback in AI-related names to add to selective positions. This includes areas such as AI servers, printed circuit board (PCB) manufacturers, and developments in solid-state battery technology.

At month end, the fund has around 42% in China A shares. The portfolio continues to have relatively close-to-benchmark sector allocations, so that stock selection remains the key relative performance driver. At month end, the largest sector overweight is industrials, while the largest underweight is communication services.

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Source: Bloomberg, Allianz Global Investors, as of 31 December 2025 unless otherwise stated.

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