

AMUNDI FUNDS CHINA EQUITY

Monthly
Portfolio
Update

31/05/2025

Meet the Team



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Market Review

The MSCI China index returned 2.74% over the course of May, underperforming the broader Asian and Emerging Market regions over the course of the month. Nonetheless, the headline return masked a volatile month, and one which saw Hong Kong-listed equities significantly outperform their mainland-listed counterparts.

On the tariff side, Chinese and US trade representatives met in Geneva on May 12th, agreeing to a temporary and mutual détente in light of the growing bilateral trade tensions – and contributing towards shifting investor expectations away from a state of extreme pessimism. Whilst the mood would once again shift negatively at the start of June, with Scott Bessent and President Trump expressing their discontent with the pace of China's adherence to their agreement, a phone call between Presidents Xi and Trump on June 5th has once again served to alleviate market concerns in the near term.

Moving on to regional equity markets, Hong Kong-listed equities handsomely outperformed their Mainland Chinese peers, as a resurgence in domestic primary and secondary market activity, a sharp decline in inter-bank borrowing costs, as well as upbeat earnings results from companies like AIA and Macau gaming names contributed to market performance. Nevertheless, performance was for more muted within the A-share markets, as momentary relief from external tariff headwinds was partially offset by continued pressure resulting from subdued domestic consumption and fierce competition in key domestic consumer segments (i.e. food delivery, automobiles).

On the macro-economic side, China's April activity came in mixed, with retail sales rising by 5.1% YoY – clearly benefitting from ongoing support by a trade-in policy, whilst auto sales remained volatile. FAI growth on the other hand slowed to 3.6% YoY (from 4.3% YoY in March), with manufacturing FAI rising by 8.2% YoY and infrastructure FAI remaining steady at 5.2% YoY.

On a more sectoral level, healthcare, financial and industrial stocks were the best performers over the month, with IT, real estate and consumer staples underperforming the broader market.

Portfolio Review

The Amundi Funds China Equity Fund significantly outperformed the MSCI China 10/40 index over the course of May.

The fund's overweight positioning within the media & entertainment vertical was a significantly positive contributor to relative performance, largely a result of our exposure to key gaming platforms seeing strong momentum over the course of the month. Elsewhere, our overweight holdings within the capital good sector – particularly centred around EV battery makers, also contributed positively to the fund, with Chinese sector constituents professing significant technological 'moats' and competitive advantages relative to global competitors.

Elsewhere, our holdings within the Information Technology sector were also found to be supportive, in particular a key holding within the autonomous vehicle sector which announced plans to deploy upwards of 1,000 robotaxis within China's most populous cities in the coming months – with its announcement leading the stock to more than double in May.

The fund was subject to some portfolio changes over the course of May. We continued to trim our overweight position within the Consumer Discretionary sector, whilst simultaneously moving to a near neutral weight within Information Technology – within the latter, as we reduced exposure across the handset component manufacturing supply chain. Similarly, we took some profit on our holdings within the Industrials space following a sharp rally across underlying holdings over the course of the month. Elsewhere, we moderately increased our holdings within the communication services sector, focus around e-commerce platforms which could benefit from an improvement in retail expenditure.

Outlook

Chinese equities have traded on an optimistic note since the trade détente arrived at between US and Chinese trade authorities on May 12th, momentum which is likely to persist following the call held between President Trump and Xi on June 5th. Clarity on China's stimulus plans (e.g. a \$70bn plan to be implemented by summer 2025 has been mooted by Chinese authorities), the final outcome of US-China trade negotiations and 2Q25 corporate earnings will be crucial in determining market momentum going forward.

On the macro-economic front, a relaxation in trade-related restrictions will be crucial in determining the health of China's export sector; May already showcased the initial signs of a slowdown in domestic manufacturing following a surprising weak May Caixin manufacturing PMI (down 2.1 points to 47.83) alongside a major drag from softer external demand, suggesting that smaller, private-sector export-oriented corporates may still be struggling in the near term, while export front-loading in recent months (including those via third countries to the US) may be nearing an end.

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