A MOMENT IN MARKETS – TAILWINDS FOR CHINA MAY GET STRONGER STILL

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Chinese equities present a structural investing opportunity: the economy is growing and becoming increasingly consumer-led; accessibility of the markets continues to improve for overseas investors; and diversification benefits are strong. This diversification is maximized when investors access the full range of Chinese share classes, i.e. both onshore and offshore listings. But even strategic investors are not oblivious to the way the winds are blowing in economies and markets. Tailwinds, that have propelled Chinese equities recently, may be poised to get stronger still.

The economic recovery:

Economic data from China has been strong this year. Purchasing Managers Indices – signifying month-on-month change in activity – bounced back strongly in March and have continued to improve since then. Third quarter gross domestic product (GDP) showed strong growth in the economy and unemployment has dropped back to January's pre-pandemic levels. The country has avoided a second wave and could have strong fourth quarter growth while other major economies, like the US and those in Europe, may endure another dip as lockdowns are being enforced to control infections.

The plan for the next 5 years:

China's recently announced 14th 5-year plan for 2021-2025 promises growth from a combination of a strengthening local economy and more international trade. China is touting science, technology, and innovation to be the key drivers of growth in this upcoming phase and intending to make investments in areas including semiconductors, 5G, and electric vehicles. China is seeking to increase its self-reliance in terms of technology supply chains to deliver 'high quality' growth that is sustainable, and green. A timely reminder of China's renewed focus on long-term growth bodes well for Chinese risk assets.

The Asia-Pacific trade deal:

Following 8 years of negotiations, leaders of China and 14 other countries in the Asia-Pacific region have signed the historic Regional Comprehensive Economic Partnership (RCEP) – a deal which can be expected to promote free trade in the region. This deal constitutes another milestone in China's journey to becoming an increasingly important global economic power. Another such example is China's 'Belt and Road Initiative' – a colossal multi-decade global infrastructure project. Along with more global economic integration and leadership, China is also improving foreign access to its capital markets. The recent trade deal will reinforce the market's confidence in China's ongoing globalization.

The transition to Biden:

It would be premature to assume that US-China relations will turn the corner immediately after Joe Biden takes the helm in Washington. It is, however, expected that Biden will seek to steer the US back to a more multilateral approach and away from the unilateralism adopted by the Trump administration. This will help reestablish the global standing of US in all matters of policy and international cooperation. While Biden is unlikely to disregard China's role as a key competitor, under his leadership the US might adopt a more consistent and collaborative approach to its foreign policy. This could help mitigate some of the US-China trade unpredictability seen since 2018 – something markets will certainly welcome.

No wonder the outperformance:

Chinese equities are responding positively to the macro tailwinds. The S&P China 500 Index – a diversified index which includes both onshore and offshore listings – is up nearly 31% year-to-date[1]. This compares to the S&P 500 Index which is up around 13% over the same period. These are encouraging signs for those interested in Chinese equities – strategic and tactical investors alike.

[1] as of 30 November in USD terms

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