

CHINA EQUITIES: THE WAY FORWARD

- PERFORMANCE
- POSITIONING
- WHAT'S HAPPENING
- OUR RECOMMENDED LIST

**CIO OFFICE EQUITY
& ASSET ALLOCATION**

4TH AUGUST 2021



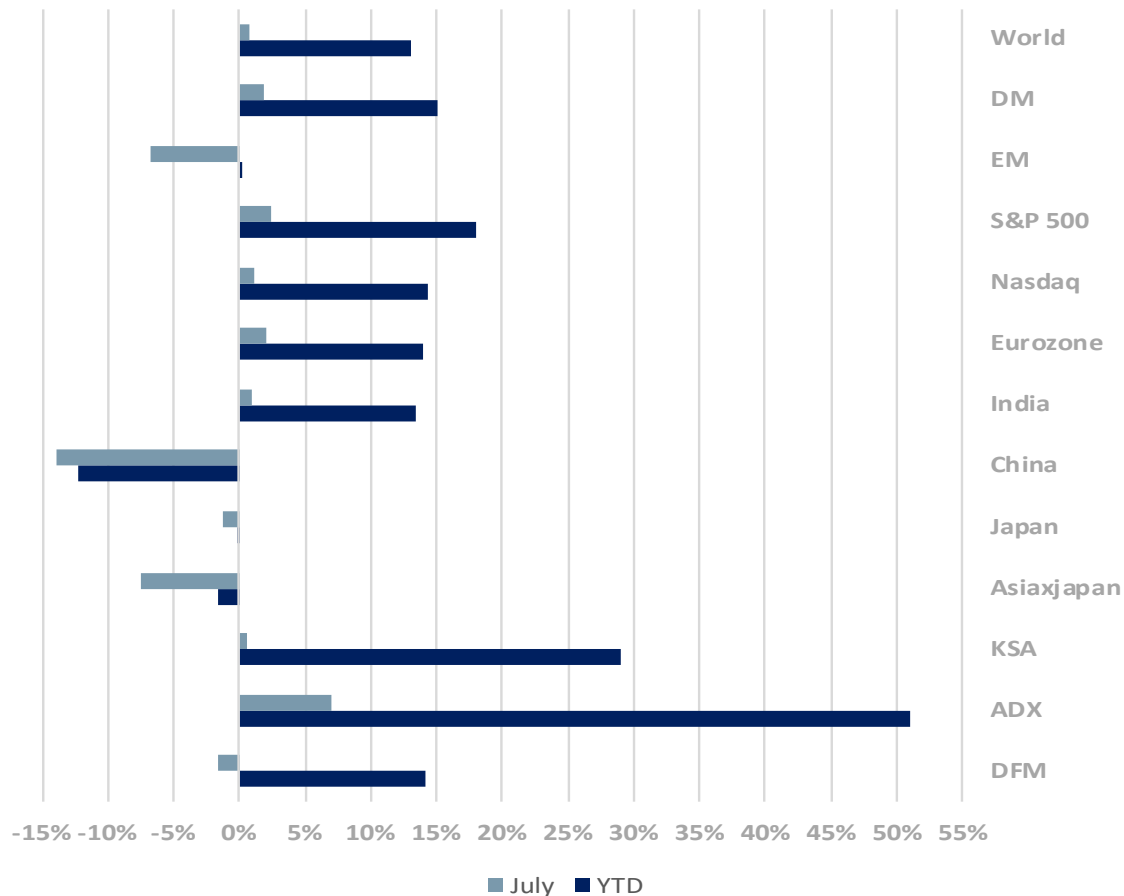


Data Privacy; National Security/ Overseas listings/ Social Equity all concerns

- > Concerns around China companies listed in the US around **data privacy: Internet companies & large data base platforms** such as ride sharing apps: Didi, Ant Group IPO
- > Concerns on monopoly of **digital payment** companies: Alibaba, Tencent
- > Are **gaming** companies next in line after concerns on prolonged use by children: Tencent
- > Socio economic issues around **high tuition costs** for tutoring post school: online education companies. Around 90% of the Chinese public school system estimated to have private tutoring. The government is sensitive towards foreign participation in education. Government banning for profit business and raising capital: Gaotu , New Oriental, TAL
- > **China:US** continue to be on loggerheads on various issues including sharing of technology. With US China ongoing tension, preference will be listing in HK than US.
- > Various financial restraints for **real estate developers**, increased scrutiny on loans from banks to related parties
- > **Healthcare pricing** concerns: Alibaba Health; JD Health.



EQUITY PERFORMANCE IN JULY: CHINA LAGS



Global Market Drivers

- Strong earnings growth
- Economic growth
- Liquidity/ Fiscal stimulus
- Record inflows
- Vaccine rollout
- Economies reopening
- Demand resumption
- Dovish Monetary policy
- Low EM Valuation
- Rotation reversing/ broad rally
- Low yields

Global Market Detractors

- Supply chain issues
- Crypto/meme volatility
- High DM valuation
- Inflation worries
- Virus variants/ lockdowns
- US China tension
- China regulations

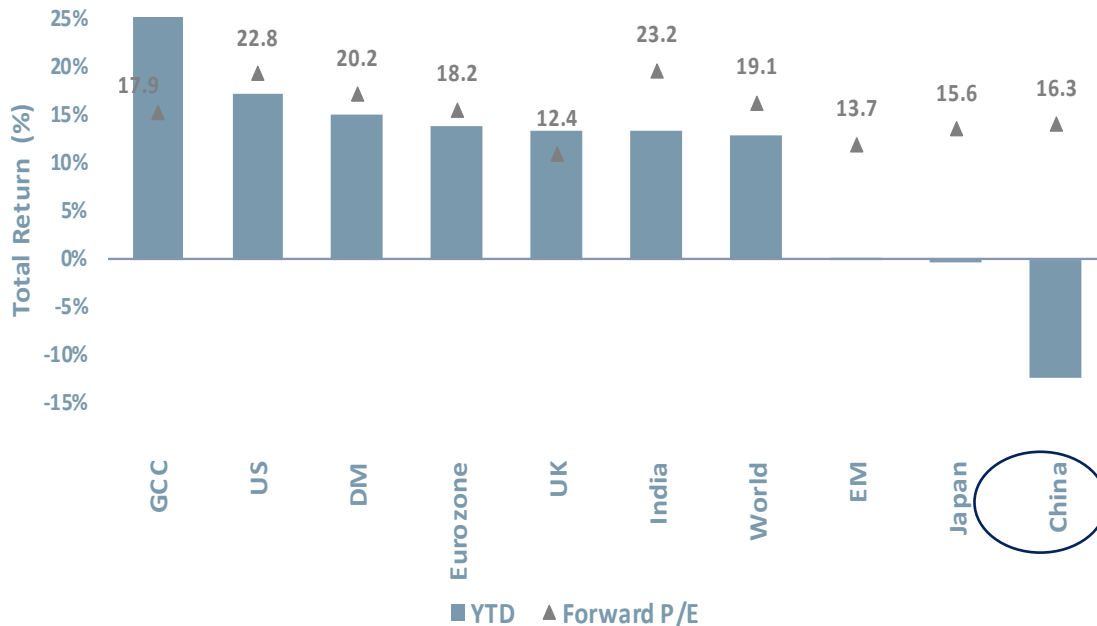
REGION POSITIONING & PERFORMANCE YTD: NEUTRAL EM ASIA



Country gains in sync with vaccine rollout

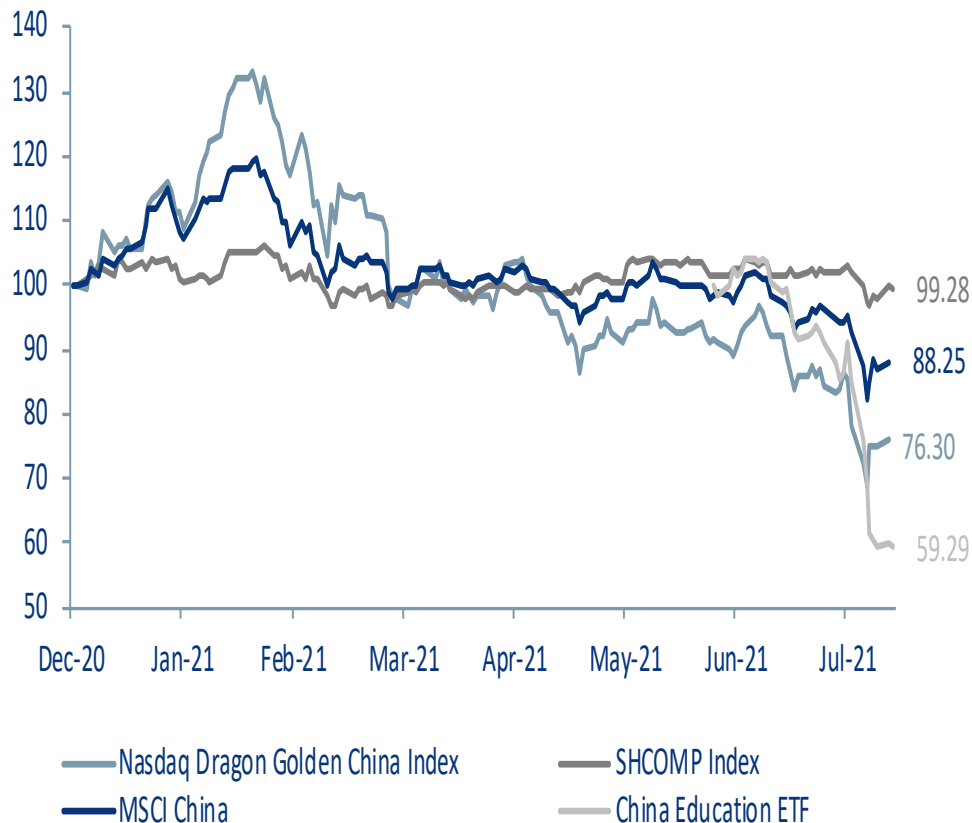
Europe following US, boosted by stimulus and vaccine roll out

Next decade expected returns: EM 8.3% and DM 5.9% p.a.



Region	View
DM	OW
US	N
Eurozone	OW
Japan	UW
UK	OW
EM	OW
Asia	N
UAE	OW
EMEA	OW
LATAM	UW

CHINA EQUITY PERFORMANCE YEAR TO DATE (REBASED TO ZERO)



There is a marked difference in performance of domestic A shares, H shares i.e., China companies listed in Hong Kong and China companies listed in the US as well as across the various sectors.

Domestic stocks flat i.e., the **Shanghai Composite Index** is least affected and flat YTD. The Hang Seng Index has lost 2% YTD .

Technology 40% of **MSCI China**, hence as internet companies face increasing scrutiny with large data banks on users and payment gateways the index is -12% YTD. The CQQQ Invesco China Tech ETF is -23% YTD compared to QQQ the US tech ETF +30% YTD.

The **Nasdaq Dragon Golden China Index** which follows the main China companies listed in the US has fallen 20% in just a few days and -25% YTD as scrutiny and restraints increase on China companies listing in the US from both China regulators and the SEC.

China education ETF down 40% YTD as for-profit private education and tutoring not permitted.



- > Chinese authorities have extraordinary track record in steering domestic economy
- > Aim of reforms: balanced longer-term growth
 - No hurdles to one-child policy
 - Contain inequality
- > Suffocating economy with regulations would derail it and run counter to the primary objective
- > China tail risk – credit transmission channel

“If the reforms are too fast there is chaos. If the reforms are too slow, there is stagnation”

Cao Siyuan, architect of the first bankruptcy law in China in the 1980s

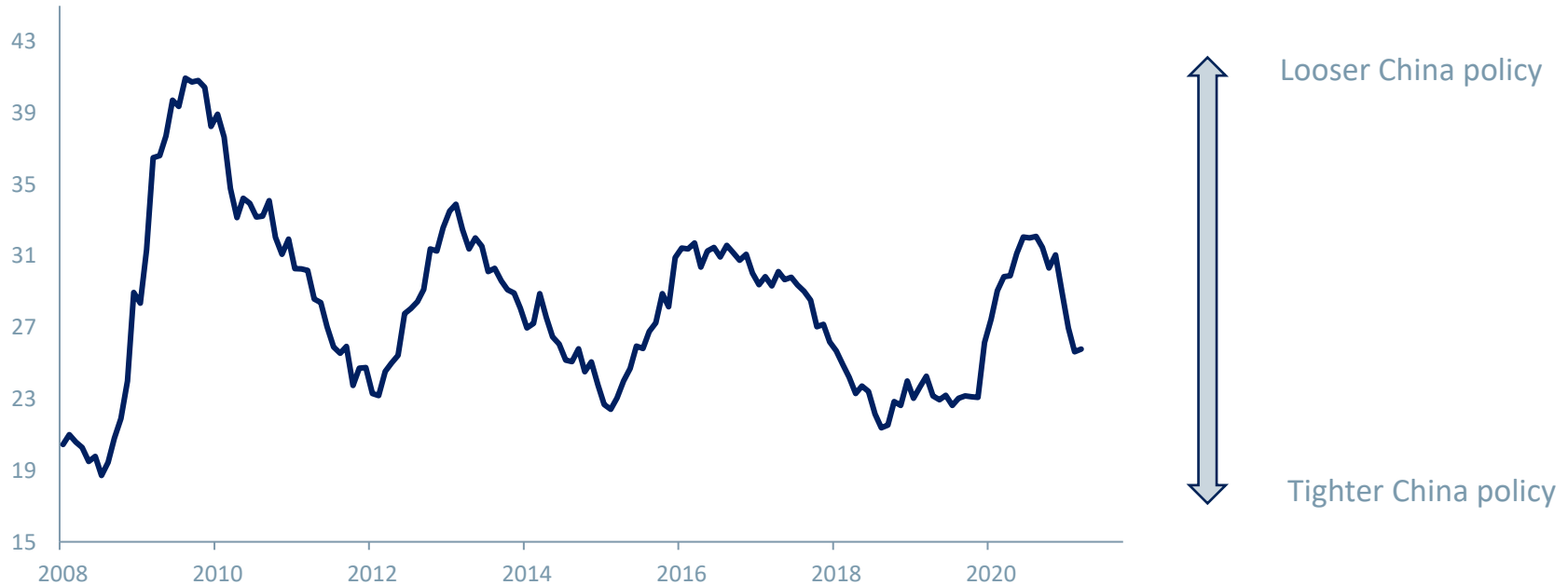
Source: CIO-Office



CHINA – EVENTUALLY THE GOVERNMENT WILL STEP IN AGAIN WITH STIMULUS



China Credit Impulse

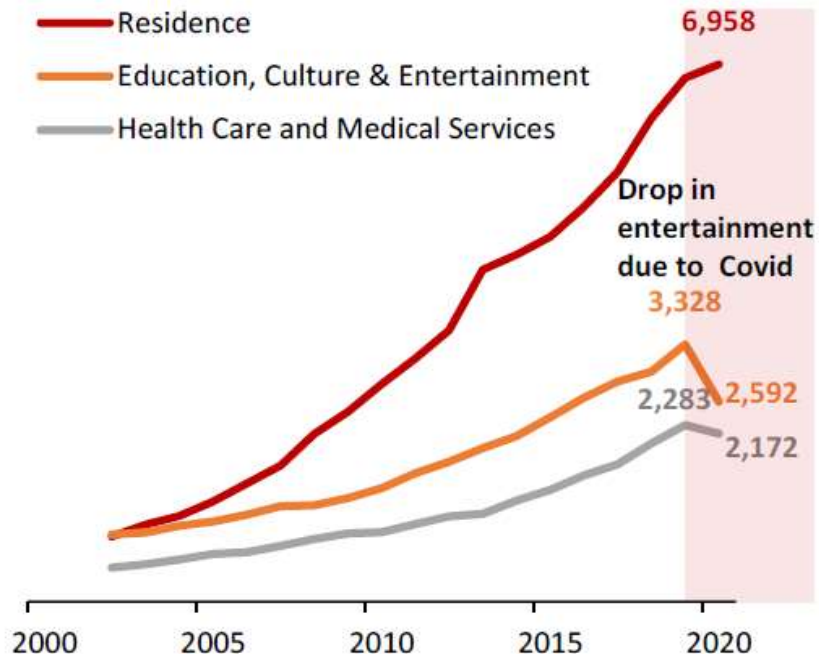


Source: Bloomberg

CHINA: HIGH SPEND ON EDUCATION AND REAL ESTATE EXUBERANCE

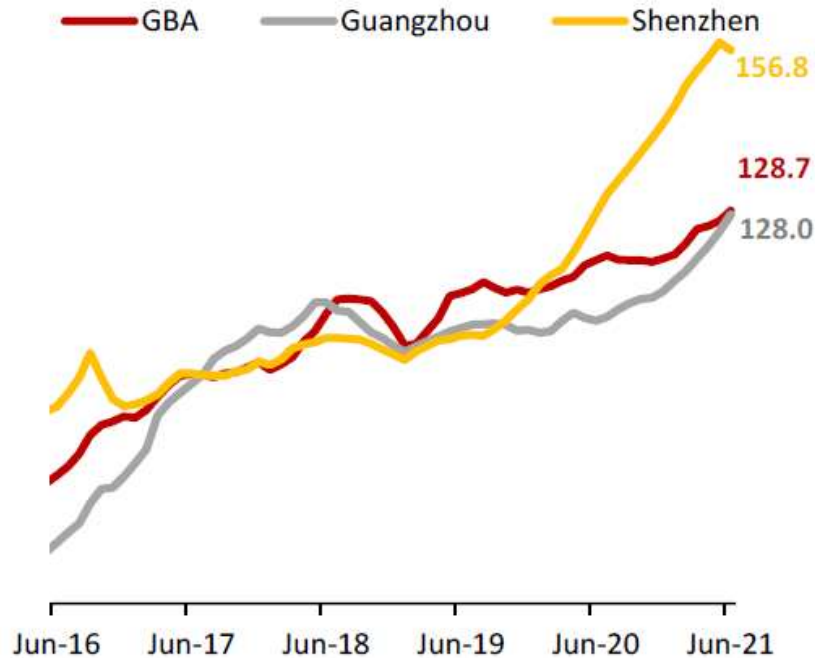


Expenditure per capita (annual, RMB)



Source: CEIC, DBS

Property price: Centaline Index



Source: Centaline, DBS

HOW TO POSITION WITH THE CURRENT TURBULENCE IN CHINA EQUITIES?

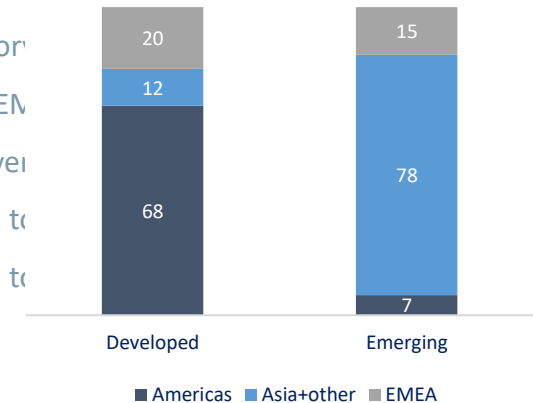


China is 16% of world GDP 5% of MSCI World Index (ACWI) and allocations from global institutions have historically focused on broader EM. We would maintain allocation to China as per our asset allocation profile which for broader EM is 15% in the moderate portfolio. We would not try to bottom fish or under or over allocate or take specific bets.

Chinese stock valuations in affected sectors are now at a substantial discount relative to historical and technical indicators also show oversold levels, however we would recommend a broad EM positioning rather than trying to catch the China sell off bottom or time an entry. However we would maintain allocations as per asset allocation benchmark allocations as in the mid to longer term the underlying growth metrics of domestic are attractive with their premium to US peers and their low correlation with the rest of the world

Domestic least impacted: Focus on funds with larger A share allocation or domestic CHINA ETI as part of overall allocation

EQUITY RECOMMENDED REGIONAL POSITIONING
15% to EM in OVERALL PORTFOLIO ALLOCATION FOR MODERATE PROFILE



We have a list of recommended securities and funds (and ETFs available to London and Singapore clients), available with your investment advisor

INDEX FAIR VALUES: CIO OFFICE YEAR END 2021: MSCI CHINA TRADING 27% BELOW FAIR VALUE OF 109

Region	US	Europe	Japan	UK	EM	China	India	GCC
Index	S&P 500	MSCI Europe	Nikkei	FTSE	MSCI EM	MSCI China	MSCI India	MSCI GCC
Index End 2020	3756	132	27444	6461	1291	109	1600	549
2020 Performance	16%	-16%	16%	-14%	16%	27%	17%	-4%
Current Index Level	4395	153	27781	7102	1278	94	1837	682
YTD Performance	17.0%	15.6%	1.2%	9.9%	-1.0%	-13.0%	14.8%	24.3%
From Fair Value	-0.1%	-4.8%	-8.0%	-11.2%	-15.8%	-27.1%	0.6%	-4.0%
CIO Office 2021 Estimates								
EPS Growth	37%	45%	35%	50%	30%	28%	30%	35%
Price/ Earnings	23.0	18.0	21.0	16.0	17.0	15.0	26.0	19.0
Fair Value	4400	160	30000	7900	1480	120	1825	710
Upside/ Downside	17.1%	21.1%	9.3%	22.3%	14.6%	10.5%	14.1%	29.3%
Add Dividend Yield	1.4%	3.0%	1.7%	4.0%	2.5%	1.6%	1.3%	3.1%
Expected Return	18.5%	24.1%	11.0%	26.3%	17.2%	12.2%	15.4%	32.4%



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