MONEY

China and clean energy – that's what analysts are betting on

Beijing has already recovered from the coronavirus economic crisis and renewables are full steam ahead

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China and clean energy are the new "gems" to have in a portfolio. Investment houses are focusing on these two areas and the market offers more and more new products for small investors. The experts say that these two themes are sure to rise as soon as growth shows some new signs of life. But what is needed is a long-term view and efforts spread out over several years.

The boom in China

It is China above all that looks convincing. The country, having been the initial epicentre of the coronavirus outbreak, is responding with decisive recovery measures against the pandemic-triggered economic crisis. The macroeconomic data is encouraging, especially when compared to the rest of the world's figures. Additionally, the virus seems to have loosened its grip on the country.

Investors are finding many convincing reasons to focus on this area. First and foremost, though, is the spending capacity of China's nouveau riche and the steady growth of average wages. Dawid Krige, Banor Sicav Greater China Equity Advisor, comments, "In terms of income, the Chinese are still poor. With a per capita GDP of $10,098, China ranked 65th in the world last year, in with Mexico and Argentina. The average wage in urban areas is $12,000 a year – less than a fifth of American average earnings. However, unlike Mexico, Argentina and the United States, China has experienced steady 10% annual wage growth over the last 20 years, adjusted for inflation. It is likely to double again over the next decade, given the vitality of the economy and low unemployment rates". The trend will definitely drive domestic consumption and the entire plethora of stocks associated with Chinese spending, primarily tech.

The trend will also certainly benefit the luxury sector, as well as the travel and high-end leisure markets. China's bounty will offer more and more fuel for these sectors. "The average Chinese person is already wealthy", says Dawid Krige. "At the end of 2019, the average net worth of Chinese households in urban areas was $198,330, nearly double that of America ($104,000)". He explains that the reasons for this difference are due to the amount that Asians save and, especially, their entry into the real estate sector. Until the 90s, all property was owned by the Chinese government. The State – in the biggest wealth transfer in history – allowed city residents to buy the homes they lived in at bargain prices, and those properties are now worth a fortune. So now, 96% of Chinese city dwellers own property, compared with 64% of Americans. And since they bought it so cheaply, they didn't have to take out huge loans. Only 57% of Chinese households have debts equal to 16% of their assets. The corresponding figures for American households are 77% and 36% respectively. "We believe that, for Chinese consumers, the future will continue to look bright for a very long time," concludes Krige.

Opportunities abound, but there are also risks to keep an eye on. Not least among these is the fact that the tensions and trade war between the US and China that could escalate. Or the many geopolitical risks associated with Chinese designs on Hong Kong and Taiwan.

Green policies and sustainability

The coronavirus crisis has also drawn attention to the importance of investing with awareness and respecting the needs of the environment and sustainability. “ESG stocks, which comply with these criteria, have proved resilient throughout the crisis, both in terms of flow and performance”, emphasises Piergaetano Iaccarino, Head of Equities Solutions at Amundi. “In terms of performance, ESG principles have proved a source of outperformance, both recently and in the long term”.

The demand for these types of products and solutions is set to grow and grow. As an example, the flows of ESG equity funds in September this year had already exceeded 2018 flows as a whole. Iaccarino adds, “We believe that ESG investments will be a structural strength for asset managers in the future. As regards the three pillars, we can see how the "S" (social) is gaining ground, due to a greater near-term focus on the increased impact of the crisis and the re-allocation of financial resources by governments”. Looking ahead, the current behaviour of companies will have long-lasting financial implications on their business.