NEWS CHINA INVESTMENT

China – an investment to be handled with care

by Sibilla di Palma

Announced government measures aimed at increasing regulation scare investors, but experts believe that the stock market continues to offer good opportunities, provided you act selectively

Giacomo Mergoni, CEO Banor Capital

The recent slowdown in industrial output and retail sales due to COVID-19-related restrictions, together with president Xi Jinping's announced squeeze on large private assets to foster "common prosperity for all" could lead to China becoming a danger to investors. This, despite expert opinions saying it is necessary to take a long-term view in order to seize the opportunities still available in the country. Speaking on the subject, Morgan Harting, manager of the AllianceBernstein emerging markets multi-asset portfolio, argues that "a certain degree of investor concern about China is justified". His reasons include the slackened pace of China's economic growth, determined especially by the slowdown in domestic demand due to new restrictions in the wake of the Delta variant. "But it's not just the economic slowdown that has given investors pause for thought", he adds. "Big Chinese sectors have come under a lot of pressure recently.

At the same time, tensions between the United States and the Asian giant continue to simmer over access to capital markets. The latter has hardened its position towards its U.S. listed companies, stating that it would take an especially harsh view of those who decide in the future to list on Wall Street through the Variable Interest Entity (VIE) structure used by many large cap companies".

Chinese stock market still has its appeal

Harting's view is that, in this landscape, China continues to offer good investment opportunities, particularly on the equity side. "In many ways, it is the second largest equity market in the world, and our independent bottom-up research continues to uncover attractive opportunities, often involving top global franchises with a long history of producing high returns for shareholders". Harting mentions electric vehicles in particular and the raw materials needed to produce them: "an area where we see the potential for sustained growth". That said, the figures give clear proof of the benefits of looking beyond Beijing. Only 35% of the market cap of the MSCI Emerging Markets index is outside North Asia, but it accounted for 44% of the return in the first half of 2021. In portfolio terms, 57% of the assets in our Emerging Market Multi Asset fund are allocated outside North Asia, and this generated 73% of returns". Looking beyond the issue of economic returns, Harting emphasises that, "Other emerging markets in Asia, EMEA and Latin America are relatively not correlated with China, so this makes them good sources of diversification".

Press clipping for use by recipient only. Reproduction prohibited.

Invest selectively

Giacomo Mergoni, CEO of Banor Capital, points out that, "In the last two years, many investors have increased China's weight in their portfolios beyond the recommended level for a high-risk investment". In the wake of the government's announced intention to strictly regulate entire sectors from February, Mergoni believes many people have been overly pessimistic in their reactions and have lost sight of the positive impact of these actions. "Let's say we want the population to continue to prosper and grow, so we probably need to help families by curbing monopolies, raising the minimum income, stabilising the financial system and lowering the cost of education, health care and housing", he explains. "These are all measures that echo similar reforms also under way or needed in Western countries. The media impact of such huge interventions may be devastating in the short term, but if you have the patience to wait – a fundamental requirement for any high-risk investment – the benefits may emerge even in the next few years. China accounts for about 20% of global GDP, but represents about 5% on the MSCI ACWI Index, and we believe the growth potential is still high, for the economy and its markets". "But having said this", Mergoni concludes, "it will be increasingly important to invest selectively". The ideal targets are, "healthy companies with successful products, whose valuations are not yet stellar, thus leaving plenty of room for expansion and a positive social impact".

Press clipping for use by recipient only. Reproduction prohibited.