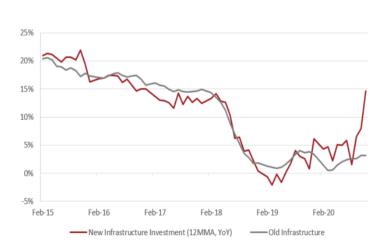


China Bulletin: Market View



China's financial markets have had an uneventful December to date, while the expectation of tighter credit conditions in 2021 is building up gradually. The Healthcare sector reversed its under-performance from November upon news of reduced price cuts in the latest round of drug bulk-buying talks. Electric vehicle and semiconductor names are still favoured by both market and policy, but their valuations appear very expensive to us, even when considering the distortion from the pandemic. Consumer Staples are seeing strong momentum again, as the market prefers certainty. The Banking sector remains under pressure from the credit crunch and the expectation of authorities reintroducing a deleveraging policy in the next year.

Though the PBoC turned marginally accommodative while approaching year end, credit conditions may tighten upon improving growth and external conditions. Various data confirms that

China's positive growth momentum is being sustained on both the production and demand side, and global growth momentum is expected to pick up after the introduction of a Covid-19 vaccine. One key indicator that policy makers watch is the growth of fixed asset investment in the higher-end manufacturing whose sector, recovery was interrupted by the pandemic, but whose subsequent recovery has been quite rapid. Another key indicator, employment, has overshot the policy target as well. On the other hand, the change of administration in the US allows a friendlier external environment, in 2021 at least. All these positive developments add to a higher probability of stockpiled risk being addressed actively, which means the re-introduction of a deleveraging policy.

Though the macro outlook offers limited comfort, structural development matters more for Chinese equities., Accordingly, our top pick is the Consumer Discretionary sector, particularly consumer service providers. Technology, Media and Telecom (TMT) names will still be favoured by policy, yet their market performance may be dubious if economic growth is not as remarkable as their stretched valuations suggest. The Healthcare sector is likely to remain expensive, given their growth of revenue and profit is largely satisfactory, among which we prefer medical equipment makers. Banks, however, may benefit from tighter credit conditions, though market appetite may deteriorate. Consumer Discretionary names are largely suppressed, except duty-free retailers, and may be boosted by the further opening-up of the economy and improving market sentiment towards the sector.

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