

China Bulletin: Market View



The modest rally of China's equity market in the last fortnight is based on the US-China climate talks taking place in Shanghai and some earnings surprises. The Electric Vehicle (EV) supply chain has been boosted by the expectation of ambitious global co-ordination on carbon neutrality policies and also by Huawei's landmark first EV hitting the market on 21st April. However, we still recommend a cautious stance regarding this sector as valuations remain overly expensive, even taking into consideration the expected phenomenal growth, and market competition is too fierce to generate substantial profits. On the other hand, earnings results swing the market, both upward and downward. Generally, the healthcare sector, large commercial banks and alcohol makers delivered exceptional results and thus outperformed the market. We remain positive on large commercial banks and cautiously optimistic on the healthcare sector and alcohol makers. This view is based on the potential for growth in all three sectors and that

valuations are, to some extent, reasonable compared to historical levels.

The market is likely to stay uneventful in the coming quarters as domestic conditions are expected to remain stable, while external factors may cast shadows. In our assessment, the drag on growth from retiring excess capacity and cracking down on the shadow banking system is approaching an end, making the economy in its best shape since the downturn starting from 2015. The external sector, however, may face more intense competition in the global export market, with geopolitical confrontations potentially weakening market sentiment. With the absence of structural opportunity, market turnover has decreased to half its peak levels, further diminishing the possibility of a bull market.

Former US Secretary of State John Kerry's visit lays the ground for cooperation between China and the new US administration, though the confrontation may continue and occasionally weigh on equity markets. The conflict now shifts to geopolitical and ideological fronts and the two nations may fall into a serious standoff over some key events or issues. Additionally, ties between China and the EU may be tested by the Biden administration's policies and the uncertainty of the German election. These are potential downside risks to the Chinese equity market, but their impact will likely be limited and short-lived.

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