

China Bulletin: Market View



China A shares move closely with the bond market, reflecting an upbeat economic outlook for financial markets based on improving economic data and a relatively moderate external environment. The trade-off between bonds and equity is increasingly apparent due to PBoC refraining from pumping massive liquidity into financial markets. We believe that the closure of consulates by the US and China is more a gesture than a real escalation of their confrontation. As long as the phase 1 trade deal remains intact, the US-China tensions should not be a notable concern for financial markets.

Equity Market

Equity markets still favour healthcare and consumer staples, while the financial sector and tech names are generally underperforming. Commercial banks, with average price to book

value of 0.8 and dividend yield of 4-5%, are more and more attractive for long-term investors, yet an imminent rally may be remote. Tech names have had a very good run in the last one and a half years and now their valuations have reached an unsustainable level, until there are some notable technological breakthroughs. The surge in early July leaves overvalued sectors more expensive while undervalued sectors are still subdued. Should the turnover remain buoyant, a broad-based rally may follow.

Economic Policy

China's top policy making body held its quarterly economic conference on July 30th and largely maintained its previous policy stance. Increased weighting was placed on the domestic market and supply chain in order to counter rising external uncertainty, but policies aimed at opening up the Chinese economy remain despite the intensifying levels of tension and confrontation. Cyclical policy was adjusted to a less active balance, including a more neutral monetary policy and a less aggressive fiscal policy. Plans to hold a general assembly to draft the 14th 5-year plan for 2021-2025 in October were also announced, which interestingly lies before the US presidential election scheduled for early November.

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