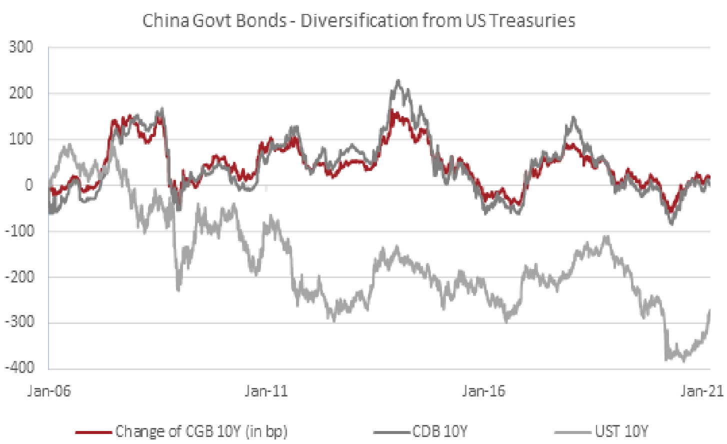
China Bulletin: Market View



China's equity market has undergone a correction after the Chinese New Year triggered by the sharp rise of US treasury yields, and growth names have been worst hit. The gap between the valuation of the expensive and the cheap shares has narrowed, yet the overall valuation of the market remains above its historical average. The healthcare sector, consumer staples and solar energy names have retreated substantially from their previously over-stretched valuations, although their pricing is still above their fundamental level in our view. Nonetheless, these names are still worth watching as the healthcare and consumer staples sectors will grow along with rising consumption expenditure by Chinese households. And carbon-neutral government policies will drive an increase in the demand for solar energy and electric vehicles. Commercial banks have outperformed quite impressively lately. They are benefitting from improved asset quality and increased return on assets, due to accelerating growth momentum and a tighter monetary policy stance.

China's bond market is more resilient than its equity market and also the bond markets of its global peers, with 10-year CGB trading sideways within a range of 15bps year to date. The resilience comes from the precautionary policy normalization by PBoC and China's leading position in the global cycle after the pandemic. The global recovery will probably unfold but its boost to China's economy may be limited. That is because the global supply chain is expected to recover and potentially weaken China's export sector and, consequently, its economic growth. The sustainability of elevated commodity prices, which could translate into improved global capital expenditure and increased broad-based inflation, remains the most significant uncertainty for an optimistic view on Chinese rates.

The annual legislative session concluded and approved policy targets for 2021. Policy makers kept employment as one of the priorities for the next 5 years and downplayed the importance of a specific number for growth. Economic policy avoided any drastic change and any shock to the economy, confirming that policy makers will not implement similar stimulus to the economy as they did post the global financial crisis in 2008. Protection of property rights, especially intellectual property, was once again emphasized, and the US-China trade disputes, or their de-escalation, did not change China's course.

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