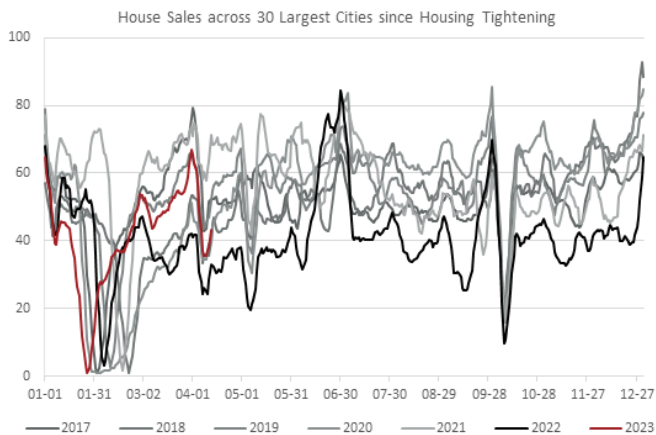


China Bulletin: Market View



China Recovery: Resilience Amid Global Slowdown

As of April, various data counters suggest that the onshore market's understanding of China's recovery is in the process of decelerating. However, the latest surprisingly upbeat growth demonstrates the resilience of external demand for Chinese goods, even amid cyclically slowing global growth momentum. PMI readings point to a more optimistic service sector, and it is reasonable to expect this optimism to eventually translate into employment and household income since the majority of the labour force is employed by the service sector.

Major large banks are still pumping credit, mainly to manufacturing borrowers, in a bid to meet the increasingly important ESG requirements imposed by their shareholders. Since the open-up at the end of last year, all signs suggest that the recovery in China is going smoothly as expected.

China Equity Market: AI Theme & Recommendations

In recent weeks, China's equity market has favoured the artificial intelligence theme over expensively priced new energy names. While new energy names will undoubtedly deliver remarkable growth of earnings and exceptional returns in the long term, they are facing growing competition both domestically and abroad, as well as huge amounts of capital expenditure. AI names, especially software companies, are riding the tailwind following the popularisation of ChatGPT. However, we would refrain from chasing the AI theme given the expensive valuation relative to the expected growth and recommend increasing allocation to sectors capable of delivering growth, such as healthcare.

Housing Sector Rebound: Optimistic View of China Recovery

High-frequency data shows that the rebound of house sales is still ongoing, paving the way for a flat housing sector as in our previous report. Though lower than pre-COVID levels, house sales in the largest thirty cities exceed sales from last year. The deep downturn of the housing sector was one of the main forces behind the unexpected slowdown last year, but the drag is expected to fade as early as 23Q2. We maintain our optimistic view of China's recovery based on the receding drag from the housing sector, resilient export growth, and accelerating household consumption upon the normalisation of economic activities.

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