

China Bulletin: Market View



China's equity market has stumbled at the beginning of 2022 and growth investing has taken the most severe hit, along with its global peers. Semiconductor and new energy supply chain names, as representatives of growth investing and free of policy headwinds, have borne the brunt initially. The drawdown should be temporary for Chinese growth stocks; domestic monetary policy is positioned to a more accommodative stance in light of the economic downturn. However, the domestic and external uncertainty will add to the volatility of the Chinese equity market.

The size factor was the key one in 2021 where the CSI 500 Index outperformed the Shanghai Shenzhen 300 Index (composed of the largest 300 companies) by 21.1% with similar volatility, benefiting from the shift of monetary policy in July. However, we attach more significance to the low volatility factor in 2022, as uncertainty is mounting due to several significant political events, in addition to the combination of sluggish growth in China and persistent inflation in the US.

Traditionally, it is very difficult to assess the growth momentum of China at the beginning of a year, but various indicators show that the slowdown is continuing. The absence of economic data and the calendar effect introduced by Chinese New Year make the first two months of the year less measurable and less important regarding growth. PMI data shows domestic confidence remains subdued, while export data points to more resilient external demand. Inflation data surprisingly undershoots expectations and CPI prints a much lower reading than the policy target. Though PPI remains elevated due to the shock of the energy price hike, the mediocre consumer inflation increases the possibility of PBoC moves to cut the policy rate. The housing sector remains the economy's most meaningful swing factor - and continues its downturn. The relative strength of fiscal support against the housing sector downturn, and the fading export momentum, are the key factors to watch for China's economic growth in 2022.

In fixed interest, the Chinese bond market keeps compressing credit and term spreads to extremely low levels, in the hope of a policy rate cut in the near future. In our view, the Chinese bond market offers quite unattractive risk-reward currently, but acts as a gauge for the financial markets' condition. A substantial jump of rates may hint the end or at least the pause of the size factor's outperformance.

This document is issued by China Post Global (UK) Limited ("China Post Global") acting through its offices at 75 King William Street, London EC4N 7BE and for the purposes of Directive 2014/65/EU has not been prepared in accordance with the legal and regulatory requirements to promote the independence of research. This document has been prepared for information purposes only. It shall not be construed as, and does not form part of an offer, nor invitation to offer, nor a solicitation or recommendation to enter into any transaction or an offer to sell or a solicitation to buy any security or other financial instrument. No representation, warranty or assurance of any kind, express or implied, is made as to the accuracy or completeness of the information contained herein and China Post Global and each of its affiliates disclaim all liability for any use you or any other party may make of the contents of this document. The contents of this document are subject to change without notice and China Post Global does not accept any obligation to any recipient to update or correct any such information. China Post Global (UK) Limited is authorised and regulated by the Financial Conduct Authority. This document is not for distribution in the U.S. or to U.S. persons. This document is directed at Institutional Investors only. This communication is exclusively directed and available to Institutional Investors as defined by the 2014/65/EU Directive on markets in financial instruments acting for their own account and categorised as eligible counterparties or professional clients. This communication is not directed at retail clients. It should not be distributed to or be relied on by retail clients in any circumstances. For the UK, institutional investors ("Institutional Investors") are Professional Clients as defined by the FCA. Calls may be recorded. This document is confidential and not to be communicated to any third party or copied in whole or in part, without the prior written consent of China Post Global. This communication contains the views, opinions and recommendations of China Post Global. This material is based on current public information that we consider reliable, but we do not represent it as accurate or complete, and it should not be relied on as such. The information, opinions, estimates and forecasts contained herein are as of the date hereof and are subject to change without prior notification. There can be no assurance that future results or events will be consistent with any opinions, forecasts or estimates contained in this document. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied is made regarding future performance.

 2nd Floor | 75 King William Street
London EC4N 7BE

 +44 203 617 5260

 marketaccess@chinapostglobal.co.uk

 www.chinapostglobal.com



China Post Global



Market Access
Exchange Traded Funds