

China Bulletin: Market View

The re-emphasis of common prosperity in the recent economic policy meeting has caught extensive media attention. The policy is not new however, dating back to the introduction of the "Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era" in 2017. In our view, the common prosperity policy, aimed at narrowing the income and wealth gap, is currently the most practical structural reform to improve effective demand. Since the effectiveness of traditional fiscal and monetary policy seems to be approaching its limit, and paying directly to households is not sustainable. It justifies the quite harsh policy imposed upon the private tutoring sector, which effectively helped fortify the advantage of the rich against the ordinary. The implementation will be gradual, and we will keep a close eye on its development and its effect on the economy and capital markets.

A shares reacted to the policy intention immediately, as high-end liquor makers sold off substantially. The Manufacturing sector is enjoying a policy tailwind, especially the new energy supply chain, which probably has the most advanced capability globally. Its current valuation is more attractive than semiconductor manufacturers, another well supported sector. Steel makers and coal miners delivered a decent rally in the last fortnight as well, benefiting from an improved dynamic in the sector. Commercial and investment banks outperformed the market, and we believe they are good picks in terms of a long-term investment.

The onshore bond market remains uneventful, trading within a tight range of less than 5 bps over the last two weeks. It is widely agreed that growth momentum is slowing in China, and that monetary policy will probably turn to a more expansionary stance. We remain neutral on the China bond market, as at this moment rates and credit spreads are suppressed to a relatively low level, yet they may remain low in 21Q4 through to 22H1.

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