

# China Bulletin: Market View

Chinese Equity Market - Stellar 12-Month Performance



China's equity market is consolidating after huge gains over the past year, followed by a sharp correction. Some indices gained over 60% from March 2020 to February 2021, driven by China's strong recovery from Covid-19. Then fell up to 15% as overstretched valuations corrected. The market will continue to benefit from China's improving fundamentals and supportive economic policy. Growth is supported by strong external demand despite the global slowdown, as shown by China's production and export data. The recovery of global supply chains is unlikely to derail this trend, as global demand and capital expenditure should rise in the wake of higher commodity prices and a more friendly US trade policy.

China's policy makers have vowed to fine tune their policy decisions to avoid a drastic shock to the market in part from uncertainty surrounding the global recovery and the Fed's cautious attitude. It is difficult to assert that the market valuation is back to a reasonable level and is now ready for a rebound

after the recent correction. However, structurally some sectors and strategies do have chances to outperform.

A low volatility strategy is still recommended as the return is more sustainable in the long run - and more suited to today's Chinese equity market. As the chart shows, the minimum variance index has delivered a similar return to the Shanghai Shenzhen 300 Index since 2020, but with much lower volatility. Although growth will remain steady and support the equity market, the looming exit of supportive policy and expected implementation of stricter asset management regulation may intensify market volatility in the near future. Additionally, China's economy has been in the best shape since the trough in 2015-16, and a more balanced recovery can be expected, implying a more balanced equity market, rather than being driven mainly by the largest companies.

Sector wise, we would recommend internet stocks and commercial banks. Alcohol, healthcare, and new energy names delivered impressive returns in recent years. However, this has led to most institutional investors chasing these shares, pushing their valuations to unsustainably high levels. Internet names will suffer from the anti-trust campaign temporarily, but their growth remains exceptional and they have much fairer valuations. The anti-trust campaign will help to maintain a competitive environment and enable more sustainable growth in the long term. Commercial banks, on the other hand, will benefit from the improving asset quality and higher rates of return on assets.

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.

 2<sup>nd</sup> Floor | 75 King William Street  
London EC4N 7BE

 +44 203 617 5260

 [marketaccess@chinapostglobal.co.uk](mailto:marketaccess@chinapostglobal.co.uk)

 [www.chinapostglobal.com](http://www.chinapostglobal.com)



**China Post Global**



**Market Access**  
Exchange Traded Funds