

China Bulletin: Market View

Growth Tech Outperformance Q2




China's equity market saw growth names outperform in 21Q2 again, thanks to a tamed US treasury yield. Semiconductor manufacturers and electric vehicle supply chain companies are the outstanding performers. The healthcare sector remains popular and is one of the top picks among institutional investors. Cyclical names also managed to provide a decent return. With the continuous improvement of the US labour market, tapering the US stimulus programme seems inevitable and so does the normalization of Fed monetary policy. Growth names will probably see pressure on their valuations and only those who can deliver remarkable growth could outperform. We recommend investors to remain cautious, especially regarding names with a stretched valuation and a less promising growth outlook.

China's growth remains on its previous trajectory, slowing down due to waning external demand. The economic slowdown is expected and China's economy is in its best shape for a decade.

Policy makers will be glad to embrace the slowdown and any meaningful easing is highly unlikely. The surveyed unemployment rate is at pre-pandemic levels and manufacturing investment remains healthy, enabling policy makers to curb local government spending and the real estate sector.


China's rate and credit market remains quiet. The 10Y CGB rate is trading within a narrow range of about 20bps year to date, and the range became narrower in 21Q2. The most interesting development will be the treatment of Local Government Financing Vehicles (LGFVs) and their debt. The recent policy initiative is to constrain the accessibility of financing to LGFVs and to improve the plausibility of infrastructure plans by local government. LGFV debt remains one of the most significant sources of uncertainty in China's economy, and we will keep a close eye on its development.

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