

Considering Chinese assets – a useful portfolio building block?

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Introduction

When should you consider Chinese assets?

Debunking myths

Some relevant concerns

Outlook and opportunities

Megatrends and China

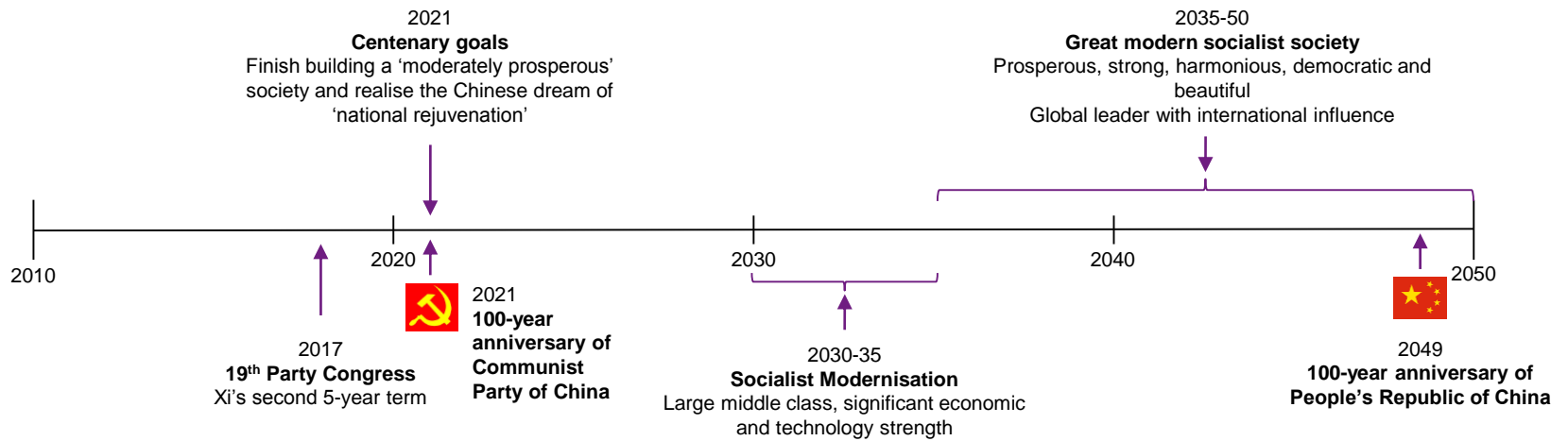
Current account liberalisation and flows of capital

Consumer and corporate dynamism

Outward investment and the BRI

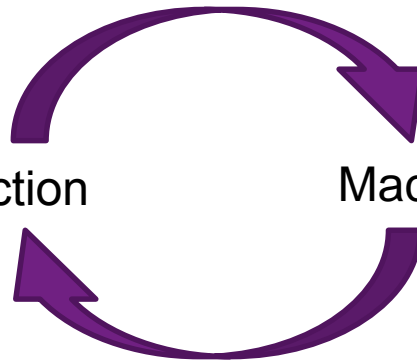
Social security, technology and the ESG related issues

Myth 1: China is a political basket case



Xi's Principal Contradiction

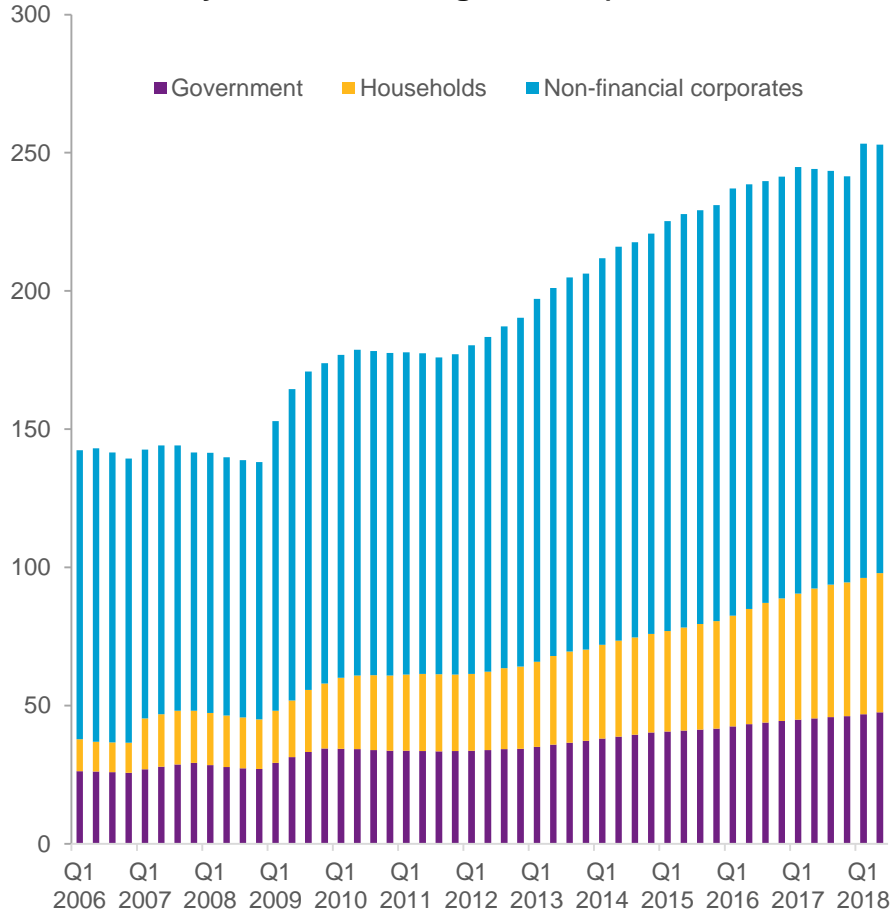
Macroeconomic balance



Sources: Willis Towers Watson

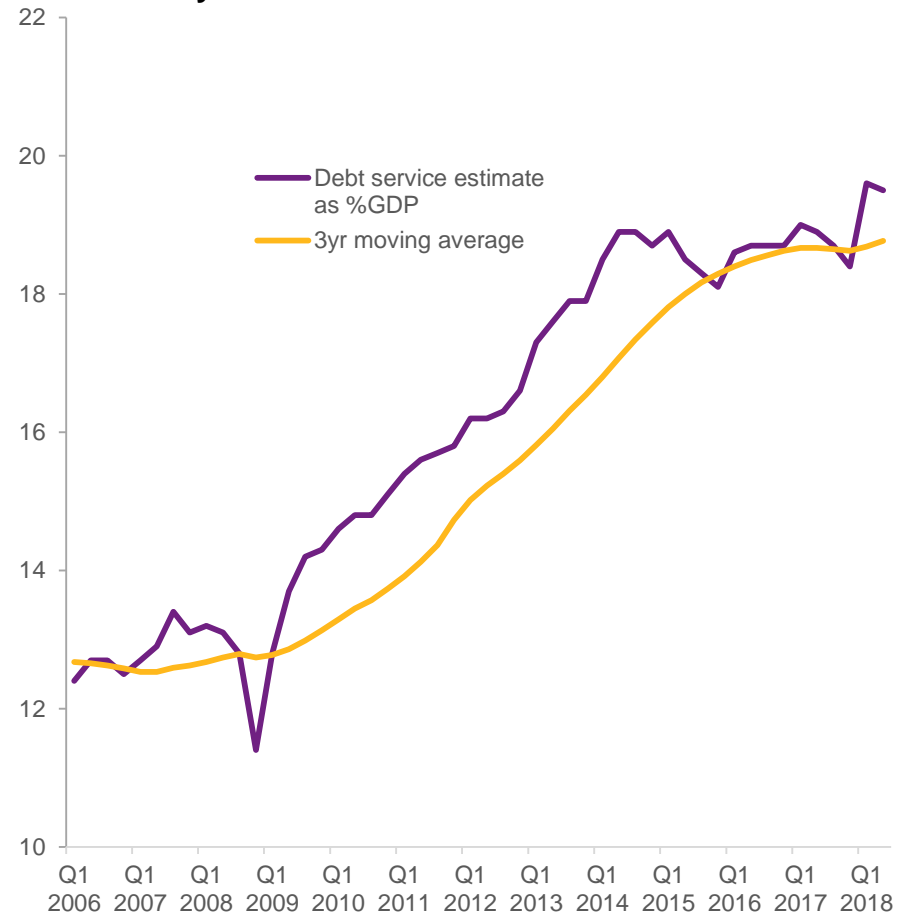
Myth 2: China is sitting on a debt bubble that is going to pop

Debt levels in the China economy have risen materially and stand at high levels (% GDP)



Sources: Refinitiv, BIS, Willis Towers Watson

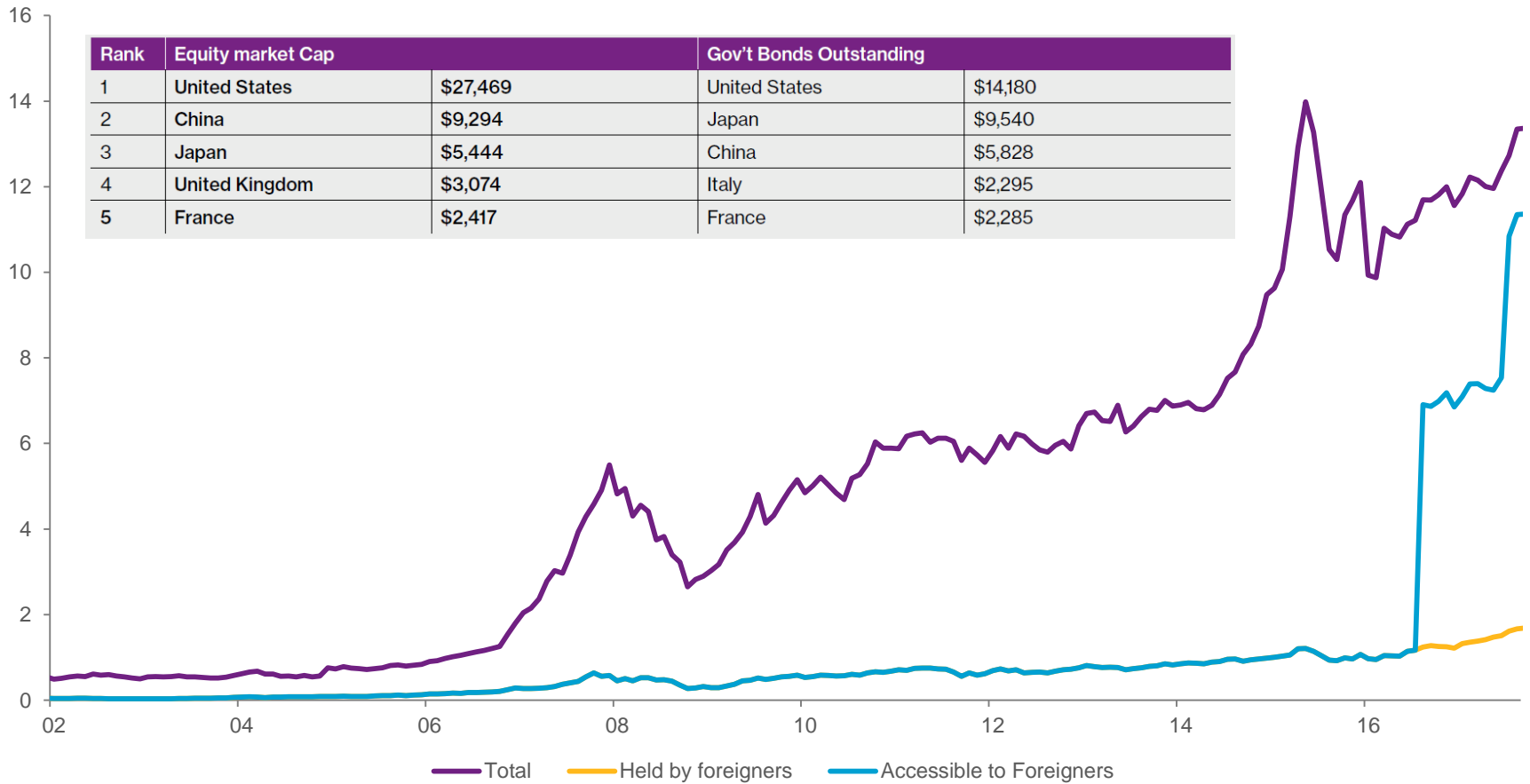
Private sector debt service costs have also risen materially



Sources: Refinitiv, BIS, Willis Towers Watson

Myth 3: Chinese markets are small and inaccessible

Size and accessibility of onshore Chinese markets (\$bn)



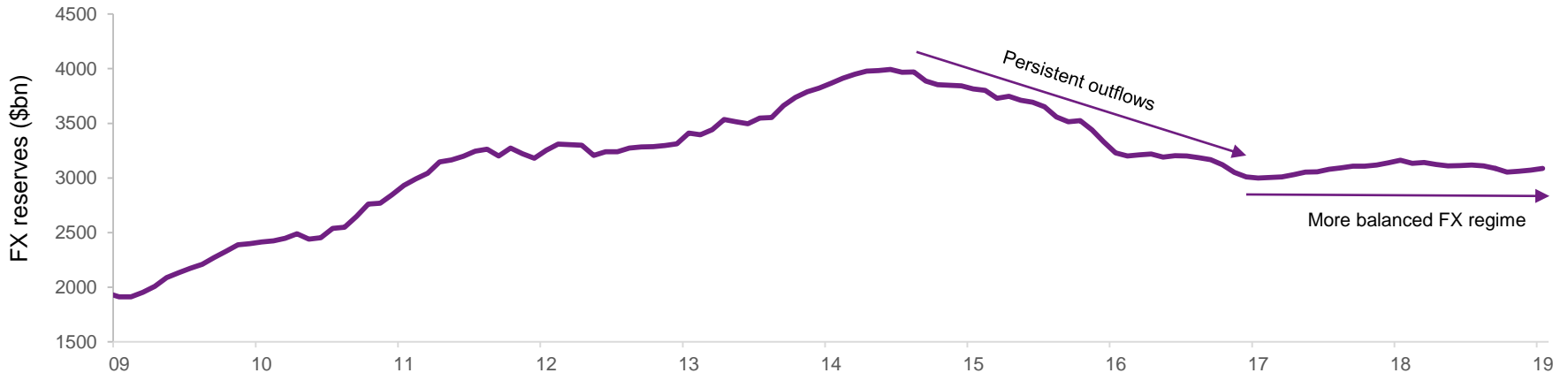
Sources: Bloomberg LP, PBoC, Willis Towers Watson

Myth 4: Chinese policymakers follow a policy of renminbi debasement

USD/CNY has been appears to have followed fundamentals over longer time horizons



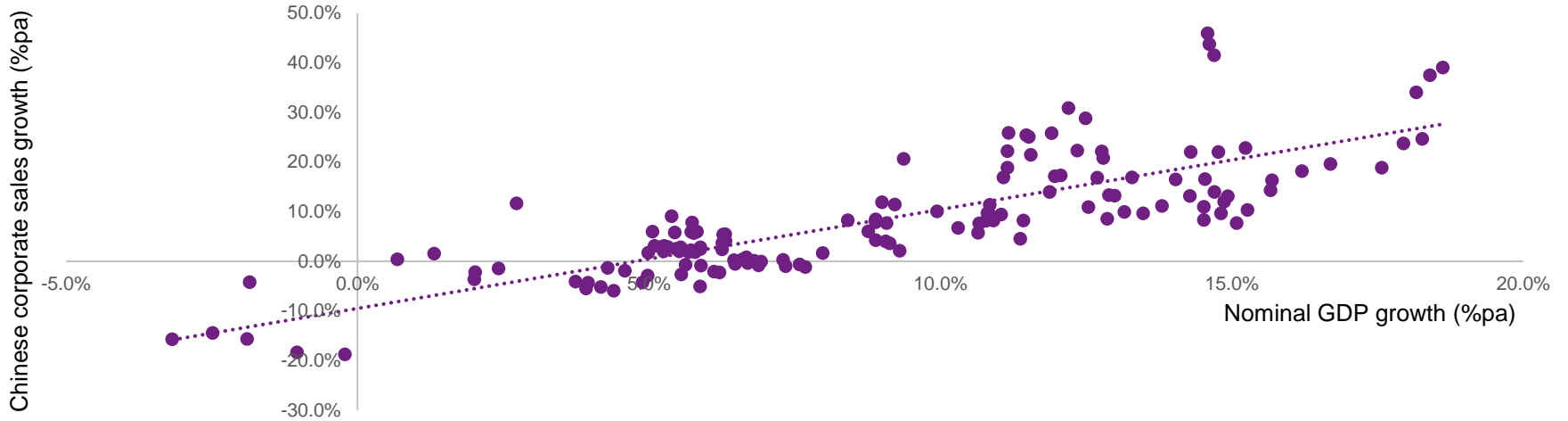
FX reserves have stabilised following the change in renminbi policy to a more market based approach



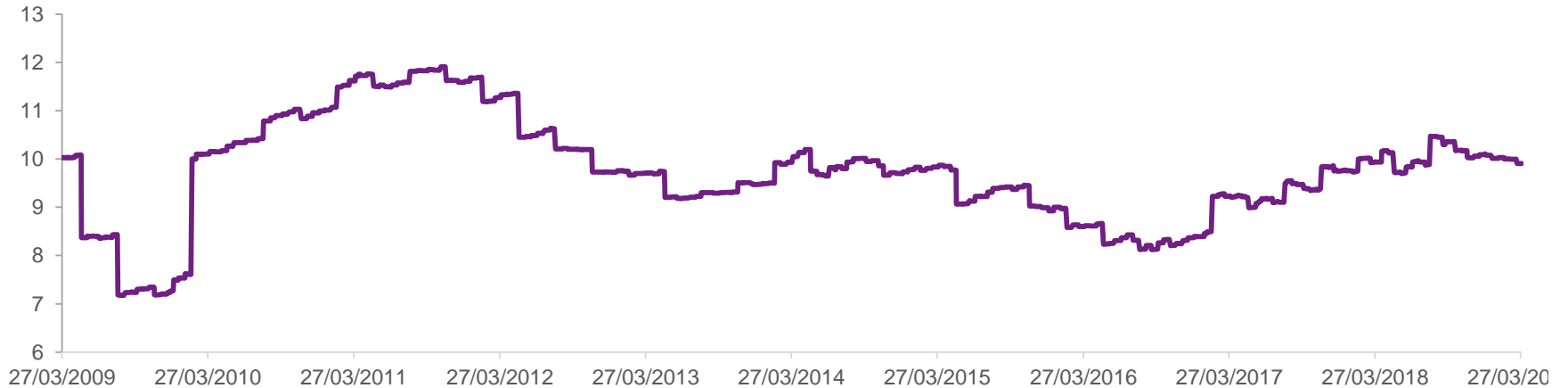
Sources: Refinitiv, Factset, Willis Towers Watson

Myth 5: Chinese firms are not run for profit

Corporate sales growth is coincident with GDP growth – a well trodden relationship



Chinese corporates in aggregate are profitable (ROE, %)



Sources: Refinitiv, Factset, Willis Towers Watson

Concern 1: China has material ESG related issues

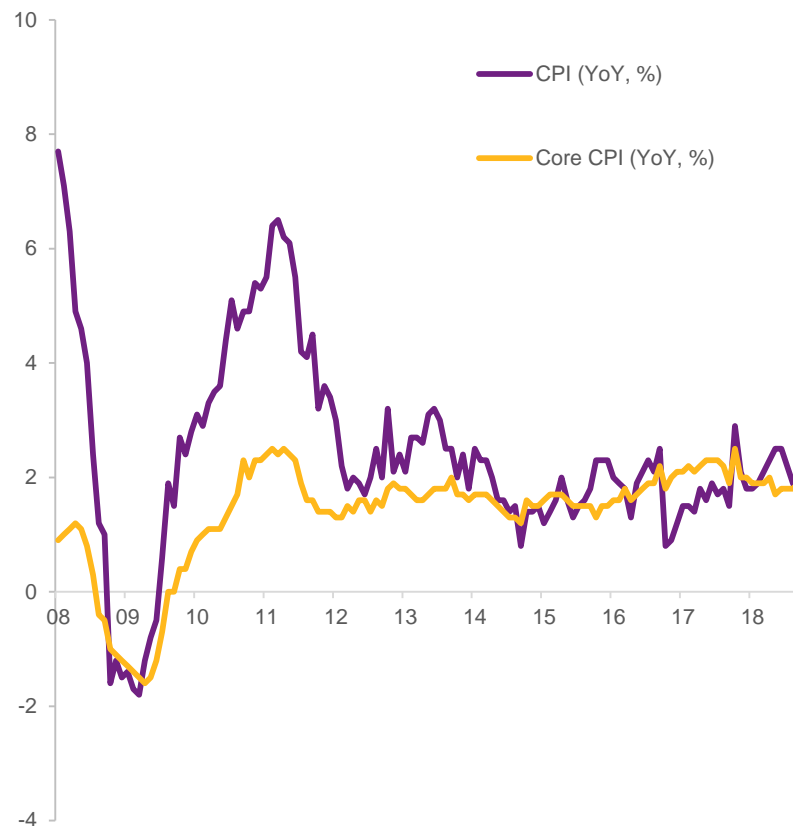
	Macro (aggregate level)	Micro (corporate/individual level)
Financial	<ul style="list-style-type: none">• Market-wide governance standards and business practices• Ownership risks• Risks to capital from government and state/regulatory intervention	<ul style="list-style-type: none">• Security-specific business practices and involvements, where standards can vary widely (eg weak accounting standards)
Non-financial	<ul style="list-style-type: none">• Failing to meet social and environmental norms on issues such as human rights at an economic level (eg. treatment of specific population groups)	<ul style="list-style-type: none">• Potential issues include specific violations of business practice norms (e.g. as defined by the UN Global Compact), and business involvements (e.g. controversial weapons)

Concern 2: Chinese economic outlook

Consensus forecasters expect a recover in growth and inflation

Consensus forecasts	2019	2020	2021	2022
Real GDP growth	6.2	6.0	5.9	6.1
vs 3m ago	+0.0	+0.0	+0.2	+0.4
vs 12m ago	-0.0	+0.0	+0.0	+0.3
CPI inflation	2.3	2.3	2.0	2.5
vs 3m ago	-0.1	+0.1	-1.0	-0.3
vs 12m ago	+0.0	+0.9	+0.0	+0.3

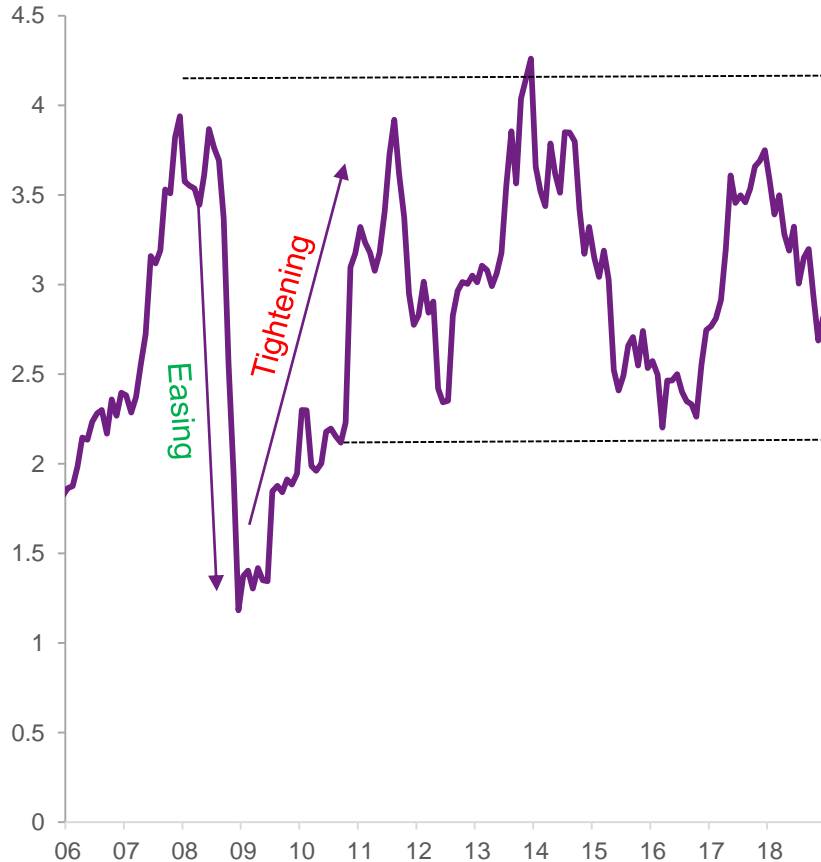
Macro variables continue to surprise to the downside



Sources: Refinitiv, Factset, Willis Towers Watson

Current opportunities – access a diverse set of drivers

Chinese yield curve dynamics are driven by domestic monetary policy stance (CGB 2Yr %pa)



The equity rally has moved markets back towards 'fair value', but opportunities remain (Chinese onshore equity market performance, rebased to 1/1/2018)



Sources: Factset, Willis Towers Watson

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