



Overweight China All Share Equities vs Global Equities

Recommended Since January 31, 2022

INVESTMENT THESIS: We expect Chinese equities will outperform global equities, given the weak performance of the asset class recently, which we view as excessive and has left equity valuations depressed relative to global equities and momentum at oversold levels. Increased fiscal and monetary stimulus will be the catalysts to unlock current valuation discounts.

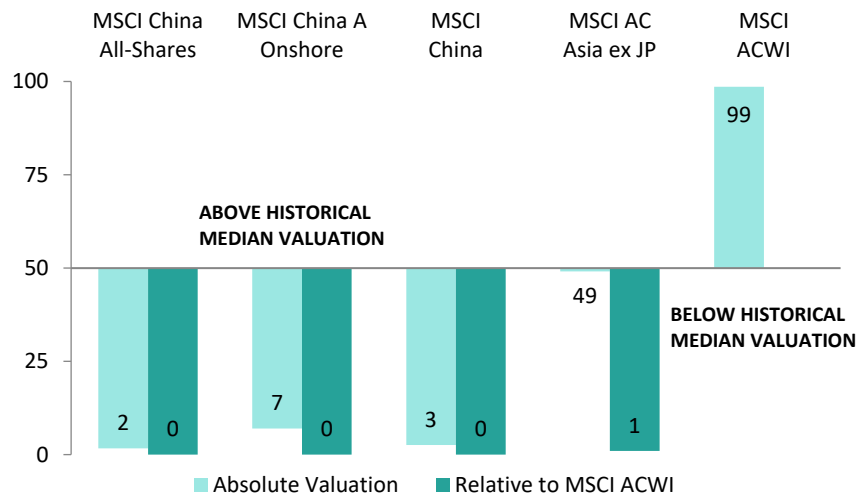
- KEY SUPPORT #1:** Chinese equities have underperformed global equities in recent years. As a result, equity valuations are in the bottom decile of historical data dating back to 2005. Moreover, the gap between Chinese and global equity valuations stands at a record wide point relative to history, which also suggests Chinese equities may be underpriced. Although, Chinese equities have shown a recovery since February, relative momentum remains at very oversold levels, offering further upside potential as China's economy stabilizes.

- KEY SUPPORT #2:** We expect Chinese equities to benefit from additional monetary and fiscal policy easing. Recent economic data is surprising modestly to the upside, and analysts expect real GDP growth and corporate earnings growth in China to be higher than many major developed economies in 2024–25. The end of Fed tightening may allow the PBOC to act more aggressively without further impacting the RMB. Further stimulus could trigger a sharp rebound given oversold levels of valuations and momentum.

- KEY RISKS:** Further economic weakness and US-China political tensions are two key risks. On the former, the economy is facing challenges associated with weak domestic demand, the property sector, and debt levels. The economy needs further stimulus, without which economic growth may be challenged. On the latter, an escalation in US-China tensions could further impact investor sentiments and fund flows to China. However, we think current valuations reflect these risks and expect Chinese equities will outperform global equities.

ROE-ADJUSTED P/E: PERCENTILE

March 31, 2005 – March 31, 2024



RELATIVE PERFORMANCE: MSCI CHINA ALL-SHARES VS ACWI

December 31, 2001 – March 31, 2024 • USD • Total Return • Percent (%)

