

Quick Take: The Chinese Equity Dilemma

October 2024

Uncertainty Remains High

- The People's Bank of China recently unveiled expansive monetary stimulus to revive its economy.* Onshore Chinese stocks surged, outperforming the Emerging Markets (EM) ex-China benchmark by 26%. Real Estate Management companies, beneficiaries of actions aimed at the housing market, outperformed the broad rally by a further 6%.
- Nevertheless, we would be reluctant to call a bottom in Chinese equities. Our macro model's (medium-term) view on onshore China is moderately negative and the forecast has trended down since mid-year.
- Over the long-term, challenges facing China's economy, including deflationary pressures, depressed consumer confidence, and the troubled property sector, remain stubborn, and rallies that followed past policy initiatives faded. (top chart).

China Allocations: Stay Active, Stay Diversified

- Despite the elevated uncertainty, China, as the second-largest equity market in the world, still warrants a material allocation in a global portfolio for all but the most pessimistic investors.
- Moreover, the onshore market remains attractive as a rich source of alpha. If recent history is a guide, stock selection may provide a significant cushion should the market retreat again. The bottom chart shows that amid China's economic and market struggles in recent years, a variety of fundamental and sentiment signals have paid off well.
- In summary, despite the murky outlook for Chinese equities today, one thing that we are confident about is the value of an active diversified approach to investing in that market.

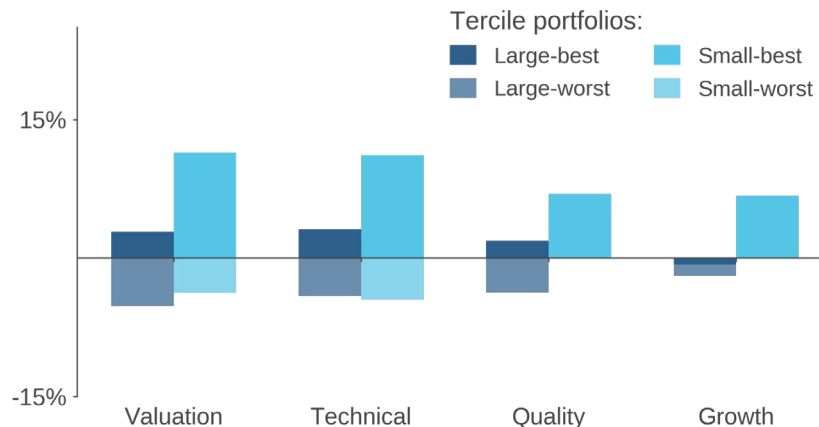
* China Unleashes Stimulus Package to Revive Economy, Markets, Bloomberg September 23, 2024

Chinese Market Performance after Past Interventions

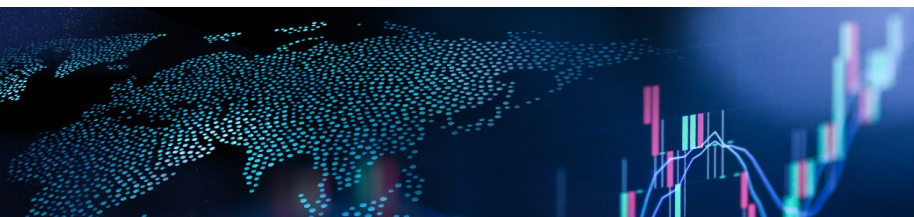


Stock Selection in China has Paid Off for Investors

Annualized Returns to Hypothetical Portfolios (Sep 2020-Sep 2024)



Top chart based on the MSCI China A Index and MSCI EM ex-China Index and rebased to 1 on Sep 1, 2020. Source: Acadian based on MSCI data Copyright MSCI 2024. All Rights Reserved. Unpublished. PROPRIETARY TO MSCI. Bottom chart: Returns to proprietary definitions of Valuation, Quality, and Growth signals based on the onshore Chinese equity universe. Large caps are top 70% of market cap and small caps are the bottom 15%. Source: Acadian. For illustrative purposes only. Investors have the opportunity for losses as well as profits. Past performance is no guarantee of future returns.



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