

# 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

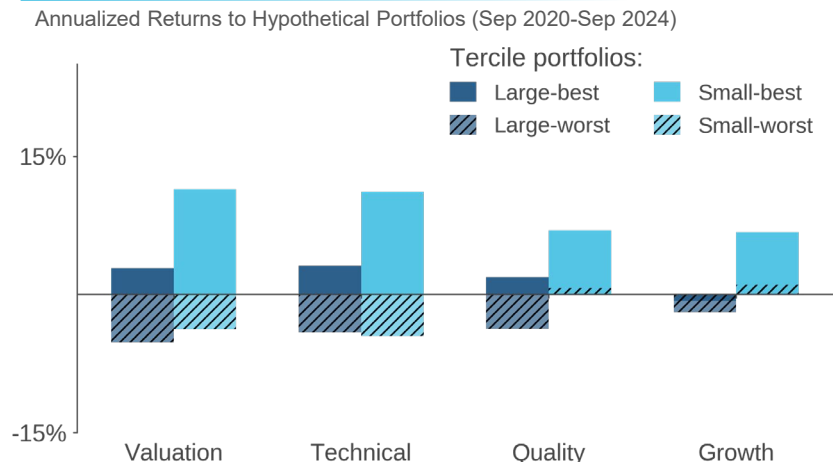
- Despite the elevated uncertainty, China, as the second-largest equity market in the world, still warrants a material allocation in a global portfolio for all but the most pessimistic investors.
- Moreover, the onshore market remains attractive as a rich source of alpha. If recent history is a guide, 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

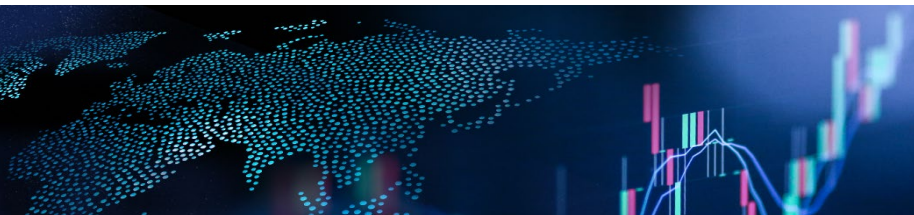
## Chinese Market Performance after Past Interventions



## Stock Selection in China has Paid Off for Investors



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 Unpublished.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, Technical, 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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