
Year of the Tiger: a focus on prosperity and productivity

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As we move through 2022 we can expect an interesting year for China's equity market given the pledge by the People's Bank of China (PBoC) to use monetary tools to spur the economy and boost growth. The US and China are set to spend the year diverging on monetary policy – as the US Federal Reserve is tightening, China has just started an easing cycle. Last year, China's regulatory reset made the headlines, alongside its "zero Covid" policy and deleveraging within the property sector. But we believe we are past the point of most pain.

We expect the regulatory cycle – which started in the back end of 2020 – to be more predictable as we move into elections this year, with the government focusing on the notion of common prosperity. The team believes that the dismantling of the private sector, which accounts for 60% of China's GDP and employs 80% of the urban population¹, is not the objective of the government. We would argue that many of the policy objectives are, in fact, on the "wish lists" of western economies; for example, data privacy and curbing monopolistic practices. This can only be positive in the long term, with reduced income inequality and a rise in the middle class likely to accelerate the economic rebalancing towards consumption.

In addition, deleveraging measures in the property sector are showing signs of easing, such as relaxing mortgage availability. We expect continuous monetary and fiscal easing going forward. We have already witnessed some of these measures more recently with the PBoC announcing reserve requirement ratio cuts in the back end of 2021 and interest rate cuts in January 2022.

Our focus is to invest with policy tailwinds in China and we believe many sectors will benefit from the government's agenda of focusing on prosperity and productivity. In 2020, China's GDP per capita reached \$10,000, which was a third of Korea's GDP per capita of \$31,000 and a sixth of US GDP per capita of \$63,000². This growth potential offers various opportunities for long-term active investors.

¹ [insight.factset.com](https://www.insight.factset.com).

² World Bank, 28 January 2022, data.worldbank.org

One of the main themes we play in our portfolios is the decarbonisation theme – as China seeks to achieve peak carbon emissions by 2030 and become carbon-neutral by 2060³. Our team has placed a lot of emphasis on responsible investment, which will become increasingly important throughout 2022. We have also identified and invested in several stocks in the electric vehicle supply chain and renewable energy space.

We believe that structural growth opportunities should remain the core of our portfolios, and we are taking a barbell approach with quality cyclical growth companies. Many investors are overly focused on top-down considerations and are overlooking company-specific fundamental and environmental, social and governance factors; therefore, we are continuously upgrading the quality of stocks in our portfolios through market volatilities.



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³ How China Plans to Become Carbon-Neutral by 2060, Bloomberg.com, 26 October 2021.

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