

# A moment in markets – Tailwinds for China may get stronger still

Published 1 December 2020

## **Mobeen Tahir**

Director, Research

Chinese equities present a structural investing opportunity: the economy is growing and becoming increasingly consumer-led; accessibility of the markets continues to improve for overseas investors; and diversification benefits are strong. This diversification is maximized when investors access the full range of Chinese share classes, i.e. both onshore and offshore listings. But even strategic investors are not oblivious to the way the winds are blowing in economies and markets. Tailwinds, that have propelled Chinese equities recently, may be poised to get stronger still.

### **The economic recovery:**

Economic data from China has been strong this year. Purchasing Managers Indices – signifying month-on-month change in activity – bounced back strongly in March and have continued to improve since then. Third quarter gross domestic product (GDP) showed strong growth in the economy and unemployment has dropped back to January's pre-pandemic levels. The country has avoided a second wave and could have strong fourth quarter growth while other major economies, like the US and those in Europe, may endure another dip as lockdowns are being enforced to control infections.

### **The plan for the next 5 years:**

China's recently announced 14th 5-year plan for 2021-2025 promises growth from a combination of a strengthening local economy and more international trade. China is touting science, technology, and innovation to be the key drivers of growth in this upcoming phase and intending to make investments in areas including semiconductors, 5G, and electric vehicles. China is seeking to increase its self-reliance in terms of technology supply chains to deliver 'high quality' growth that is sustainable, and green. A timely reminder of China's renewed focus on long-term growth bodes well for Chinese risk assets.

### **The Asia-Pacific trade deal:**

Following 8 years of negotiations, leaders of China and 14 other countries in the Asia-Pacific region have signed the historic Regional Comprehensive Economic Partnership (RCEP) – a deal which can be expected to promote free trade in the region. This deal constitutes another milestone in China's journey to becoming an increasingly important global economic power. Another such example is China's 'Belt and Road Initiative' – a colossal multi-decade global infrastructure project. Along with more global economic integration and leadership, China is also improving foreign access to its capital markets. The recent trade deal will reinforce the market's confidence in China's ongoing globalization.

### **The transition to Biden:**

It would be premature to assume that US-China relations will turn the corner immediately after Joe Biden takes the helm in Washington. It is, however, expected that Biden will seek to steer the US back to a more multilateral approach and away from the unilateralism adopted by the Trump administration. This will help reestablish the global standing of US in all matters of policy and international cooperation. While Biden is unlikely to disregard China's role as a key competitor, under his leadership the US might adopt a more consistent and collaborative approach to its foreign policy. This could help mitigate some of the US-China trade unpredictability seen since 2018 – something markets will certainly welcome.

### **No wonder the outperformance:**

Chinese equities are responding positively to the macro tailwinds. The S&P China 500 Index – a diversified index which includes both onshore and offshore listings – is up nearly 31% year-to-date<sup>1</sup>. This compares to the S&P 500 Index which is up around 13% over the same period. These are encouraging signs for those interested in Chinese equities – strategic and tactical investors alike.

1 as of 30 November in USD terms

### **Related blogs**

- + [A moment in markets – The China trade](#)
- + [A moment in markets – cautious optimism about Chinese equity](#)

## Important Risks Related to this Article

### Important Information

**Marketing communications issued in the European Economic Area (“EEA”):** This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

**Marketing communications issued in jurisdictions outside of the EEA:** This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as “WisdomTree” (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

**For professional clients only. The information contained in this document is for your general information only and is neither an offer for sale nor a solicitation of an offer to buy securities or shares. This document should not be used as the basis for any investment decision. Investments may go up or down in value and you may lose some or all of the amount invested. Past performance is not necessarily a guide to future performance. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.**

The application of regulations and tax laws can often lead to a number of different interpretations. Any views or opinions expressed in this communication represent the views of WisdomTree and should not be construed as regulatory, tax or legal advice. WisdomTree makes no warranty or representation as to the accuracy of any of the views or opinions expressed in this communication. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

This document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares or securities in the United States or any province or territory thereof. Neither this document nor any copy hereof should be taken, transmitted or distributed (directly or indirectly) into the United States.

Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.