



Lessons from China: Exploring the great reopening



Author(s)
Haiyan Li-Labbé

Published
May 10, 2023

Length
3



Xavier Hovasse and Haiyan Li-Labbé in Huawei & Changan's AVATR car exposition

Each year, our emerging markets fund managers and analysts travel to the countries in which we invest. These visits are crucial. Not only for the team to meet the management of our current and potential portfolio companies but also to get a tangible picture of the day-to-day reality of the businesses (through visiting, manufacturing sites, for example) and to get local insight on the economic developments and major policies of the countries through conversations with local experts, consultants and residents.

From mid-February to March 2023, Carmignac's EM team travelled to China. This trip was the first in three years due to Covid lockdown and makes Carmignac one of the first developed-market asset managers to get back on the ground!

Economy

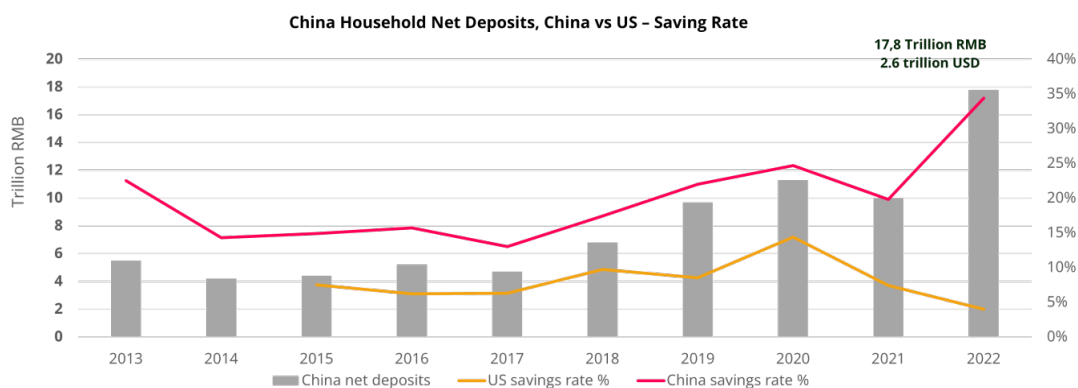
Recovery led by local services

In China, zero-Covid restrictions really are over. Whether it is in small villages or big cities, life seems to be back to normal. Local consumption (services, hotels and restaurants) seems to have recovered with a strong pick-up in activity. There is evidence that consumption will be the main driver of recovery in 2023, with an expected rebound of more than 8% in 2023 after contracting last year.



Source: Bloomberg March 2023

Nevertheless, the pandemic has significantly impacted the Chinese economy and society. We've witnessed a decline in employment and income, as well as a rise in household savings as people tried to preserve their financial stability in the face of uncertainty.



Data from Bloomberg as of 1/31/2023.

And despite the improvement following the reopening, Chinese consumers remain cautious and selective. Sales of high-ticket items have not really picked up. There is no "revenge spending", and discretionary consumption has been slower than expected.

Real estate

Not a future growth engine

While it is too early to have a definite view on the housing recovery, there have been some improvements in data, notably, in home prices and sales picking up and government actions in providing funding, relaxing regulation, lowering mortgage rates. Secondary market transactions will likely post a decent rebound this year.

Despite these positive developments, the property market, in our view, isn't a future growth engine for China. Factoring in the weaker primary market, property investments are likely to be down in 2023, even after a 10% contraction in 2022 .

Politics

Pragmatism prevails

We observed a rise in pragmatism from local governments when applying central government policies. This leads us to believe that local governments have learnt from past mistakes and will lead to more practical policies when managing local budgets and applying central government policies in their region.



On the national scale, China's new Premier, Li Qiang has sought to reassure the private sector and international business community of Beijing's pro-business stance, stressing the desire to create an atmosphere of respect towards entrepreneurs - a rare statement from a Chinese leader. He also affirmed that China will continue to rely on opening up (and reform) to achieve its long-run growth target.

In practice, this means further aligning with high-standard international business rules and improving public services to foreign enterprises. These announcements are very encouraging.

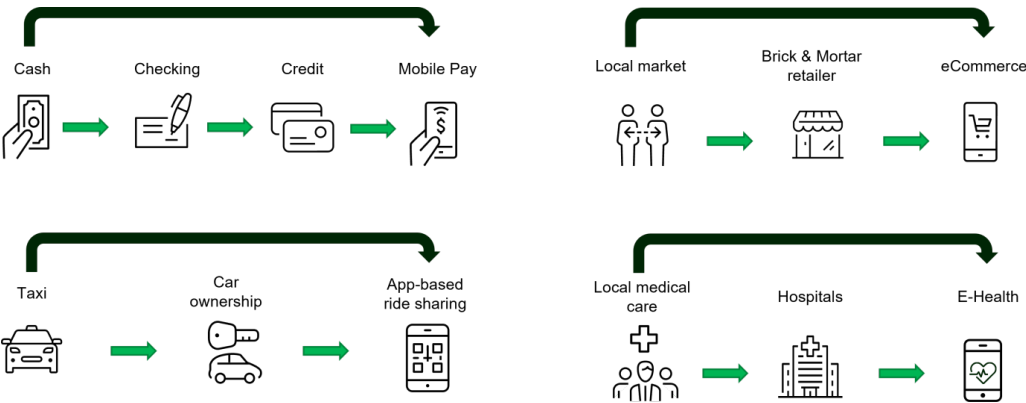
Society

Modernization boons

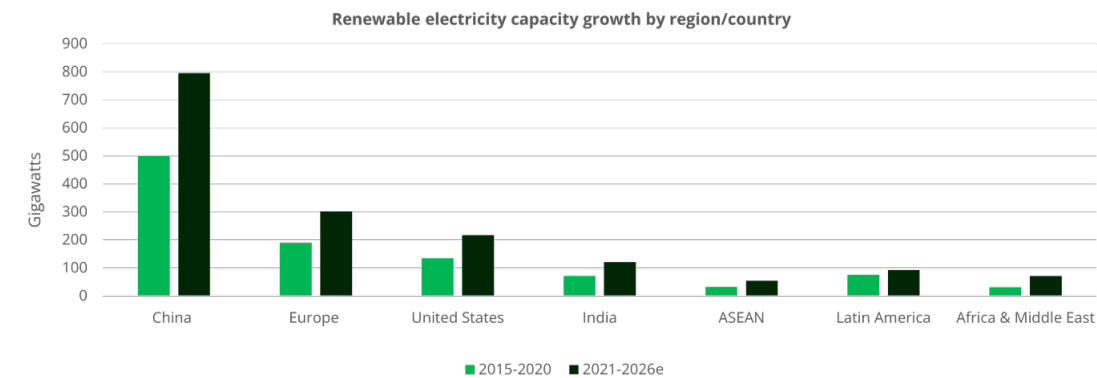
Despite three years of restrictions, it's clear China did not slow down its urbanisation.



China’s rapid adoption of new technologies has provided a “leapfrogging” effect, making it one of the most developed countries in terms of digitalisation.



China has become the world leader in terms of renewable technology, outpacing others in the growth of electric power capacity from renewable technologies. This will lead to major long-term investment opportunities.



Source: Data from IEA, “Renewables 2021: Analysis and forecasts to 2026,” December 2021, 31/12/2022.

Common prosperity, often questioned in the West, is, in our view, positive for social stability and China's path to sustainability, but some problems remain. Firstly, the high level of local government debt and secondly, no visible (effective) solution for China's demographic pressure. Further, living and education costs remain high. And the tutoring sector reform has not produced the expected effect as parents are still paying much higher costs for one-to-one tutoring.

Geopolitics

Uncertainty ahead

While it's clear the US and China will remain great rivals, with Chinese citizens expecting no "warming" in the relationship, the US-China decoupling looks structural and negative for China. There doesn't seem to be a good solution for China's semiconductor development and our Chinese trip did not give us a lot of comfort in that space.

Tensions with Taiwan are also a concern for China and global equities. Given the elevated geopolitical strains, Chinese equity risk premium will remain high and we choose to avoid Chinese companies that have a high level of exposure to such challenges (such as semiconductors and chip makers).

Chinese growth still outpaces

Despite some clear challenges, alongside India, China will still be the fastest-growing global economy this year with more than 5% growth (reinforced by the latest GDP data) and above all, a higher quality growth.

Moreover, after two years of sell-off, Chinese companies have attractive valuations, are buying back their shares, increasing dividends and as illustrated by recent announcements (Alibaba and JD.com splitting their business into several listed entities), trying to move in a direction of transparency, which is better in terms of cash flow generation.

The companies best positioned are those with good supply and demand dynamics in the domestic market, as well as companies able to "go global", as more Chinese companies try to reach international consumers.

While the great reopening will continue to see some bumps along the way, our experience in China has reinforced our conviction that there are many reasons to be positive – but selectivity remains essential.



Marketing communication. Please refer to the KID/KIID, prospectus of the fund before making any final investment decisions. This document is intended for professional clients.

This material may not be reproduced, in whole or in part, without prior authorisation from the Management Company. This material does not constitute a subscription offer, nor does it constitute investment advice. This material is not intended to provide, and should not be relied on for, accounting, legal or tax advice. This material has been provided to you for informational purposes only and may not be relied upon by you in evaluating the merits of investing in any securities or interests referred to herein or for any other purposes. The information contained in this material may be partial information and may be modified without prior notice. They are expressed as of the date of writing and are derived from proprietary and non-proprietary sources deemed by Carmignac to be reliable, are not necessarily all-inclusive and are not guaranteed as to accuracy. As such, no warranty of accuracy or reliability is given and no responsibility arising in any other way for errors and omissions (including responsibility to any person by reason of negligence) is accepted by Carmignac, its officers, employees or agents.

Past performance is not necessarily indicative of future performance. Performances are net of fees (excluding possible entrance fees charged by the distributor). The return may increase or decrease as a result of currency fluctuations, for the shares which are not currency-hedged.

Reference to certain securities and financial instruments is for illustrative purposes to highlight stocks that are or have been included in the portfolios of funds in the Carmignac range. This is not intended to promote direct investment in those instruments, nor does it constitute investment advice. The Management Company is not subject to prohibition on trading in these instruments prior to issuing any communication. The portfolios of Carmignac funds may change without previous notice. The reference to a ranking or prize, is no guarantee of the future results of the UCIS or the manager.

Morningstar Rating™ : © Morningstar, Inc. All Rights Reserved. The information contained herein: is proprietary to Morningstar and/or its content providers; may not be copied or distributed; and is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

Access to the Funds may be subject to restrictions regarding certain persons or countries. This material is not directed to any person in any jurisdiction where (by reason of that person's nationality, residence or otherwise) the material or availability of this material is prohibited. Persons in respect of whom such prohibitions apply must not access this material. Taxation depends on the situation of the individual. The Funds are not registered for retail distribution in Asia, in Japan, in North America, nor are they registered in South America. Carmignac Funds are registered in Singapore as restricted foreign scheme (for professional clients only). The Funds have not been registered under the US Securities Act of 1933. The Funds may not be offered or sold, directly or indirectly, for the benefit or on behalf of a «U.S. person», according to the definition of the US Regulation S and FATCA. The risks, fees and ongoing charges are described in the KID (Key Information Document). The KID must be made available to the subscriber prior to subscription. The subscriber must read the KID. Investors may lose some or all their capital, as the capital in the funds are not guaranteed. The Funds present a risk of loss of capital.

The Funds' prospectus, KIDs, NAVs and annual reports are available at www.carmignac.com, or upon request to the Management Company. Carmignac Portfolio refers to the sub-funds of Carmignac Portfolio SICAV, an investment company under Luxembourg law, conforming to the UCITS Directive. The French investment funds (fonds communs de placement or FCP) are common funds in contractual form conforming to the UCITS or AIFM Directive under French law.

In France, Luxembourg, Sweden: The risks, fees and ongoing charges are described in the KID (Key Information Document). The KID must be made available to the subscriber prior to subscription. The subscriber must read the KID. Investors may lose some or all their capital, as the capital in the funds are not guaranteed. The Funds present a risk of loss of capital. The Funds' prospectus, KIDs, NAV and annual reports are available at www.carmignac.com, or upon request to the Management Company.

In the United Kingdom: the Funds' respective prospectuses, KIIDs and annual reports are available at www.carmignac.co.uk, or upon request to the Management Company, or for the French Funds, at the offices of the Facilities Agent at BNP PARIBAS SECURITIES SERVICES, operating through its branch in London: 55 Moorgate, London EC2R. This document was prepared by Carmignac Gestion, Carmignac Gestion Luxembourg or Carmignac UK Ltd. FP Carmignac ICVC (the "Company") is an Investment Company with variable capital incorporated in England and Wales under registered number 839620 and is authorised by the FCA with effect from 4 April 2019 and launched on 15 May 2019. FundRock Partners Limited is the Authorised Corporate Director (the "ACD") of the Company and is authorised and regulated by the FCA. Registered Office: Hamilton Centre, Rodney Way, Chelmsford, Essex, CM1 3BY, UK; Registered in England and Wales with number 4162989. Carmignac Gestion Luxembourg SA has been appointed as the Investment Manager and distributor in respect of the Company. Carmignac UK Ltd (Registered in England and Wales with number 14162894) has been appointed as a sub-Investment Manager of the Company and is authorised and regulated by the Financial Conduct Authority with FRN:984288.

In Switzerland: the prospectus, KIDs and annual report are available at www.carmignac.ch, or through our representative in Switzerland, CACEIS (Switzerland), S.A., Route de Signy 35, CH-1260 Nyon. The paying agent is CACEIS Bank, Montrouge, Nyon Branch / Switzerland, Route de Signy 35, 1260 Nyon.

The Management Company can cease promotion in your country anytime. Investors have access to a summary of their rights in English on the following links: [UK](#) ; [Switzerland](#) ; [France](#) ; [Luxembourg](#) ; [Sweden](#).