

China Consumer

Postcard from the US: still underweight China, but incrementally less bearish

Industry Overview

China consumer investor meetings in the US

In our US marketing trip after Chinese New Year, we met close to 30 institutions on the East and West Coast. **Our key takeaways:** US investors with whom we spoke were in general still heavily underweight China, but some EM funds have turned incrementally less bearish towards China due to the perception of more market-friendly policy changes recently.

Positioning: still UW China, mild change among EM funds

What has changed: some EM funds we met, though still underweight China, are adding some positions, as a result of recent more market-friendly policy tilts, expectations of further stimulus and deep value. Some comments we heard – “if policy changes work in the next few months, it could change the narratives”, “do not fight against the government”, “US-China tension appears to dial down a bit recently”, “we can take some risks, as China is now too cheap”, and “China has been unloved and underperformed for too long, and it’s time to turn less bearish”. **What has not changed:** investors with whom we met with global or US-centric mandates still stay away from China. Some comments we heard – “we have been burnt before”, “we do not own anything now”, and “the election year is not hopeful for narratives”. We also observed that many meetings were more about top-down/macro discussions, with less attention paid to single stocks – a signal to us of light positioning and limited interests.

Most incoming top-down questions: macro and policies

1) State of China and China Consumer (job market, property, consumer/business confidence, Chinese New Year trends, trading-up vs trading-down, etc.). 2) What has China done differently to trigger the recent market rally (a lot of interest in and confusions with “national teams”, quant fund “crackdown” and potential consumer stimulus in auto and appliances). 3) What further policy changes and stimulus can we expect in the future? 4) Geopolitics and renewed discussions on Trade War 2.0.

Most asked: YUMC; other sectors/stocks of interest

Most asked: YUMC. Quotes from an EM investor – “we own YUMC as we cannot have zero position in China”. Our recent US investor meetings with CEO & CFO also generated additional interest. **Other sectors/stocks of interest:** sportswear value chain (Anta, Li Ning and Shenzhou; with queries on Li Ning up from our last US marketing in March 2023), baijiu (Moutai and Wuliangye), beer (CR Beer and Tsingtao), beauty (Proya), travel and white goods. **Worth highlighting:** we observed lower US interest in dairy companies than Asian and European investors. Interest levels in MINISO among US investors had also decreased vs. one year ago. In terms of education, despite solid fundamental improvement, most US investors with whom we met simply stay away from the sector (due to memories of regulatory shocks in the past), but surprisingly some EM investors still had decent positions in EDU (but not in TAL). **China proxies:** most incoming questions focused on Nike, Estee Lauder, Starbucks and European luxury.

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Chen Luo, CFA >>
Research Analyst
Merrill Lynch (Hong Kong)
+852 3508 2009
chen.luo@bofa.com

Lucy Yu >>
Research Analyst
Merrill Lynch (Singapore)
+65 6678 0417
lucy.yu@bofa.com

Lynn Wu >>
Research Analyst
Merrill Lynch (Hong Kong)
+852 3508 3957
lynn.wu@bofa.com

Jack Chen >>
Research Analyst
Merrill Lynch (Hong Kong)
+852 3508 8776
ruofan.chen@bofa.com

Alice Ma >>
Research Analyst
Merrill Lynch (Hong Kong)
+852 3508 8752
alice.ma@bofa.com

Acronyms

UW: underweight

EM: emerging market

YUMC: Yum China

CR Beer: China Resources Beer

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