CIO Daily Updates

Daily video: Earnings, real estate, and gold (5:48)

How US earnings are performing, plus answers to your questions on real estate and gold.

Thought of the day

China?s equity markets sold off following the 20th Party Congress, at which President Xi Jinping consolidated his hold on authority. He not only gained an unprecedented third term in office, but also appointed allies to top positions. The offshore MSCI China index ended down 8.2% on Monday, and is still down 5.6% week-to-date as of the close on 26 October. The Hang Seng Index dropped 6.4% on Monday, declining to levels not seen since the Global Financial Crisis, and is down 5.5% so far this week. These moves stand in contrast to gains for global markets, with the S&P 500 up 2.8% so far this week and the Euro Stoxx 50 up 2% at the time of writing.

The political shift highlights several key risks for investors in China. The greater concentration of power under President Xi may lead investors to price in the risk of a continuation of pandemic controls, less support for the private sector, greater geopolitical tensions with the US, and heightened risk of policy mistakes. There is also investor concern that Beijing is moving away from its pro-growth economic orientation.

But on the whole, we still believe risks and upsides for China are balanced, and that investors should consider sticking to benchmark allocations, rather than going underweight.

The Chinese economy should recover in 2023. The bounce in third quarter GDP growth suggests that the economy is on the path to recovery. Our central case is for economic growth and earnings to improve in 2023. Policy support should help property sales recover, and evident COVID policy easing from 2Q23 should boost consumption. We expect the economy to grow by around 5% on strong infrastructure investment, resilient manufacturing activity, and greater consumer spending. We also note that President Xi?s initial work report at the Party Congress reiterated Beijing?s long-term growth vision and called for more opening up and private sector support.

Equity market valuations are undemanding, having fallen to a 10-year low. Overall, there was a broad-based unwind of long positions by Europe- and US-based investors on Monday. Outflows via Stock Connect posted a single day record of USD 2.47bn. MSCI China?s price/earnings-to-growth valuation is down to a 10-year low of 0.59 times, which is 1.6 standard deviations below the historical average.

Positive policy surprises remain possible and could lead to sharp rallies. While sentiment is likely to stay depressed and markets volatile until more concrete policy actions emerge, pro-growth or business-friendly policy announcements could lead to a sharp rally, as happened in May and June. Signposts could come at the Politburo meeting at the end of November, or during the Central Economic Work Conference in mid-December. We will be particularly looking out for policy signals on COVID-19 and real estate, both of which are key variables to our economic and market forecasts.

Overall, we remain neutral on Chinese equities. We are cautious on the short-term path of the Chinese market and avoid making any directional calls until greater certainty arrives. Investors whose holdings in China are roughly in line with its weight of around 3% of global equity market capitalization are well-placed, in our view. With more downside potentially ahead, we recommend investors with an overallocation to China to trim their exposure and consider diversifying into other emerging markets and developed markets. Those with a lower allocation could consider buying on dips, and we continue to recommend positioning in sectors with resilient earnings given the prevailing headwinds, including select names in consumer staples, banks, telecoms, and oil & gas operators.