A MOST-RELUCTANT RALLY?

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» **My most recent** TV interview, which was posted online with the title "China market not looking so bad", generated a surprising number of responses. There were a number of "sceptical comments", which really show how poor the sentiment is for Chinese assets.

However, in equity markets, price and volume are hard statistics. In fact, **the Hang Seng Index has been making "higher highs" and "higher lows" since the middle of January**, which is a bullish technical pattern. The bellwether Hang Seng technology sector index, which comprises high-growth stocks, rose more than 20% from the last bottom before paring back some of the gains.

Rising stock prices have been accompanied by **increasing volume in March. This is an indication of the beginning of the return of buying interest in Chinese equities.** Yet, we are all aware of the challenges surrounding the Chinese economy. Yes, the latest inflation number was better than expectations, but that was merely one data point. We also know that no significant stimulus was announced at the National People's Congress.

Hence, the question in many investors' mind is: Is this rally for real?

Well, as a chess-player, I know that I do not need to play extremely well every time to win a game. Sometimes it is fine not to play so well, if I still play better than my opponent!

In the case of assessing the outlook for China equities, we need to be aware that there are **increasing uncertainties in other key markets**. For example, in the US, certain inflation components, such as shelter, remain stickier compared to expectations, leading to doubts about the timing and size of Fed rate cuts. In Japan, the BoJ could tighten policy again this year, giving investors the excuse to "stay put and observe". These are **relatively "fresh issues", compared to the issues in China, which have been quite well known for a while and have been baked into the deep discount of Chinese equities compared to other equity markets.**

Thus, I believe **all the elements are in the making for a "most-reluctant rally" in Chinese equities**, partly due to increasing uncertainties in other regions. Investors should consider having some exposure to Chinese equities. We have been highlighting China's state-owned enterprises (SOEs) as potential outperformers. The government has asked the SOE management to boost market capitalisation. Besides the SOEs, some leaders in the consumer discretionary, communication services and technology sectors have also formed double-bottom technical patterns as well, auguring well for the outlook for these sectors.

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