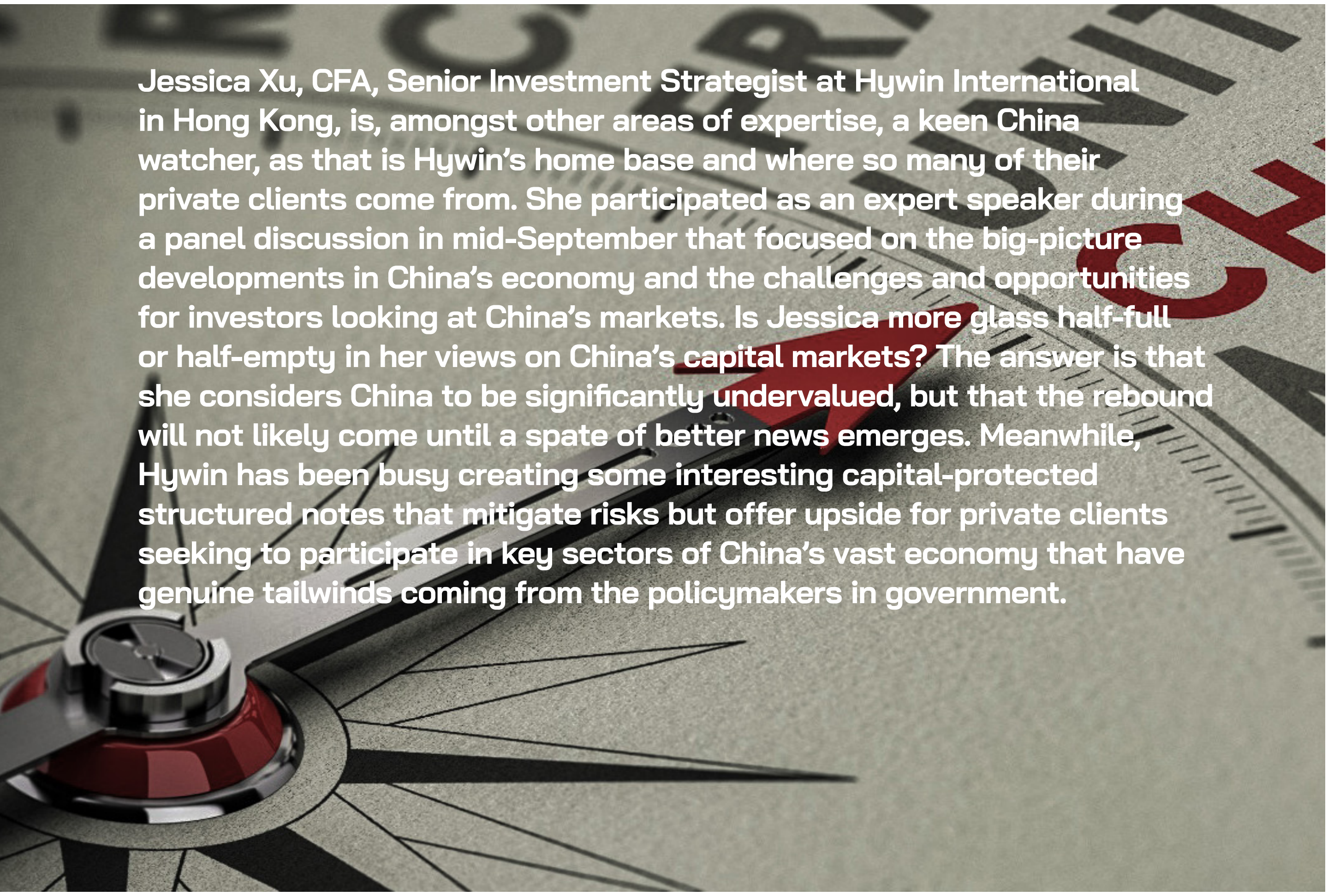
China: Glass Half Full or Half Empty? Hywin's Jessica Xu Offers Her Perspectives



Jessica Xu, CFA, Senior Investment Strategist at Hywin International in Hong Kong, is, amongst other areas of expertise, a keen China watcher, as that is Hywin's home base and where so many of their private clients come from. She participated as an expert speaker during a panel discussion in mid-September that focused on the big-picture developments in China's economy and the challenges and opportunities for investors looking at China's markets. Is Jessica more glass half-full or half-empty in her views on China's capital markets? The answer is that she considers China to be significantly undervalued, but that the rebound will not likely come until a spate of better news emerges. Meanwhile, Hywin has been busy creating some interesting capital-protected structured notes that mitigate risks but offer upside for private clients seeking to participate in key sectors of China's vast economy that have genuine tailwinds coming from the policymakers in government.

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JESSICA XU
Hywin International

Jessica opened her commentary by agreeing with a fellow panellist that China is indeed facing some cyclical challenges, but that these have been rather amplified in the Western media, producing more negative sentiment than is perhaps justified or fair.

"However, if you look at China's economy, there are some major drivers, perhaps most visibly in the technology space," she said. "And valuations are remarkably low, way cheaper than historical norms and compared to the US or other major markets and leading indices. In terms of forward P/E and P/B ratio, China's equity indices (both onshore and offshore) are trading at around 1 standard deviation (s.d.) below long-term average. But for indices outside China (MSCI Asia, MSCI EM, or MSCI World), they all trade at above long term average; indices in US market are even higher, with S&P 500 trading at 1 s.d. above long term average in forward P/E and 2 s.d. above in forward P/B. This very evident relative undervaluation of Chinese equities points to a revaluation, but what we are now waiting for is the news to trigger that."

Jessica highlighted the continued optimism of Hywin's onshore clients towards certain significant sectors such as healthcare, big data, and specific fields of technology and innovation. She drew attention to the growing interests in healthcare, given China's aging population and emerging medical challenges. To accommodate this interest, Hywin has devised a bespoke entry point to this sector in the shape of a principal protected note.

Jessica further explained that Hywin's clients generally prefer conservative investments, which explains the principal protection structure. The potential for profit lies in the connection to the primary healthcare indices. To augment this access, Hywin has implemented a mechanism to cap risk, thereby ensuring risk control while still retaining a suitable level of profit potential. In addition to this, Jessica mentioned that Hywin itself is making investments in the healthcare company LifeInfinity.

Jessica then added that Hywin also created some other thematic principal protected structured notes to capture global mega trends, linked to sectors including EV, AI, etc. "China has been leading the world in some areas of advanced technology for some time," she reported, "whether it is 5G, renewable energy, EVs and batteries and so forth, and the government provides huge policy support for these types of preferred sectors," she explained. "We believe more investment opportunities around the areas may arise to attract fund flow from onshore investors and from overseas." ■

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