China, the Year of the Rabbit and Private Client Portfolios – Views from GAM Investments' Jian Shi Cortesi

Jian Shi Cortesi, Investment Director for GAM Investments is a believer in the opportunities that China's equity markets offer private clients this year. She gave a presentation to delegates at the Hubbis Independent Wealth Management Forum in Dubai on March 15, highlighting the dramatic shift from closure to reopening in China, uncovering the sectors where he thinks investors can find value, and explaining GAM's investment approach to unlocking that value.

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Jian Shi Cortesi
GAM Investments

Armed with an excellent but somewhat daunting PDF of 90-plus pages, Cortesi highlighted how from February 2021 to November 2022 China had slumped some 60%, but since China's post-COVID relaxation and then reopening, the market has been rebounding. Yet it is still far away from the previous peak.

Momentum and positivity are building

To keep the recovery going, she said more time is needed in the form of positive data, followed by better investor confidence and sentiment. She said that is now happening although it is early with reopening only very recently and data lagging of course. She said the most recent PMI number was very strong and the coming months should produce more positive macro data, followed in Q2 by positive corporate earnings data.

"We are relatively confident on the Chinese economic recovery, partly because in the last one to two years, we have seen that almost every country exited COVID-19 achieve strong economic rebound."

From under to out-performance

Relative to MSCI World, China had underperformed badly since 2019. Recently, the focus has shifted towards achieving better performance. This was evident by November of the previous year, when the overall Price to Book Value (P/BV) ratio fell below 1x. It's worth noting that the index is comprised of nearly 50% internet and technology companies, which are known for having high P/BVs.

This she said means there is optimism that change is afoot. But where should investors buy, she pondered. She said investors have the option of finding short-term opportunity, to make 20% to 30% in a few months.

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Buy into the longer-term potential

The other way is that the door is now open to buy into key sectors with long term growth potential, investing in growth company at what she described as very low prices. "You can then sit on such stocks and benefit for many years," she maintained.

She noted that, when investing in China, it is very important to follow the government policies. "We say don't fight the Fed, and so too when it comes to China, it is also very important to follow the government policies," she commented. "One unique thing about China is that because of the one-party system and the culture, there is a very long-term view. The government has a 2035 policy outlook."

Key sectors

She then pointed to key sectors, such as healthcare and consumption, which will this year be a key driver for economic growth, as household savings rose sharply during the pandemic and spending slumped, to the point where household deposits at banks went up sharply. "These excess savings will be gradually released into the economy, with travel, eating out and more sports as key beneficiaries, hence we have stocks that will benefit from those trends. Healthcare will rise as well with people no longer scared of hospitals."

She said that China's industries are moving towards more value-added, hence many of the typical products such as electronics, TVs, refrigerators, and so forth will be farmed out to lower cost countries. While, high end machinery, medical devices, operational robots, and so forth will all expand in prominence. "It used to be gloves and syringes, and now it is prosthetic knees," she said.

Clean energy and energy transitions are major themes.

China has a 70% share in global solar panel fabrication. China makes half of the wind turbines in the world. On top of this, she reported that China makes most of these energy transition products 40% cheaper than other countries.

For electric vehicle batteries, China, Korea, and Japan dominate the market. And in 2022, more than half of the electric vehicles globally were made in China. "Cars are transitioning from a mechanical product to an electronic product," she observed. "But having said that this year we are not keen on Evs, as there is a bounce back from massive enthusiasm and actually some makers will go out of business."

Digital and innovation

She pointed to China's major ambition to make the whole economy very digital, which will benefit the Chinese internet companies, and it was those who sold off most with regulatory surprises in 2021, with some of the biggest names slumping 85%, and some of the mid-caps even more. "The regulation roof has already peaked, and a lot of the headwind is turning into tailwind," she stated. "This will be a good time to invest in some of these beaten down growth names in the internet sector."

Innovation is a key area of focus. She noted that until the US ban on Huawei on their high-end semiconductors, Huawei was the largest smartphone company in the world, larger even than Apple, but after their high-end chips were banned, that business lost command within this market area. "So what we are seeing is a lot of substitutions, for example we have a company that makes operating software like Windows, so Chinese companies and consumers can use it if the US bans access to Windows," she explained.

Jian Shi Cortesi with Philip Rosenberg, Managing Director and Head of Distribution - Middle East, GAM Investments

And that is mirrored through the technology ecosystem. From software to semiconductors to semiconductor equipment, there is a huge import substitution trend, and the customers are receptive to innovation and improvements, wanting to help drive better local products and networking with providers to achieve those goals.

Another area GAM Investments likes is digital security. "While the US is afraid of China stealing their data, China is also very much afraid that the US might steal its data," she remarked. "There is a very strong demand for data security technology and software."