Investing in China today

Denis Gould, CIO Multi Asset & Wealth for HSBC Global Asset Management, advised the wealth management community to look to China as a growing investment opportunity, and suggested tempering volatile stocks with stable bonds to create a balanced portfolio for accessing the market.

Link to Article on website
Link to Event Homepage
Link to Content Summary page
Link to Photos
Link to Video Highlights

Executive summary

Denis Gould, CIO Multi Asset & Wealth for HSBC Global Asset Management, spoke at the Hubbis Investment Solutions Forum in Hong Kong about the opportunities for investment in China and optimal strategies to play what has been a difficult market.

The Chinese market has been volatile recently due to the uncertain global growth outlook and rising trade tensions with the US, yet China's macro fundamentals remain solid and government measures have tilted towards being more accommodative for the economy. Gould suggested that a multi-asset strategy that balances equities with more stable bond assets will make investors less nervous in difficult times and potentially produce better returns.

DENIS GOULD
HSBC Global Asset Management

INDEED, GROWTH IN CHINA looks remarkably stable as it has a policy-driven cycle. In 2017 the strategy in China was to tighten policy to deal with rising levels of debt; now policy is being loosened to deal with the growth slowdown. "In free-market economies, the macro background is difficult to manage, whereas in a less market-driven, planned economy, it is much easier," Gould observed.

The rise and rise of domestic consumption

So, what is driving China's growth? "Net trade has become a negative, and the biggest contributor to growth by far is consumption," explained Gould. "China is therefore becoming a domestic consumption-driven economy, which is a huge transition."

One of the micro imbalances that has appeared in the Chinese economy is that as the macro is managed, debt is building up. The level of debt in China is indeed a concern - it is high for an emerging market - but then again it is a unique emerging market. "Over a billion people are urbanising and the population is growing at 6% plus," Gould explained.

The total debt as a percentage of the GDP has been rising but has levelled out recently. Within that, household and government debts are rising while corporate debt is falling, which is a great positive. "The household debt is mostly mortgage debt backing on-price assets, which is encouraging," added Gould.

Trade war woes not a significant concern

The elephant in the room when talking about investment in China is the Trade War. "We cannot talk about China without bringing up the Trade War, which is imposing restrictions and impeding growth," Gould elucidated. "The US puts tariffs on Chinese imports which are paid by the importing company in the US, who then has a choice to either find another supplier, which is difficult considering the scale of imports from China, or to pass that cost on to its consumers."

"However, the numbers due to the Trade War so far do not look significantly worrying," Gould reassured the audience. "Even if the US imposes all of its threatened tariffs, the growth impact on China will only be about 0.75% of GDP, which is not disastrous, it is more of an economic inefficiency."

Two possible outcomes of the Trade War will be that either US importers go somewhere else for their goods, or Chinese manufacturers find somewhere else to sell their goods before production is reduced. "This requires a rebalancing of the way trade is managed," explained Gould, "but because China is now such a domestically driven economy, it can survive this setback."

Volatility tempered with stability for a smoother ride

Another issue with China is that the stock market is one of the most volatile in the world. "One of the ways investment managers can offset that is to combine exposure to the equity market with something more stable which will give clients a smoother ride," advised Gould, "and thereby helping prevent the onset of panic selling in bad times, which is always a danger in volatile markets."

Fortunately, the Chinese bond market is a stable, safe investment option, and is becoming larger and more accessible. Nevertheless, one issue with the Chinese bond market historically is there has been no credit differentiation and the increasing default occurrence means that more discernment in selection of the bonds is necessary.

In summary, growth in China is continuing and rebalancing in a positive way, and the country's financial markets should not be ignored as an investment opportunity. "Including the far more stable bond component to the volatile equity component allows investors to participate in the growth of China, whilst reducing the fear-factor," Gould concluded. ■