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The Wisdom of Rolling with China's Drive Towards Common Prosperity

What next for China's stock and debt markets? Is the concept of 'common prosperity' a game-changer in the negative for investors in China's equity and debt markets, especially as it comes along as a huge surprise so close to the reining in of China's big techs and the growing anxieties over excessive debt throughout the economy, as evidenced by the challenges at Evergrande Holdings? Or do investors simply need to reset, to heed and then follow the direction the government is setting for multi-year expansion ahead, focusing for example on what appear to be valued sectors, such as semiconductors, AI, electric vehicles, high-end manufacturing, clean energy and other favoured segments? What's the outlook for Chinese markets in 2022 and beyond? There are many imponderables for the years ahead but that following the state's leads as to the directions it wants the country to take and the sectors it wants to promote should, with the right investment strategies layered on, produce robust returns for many years to come. Because China is a juggernaut, and it will keep rolling on.

Chinese private wealth

has been expanding at a phenomenal rate, and as Chinese High-Net-Worth Individuals (HNWIs) and the ultra-wealthy families globalise their investment portfolios, their footprint, and also their lifestyles, many wealth managers aim to be there to cater to their needs and expectations. China's wealth is relatively young, and so many of these younger generation clients are leading the way to the future, from championing ESG initiatives to incubating frontier technologies.

China's wealth market is now, in fact, the second largest globally and very soon will become the largest. Chinese wealth will be the single largest bull market for global financial institutions in the next decade.

"Are you seeing the correlation, the logical linkages, and parameters properly rather than just noting the policies, regulations, and market metrics?" pondered one leading wealth manager. "Nothing is actually quite so simple, but big picture what we are seeing from our extensive network is that HNW investors are rotating from fixed income and debt products, or even the so-called semi-guaranteed wealth management products manufactured by the large banks and increasingly towards equities, both public and private. People are heading towards liquid alpha, with more fancy structures. The drivers include the impetus of government policies, inflation and that the perceived certainty of a fixed income world is fading away."

There is huge opportunity withing the UHNW segment, which are more diversifying towards global portfolios these days, as well as shifting significant holdings to the world of private assets. Wealth managers are working with private market providers and matchmakers to provide the best selections. And people are more and more interested offshore in narratives and thematics, diversifying significantly. In short, diversification is the way to go, and people are also more interested in different outlooks. As a key market player points out 'Clients increasingly say, don't give us Bloomberg sheets, past performance data, the Sharpe ratio, they are more interested in new ideas and new ways of looking at things."

Maturing private wealth in China

"Well," one wealth manager extrapolated, "this actually fits with many of our clients, who have graduated from excessive indulgence in their wealth and are now focusing more on wealth as a source of a family's cohesion, as resources to change the world for the better, even local neighbourhoods, and seeing wealth something to express your values, your family corporate, hold your future generations together.

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And how will the arrival of common prosperity create challenges and opportunities?

Common prosperity, in our view, has at least three layers for us to understand. The first one is it's a political vision. Secondly, its an expression of economic policy priorities, which means investors have a lot of rebalancing to do, as the government rebalances the economy to become more equitable for more of their people. And common prosperity of course is also about perception. Accordingly, I am not concerned about this evolution, as it tailors in with the evolution of the wealthy and ultra-wealthy mindset in China, certainly amongst our clients."

Toning down the ostentation

This does not, however, mean that luxury products and services will not boom in the years ahead. "It is the show-off value, the 'I've Arrived' statements that have been decreasing for some time. But, the nice touch of premium leather, the beauty of fine Swiss watch, these things are not just sentimental, they are real. People are unable to travel around the world, buy the London mansion, do the New

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York shopping, try out new things, but they can consume luxury from wherever they are. But you need to then choose the right stocks to then follow those trends."

The Chinese juggernaut – unstoppable

"Firstly," a leading fund manager notes, "will China be a very interconnected geography with the rest of the world, or ring-fenced as one unique ecosystem? We have no clue. Will China's financial markets be more Anglo-Saxon with a remarkable dynamism, or it will be more like continental Europe? Again, I don't know. Will China still be dominant in the global supply chain, and I must say we cannot predict that either. In short in policies, the economy, the markets, there are a lot of uncertainties."

But he implied that if you hone your investment diversification and strategies properly, you should be able to make robust returns for a good many years ahead, as the vast Chinese economy and their rapidly growing investment markets just keep rolling on. ■