

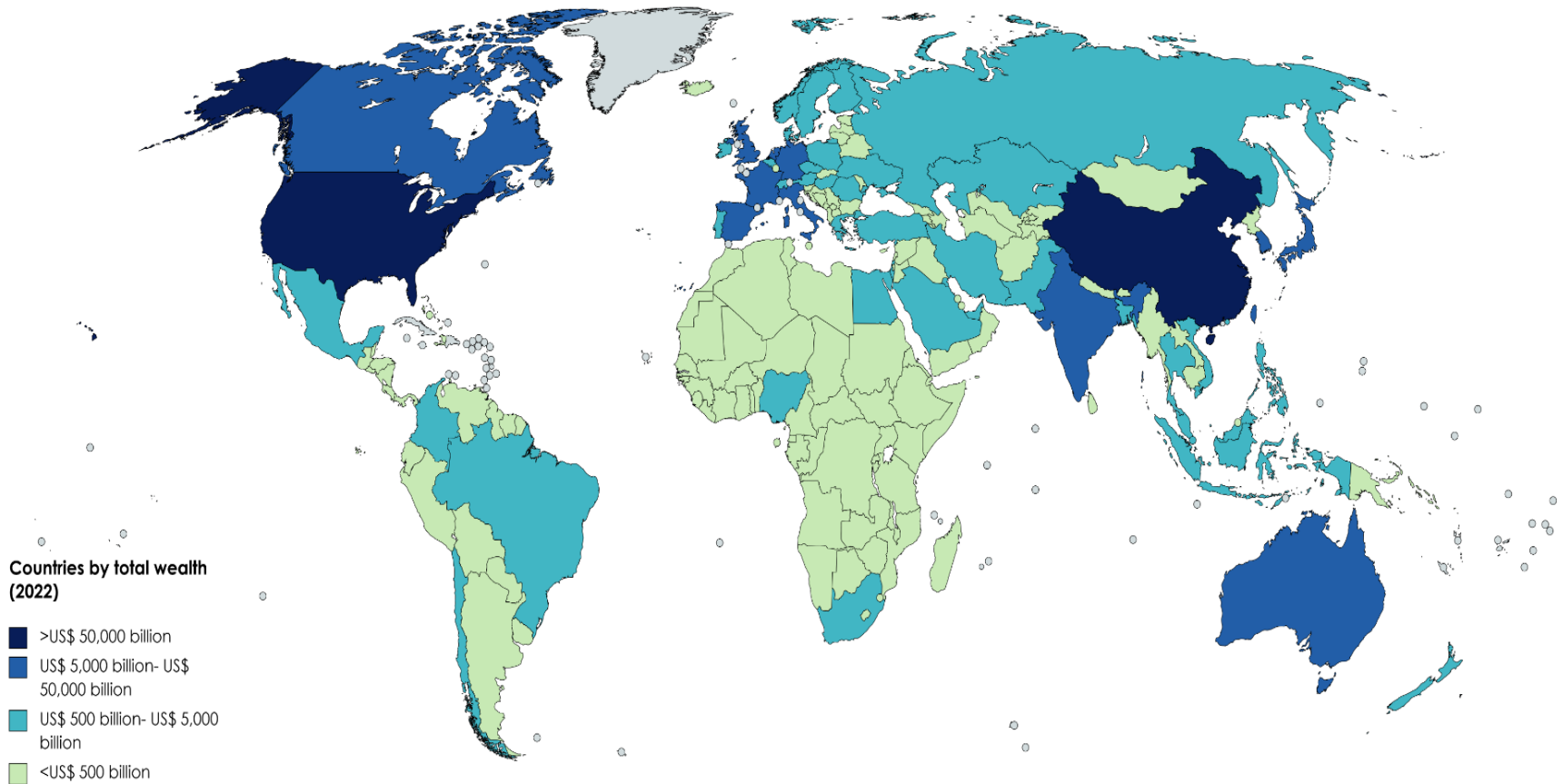
Active investing on the rocky path of US-China relations

Wendy Chen

**US-China:
The most crucial bilateral
relation in present day**

Two markets too significant to be overlooked

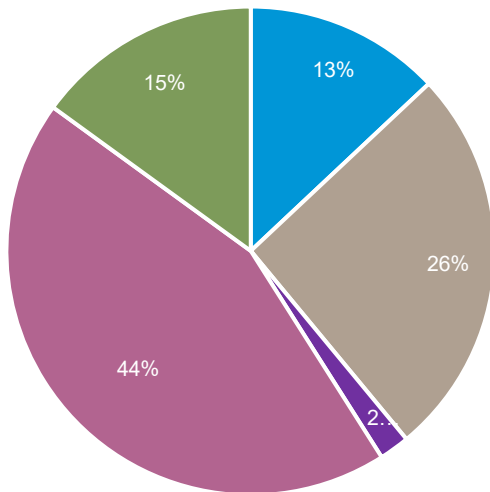
US and China dominate the total wealth pool and ultra-high net worth individuals count



US/China relations became top of mind

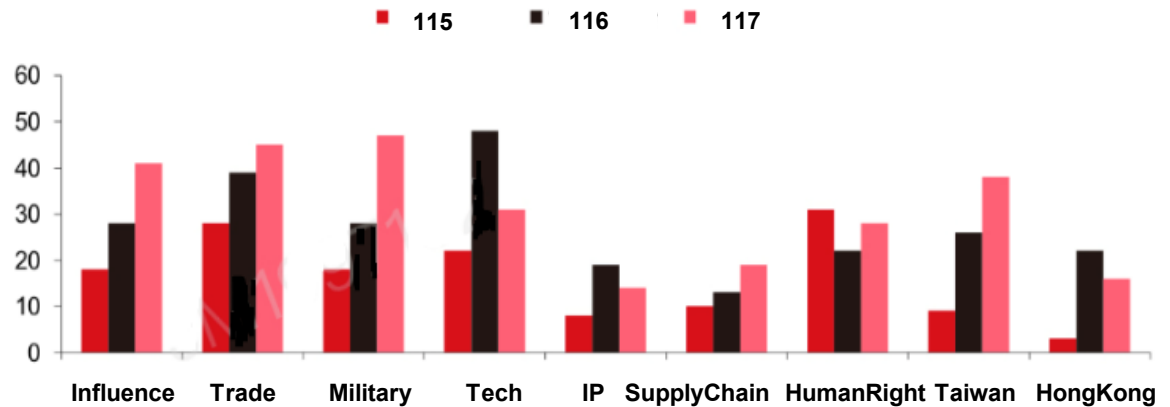
Peak timing with the election of 118th US congress and ongoing China reopening

Survey on investors key focus for 2023 during GS conference



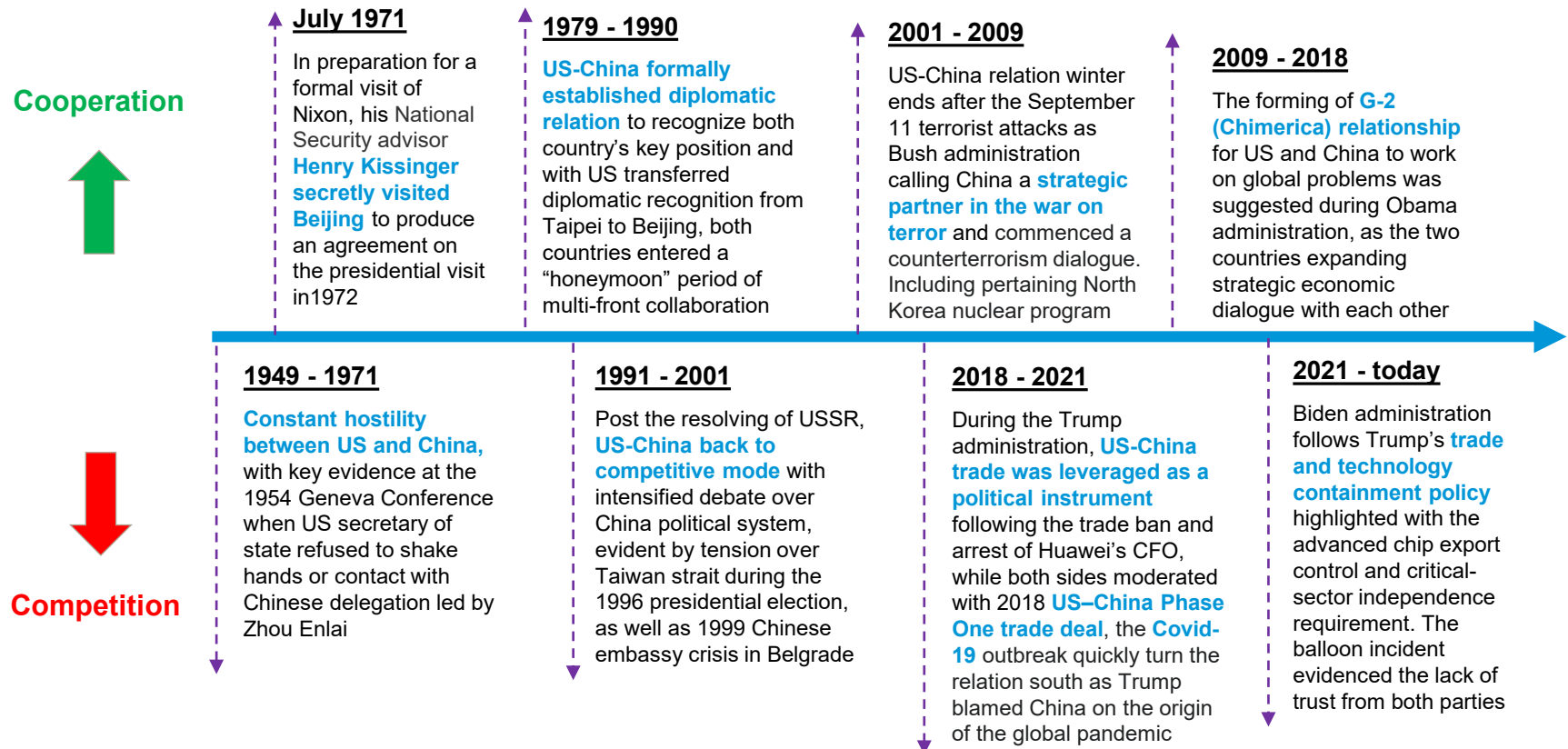
- Policy-induced recession
- Resurgent inflation
- US debt limit
- US-China relations
- Other geopolitical risks

Passing of China related legislation in each terms of congress



A cyclical path with a constant theme

While US-China relation fluctuated, **competitive cooperation** has been the main theme

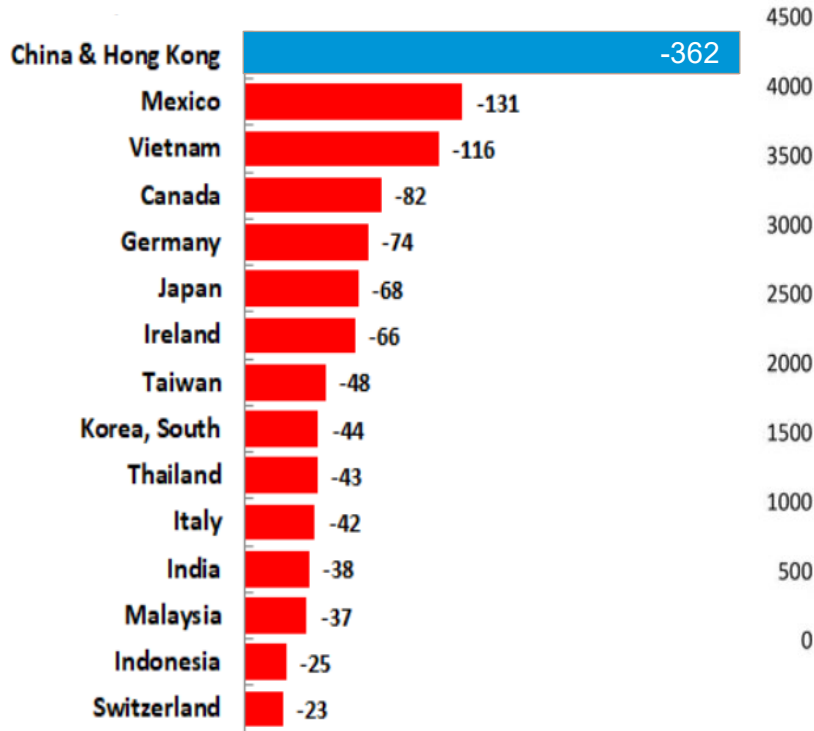


As the "most familiar strangers", both countries' priorities shifted through time yet the baseline of relation is constant

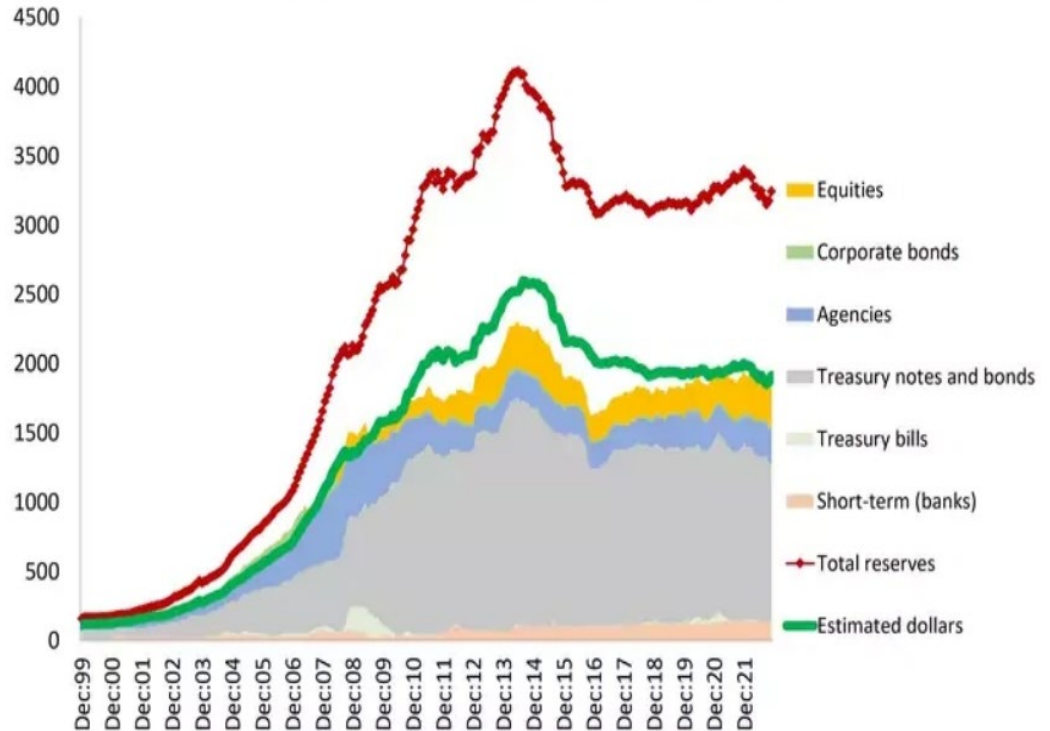
Mutual understanding to compete without conflict

Economic and financial interlinkage between US and China is already notably tight

US trade deficits by countries as of 2022, \$ Billion



China's estimated US portfolio as of 2022, \$ Billion



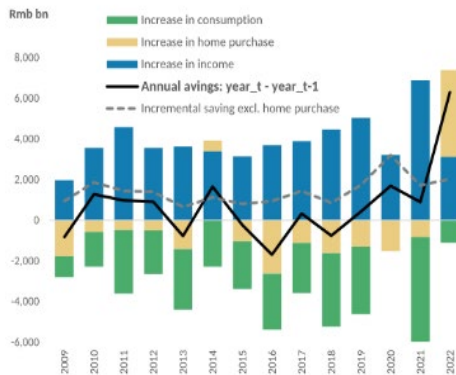
China opportunities: From domestic replacement to resuming global role

Economic transition to be consumption driven

2023 marks the start of China shift to adapt to the “new dev norm” under new management Investments

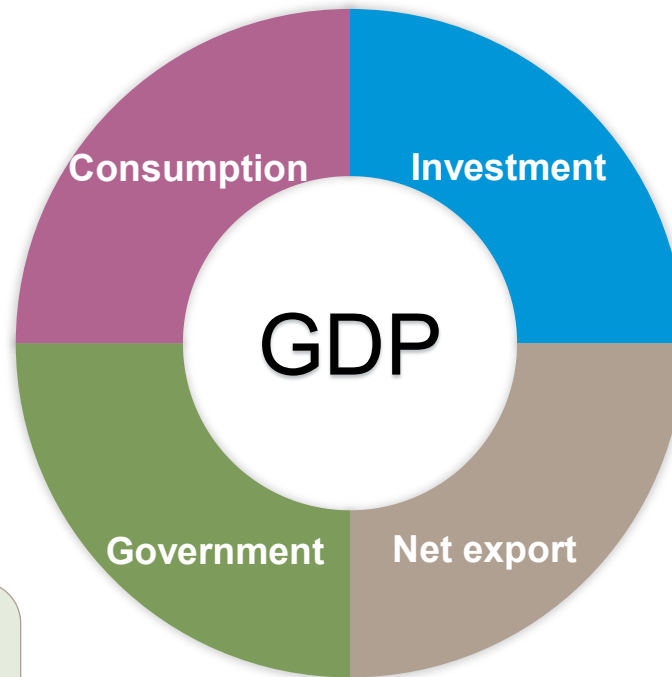
End of Zero-Covid

The cumulation of RMB3tn excessive saving in pair with revenge service consumption



Moderated deleveraging

Cyclical improvement in the long-suffering housing sector with price rise for the first time since 2021



Financial/policy discipline

PBOC announced RRR cut on March to reassure market of policy support amid global volatilities

Export might surprise

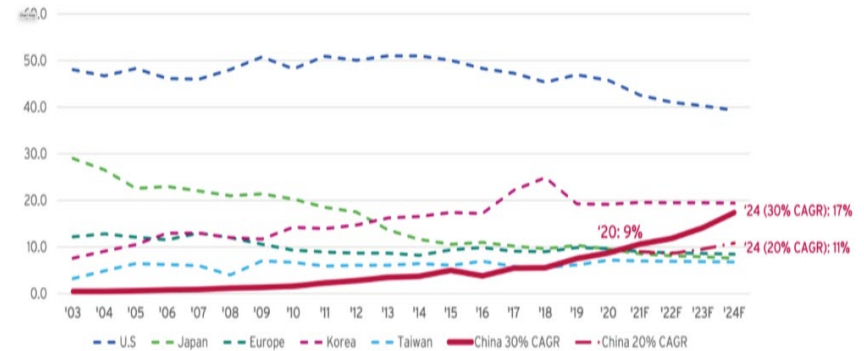
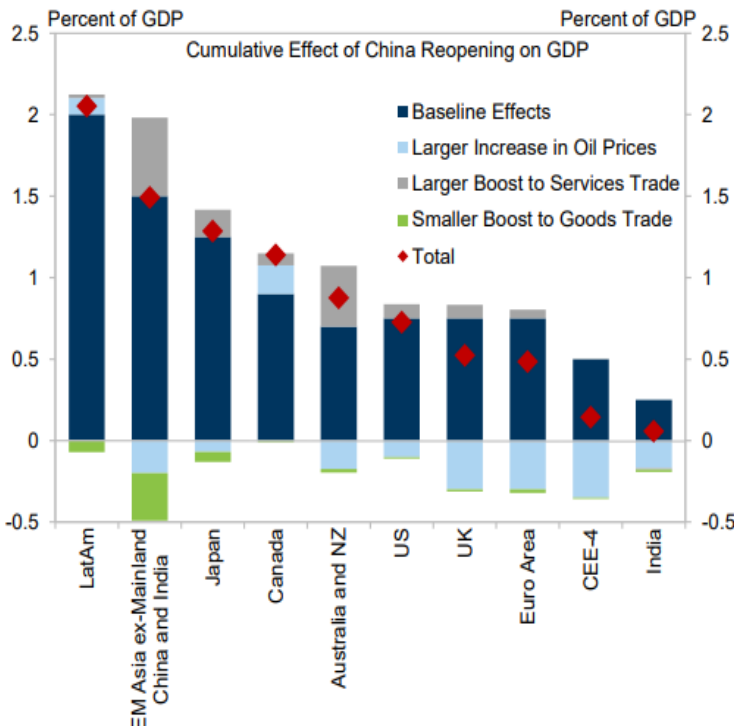
Supply is back to resilience post zero-covid while global demand in 2023 remains in question

Themes in play: Reopening and localization

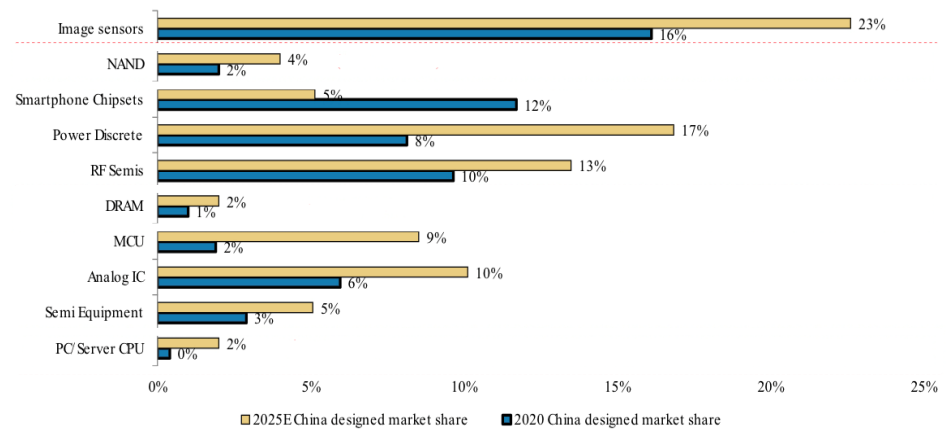
From headwind to tailwind in the consumer-facing and policy-backing sectors

Apart from direct beneficiaries, derivatives of China reopening still stand to gain from earnings growth realization

Global semiconductor market share forecast by SIA (Semiconductor Industry Association)



China semiconductor market share estimates from 2020 to 2025



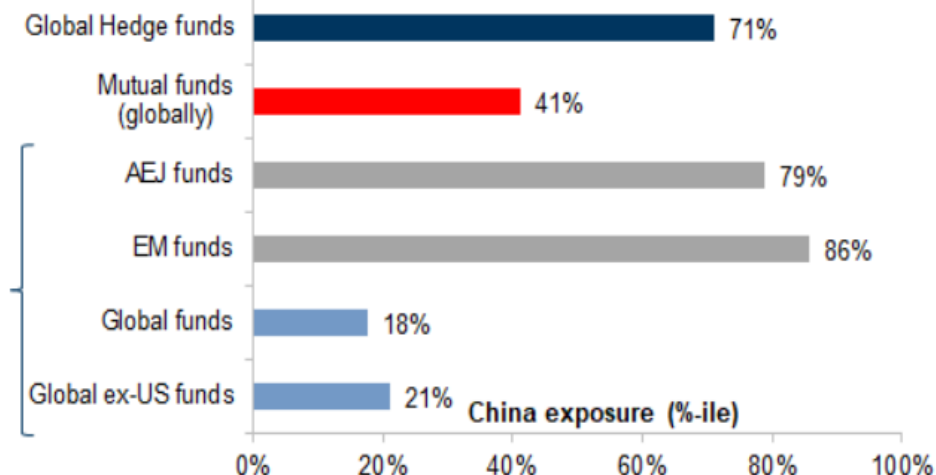
Driving through the tailwind in China equity

Alpha time: liquidity and pro-market policy favor stock picking and thematic investment

Market setting for Chinese equity returned to a leveler playing field vs 2020

	2020 benchmark	2021	2022	2023
Covid shock and restriction	X	=>X	X	✓
Regulation tightening	✓	X	=	✓
Valuation	=	=	✓	✓
Liquidity	✓	X	X=>=	=
Macro and economy	✓	✓=>=	X	✓
Company earnings	✓	=	X	✓
US-China relations	✓	X	X	X

China weight / net exposure in active funds (percentile over the past decade)



Note: Hedge fund data is based on GS Prime Services as of Feb-23 and represents 5-yr %-ile given shorter history; Mutual fund data is based on EPFR as of Jan-23 and shows 10-yr %-ile

**US opportunities:
Bipartisan consensus on
reinforcing US competitiveness**

Poised for the next technological boom

US cyclical vs defense relative performance at 54% indicates market pricing soft/no landing

S&P 500 returns during 6 months following last Fed rate hike

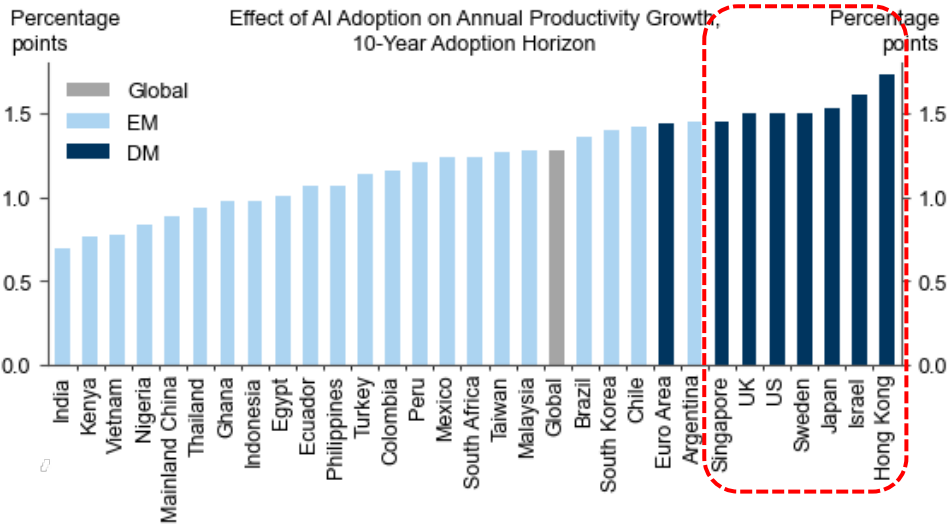
	1989	1995	2000	2006	2018	Median	Hit rate
S&P 500 return	10 %	21 %	(7)%	13 %	18 %	13 %	80%

Sector excess return (pp)

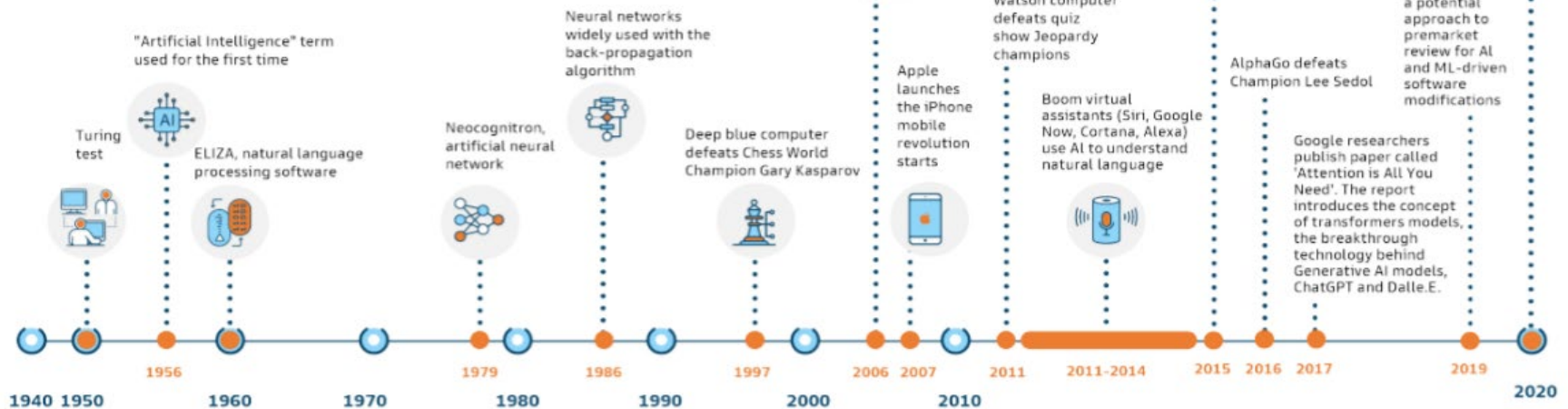
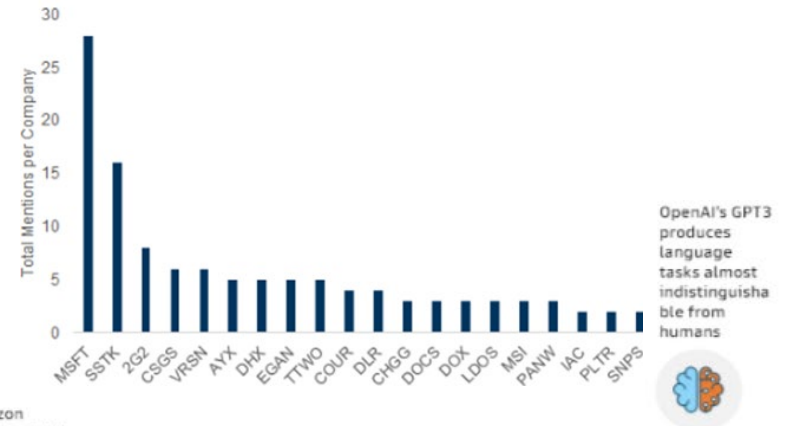
Info Tech	(16)	24	(20)	4	9	4	60%
Utilities	6	(14)	28	3	(3)	3	60
Industrials	(6)	4	10	(7)	2	2	60
Financials	0	2	16	3	(2)	2	80
Comm Services	8	(10)	(13)	5	1	1	60
Health Care	8	(1)	23	(1)	(10)	(1)	40
Materials	(5)	3	(3)	(0)	(2)	(2)	20
Staples	7	(4)	19	(4)	(3)	(3)	40
Energy	6	(5)	5	(3)	(5)	(3)	40
Discretionary	(5)	(4)	(12)	(1)	3	(4)	20

Generative AI as thematic inflection story

The Age of AI has begun — Bill Gates



Companies mentioning times of opportunities in generative AI



Source: Gartner, World Bank, Goldman Sachs. The views are those of the manager and are subject to change

Thank you!

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