A scopo di marketing
Per investitori professionali

Capitolo conclusivo: quale sarà la tua prossima mossa di investimento in Cina?

UBS Asset Management

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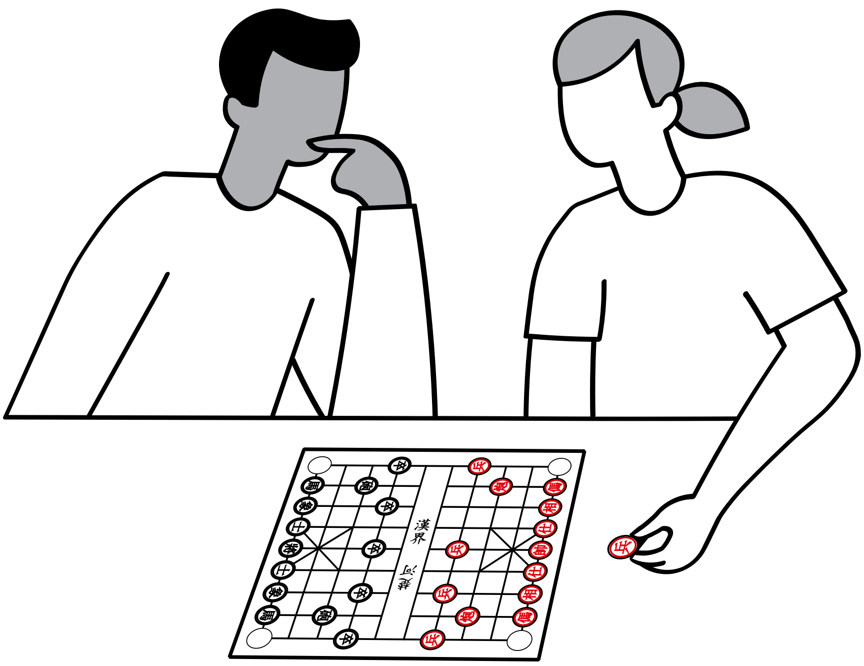
Investire in Cina comporta ultimamente maggiori rischi e una volatilità più elevata, ma l'ampiezza e la varietà delle opportunità offerte si confermano interessanti per chi cerca rendimenti a lungo termine in tutte le asset class.

Avete mai giocato a Xiangqi? Lo Xiangqi, noto anche come scacchi cinesi o scacchi dell'elefante, è un popolare gioco di strategia giocato dai cinesi di ogni estrazione sociale. Con due eserciti che si affrontano sulla scacchiera, ha molto in comune con gli scacchi internazionali, gli scacchi indiani, lo Shogi (giapponese) e il Janggi (coreano).

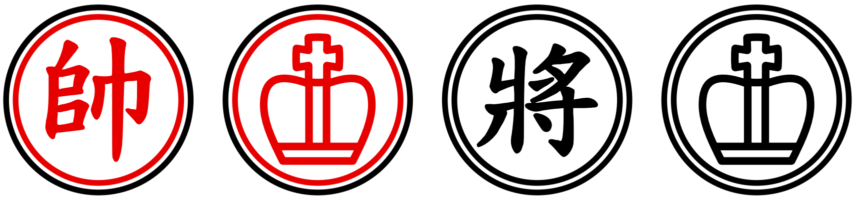
La rapidità delle tattiche di un giocatore nell'aprire il gioco e fare avanzare i pezzi attraverso il fiume, insieme a una strategia ben ponderata, sono elementi chiave per la vittoria finale, che prevede la cattura del generale nemico. Ma decidere le mosse giuste è tutt'altro che facile.

Lo stesso si può dire degli investimenti in Cina, con i nuovi focolai di COVID nelle maggiori città cinesi, i rischi normativi all'orizzonte, le difficoltà del mercato immobiliare, l'inizio di un ciclo aggressivo di inasprimento monetario negli Stati Uniti e, aspetto ancora più devastante, la guerra in Ucraina. Questi ultimi eventi hanno modificato il momentum sulla scacchiera della crescita cinese? E il vostro approccio agli investimenti in Cina è cambiato?



Guerra in Ucraina

Il Generale non può muovere al di fuori del Castello



In Cina la volatilità di mercato aveva già raggiunto livelli elevati negli ultimi mesi, a causa del rallentamento della crescita interna (che rimane comunque superiore a quella dei mercati sviluppati) associato alla decelerazione della crescita mondiale e ai persistenti timori di un'ulteriore stretta normativa prima dell'invasione russa dell'Ucraina, fattori che hanno mandato in fibrillazione gli investitori già nervosi inducendoli, in alcuni casi, a cercare attivamente una via d'uscita. È impossibile prevedere come evolverà la guerra, ma purtroppo ci aspettiamo un periodo prolungato di combattimenti in Ucraina e riteniamo poco probabile una rapida conclusione del conflitto e delle sanzioni alla Russia.

Le speculazioni e la retorica a volte aggressiva sulla posizione della Cina e sul suo ruolo in questa guerra hanno alimentato il disagio nei confronti degli asset cinesi, poiché qualsiasi azione politica a sostegno della Russia potrebbe comportare sanzioni internazionali. Le speculazioni finora sono rimaste tali, e anche se la Cina si rifiuta di condannare l'attacco russo non ha fatto alcun passo oltre questa linea di demarcazione, pur continuando a mantenere gli stretti legami economici con la Russia. La guerra in corso ha sconvolto la catena di approvvigionamento mondiale a causa dell'interruzione delle rotte commerciali terrestri, aeree e marittime, e la Cina non è immune dall'aumento dei prezzi delle materie prime e dell'energia, né da un rallentamento economico globale o da un'eventuale deglobalizzazione innescata dalla guerra.

Ma poiché la sua economia si basa maggiormente sulla crescita interna, e visto che non partecipa alle sanzioni occidentali contro la Russia, nel lungo periodo potrebbe essere risparmiata da alcune possibili ripercussioni, a differenza di buona parte dei Paesi occidentali.

La Russia continua a commerciare con la Cina in petrolio e gas. Si parla anche di un nuovo accordo energetico tra Cina e Russia che potrebbe includere nuovi progetti di oleodotti e investimenti cinesi in aziende energetiche russe, dopo che le sanzioni hanno spinto quelle occidentali a lasciare il Paese. Resta da vedere se la cooperazione economica della Cina con la Russia provocherebbe una reazione internazionale, ma in ultima analisi la guerra è guidata da lotte di potere geopolitiche e non crediamo che in questo momento sia nell'interesse della Cina farsi coinvolgere o intraprendere azioni che causerebbero un contraccolpo di ampia portata.

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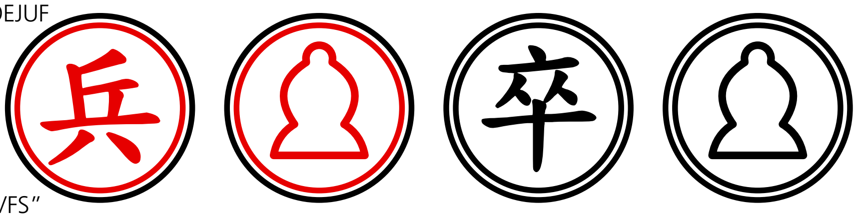
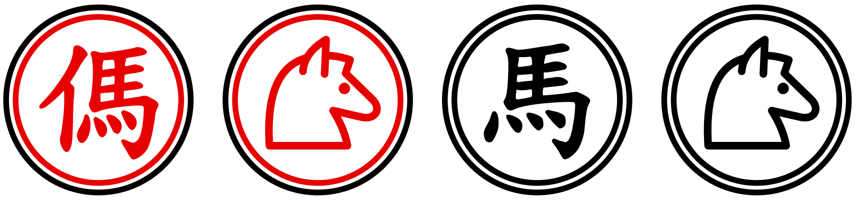
0MUSFBEBWFSFTDPOWPMUPMBDBUFOBEJ B□PWWJHJPOBNFOUPHMPCBMFJOVPWJ G□PDPMBJEJ$07□%TUBOOPBODIF NFUUFOEPJODSJTJJMUPSNFOUBUPTFUUPSF JNNPCJMJBSF&MFTUSBUFHJFTVMSFEEJUP GJTTPDJOFTFOFSJTFOUPOP%P□DIF MBOOPTDPSTPMBTUSFUUBNBUPSJWBTVMMF TPDJFU"EJTWJMVQ□UNNPCJMJBSF TPWSBJOEFCJUBUFJDBUFOBUPJUJNPSJEJ VOSJTDIJPEJDPOUBHJPOFMTJTUFNB GJOBO□JBSJPJMHPWFSOPIBGBUUPVO□TTP JOEJFUSPJOJ□BOEPBPGGSJSFNBHHJPSF TV□SUPBUUSBWFSTPM□MMBNFOUPEFJ DPOUSPMMJTVMDSFEJUPFMBSJEV□JPOF EFMM□OUJDJ□SJDIJFTUP□SBDRVJTUBSFVOB DBTBJOBMDVOFDJUU"5VUUBWJBMFWFOEJUF EJDBTFJ□F □FMFBUUJWJU"EJ DPTUSV□JPOFEFWPOPBODPSBSJ□FOEFSTJ EBJSB□EJDBMJEFMMPTDPSTPBOOP□UNB EFMMPOEBUBEJ0NJDSPOFEFJDPOUSPMMJ TVMMBNPC"JMJUFSWFEJBNPDIFMB WPMBUJMJU"JORVFTUPTFUUPSFDPOUJOVFS" BMNFOP□SJMSFTUPEFMMBOOP□UNBDIF TJEFMJOFJFWFOHBBUUVBUBVOB□MJUJDB □□IJBSB.

Detto questo, le nuove linee guida per alleggerire le norme che regolano gli acconti di garanzia (trust che detengono la liquidità nella fase di pre-completamento) sembrano promettenti e, se attuate, potrebbero fornire la liquidità tanto necessaria agli sviluppatori immobiliari dopo la crisi di liquidità e le svalutazioni indiscriminate dello scorso anno. Le imprese statali (SOE) svolgono ora un ruolo più rilevante, intervenendo per eseguire attività di M&A attraverso l'acquisizione di progetti o altri asset da sviluppatori in difficoltà. Siamo ottimisti sulla prospettiva che le condizioni possano migliorare al diminuire dei focolai di Omicron, in particolare per le aziende meglio capitalizzate, con bilanci solidi e canali di finanziamento più facilmente accessibili. A lungo termine, prevediamo che queste società di sviluppo immobiliare potranno sopravvivere all'attuale consolidamento del settore e riemergeranno in una posizione ancora più forte.



Opportunities in step with China's objectives and priorities

Endgame compositions



The culmination of these recent events – some expected, some unexpected – in the past few months unnerved investors, but there has always been a lot of volatility when it comes to investing in China. It's helpful to take a step back and look at the big picture. Over the past decade China has been in a boom, punctuated many times by the expectation of a hard landing or meltdown. Each time, China has made its way out. Today, the macroeconomic picture in China is driven by the overarching objectives that the Chinese government is looking to achieve. These include: improving security, financial market stability, common prosperity, the environment, dual circulation and demographics. Most of these long-run goals are a net positive for the long-term development of the Chinese economy – and therefore for investing in China – despite generating short-run headwinds for some sectors and companies, as evidenced by the regulatory intensity last year.

Beijing's long-term goals illustrate how the Chinese model of growth is evolving from a focus on the quantity to the quality of growth, transitioning to a more domestic, service-oriented economy, shifting priorities to balancing growth and sustainability, tackling social equality and security, after a decade-long journey to eliminate absolute poverty. We believe the increased focus on automation and digitization, healthcare, life insurance and asset management, deleveraging and stronger balance sheets, and the move towards green energy and a cleaner environment, are among the long-term trends that make China's investment case attractive.

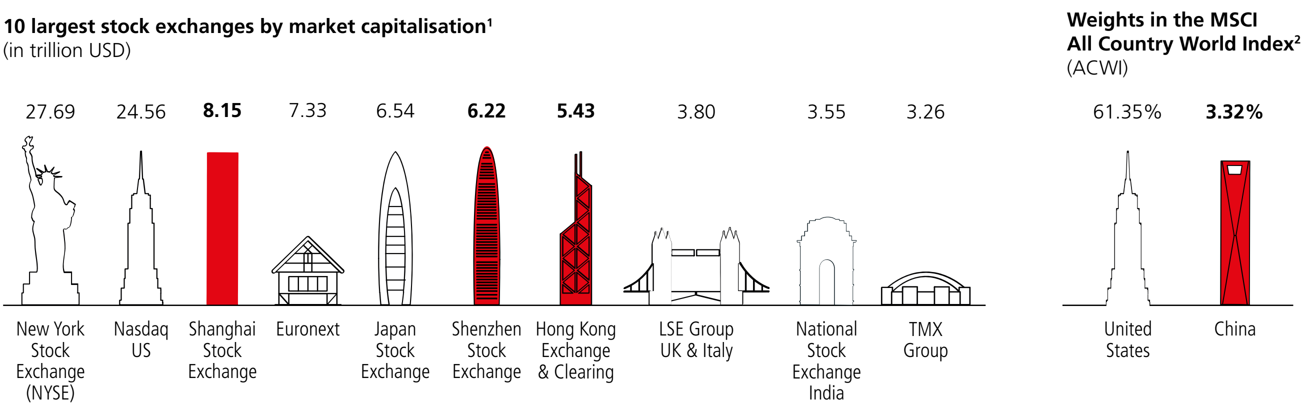
Why invest in China

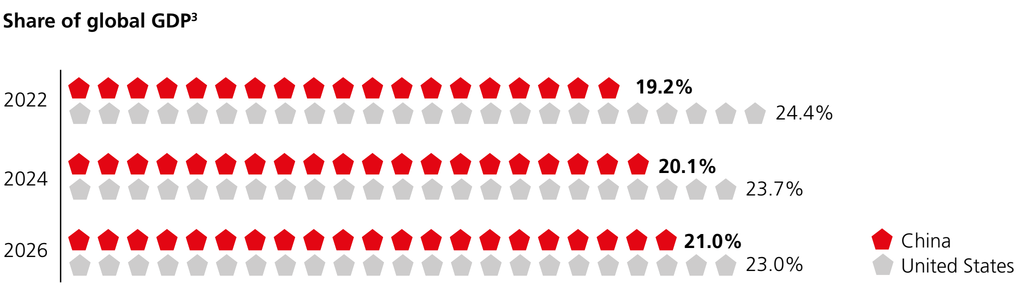
Don't be forced into Zugzwang

We are behind the long-term China investment case, while acknowledging higher risks and more near-term volatility, and cognizant that not everyone feels the same way. Simply put, we view China as a core standalone allocation, the same way that we look at the US, Japan, Europe and the UK. China is the second largest economy in the world and one of the most significant drivers of global growth, but investors are still underinvested (Chart 1).

Chart 1: The world is underinvested in China

China is the second-largest stock market but significantly under-represented in global portfolios





1 Source: Trade Brains, 10 largest Stock Exchanges in the World 2021, data as of February 2022.
2 Not to scale, for illustrative purposes only. Source: MSCI data as of March 2022.
3 Source: International Monetary Fund, World Economic Outlook Database, Gross Domestic Product (GDP), current prices in USD, estimates, April 2022.

The country's pattern of growth differs from other markets, both in emerging and developed regions, and its monetary policy direction is also diverging from the rest of the world. Although this can sometimes create short-term headwinds, it also means that Chinese equities and fixed income asset classes offer investors low correlation and diversification benefits (Chart 2) compared to other widely-held portfolio allocations. The scale and variety of the opportunities offered is compelling to investors looking for both market and active returns across asset types. These factors mean that China offers active opportunities for investors, both from an overall portfolio allocation perspective and within individual asset classes. China's capital markets also continue their rapid internationalization through index inclusions and the lifting of capital market controls.

Chart 2: China A benefits from low correlation across global indices

A strong case for inclusion in a portfolio for diversification purposes and improve risk-return profile

Correlation (TR USD)

January 2002 to April 2022

	MSCI North America	MSCI Europe	MSCI Pacific	**MSCI China ex A-Shares**	**MSCI China A-Shares**	MSCI EM Asia ex China	MSCI EM EMEA	MSCI EM LATAM
MSCI North America	1.00	0.88	0.76	0.58	0.36	0.76	0.73	0.69
MSCI Europe	0.88	1.00	0.80	0.64	0.37	0.79	0.82	0.75
MSCI Pacific	0.76	0.80	1.00	0.66	0.36	0.76	0.79	0.68
MSCI China ex A-Shares	**0.58**	**0.64**	**0.66**	**1.00**	**0.60**	**0.74**	**0.68**	**0.61**
MSCI China A-Shares	**0.36**	**0.37**	**0.36**	**0.60**	**1.00**	**0.42**	**0.34**	**0.35**
MSCI EM Asia ex China	0.76	0.79	0.76	0.74	0.42	1.00	0.81	0.76
MSCI EM EMEA	0.73	0.82	0.79	0.68	0.34	0.81	1.00	0.83
MSCI EM LATAM	0.69	0.75	0.68	0.61	0.35	0.76	0.83	1.00

Source: Bloomberg, as of 30 April 2022

Please note that past performance is not a guide to the future.

Equity

Must move the Chariot in the first three moves to win

Understanding Beijing's overarching objectives and their potential implications should be front and center for any successful China investment strategy, and is an increasingly important consideration when picking stocks. China equities are volatile partly because the market is retail investor-driven, which is challenging but also presents a clear opportunity for active managers with the on-the-ground knowledge and research capabilities to identify and take advantage of mispricing and deliver value for investors. We have always believed that it's about picking the right stocks in a fast-changing environment—and we are now in an even faster-changing environment than ever before.

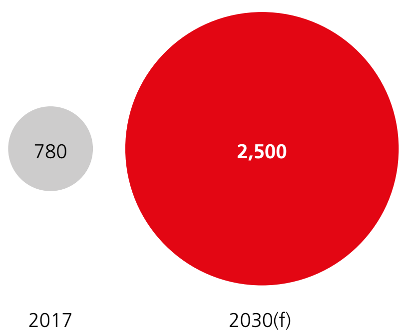
Some of the most exciting long-term equity opportunities have been in the healthcare sector as we believe Chinese healthcare expenditure will continue to grow at double digits (Chart 3). We are positive in the long run on select leading pharmaceutical companies with rich innovative pipelines to diversify from the impact of reduction in drug prices, as well as Contract and Research Organizations (CROs) which are gaining international recognition in new, advanced drug therapies such as cell and gene therapy.

In the financials sector, there is great potential in the insurance segment and wealth management services as the country continues its decades-long transition from low income to affluence. We believe the need for these financial products and services is somewhat

Chart 3: An aging population presents opportunities

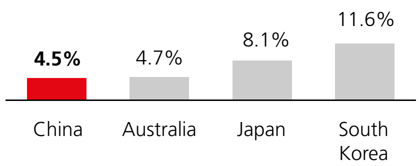
When challenges become investment opportunities: healthcare and insurance services will raise demand for asset management services too

Healthcare market size in China
(USD billions)



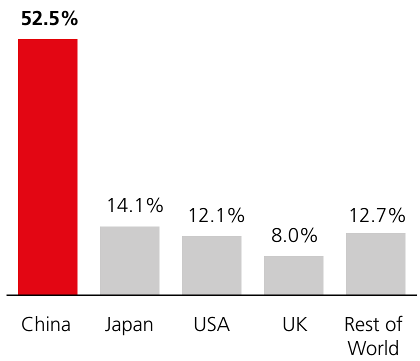
Source: China Daily, December 2017

Insurance penetration
Gross written premiums as % of GDP, 2020

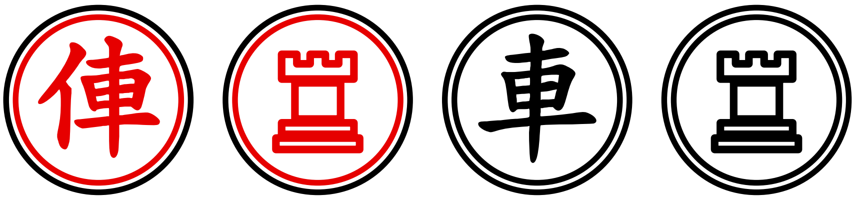


Source: Goldman Sachs Research, February 2022

Asset management services
5 years average growth in AUM[1] ending March 2022 (%)



Source: Morgan Stanley Research, EPFR, May 2022
[1]AUM = Asset under Management



nascent and can become significant with time, given the progression is structural in nature. While part of China is still in lockdown, we believe that when it does eventually open up, investing in the banking sector will be an attractive way to participate in the reopening.

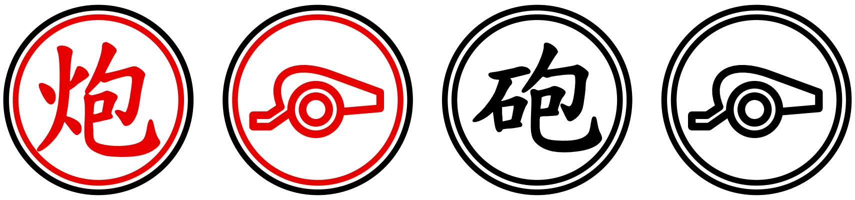
But “opportunity” also sometimes means being patient and waiting on the sidelines when necessary. Given our focus on the fundamental story and the fundamental value of the companies we own, last year we did not get carried away by the hype in certain sectors such as the renewable energy space, particularly the electronic vehicle (EV) industry. As we saw it, there was a big gap between the valuations these EV companies were trading at and their fundamental value, even after accounting for government support. Not investing in this part of the market has shielded us from much of the volatility of the past few months. We continue to believe that our holdings of good quality companies with strong competitive advantages will deliver results in the long run as investor focus returns to sector and company fundamentals.

Fixed income

Defend the center with the Central Cannon opener

The long-term investment case for onshore China fixed income is likewise intact. Given the still relatively low global yield environment and the low correlation between China and global rates, we expect China fixed income to remain attractive vis-a-vis other global bond markets both on a yield basis and also from a diversification point of view.

In the short term, we expect the China fixed income market to still trade based on domestic economic fundamentals that are under huge downward pressure. Exports are expected to remain relatively strong despite COVID lockdowns in several cities, which will add to GDP growth in 2022, but with the ongoing Ukraine war, European and US demand could slow and add to the pressure from the global economic slowdown. Both factors could trigger more aggressive monetary and fiscal stimulus in China. We think there is still room for China rates and monetary policy to be accommodative, as stated in a government work report by Premier Li Keqiang on behalf of the State Council. This will continue to support China fixed income.



With the US Federal Reserve back on a rate hiking path and monetary policy diverging between China and the US, the difference in interest rates is narrowing as US rates rise. Market concerns about the China-US yield advantage has led to some short-term volatility in China rates, but we think the concerns may be exaggerated. This is not the first time that we see diverging economic and monetary policies in the US and in China. For example, in 2018 when US yields were on an upward trend, China faced an economic downturn and the People's Bank of China implemented four rounds of reserve requirement ratio (RRR) cuts despite continuous rate hikes stateside. Looking back, the outflows from China bonds by foreign institutions and the resulting depreciation pressure on the Chinese yuan (CNY) in 2018 was larger compared to what we see currently. Overall, we believe the weakness in economic fundamentals in China, the monetary policy easing and the backdrop of the relatively stable CNY currency will be supportive for CNY bond investors.

When the economy turns around, possibly in the second half of the year, there may be opportunities in the China US dollar-denominated credit markets. Investment grade and high yield spreads in the US and Europe are still very tight compared to China high yield bonds, and this could be the time to consider Chinese high yield securities, in particular property. It's true that the property market is not out of the woods yet, but with the current market pricing in what we believe to be an unrealistically high 55% default rate, we think valuations are attractive and there are quality companies to choose from for the long-term investor. For investors who are already invested in Asia high yield, a shift into China high yield could be beneficial as a means to express a more pointed exposure.

Over the longer term, we still expect the favorable valuation and risk characteristics of China fixed income to continue to attract global investors. The continued increase of China's weight in global bond indices will serve as a tailwind for the sector over the medium term. Further liberalization of Chinese financial markets should attract new investors as well. In the end, we believe China's yield story is still an attractive one even though policy is changing and global uncertainties are high. Today's Chinese sovereign bonds offer a 1-2.5% yield pickup over some major developed market bond markets (UK, Switzerland, Germany, Japan), delivering real yields through low correlations. China high yield credit spreads are at their all-time widest, and the China bond market still presents many investment opportunities.

Alternatives

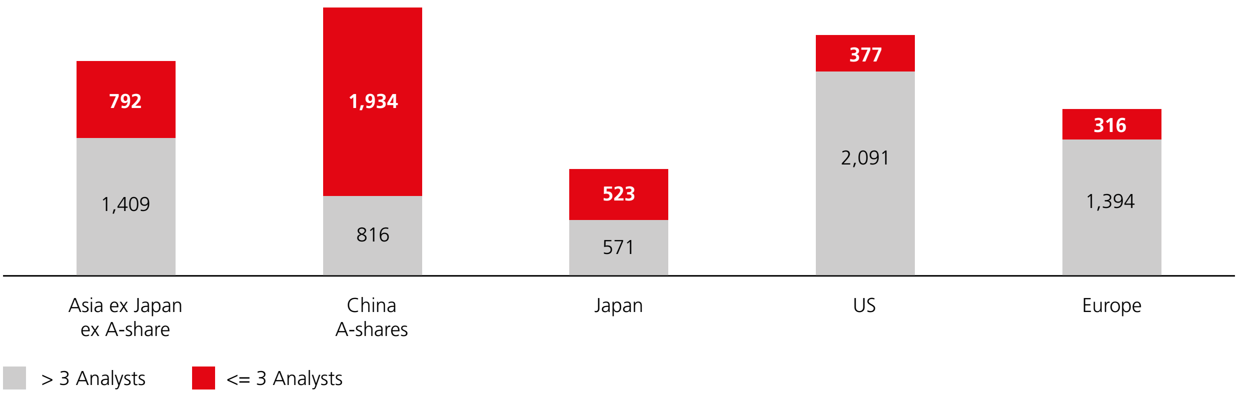
Surprise checkmate by stacked cannons

While Chinese stocks and bonds continue to present compelling investment opportunities, China is no longer just all about traditional asset classes, or even onshore versus offshore investments. In its pursuit to become one of the main global financial hubs, over the last few years China has actively focused on reforming its financial sector, and we believe that this is creating opportunities for relative value trading that weren't available to investors in the past. China's markets are becoming a key source of alpha and its transition from beta to alpha is one of the key trends in relative value investing at least over the next 5-10 years. There are at least three market characteristics and developments that are supportive of a more relative value approach to investing in China.

First, high retail participation and relative underinvestment by international and institutional investors – especially in A-shares – provide interesting entry and exit points as well as the ability to trade around that high market turnover for relative value investors. The dominance of retail investors creates dramatic swings in momentum and valuation skews, which can present unique alpha opportunities for relative value investors on both the long and short side of portfolios. The A-share market has had very low correlation to the offshore market, as it is driven by its own dynamics and is also extremely liquid, allowing institutional investors to trade sizable amounts with ease. While the influence of institutional investment capital is growing, we think it will take years for it to overtake retail investors as a key market driver. As we see it, this imbalance creates a compelling window of opportunity that active investors can seek to exploit.

Second, low coverage by sell-side analysts means that not much information is widely available, which is conducive for alpha generation from both the long and short side (Chart 5). Most of the A-share companies are minimally covered by analysts compared to the much higher level of coverage of other major markets. Additionally, only a small portion of A-share companies have English language research coverage – which means that the visible opportunity set for global investors remains small.

Chart 5: Listed company equity analyst coverage: China's equity universe is under-researched



Source: Reuters Eikon; UBS HFS, as of April 2021. Universe is based on companies with >=$500m market cap and >=$0.5m average daily turnover. Universe is based on stocks listed in Japan, China, United States, countries within MSCI AC Asia, countries within MSCI AC Europe.

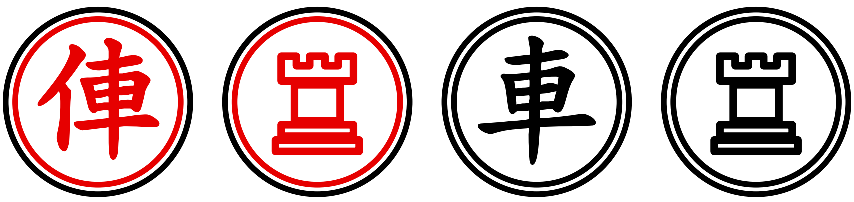
And last but not least, the use of short selling as a risk management tool to protect long positions has historically been limited by the availability of short borrowers in China. However, last year's implementation of the new rules to improve liquidity through opening the Chinese capital market allows active long/short investors to reach out to domestic investors such as domestic mutual funds, life insurance companies and corporate investors. This has doubled the size of the borrowing pool and could mean a five times growth for the relative value market when it matures in the long term according to our estimates. These regulatory reforms will fundamentally change the operating characteristics of the China A-share market by allowing hedge fund investors to short with domestic brokers and secure margin on a range of securities that were not available in the past. Hedge funds will therefore be able to more effectively capture long and short alpha while dynamically managing beta, sector, factor, thematic and idiosyncratic risks.

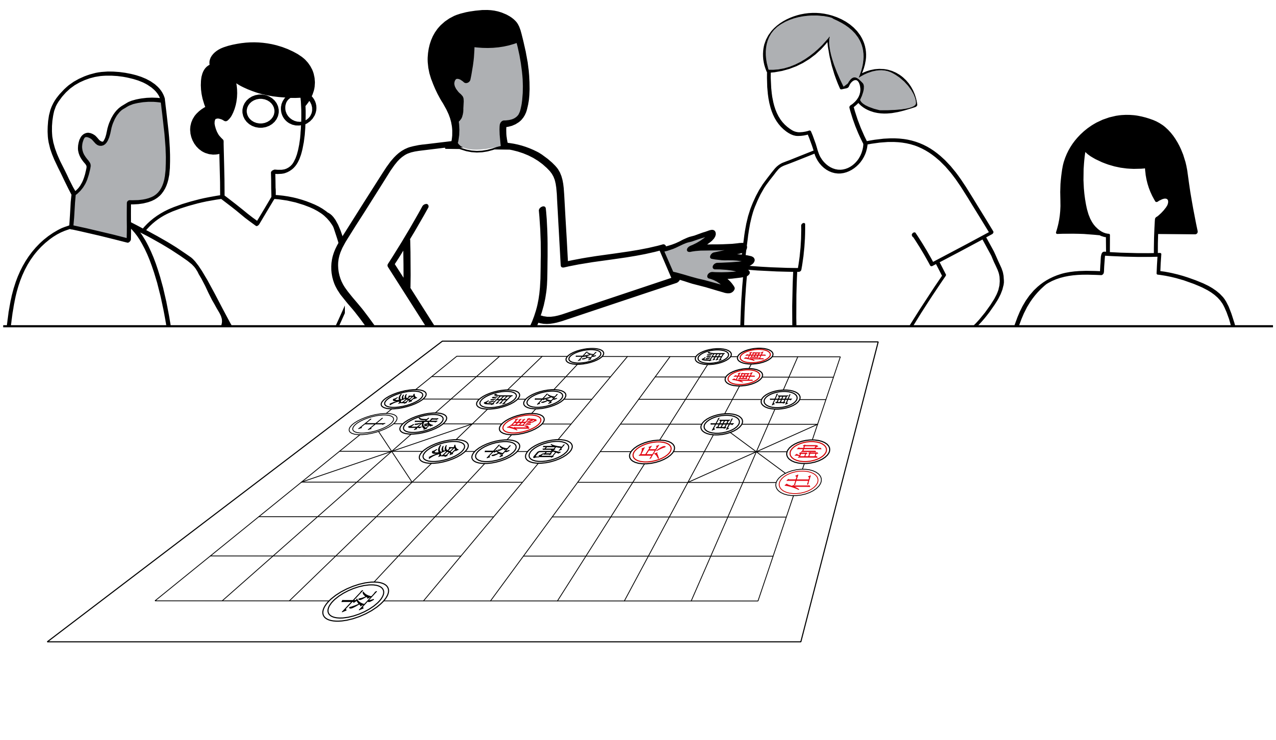
We believe there is a large investment opportunity in China as liquidity improves on both the long and short side. We are also looking at quantitative strategies in China and are closely studying their credit and fixed income markets. These strategies may bring about much more efficiency and allow us to invest in a much more diverse way across the onshore Chinese equity markets. Investors who are bullish on China yet weary of short-term volatility should consider adding long/short strategies to their allocation.

Conclusion

The Chariot can go far and wide

China is a country of many strengths and potential, and offers plenty of attractive long-term opportunities. While it's clear that risks to investing in China have risen and recent events have many investors on edge, we firmly believe the long-term investment case for China is intact.





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