

# China multi-asset investing strategy Q&A

China's equity and bond markets have had a busy year. We ask Gian Plebani, Investment Solutions Portfolio Manager, about his current strategy and where he sees opportunities in China's markets.

- We have seen strong policy support from the Chinese government and we believe positive market sentiment will benefit China A-share markets;
- Recent data show that China's economy is rebounding and we believe it will remain resilient in the coming months;
- We see two key short-term risks: the impact of COVID-19 and potential volatility ahead of the November US election.
- We believe, however, that China is better positioned if a second wave COVID-19 wave happens, and doubt that the phase 1 US-China trade deal is in jeopardy;

## How have you adjusted your China allocation approach given the events of recent months?

Generally speaking, we haven't made any major directional changes because of recent market uncertainty.

However, we have made some relative changes, mainly by putting more emphasis on onshore China assets. This breaks down in two ways.

Firstly, on the risk side we have kept a preference for China A shares, despite slightly reducing our overall equity allocation since the end of 1Q20.

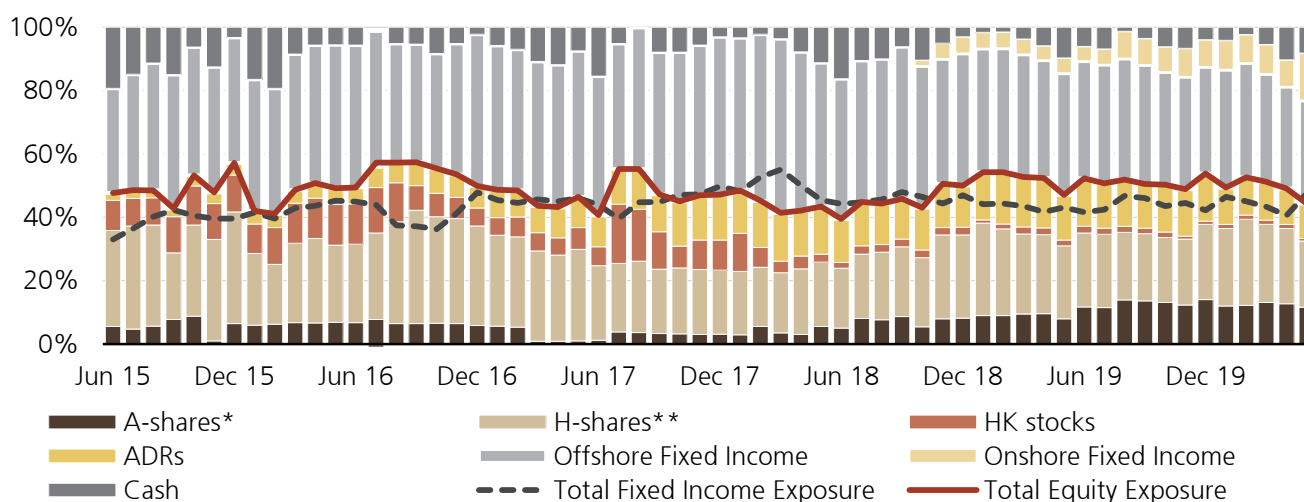
That's because we have seen strong policy support from the Chinese government. This support has bolstered both onshore investor sentiment and A-share market performance.

The sentiment factor is important here. Sentiment feeds the A-share market because it is driven by retail investors, and that's different to offshore markets for China stocks, which are more driven by longer-term more fundamentally-driven institutional investors. For this main reason we see differentiation between the offshore and onshore markets.

We have kept a preference for China A shares..... Strong policy support has bolstered both onshore investor sentiment and A-share market performance.

As the Chinese government has made clear its ongoing support for the economy, we believe positive market sentiment will continue in the coming months, and will particularly benefit the A-share space, so we have maintained our allocations accordingly.

## Strategy allocation, Jun 2015-Jun 2020



Source: UBS Asset Management, July 2020

Secondly, we have put more emphasis on onshore China fixed income - to China government and policy bank bonds in particular. That's because we see them as a relative safe haven asset. Put together, these changes amount to maintaining risk on the one hand and taking safer bets on the other, which we feel is consistent with our 'risk-aware' approach.

## How are your cash levels currently and how have they evolved over the past 3 months?

We have reduced our cash levels after market volatility in March and April. Risk assets have rebounded since then.

For us, cash is a risk-off asset and the balance between cash and risky assets is an important part of our process.

However, we also see onshore China fixed income as a risk-off asset, so we have put more emphasis on this asset class over the past couple of months.

## What is your top-down view on the outlook for China's economy this year and into 2021?

Recent data show that China's economy is rebounding. For example, Purchasing Manager's Indices (PMIs) for both the manufacturing and services sector have shown expansion recently, with manufacturing PMIs showing growth for four straight months between April and July.

Looking ahead, we believe China's economy will remain resilient. The Chinese government has committed to prioritizing employment and relaxing the deleveraging campaign.

We believe these factors, as well as China's remaining capacity to respond to shocks and its first-in, first-out status on the global pandemic, have allowed its domestic equities to hold up better in 2020 compared to most other equity markets globally.

## What are the key risks you see in the next three-to-six months?

Two key risks: the impact of COVID-19 and potential volatility ahead of the US election in November.

There's still uncertainty about the shock to global demand and the precise negative impact on China's economy from the COVID-19 outbreak.

This is a key risk; however we believe that China is better positioned than other countries if a second wave of COVID-19 happens.

That's because firstly, the recent experience in Beijing demonstrates how effective the Chinese authorities can be in suppressing an outbreak and, secondly, that Chinese more strictly observe precautionary measures, like facemasks and social distancing, compared to other outbreak hotspots.

As for the second risk, we see potential instability in the US/China relationship ahead of the November US Presidential election.

We expect a lot of finger-pointing at China from the presidential candidates in the coming months, which may introduce some tension to the relationship and volatility to the markets.

We believe that China is better positioned than other countries if a second wave of COVID-19 happens. That's because firstly, the recent experience in Beijing demonstrates how effective the Chinese authorities can be in suppressing an outbreak and, secondly, that Chinese more strictly observe precautionary measures, like facemasks and social distancing, compared to other outbreak hotspots

We doubt, however, that the phase 1 trade deal is in jeopardy for reasons we will explain later.

## How can onshore China fixed income support a China multi-asset strategy?

We see onshore China fixed income, and particularly government and policy bank bonds, as a safe haven asset which brings important diversification benefits to since the asset class is negatively correlated to Chinese equity and Chinese credit and has low correlation to overseas bond markets.

## Do you see opportunity in China A-shares from an asset allocation perspective?

We mentioned before that from a structural perspective the structural make-up of the China A-share market has different characteristics compared to offshore markets for China equities, which allows us a diversification opportunity and adds a different component to the strategy.

Also, the index inclusion process means that A-shares are becoming a more prominent factor in global asset allocation portfolios, so there should be structural support from global flows.

Finally, from a long-term perspective, the opening up of onshore markets and related access channels - like Stock Connect – creates new possibilities for us as it internationalizes and institutionalizes the market.

China A-shares offer a different opportunity set than say H-shares and ADRs, so we look to exploit these opportunities.

## **What's happening in the China real estate sector?**

Market wise, we are seeing demand return to normal after the market disruptions caused by the Covid-19 outbreak. Recent data show a pick-up in price growth, which tells us that demand remains healthy.

We continue to like the sector from a structural perspective. The sector continues to rationalize with smaller players either leaving the space, or being taken over by larger players.

We favor larger, higher quality names in the sector, particularly those who have grown market share and a diverse range of funding options.

## **Are there any risks to the first-round US-China trade deal?**

We mentioned before that there is a risk of higher volatility within the US/China relationship prior to the election. We believe a rollback on the phase 1 deal is possible, but not likely.

Our base case is that both sides keep the phase 1 deal as it is. Looking particularly at the US side, we feel the existing deal is a positive one for the US agriculture sector, which is a key constituency in US politics.

The Chinese government has committed to substantial purchases of US farm products, like soybeans, and we doubt the US side would want to jeopardize this in the lead up to the election.

**For marketing and information purposes by UBS. For professional / qualified / institutional clients and investors only.**

This document does not replace portfolio and fund-specific materials. Commentary is at a macro or strategy level and is not with reference to any registered or other mutual fund.

**Americas**

The views expressed are a general guide to the views of UBS Asset Management as of August 2020. The information contained herein should not be considered a recommendation to purchase or sell securities or any particular strategy or fund. Commentary is at a macro level and is not with reference to any investment strategy, product or fund offered by UBS Asset Management. The information contained herein does not constitute investment research, has not been prepared in line with the requirements of any jurisdiction designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. The information and opinions contained in this document have been compiled or arrived at based upon information obtained from sources believed to be reliable and in good faith. All such information and opinions are subject to change without notice. Care has been taken to ensure its accuracy but no responsibility is accepted for any errors or omissions herein. A number of the comments in this document are based on current expectations and are considered "forward-looking statements." Actual future results, however, may prove to be different from expectations. The opinions expressed are a reflection of UBS Asset Management's best judgment at the time this document was compiled, and any obligation to update or alter forward-looking statements as a result of new information, future events or otherwise is disclaimed. Furthermore, these views are not intended to predict or guarantee the future performance of any individual security, asset class or market generally, nor are they intended to predict the future performance of any UBS Asset Management account, portfolio or fund.

**EMEA**

The information and opinions contained in this document have been compiled or arrived at based upon information obtained from sources believed to be reliable and in good faith, but is not guaranteed as being accurate, nor is it a complete statement or summary of the securities, markets or developments referred to in the document. UBS AG and / or other members of the UBS Group may have a position in and may make a purchase and / or sale of any of the securities or other financial instruments mentioned in this document. Before investing in a product please read the latest prospectus carefully and thoroughly. Units of UBS funds mentioned herein may not be eligible for sale in all jurisdictions or to certain categories of investors and may not be offered, sold or delivered in the United States. The information mentioned herein is not intended to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. Past performance is not a reliable indicator of future results. The performance shown does not take account of any commissions and costs charged when subscribing to and redeeming units. Commissions and costs have a negative impact on performance. If the currency of a financial product or financial service is different from your reference currency, the return can increase or decrease as a result of currency fluctuations. This information pays no regard to the specific or future investment objectives, financial or tax situation or particular needs of any specific recipient. The details and opinions contained in this document are provided by UBS without any guarantee or warranty and are for the recipient's personal use and information purposes only. This document may not be reproduced, redistributed or republished for any purpose without the written permission of UBS AG. This document contains statements that constitute "forward-looking statements", including, but not limited to, statements relating to our future business development. While these forward-looking statements represent our judgments and future expectations concerning the development of our business, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from our expectations.

**UK**

Issued in the UK by UBS Asset Management (UK) Ltd. Authorised and regulated by the Financial Conduct Authority.

**APAC**

This document and its contents have not been reviewed by, delivered to or registered with any regulatory or other relevant authority in APAC. This document is for informational purposes and should not be construed as an offer or invitation to the public, direct or indirect, to buy or sell securities. This document is intended for limited distribution and only to the extent permitted under applicable laws in your jurisdiction. No representations are made with respect to the eligibility of any recipients of this document to acquire interests in securities under the laws of your jurisdiction. Using, copying, redistributing or republishing any part of this document without prior written permission from UBS Asset Management is prohibited. Any statements made regarding investment performance objectives, risk and/or return targets shall not constitute a representation or warranty that such objectives or expectations will be achieved or risks are fully disclosed. The information and opinions contained in this document is based upon information obtained from sources believed to be reliable and in good faith but no responsibility is accepted for any misrepresentation, errors or omissions. All such information and opinions are subject to change without notice. A number of comments in this document are based on current expectations and are considered "forward-looking statements". Actual future results may prove to be different from expectations and any unforeseen risk or event may arise in the future. The opinions expressed

are a reflection of UBS Asset Management's judgment at the time this document is compiled and any obligation to update or alter forward-looking statements as a result of new information, future events, or otherwise is disclaimed. You are advised to exercise caution in relation to this document. The information in this document does not constitute advice and does not take into consideration your investment objectives, legal, financial or tax situation or particular needs in any other respect. Investors should be aware that past performance of investment is not necessarily indicative of future performance. Potential for profit is accompanied by possibility of loss. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

**Australia**

This document is provided by UBS Asset Management (Australia) Ltd, ABN 31 003 146 290 and AFS License No. 222605.

**China**

The securities may not be offered or sold directly or indirectly in the People's Republic of China (the "PRC"). Neither this document or information contained or incorporated by reference herein relating to the securities, which have not been and will not be submitted to or approved/verified by or registered with the China Securities Regulatory Commission ("CSRC") or other relevant governmental authorities in the PRC pursuant to relevant laws and regulations, may be supplied to the public in the PRC or used in connection with any offer for the subscription or sale of the Securities in the PRC. The securities may only be offered or sold to the PRC investors that are authorized to engage in the purchase of Securities of the type being offered or sold. PRC investors are responsible for obtaining all relevant government regulatory approvals/licenses, verification and/or registrations themselves, including, but not limited to, any which may be required from the CSRC, the State Administration of Foreign Exchange and/or the China Banking Regulatory Commission, and complying with all relevant PRC regulations, including, but not limited to, all relevant foreign exchange regulations and/or foreign investment regulations.

**Hong Kong**

This document and its contents have not been reviewed by any regulatory authority in Hong Kong. No person may issue any invitation, advertisement or other document relating to the Interests whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Interests which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571) and the Securities and Futures (Professional Investor) Rules made thereunder.

**Japan**

This document is for informational purposes only and is not intended as an offer or a solicitation to buy or sell any specific financial products, or to provide any investment advisory/management services.

**Korea**

The securities may not be offered, sold and delivered directly or indirectly, or offered or sold to any person for re-offering or resale, directly or indirectly, in Korea or to any resident of Korea except pursuant to the applicable laws and regulations of Korea, including the Capital Market and Financial Investment Business Act and the Foreign Exchange Transaction Law of Korea, the presidential decrees and regulations thereunder and any other applicable laws, regulations or rules of Korea. UBS Asset Management has not been registered with the Financial Services Commission of Korea for a public offering in Korea nor has it been registered with the Financial Services Commission for distribution to non-qualified investors in Korea.

**Taiwan**

This document and its contents have not been reviewed by, delivered to or registered with any regulatory or other relevant authority in the Republic of China (R.O.C.). This document is for informational purposes and should not be construed as an offer or invitation to the public, direct or indirect, to buy or sell securities. This document is intended for limited distribution and only to the extent permitted under applicable laws in the Republic of China (R.O.C.). No representations are made with respect to the eligibility of any recipients of this document to acquire interests in securities under the laws of the Republic of China (R.O.C.). Source for all data and charts (if not indicated otherwise): UBS Asset Management

© UBS 2020. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.

© UBS 2020. All rights reserved.  
www.ubs.com/am

