



# CIO *Live*

US and China activity surprises on the upside: Opportunities from trade spats

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# China: Deep dive of 1Q24 China GDP

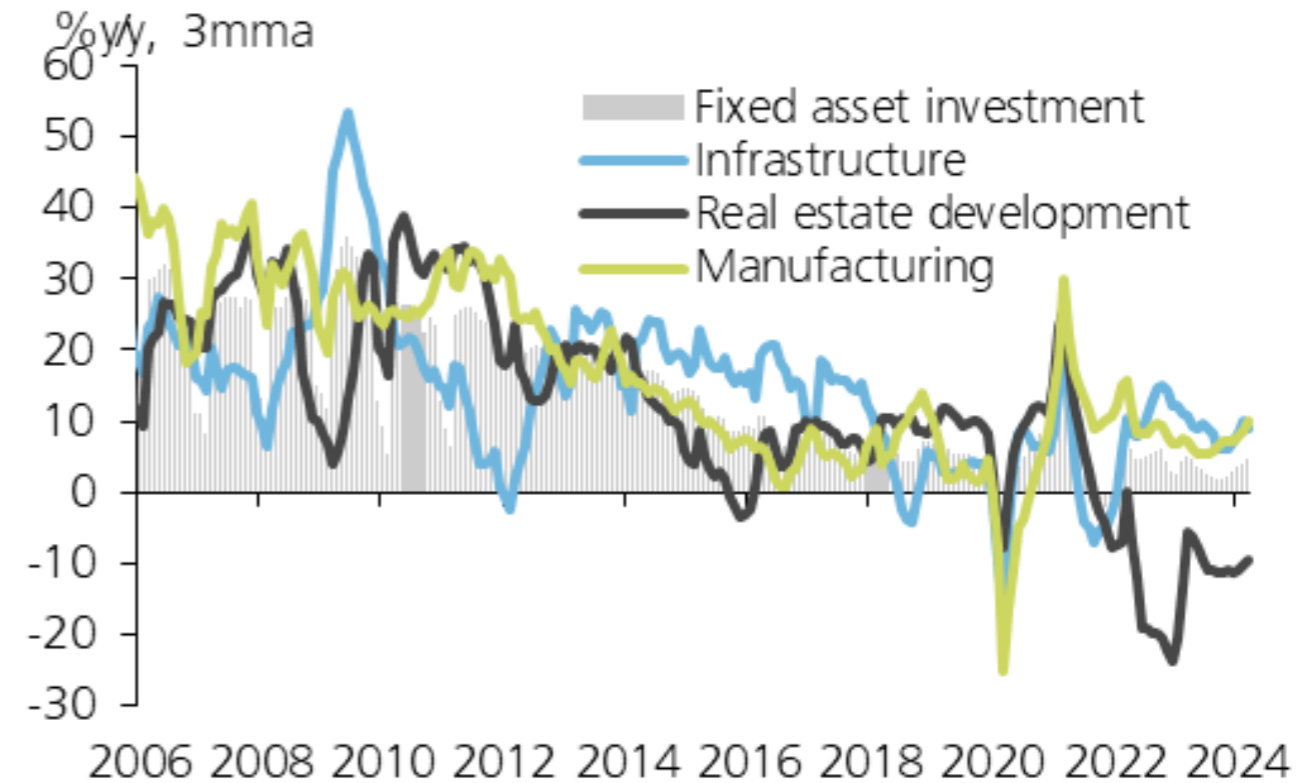
## China 1Q24 China GDP - surprise driven by export recovery

China GDP 1Q24 & March compared against its sequential trend

|                               | Growth (YoY%) |         |        |              |
|-------------------------------|---------------|---------|--------|--------------|
|                               | Q1 2024       | Q4 2023 | Mar-24 | Jan-Feb 2024 |
| Real GDP                      | 5.3           | 5.2     |        |              |
| Industrial value added        | 6.2           | 6.0     | 4.5    | 7.0          |
| Retail sales                  | 4.7           | 8.3     | 3.1    | 5.5          |
| Fixed asset investment        | 4.5           | 2.7     | 4.7    | 4.2          |
| - Manufacturing FAI           | 9.9           | 7.2     | 10.3   | 9.4          |
| - Infrastructure FAI          | 8.8           | 7.3     | 8.6    | 9.0          |
| - Real estate development FAI | -9.5          | -11.4   | -10.1  | -9.0         |
| Property sales (floor space)  | -19.4         | -11.5   | -18.3  | -20.5        |
| Exports (in USD)              | 1.5           | -1.2    | -7.5   | 7.1          |
| Imports (in USD)              | 1.5           | 0.8     | -1.9   | 3.5          |

## GDP growth drivers – Manufacturing & Infrastructure FAI

Historical growth trend of nominal FAI – covering infrastructure, manufacturing & real estate

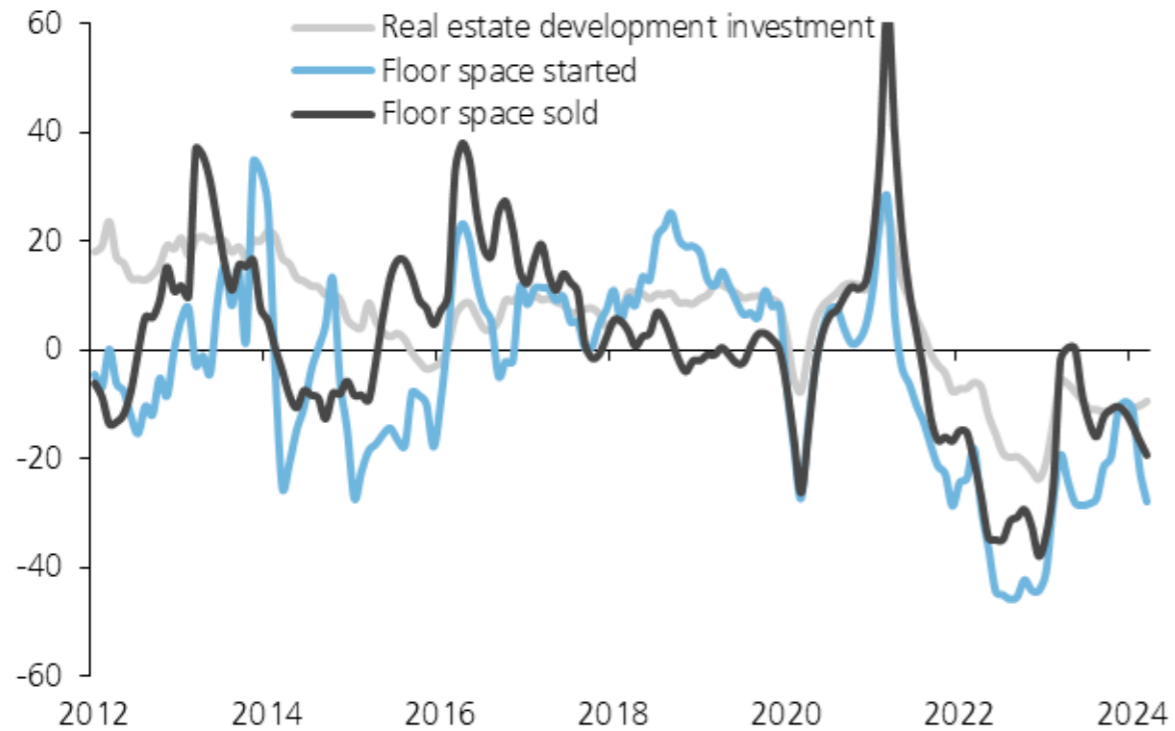


# China: Key areas of focus for China's economic outlook

## China 1Q24 property activities continue downtrend

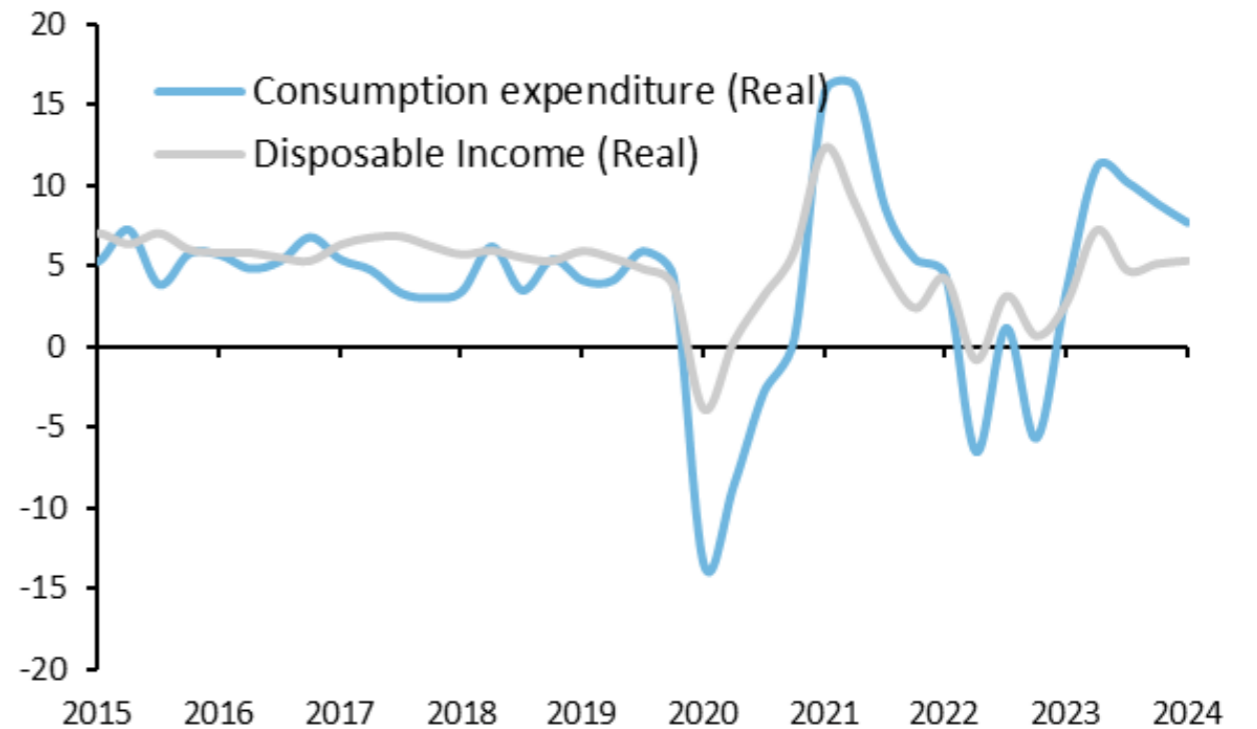
Historical growth rate (% Y/Y 3mma) of property investment, new starts and sales

Growth rate (% y/y 3mma)



## Consumption sentiment softened amid lower income & weak property market

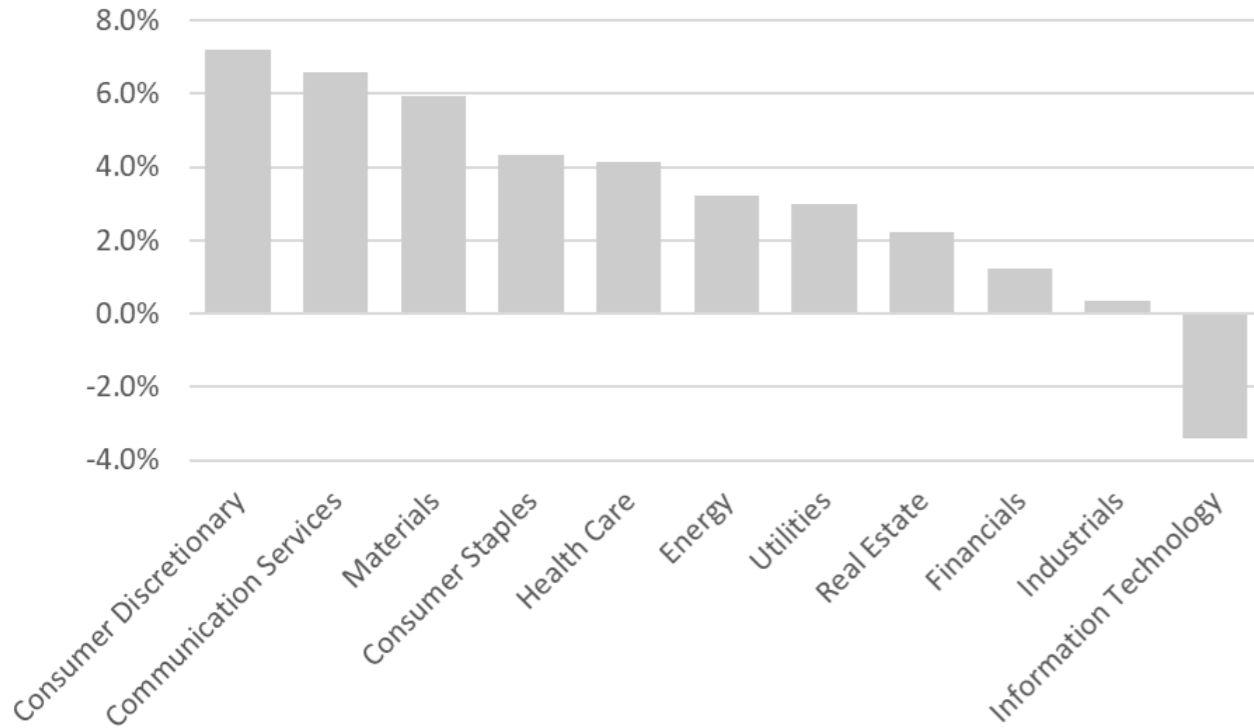
Historical growth rate (% Y/Y, household per capital)



# China: SOE outperformance has drawn increasing attention

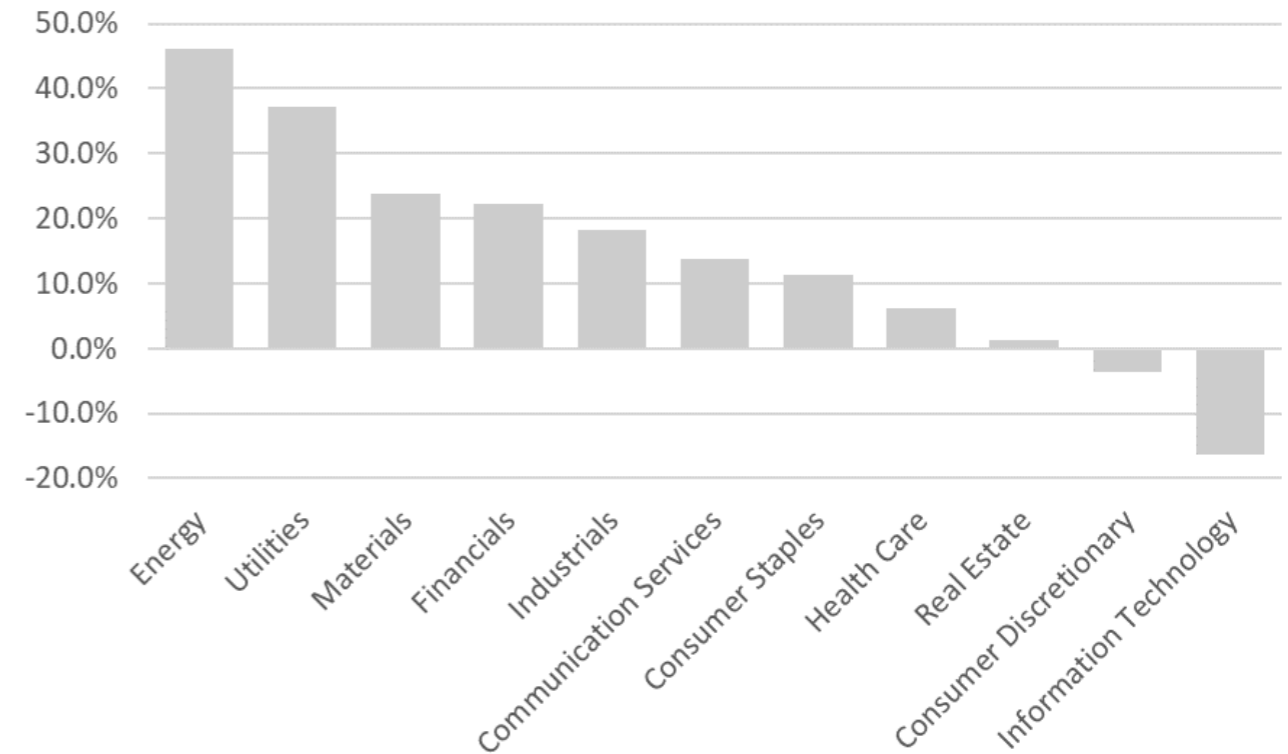
## Chinese SOEs outperformed peers despite challenging macro

SOEs' YTD price performance relative to non-SOE



## ...SOEs have outperformed since 2023

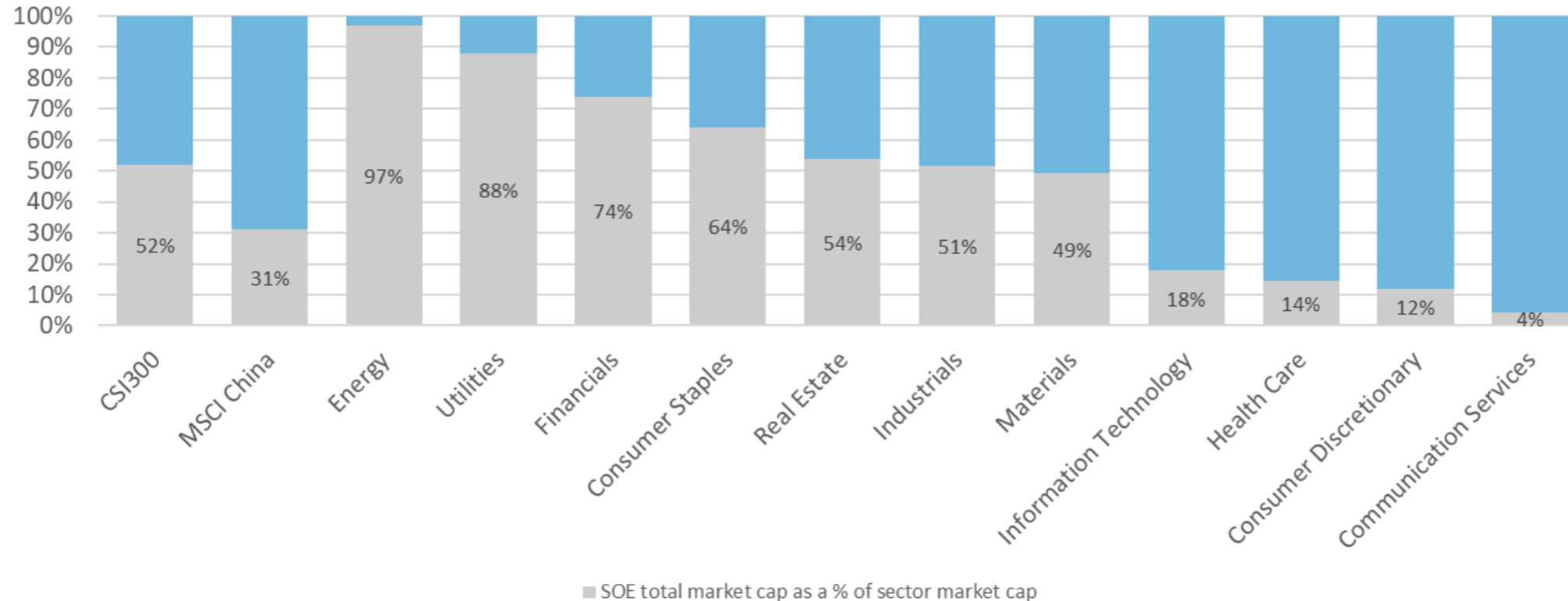
SOE's performance since 2023 relative to non-SOE



# China: Positioning in Fortress Four sectors where SOEs dominate exposure

## The Fortress Four sectors – Energy (97%), Utilities (88%), Financials (74%), and Telecoms (81% of sector market cap)

SOEs as % of MSCI China sectors' market cap

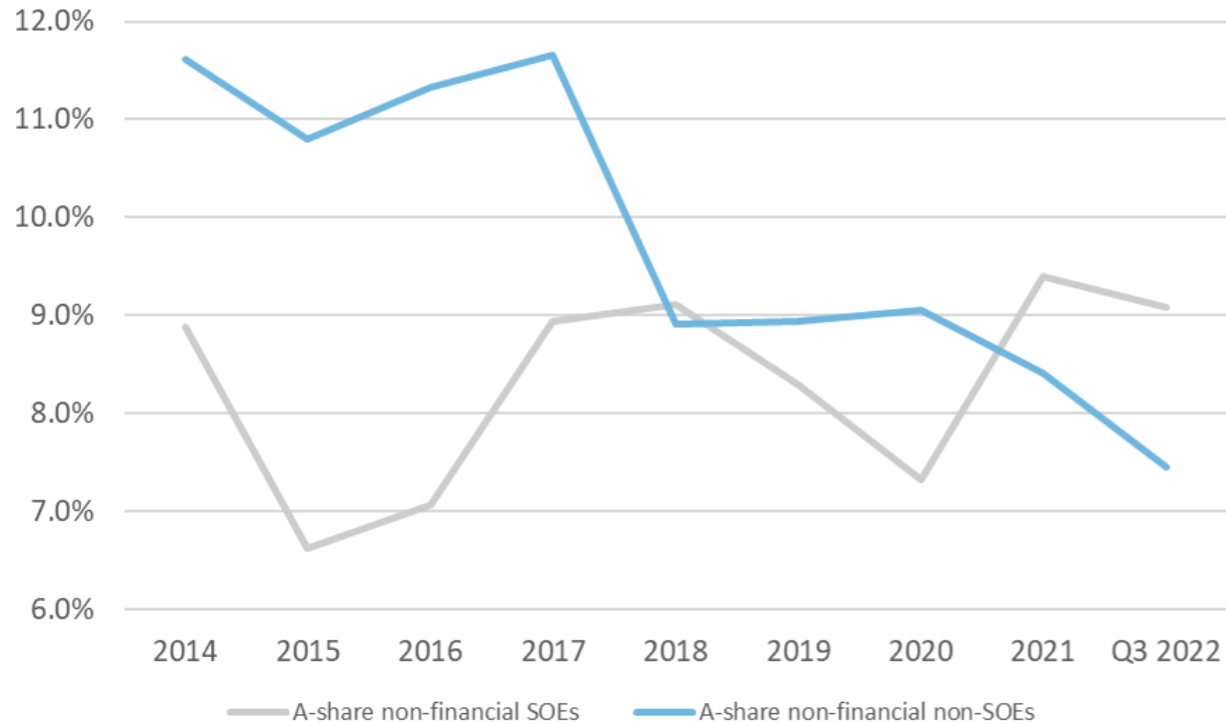


- SOE's competitiveness: 1) Cheaper cost of financing; 2) Possession of big data -conducive to analyze market developments; 3) Ability to tap into established corporate network; 4) Understanding of regulatory direction; 5) Dominating market share in traditional industries

# China: Past SOE reforms have lifted their ROE and ROA comparable to non-SOE peers

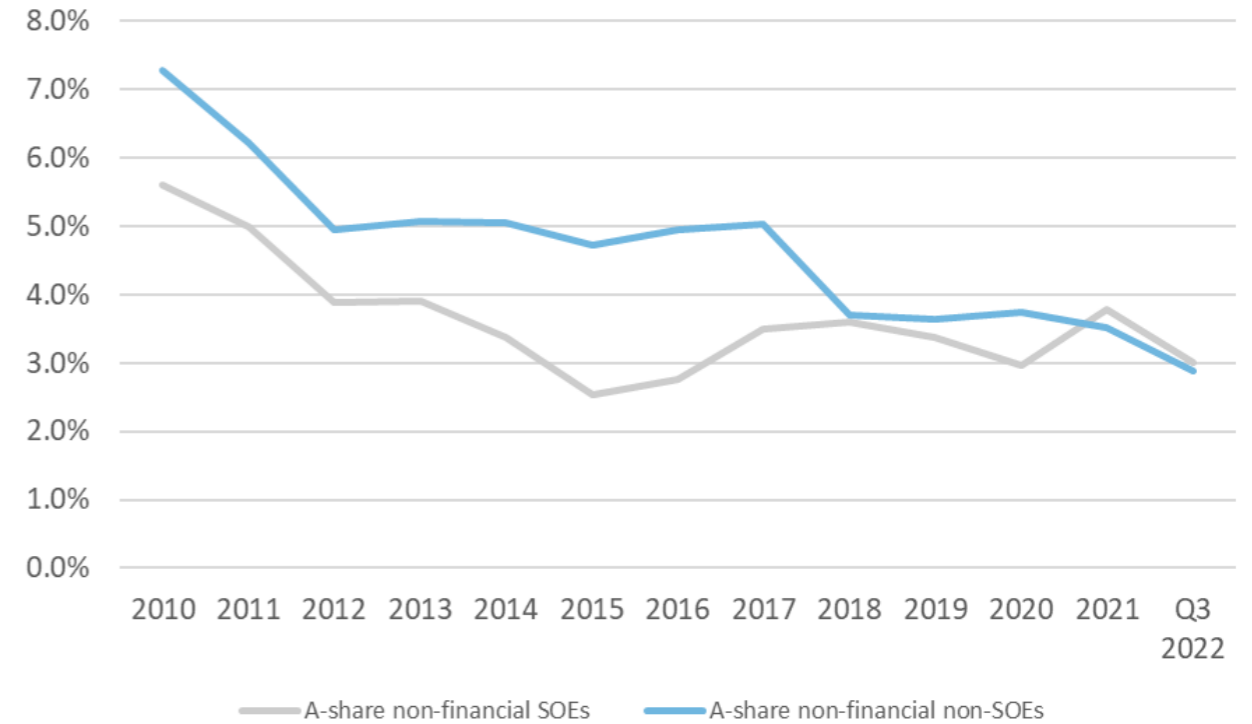
## China SOEs' ROE has surprised that of non-SOE

Historical trend of ROE for SOE vs. Non-SOEs

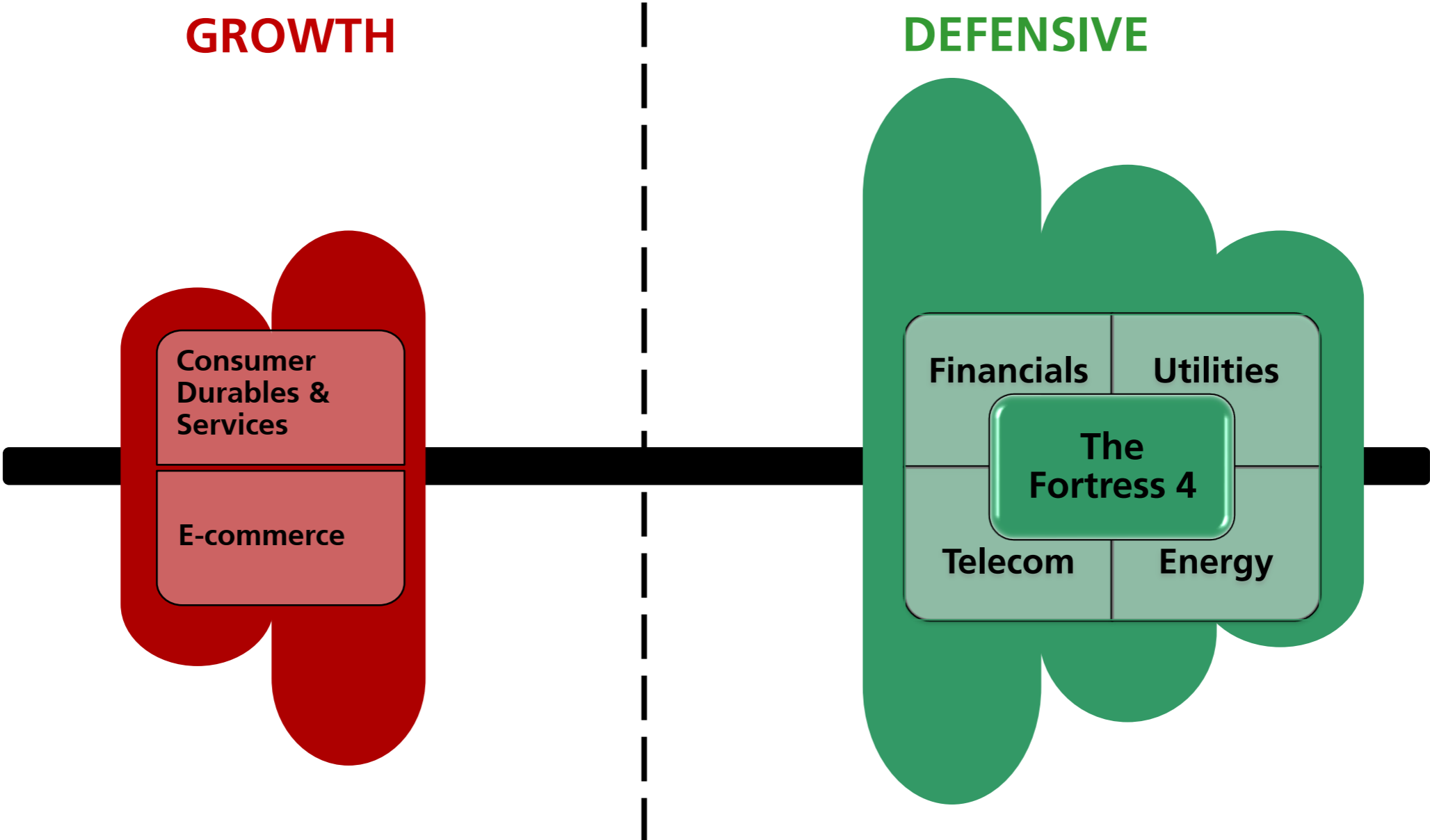


## China SOEs' ROA remains competitive vs. non-SOEs despite challenging macro

Historical trend of ROA for SOE vs. Non-SOEs

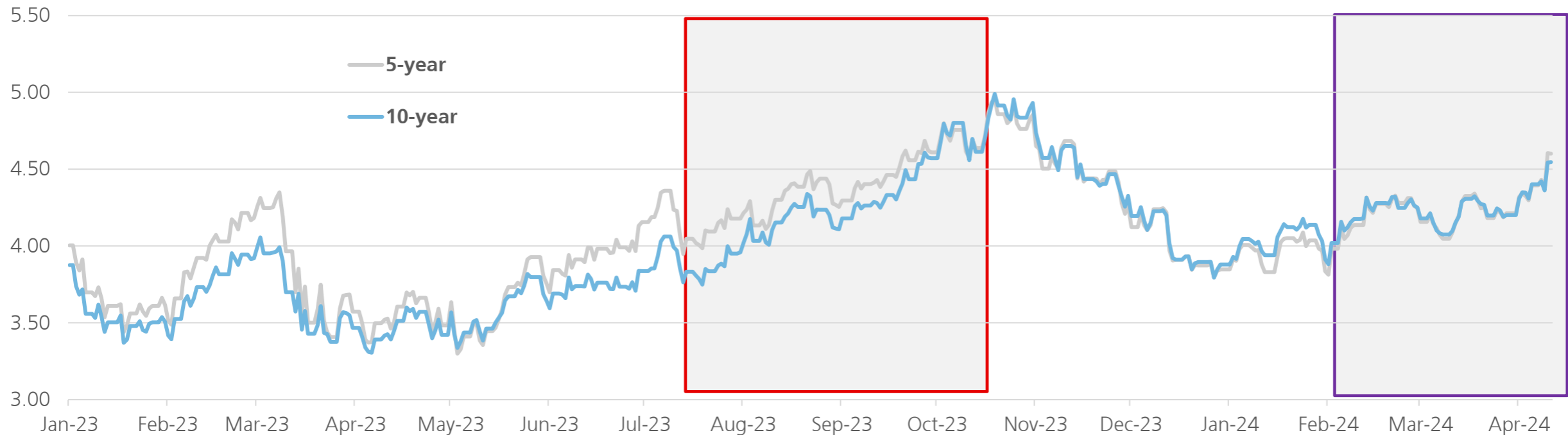


Near term: **BARBELL positioning** with a tilt to the defensive end



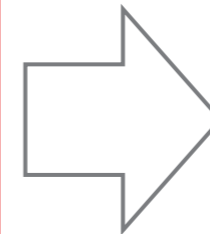
Source: UBS, as of March 2024  
Charts and scenarios are for illustrative purposes only. Historical performance and forecasts are no guarantee for future performance.  
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# How high can rates go? Key differences now vs. the rates sell-off in 3Q23



## Reasons for 10-year touching 5%

- Fed hikes still on the table
- Refunding announcement and supply concerns
- Global central banks were still hiking

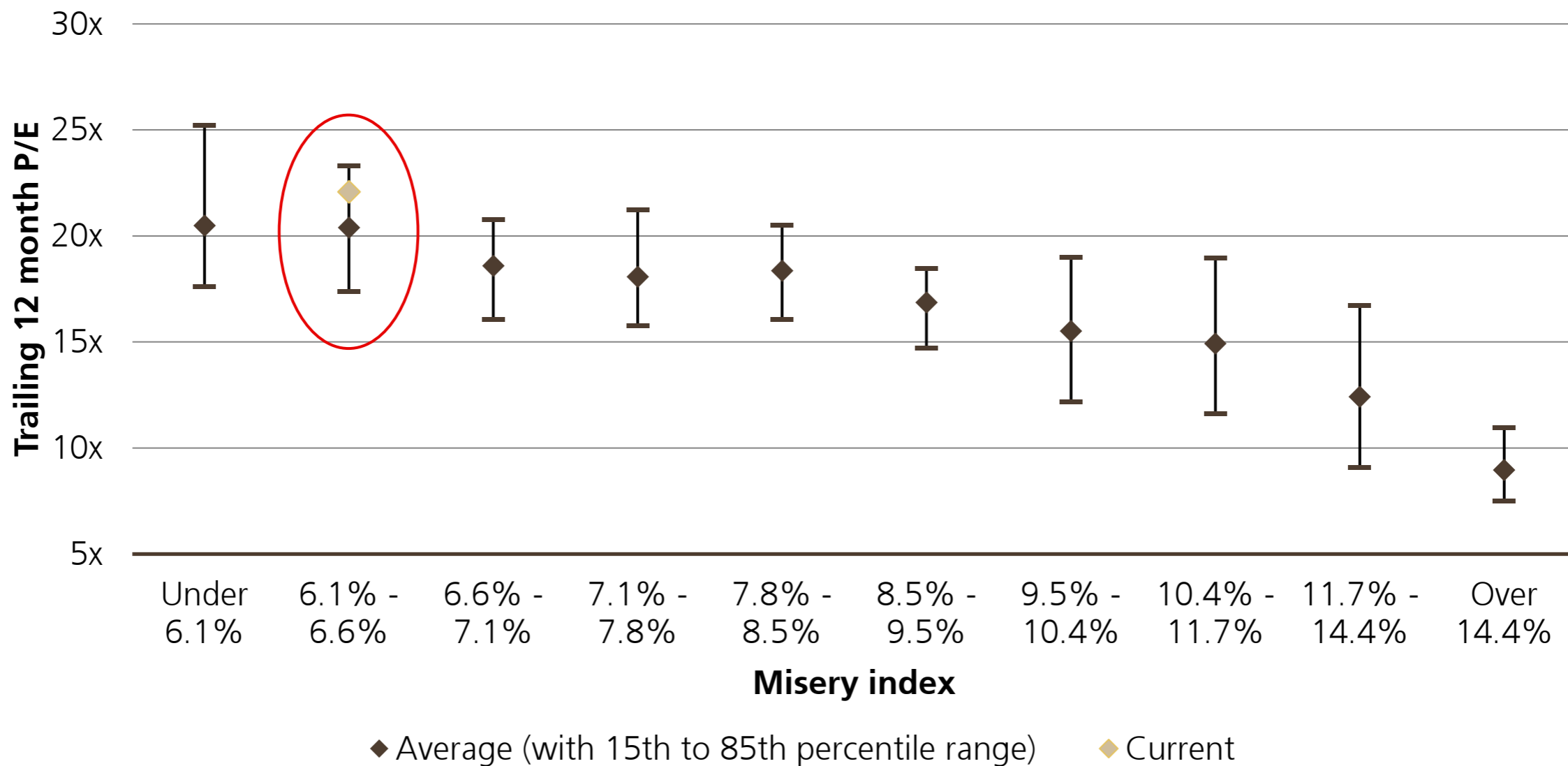


## How do these compare now?

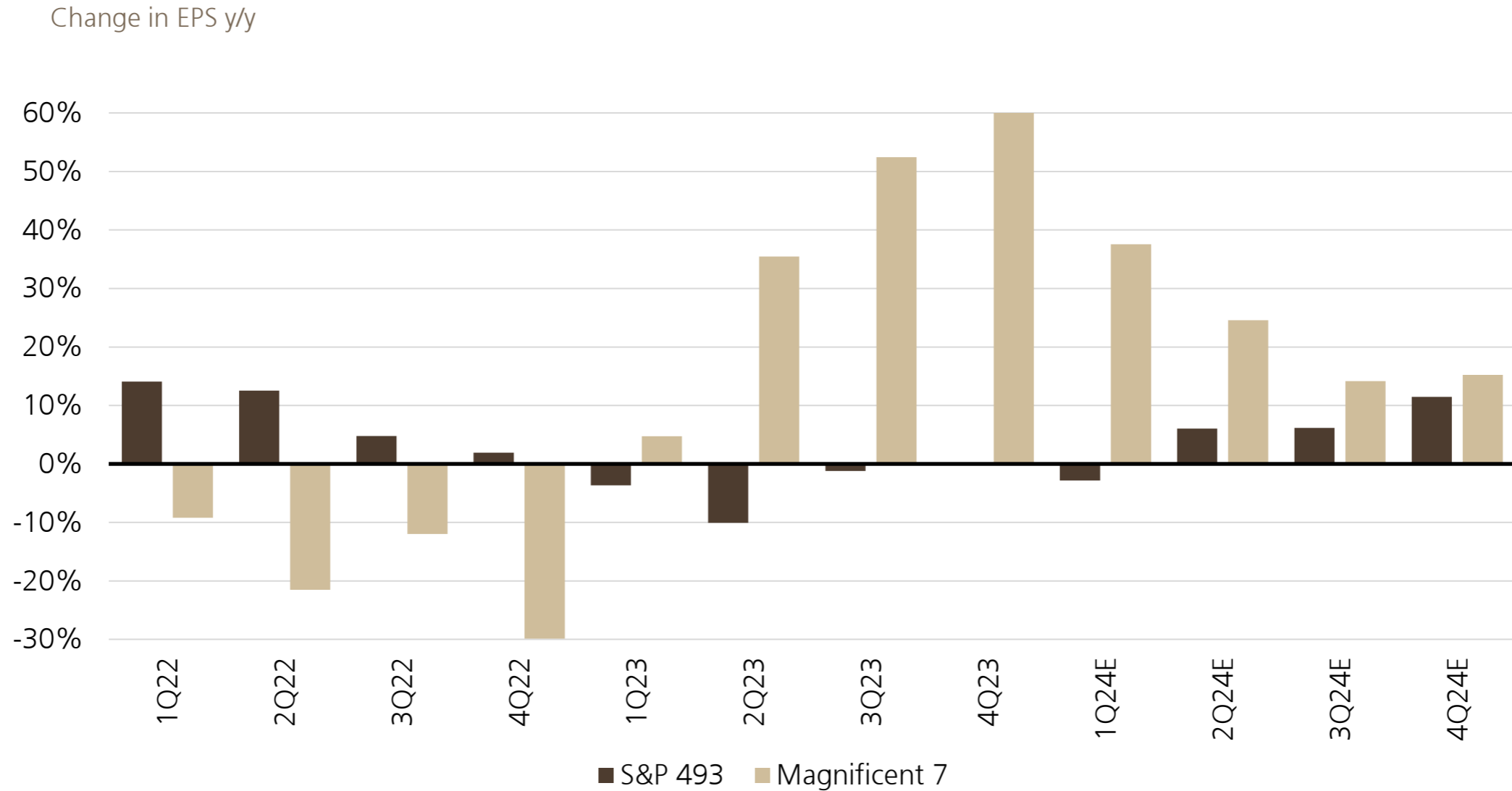
- Fed looking to cut rates
- No change in supply
- Global central banks poised to cut rates



# Valuations starting to look a bit extended



# EPS growth starting to broaden out



# US focus on trade with China unlikely to go away, irrespective of elections

## US trade deficits with selected trade partners

(1987, in bn USD)

|               |     |
|---------------|-----|
| Japan & Korea | -70 |
| Americas      | -26 |
| EU            | -20 |
| ASEAN 6       | -8  |
| China         | -3  |

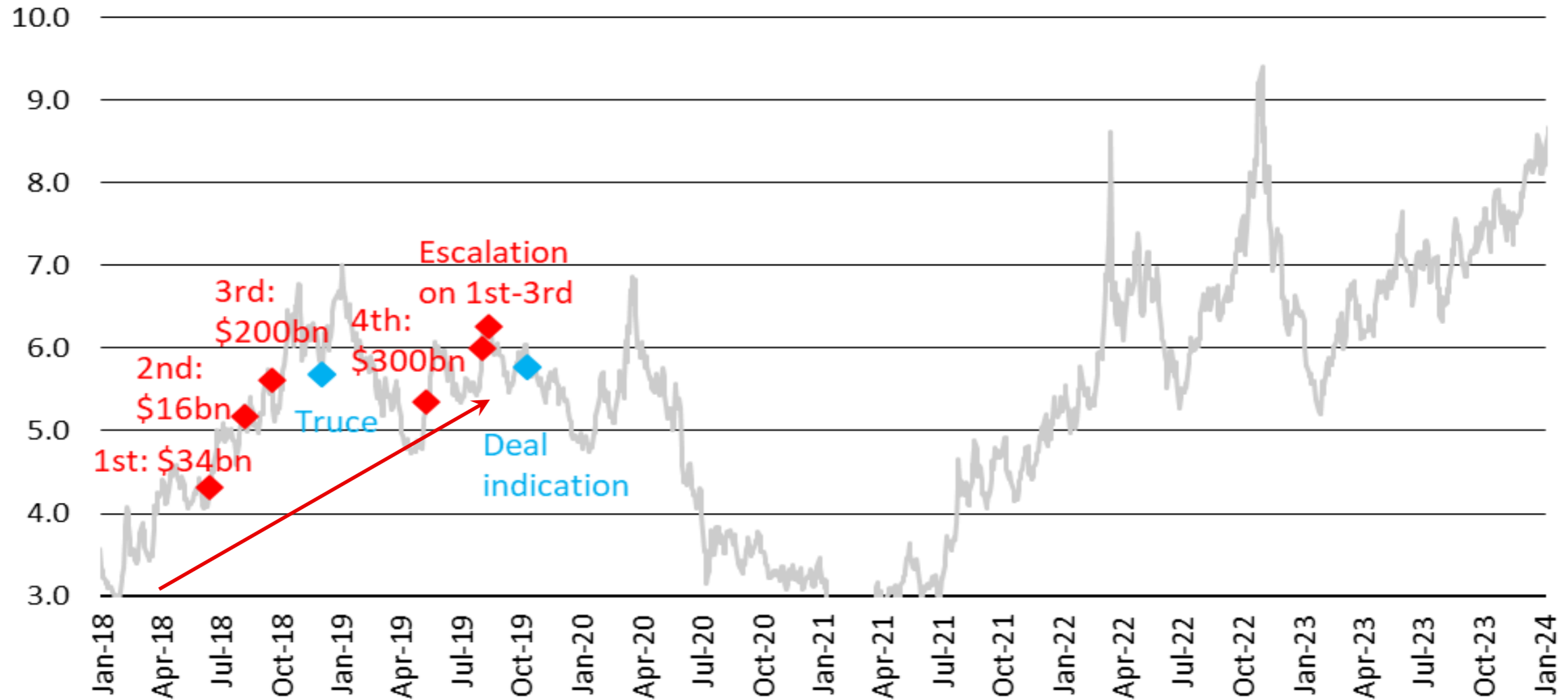
## US trade deficits with selected trade partners

(2023, in bn USD)

|               |      |
|---------------|------|
| China         | -279 |
| ASEAN 6       | -191 |
| EU            | -175 |
| Americas      | -167 |
| Japan & Korea | -123 |

# Trade tension escalations lifted market volatilities & equity risk premium

Historical trend of equity risk premium of Chinese equities



# Summary & Investment takeaways

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- We expect bond yields to move lower again
- Upside for S&P looks modest, but keep a neutral allocation as earnings broaden
- Next to US IT we also prefer Industrials, Health Care, and Small-Caps
- The focus on Sino-US trade tension won't go away & investors can focus positioning onto the **Fortress Four** sectors
- China 1Q24 highlighted some **prevailing concerns** despite the positive surprise
- Within China equities, recommend to adopt a **barbell strategy** with defensive tilt
- China SOEs offer benefits of **active capital** management and solid fundamentals

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