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CIO expects China's economy to grow around 5.5% in 2023, led by a rebound in domestic consumption and investments. (ddp)

What are the implications of China's recovery?

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China’s reopening is paving the way for an economic recovery. The official March PMI data and 4Q earnings season support our view that GDP should expand around 5.5% in 2023 from 3% last year.

Despite the recent pullback in Chinese markets, we remain most preferred on emerging market equities, including Chinese equities, and we see opportunities in reopening beneficiaries. We also think select property developer bonds, commodities, the CNY, and the AUD may emerge as winners.

The rally in Chinese equities has waned due to a lack of fresh catalysts.

- After rallying in late 2022 and early 2023, the MSCI China struggled to extend gains due to a lack of fresh catalysts, US-China tensions, and Fed rate-hike concerns.
- The index has gained 4.7% in the first quarter after rallying over 13% in 4Q22.

But the outlook remains positive, as illustrated by the recent 4Q earnings season.

- China is only just entering the early stages of a business cycle, in our view, as it removed its zero-COVID policies.
- We expect GDP to expand 5.5% this year, led by a 7% growth in consumption and a 5.5% rise in investments, which should more than offset any slump in exports.
- Management guidance during recent 4Q22 results briefings confirmed that overall consumption sentiment recovered in 1Q23, especially since February.

So, we remain most preferred on China and EM equities.

- We see 20% upside in MSCI China through year-end, and we maintain our earnings growth forecast of 14% in 2023. As the focus shifts from reopening to recovery, we think consumer durables and services, industrials, transportation, capital goods, materials, and the digital economy stand to benefit.
- Broader EM equities, US/European companies highly exposed to Chinese spending, Asian IG bonds, select HY bonds like Chinese property developers and Macau gaming, commodities, as well as CNY and AUD, should also receive tailwinds.

Did you know?

- China's economic cycle differs from that of the US and Europe.
- After three years of zero-COVID policies, Beijing scrapped its mobility curbs in December.
- We think China is only just entering the early stages of a business cycle.
- The government has set an official 2023 GDP target of "around 5%," prioritizing boosting domestic consumption.

Investment view

As the focus shifts from reopening to recovery, we think Chinese consumer durables and services, industrials, transportation, capital goods, materials, and the digital economy stand to benefit. We think EM bonds and equities, US and European companies highly exposed to Chinese spending, commodities, the CNY, and the AUD should find support from China's recovery.

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