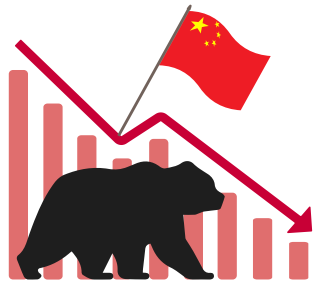
China's stock slump
What happens next?

Omnis INVESTMENTS



China's economy has continued to struggle in 2024, laying to rest any remaining hopes of a strong post-pandemic recovery. Instead of a rapid rebound as many analysts predicted, China's reopening boom never materialised. The country's challenged economic trajectory can be traced back to two major issues: first, the real estate market is in a protracted downturn; and second, Chinese consumers have held back their spending after the economy reopened.

Late September this year, saw China's central bank announce the most dramatic stimulus measures since the pandemic, reducing borrowing costs to boost the ailing property market. Investors initially reacted well to the stimulus and stocks experienced a blistering rally. But the exuberance did not last as questions grew about what the Beijing government plans to do next. Given investor concern and continued volatility in the market, we reached out to three of our partner investment managers to get their thoughts on the outlook for China and how they're positioning Omnis portfolios to manage these risks.

WHAT ARE THE STIMULUS MEASURES ANNOUNCED BY THE GOVERNMENT?

Veritas — Asset Management

Wave 1

The first wave of stimulus started on 24 September at a briefing by the Chinese central bank. The PBOC announced a barrage of measures, from cuts in interest rates (by 20bp), lowering RRR (by 50bp), providing liquidity to local government to buy unsold homes and lowering mortgage rates for property.

Wave 2

The Chinese Politburo meeting for economics met in September for an urgent meeting, chaired by President Xi. The actions from the included a stop in the property market decline, cuts to interest rates, issuance of government bond and a revitalisation plan for capital markets.

Wave 3

The September Politburo meeting marks a new KPI for property. Policies for the property sector have been extremely tight since President Xi Jinping's policy of "housing is for living, not for speculation" in the 19 Party Congress in 2017. The PBOC announced measures including unifying mortgage lending standards and an expanded relending tool.

Wave 1

The National People's Congress announced RMB12Billion of fiscal stimulus in November, exceeding original expectations of only RMB2trillion. This investment will go to a n increase in local government spending, and shanty town renovations.

HOW HAVE YOU INTERPRETED THE STIMULUS MEASURES SET OUT BY THE GOVERNMENT?

Fidelity INTERNATIONAL

The consumption environment in China started this year on a weak note with no major significant improvement in the sentiment. The recent stimulus measures have boosted investor sentiment in the short term but we are yet to see a recovery in fundamentals which should drive alpha in the region over medium to long term. What is important is that the government has moved to focus on the property sector. China's largest cities such as, Beijing, Shanghai, and Shenzhen, relaxed rules for homebuyers, while the central bank also moved to lower mortgage rates. This is positive news because property market downcycle has been a key dampener for consumption. It is important to understand that consumers in China already have the money or ability to spend. It is the willingness to spend that has been lacking because the property sector, where a large part of Chinese wealth sits, has been weak. Falling property prices have made them payoff their loans and save more. Hence, a stabilisation in property market should lead to a recovery in demand which should drive a further rerating of consumer businesses.

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HOW HAVE YOU INTERPRETED THE STIMULUS MEASURES SET OUT BY THE GOVERNMENT?

BARINGS

Despite its impressive breadth, the impact on the key areas of weakness (housing and consumption) is likely to be limited. The headwinds to growth remain strong, ranging from excess housing, damaged balance sheets, weak income growth, and sluggishemployment. The current policy easing approach remains tilted towards supporting investment (i.e., creating more supply) at a time of demand deficiency. To put the economy onto a sustainable path out of deflation, a pivot towards supporting consumption will be needed. Potentially that could mean raising social security and healthcare support to ease the financial burden that encourage saving. Incentives to purchase unsold housing inventory would further help the property sector.

HOW IS YOUR OMNIS FUND CURRENTLY POSITIONED IN CHINA?

Omnis Global Emerging Market Leaders Fund

Fidelity International

Our current exposure to mainland China is through a select group of high-quality businesses with a solid long-term growth outlook. Most of these are domestic leaders within the sectors in which they operate. As fundamental investors, we maintain our belief that these are good growth businesses in medium to long-term even as most investors were focusing much more on their short-term weak results and extrapolating these trends to continue derating them while completely ignoring their already low valuations, their strong business quality and medium to long-term growth prospects.

Omnis Asia Pacific ex Japan Fund

Veritas Asset Management

Despite uncertainties regarding the magnitude of stimulus policies, we still believe there are strong investment opportunities in China. We think valuations remain attractive. We slightly increased our holdings in China, buying CATL and NetEase which are expected to perform well, independent of government stimulus policies. CATL (Contemporary Amperex Technology) is the global leader in advanced lithium batteries with 37% market share. CATL contributes about 50% of global EV battery R&D and also reaps about 50% of global profitability. With its compelling battery product mix and resilient market share, CATL stands to benefit from the sustainable global electrification trend. Another new purchase is NetEase, the leading online gaming company. We think the stock is cheaply valued and business growth should recover next year with new game launches. We also see increasing shareholder returns through share buybacks and dividends.

For more information please speak to your financial adviser

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