Investments - Flash

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CHINESE EQUITIES ON THE BRINK OF RECOVERY ?

Is the Chinese government finally preparing an appropriate stimulus plan ?

The Chinese authorities now look set to restore investor confidence in the equity market, putting an end to a 55% rout that will have cost investors more than $6,000 billion since the market top reached in January 2018 (33,484). China's bear market, now in its sixth year, has pushed Hong Kong's Hang Seng Index back below 15,000 points, wiping out all the gains made since June 2009.

During these fifteen years, China's GDP grew by 470%. Chinese equities are now trading at just 7x 2024 earnings and offer a dividend yield of 4.5%. It's true that confidence had been badly shaken in recent years by President Xi Jinping's drive to control private enterprise, which had particularly affected technology companies and dampened development ambitions, as well as the enthusiasm of international and domestic investors. The crisis in the real estate sector and the fall in consumer confidence, foreign investment and local business have all contributed to this phenomenon, which has not been curbed by recent support measures.

The government may finally have realized the disastrous indirect effects of this loss of confidence, and may be able to reverse the trend. By mobilizing nearly $300 billion from the offshore accounts of Chinese state-owned enterprises (SOEs) to support the equity market, and by limiting « short » sales, the government hopes to reverse the current dynamic. Further measures will undoubtedly be needed to restore confidence more thoroughly, but if the government's action spreads and reaches 5% of market capitalization, a stock market revival seems likely in 2024.