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Investments - Flash

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CHINESE GROWTH SURPRISES FAVORABLY

Chinese stocks offer unique diversification opportunities

Since our repositioning recommendation on Chinese equities in January 2025, Chinese stocks have enjoyed a fairly positive stock market performance, outperforming developed country indices, Europe and the S&P500. While Chinese stocks could have been the most affected by the US President's desire to penalize China's exports, in the end they held up rather well against any pressure. The Hang Seng index is practically up +25% since the start of the year, while the more domestic CSI 300 index is barely up +5%, and thus far behind its predecessor. On the economic front, China's GDP was slightly better than expected, rising by +5.2% at the end of June. This result was achieved despite a 24% drop in exports to the United States in Q2. However, inflation is not rising in this context. Fiscal stimulus measures have supported domestic demand and construction. Beijing therefore has some room to maneuver in the face of potential new political tensions. The funds available to support growth in H2 are estimated at nearly $1 trillion. Deflation remains the main threat, but we believe that Chinese stocks could benefit from a more positive outlook from investors seeking diversification in the coming months. The Hang Seng index is trading at just 11x earnings, compared with a similar multiple for the CSI300 (14x). China's leading stocks could benefit from improved visibility and renewed interest from Western investors, whose exposure to the world's 2nd-largest economy is, in our view, very limited.