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Investments - Flash

A WINNING RETURN ON CHINESE STOCKS

One of the best risk/return profiles available today

Significant upside potential for the MSCI China Index. The first phase of the rebound in Chinese indices was technical in nature, driven by the expansion of valuation multiples following historic lows. We are now entering a market driven by actual corporate earnings. We believe that an acceleration in Chinese corporate earnings growth, shifting from a modest pace to more substantial gains (industrial profits up 24.7% year-over-year in April), will serve as a catalyst for a rebalancing of allocations toward Chinese stocks. The authorities have implemented policies aimed at curbing the destructive price competition that local companies were engaging in to survive. By encouraging major players to preserve their margins rather than sell off their products at rock-bottom prices, Beijing is directly promoting higher corporate profitability, a strong signal to shareholders. While questions are being raised about the overvaluation of U.S. tech giants, China offers a wealth of undervalued tech stocks. It is entering an active phase of monetizing artificial intelligence and modernizing its industrial base through technology. Chip infrastructure, computer hardware, data centers, and semiconductors are benefiting from massive order flows. Despite tariff barriers and geopolitical tensions, China's manufacturing sector is demonstrating extraordinary resilience, as illustrated by a sharp rise in exports in Q2 (+19.4%). Chinese industrial leaders are no longer solely dependent on their domestic market; they are successfully capturing critical market share internationally, particularly in the Global South and Europe. The financial fuel to drive the rise in market indices is already in place, coming from domestic savings, dividends and share buybacks, domestic purchases, and the capitulation of foreign funds. Faced with falling interest rates and a stagnant real estate market, Chinese households are reallocating their record savings (estimated at a potential 3,000 billion yuan for stocks). Pressured by regulators, companies are massively increasing returns to shareholders. Total buybacks and dividends could approach 4 trillion yuan. Investors from mainland China are flocking to Hong Kong-listed stocks, with net purchases projected to reach a historic high of $200 billion. Finally, the capitulation of foreign funds, which are historically underweight, could support a strong recovery. With P/E ratios of 12.4x and a PEG ratio below 1x, earnings growth does not appear to be factored in, making this one of the best risk/return profiles currently available.