

China's Equities will Outperform Global Benchmarks as a result of Gradual Opening Up and Reforms

EXECUTIVE SUMMARY

- **China's equity market is appealing to global investors who are looking for sustained robust growth** that is hard to find elsewhere. Strong commitment from the Chinese government to further open up and make changes to its overall economy and financial market will attract more capital inflows to China, supporting growth prospects.

Returns on China's Shanghai Composite index since its inception in the 1990s have vastly outperformed other benchmarks such as the S&P 500 and Hong Kong's Hang Seng Index as illustrated in the following chart. However, we believe major upside potential still exists in China's equity market.

Exhibit A: Performance Comparison



Source: Bloomberg

- **China's stock market is the second-largest in the world with a total market capitalization of more than RMB79 trillion (about US\$12 trillion)**, as propelled by the country's earlier and more resilient economic recovery from the COVID-19 pandemic.

As of 9 April 2021, there were 4,262 publicly-listed companies in China (1,858 on the Shanghai Stock Exchange inclusive those on the STAR market and 2,404 on the Shenzhen Stock Exchange, including ChiNext-listed enterprises).

Even though China's GDP is projected to grow 8.4% and 5.6% in 2021 and 2022, outpacing the respective 5.1% and 3.6% expansion forecast for the advanced economies as well as the 6.7% and 5.0% growth projection respectively for the emerging market and developing economies by the International Monetary Fund¹ lately, the **price-to-earnings (P/E) ratios of China's major indexes are relatively low.**

¹ World Economic Outlook Managing Divergent Recoveries, April 2021

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