IMPERIUM CAPITAL

momentum

Yet another update on China

Global Matters Weekly

7 November 2022

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For some reason, any time it's my turn to write our weekly Global Matters blog, there is something happening in China worth writing about. Or perhaps, it is just my colleagues deliberately leaving me with the honour of updating our readers on the latest developments within the Chinese walls (pun intended). Luckily, these days we are not short of significant news and while the west is struggling with rising rates and elevated inflation, China is facing a different set of issues that still have global consequences.

On 22 October, the country witnessed the closing of the 20th Chinese Communist Party Congress, where president Xi Jinping consolidated his power for another five years, becoming effectively the second most powerful person in modern Chinese history, after Mao Zedong. Financial markets were disappointed, with Chinese stocks experiencing the deepest daily fall since 2008.

While the re-election itself was widely expected, what markets didn't like was that Xi's politburo is now composed of his supporters only, with his predecessor Hu Jintao having even been escorted out of the congress. What they liked even less, is that during the congress the word "security" was mentioned more frequently than the last congress five years ago, while the word "reform" significantly less, raising fears that this new regime in China might actually follow the recent past: zero-Covid policy, common prosperity and the (mostly grim) economic consequences of the two.

We expect the public sector to continue strengthening over the private sector and that the Party's social reforms should support growing the middle class. Whilst the former may not necessarily be a positive from the perspective of an international investor, the latter should benefit the country and ultimately the growth of a broader investible universe.

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Moreover, technological growth is still heavily incentivised, and we expect economic growth to come back to being a priority in the coming months, as that is a key element to common prosperity and social stability.

Markets have been revising down their expectation around the country's economic growth over the past 18 months and today Chinese equities are down about 50-60%[1] from their peak in February last year. However, it is seemingly obvious that investors are eager to put money to work and hungry for a pivot in narrative around the zero-COVID-19 policy. The stock market valuation has rarely been as attractive in recent years and the catalyst it needs is simply a small step in favour of global and local investors, a hint of easier conditions. Last week, for instance, markets cheered the continued rumours of zero-COVID-19 rules being relaxed in order to prioritise the economy and rallied on the back of a picture that circulated on social media, unveiling the existence of a "reopening committee".

We don't spend much time on Chinese social media, nor do we invest based on rumours and hopes. However, despite the depressed market sentiment, high volatility, and weaker economic data, we believe the investment opportunity within Chinese equities remains strong. Active management is key, and to take full advantage of the available universe we advocate the use of experienced stock selectors as the best solution, from a risk and return perspective, to navigate current risks and select outstanding businesses that will prosper and grow.

Sources: [1]Bloomberg Finance L.P. data as of 4 November 202

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The **Marketplace**

- Global equities fell 2.1% last week
- Early voting in the US midterm elections has begun, with Republicans expected to take control of the house and gain a slim minority in the Senate
- Brent crude rose by 2.9% over the week to $98.6 a barrel
- Gold rose by 2.3% to $1681.9 per ounce

Market **Focus**

US

- US equities fell 3.3% last week as Federal Reserve (Fed) Chairman Jerome Powell heavily emphasised his commitment to a more hawkish monetary policy should high inflation persist
- The tightness in the US labour market remained prevalent as job openings in September unexpectedly rose in September to 10.72m (vs. 9.75m expected). With unemployment still low, the figure for job openings per unemployed worker was at 1.86
- Automatic Data Processing Inc.'s private payroll report from the US showed growth of 239k jobs in October (vs. 185k expected)
- The Fed hiked the benchmark federal funds rate by a widely expected 75bps for the third successive time. This brought the benchmark rate to 3.25% as the Fed seeks to cool inflation through the raising of borrowing costs and the lowering of asset prices

UK

- UK equities returned 4.1% last week
- The Bank of England delivered a 75bps rate hike as expected, taking the Bank Rate to a post-2008 high of 3%. Comments from the Monetary Policy Committee in the aftermath of the hike indicated a more dovish tone for future meetings
- Despite the aggressive tightening from the Bank of England, the UK private sector remained optimistic with The Chartered Institute of Procurement & Supply (CIPS) Construction and Services Purchasing Managers' Indices (PMI) both surprising to the upside at 53.2 and 48.8 respectivel

Europe

- European equities rose by 1.4% last week
- In Europe the headline Consumer Price Index reading for October rose to 10.7% according to the flash reading, which was above the +10.3% expected and was the highest inflation level since the formation of the single currency
- Despite the strong economic headwinds, Euro Area Gross Domestic Product grew faster than expected in Q3, with the preliminary flash estimate showing growth of 0.2% (vs. +0.1% expected

Asia/Rest of The World

- Global emerging market equities rose 4.7% over the week
- Japanese equities rose by 0.9% last week
- Bank of Japan Governor Haruhiko Kuroda reiterated the Bank's dovish policy, saying that they were not thinking of rate hikes or changing their yield curve control policies now
- Japan's Composite and Services PMI both hit a four-month high in October, climbing to 51.8 and 53.2 respectively
- Reports that China was looking at easing COVID-19 restrictions in the country proved to be unfounded, as a spokesman for the Chinese Foreign Ministry denied that such a move was being considered
- The impact of the restrictions was underscored by data showing that Caixin services PMI for October further contracted to 48.4, the lowest reading since May after deteriorating to 49.3 in September

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Asset Class/Region	Currency	Currency returns			
		Week ending 4 Nov. 2022	Month to date	YTD 2022	12 months
Developed Market Equities					
United States	USD	-3.3%	-2.6%	-20.1%	-18.5%
United Kingdom	GBP	4.1%	3.5%	5.0%	7.1%
Continental Europe	EUR	1.4%	1.2%	-14.5%	-14.1%
Japan	JPY	0.9%	-0.7%	-1.4%	-4.3%
Asia Pacific (ex Japan)	USD	4.5%	4.2%	-26.5%	-28.3%
Australia	AUD	1.6%	0.4%	-3.7%	-3.0%
Global	USD	-2.1%	-1.6%	-21.3%	-21.0%
Emerging markets equities					
Emerging Europe	USD	5.8%	4.6%	-75.6%	-78.5%
Emerging Asia	USD	5.0%	4.9%	-29.7%	-31.3%
Emerging Latin America	USD	7.1%	4.9%	18.5%	20.8%
BRICs	USD	7.7%	7.9%	-28.4%	-33.1%
China	USD	11.0%	12.6%	-35.6%	-41.1%
MENA countries	USD	-1.2%	-1.3%	-1.7%	-4.0%
South Africa	USD	4.6%	6.0%	-11.3%	-13.7%
India	USD	2.2%	1.6%	-4.0%	-6.4%
Global emerging markets	USD	4.7%	4.4%	-26.3%	-28.2%
Bonds					
US Treasuries	USD	-0.9%	-0.7%	-14.4%	-14.4%
US Treasuries (inflation protected)	USD	-1.1%	-1.0%	-14.2%	-13.4%
US Corporate (investment grade)	USD	-0.6%	-0.3%	-19.8%	-20.0%
US High Yield	USD	-1.2%	-0.8%	-13.2%	-12.7%
UK Gilts	GBP	-1.4%	-0.5%	-23.8%	-23.8%
UK Corporate (investment grade)	GBP	-0.2%	0.3%	-21.0%	-21.3%
Euro Government Bonds	EUR	-1.6%	-0.8%	-17.2%	-18.0%
Euro Corporate (investment grade)	EUR	-0.4%	-0.2%	-14.7%	-15.2%
Euro High Yield	EUR	0.5%	0.1%	-13.1%	-13.0%
Japanese Government	JPY	-0.4%	-0.6%	-4.5%	-4.6%
Australian Government	AUD	-0.6%	-0.5%	-10.2%	-9.3%
Global Government Bonds	USD	-1.2%	-0.6%	-21.2%	-21.9%
Global Bonds	USD	-1.1%	-0.5%	-21.2%	-22.0%
Global Convertible Bonds	USD	-0.4%	-0.2%	-22.6%	-26.2%
Emerging Market Bonds	USD	-0.4%	0.2%	-30.3%	-30.6%

Source: Bloomberg. Past performance is not indicative of future returns

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Asset Class/Region	Currency	Currency returns			
		Week ending 4 Nov. 2022	Month to date	YTD 2022	12 months
Property					
US Property Securities	USD	-1.8%	-1.5%	-26.5%	-21.5%
Australian Property Securities	AUD	0.1%	-1.5%	-25.0%	-21.5%
Asia Property Securities	USD	1.0%	2.9%	-20.9%	-24.1%
Global Property Securities	USD	-0.8%	-0.3%	-27.6%	-25.6%
Currencies					
Euro	USD	-0.2%	0.4%	-12.8%	-14.1%
UK Pound Sterling	USD	-2.2%	-1.2%	-16.3%	-16.0%
Japanese Yen	USD	0.5%	1.1%	-21.7%	-22.7%
Australian Dollar	USD	0.7%	0.9%	-11.4%	-12.8%
South African Rand	USD	1.2%	2.4%	-11.2%	-14.9%
Swiss Franc	USD	0.0%	0.4%	-8.6%	-8.4%
Chinese Yuan	USD	1.0%	1.7%	-11.5%	-10.9%
Commodities & Alternatives					
Commodities	USD	5.2%	4.6%	23.6%	23.4%
Agricultural Commodities	USD	4.3%	2.4%	9.0%	13.9%
Oil	USD	2.9%	3.9%	26.7%	22.4%
Gold	USD	2.3%	2.8%	-8.1%	-6.2%
Hedge funds	USD	0.1%	0.1%	-4.4%	-5.5%

Source: Bloomberg. Past performance is not indicative of future returns

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