Active is: Anticipating what's ahead

"Year of the Ox" symbolises China's strong future

09/02/2021

Summary

This lunar new year, China has much to celebrate – including resilient economic growth, widespread success at suppressing Covid-19 and a steady transformation into an advanced economy. That's why the ox is a suitable symbol for a country that continues to do the hard work needed to maintain its trajectory.

Key takeaways

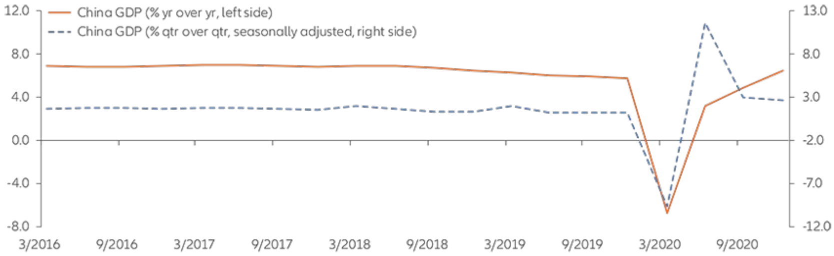
- China's economic strength continues: it was the only major economy to grow its GDP in 2020, and we expect it will continue its strong recovery from the coronavirus crisis
- Looking at the markets, China A-shares continue to benefit from positive tailwinds, including growing investor interest and a new US administration that may reduce tensions
- Across China and Asia, we generally favour shorter-duration bonds, and high-yield over investment-grade securities

Investment outlook Four key investment questions Investment implications

Investment outlook

China was the only major world economy to grow its GDP over the last year. We expect it will continue its strong recovery from the coronavirus crisis, although perhaps at a slightly slower pace. Year-on-year GDP growth numbers look strong because of the weak comparisons with 2020 at the height of the pandemic (see chart).

China's GDP rebounded sharply in 2020
Quarter-over-quarter and year-over-year GDP growth



Source: Bloomberg, CEIC, Allianz Global Investors. Data as at December 2020.

Still, China seems set to continue its upward climb. The service sector should do well, assuming the government can suppress renewed outbreaks of the coronavirus. The manufacturing sector also appears likely to keep growing, helped by public investment projects (which may slow slightly in 2021 compared with 2020) and a gradual recovery of global demand as Covid-19 passes. And China is nurturing its own high-tech industries – particularly robotics, aviation and other advanced-manufacturing areas that are at the heart of its long-term economic vision.

Over the course of 2021, this economic strength may enable China to do something that other major economies haven't been able to: ease back on the massive stimulus that the government is pumping into the economy. This could take the form of slightly lower government spending – perhaps resulting in less investment in physical infrastructure – though we expect to see continued support for innovative technologies, small- and medium-size enterprises and the "green economy". The People's Bank of China is also slowing down credit growth by reducing the amount of new loans provided by financial institutions. However, we don't anticipate these fiscal or monetary policy changes to be sudden or drastic.

What does this mean for investors? Financial markets tend not to like it when stimulus is withdrawn – or, in this case, slightly reduced – so this could make China's short-term investment outlook a bit bumpier. But over the long term, China's economic story is compelling, which we believe makes for an attractive long-term investment case as well. As such, we think investors should continue to think of China as an asset class in its own right – one that may warrant a dedicated, standalone allocation.

DOWNLOAD PDF

1) Source: BloombergNEF. Data as at 31 December 2020.
2) Source: Reuters as at January 2019.
3) Source: CFA Institute as at December 2019.
4) Source: MSCI as at 31 December 2020. Proxies: MSCI China A Onshore Index for China A-shares, MSCI World Index for global equities and MSCI USA Index for US equities. Forward P/E is a type of price-to-earnings (P/E) ratio that employs forecasted earnings.
5) Proxy for H shares: MSCI China H Index.

1498695

Disclaimer

The MSCI China A Onshore Index is an unmanaged index that captures large- and mid-cap representation across China securities listed on the Shanghai and Shenzhen exchanges. The MSCI World Index is an unmanaged index considered representative of stocks of developed countries. The MSCI USA Index is an unmanaged index designed to measure the performance of the large- and mid-cap segments of the US market. The MSCI China H Index is an unmanaged index that captures large- and mid-cap representation across Chinese companies incorporated on the mainland and traded in Hong Kong. Investors cannot invest directly in an index.

Investing involves risk. The value of an investment and the income from it will fluctuate and investors may not get back the principal invested. Equities have tended to be volatile, and do not offer a fixed rate of return. Investing in the bond market is subject to risks, including market, interest rate, issuer, credit, inflation risk, and liquidity risk. The value of most bonds and bond strategies are impacted by changes in interest rates. Bond prices will normally decline as interest rates rise. The impact may be greater with longer-duration bonds. Credit risk reflects the issuer's ability to make timely payments of interest or principal—the lower the rating, the higher the risk of default. Emerging markets may be more volatile, less liquid, less transparent, and subject to less oversight, and values may fluctuate with currency exchange rates. Environmental, social and governance (ESG) strategies consider factors beyond traditional financial information to select securities or eliminate exposure which could result in relative investment performance deviating from other strategies or broad market benchmarks. Currencies involve risks such as credit risk and interest rate fluctuations, and can be more sensitive to the effect of varied economic conditions of the underlying country. Past performance is not indicative of future performance. This is a marketing communication. It is for informational purposes only. This document does not constitute investment advice or a recommendation to buy, sell or hold any security and shall not be deemed an offer to sell or a solicitation of an offer to buy any security.

The views and opinions expressed herein, which are subject to change without notice, are those of the issuer or its affiliated companies at the time of publication. Certain data used are derived from various sources believed to be reliable, but the accuracy or completeness of the data is not guaranteed and no liability is assumed for any direct or consequential losses arising from their use. The duplication, publication, extraction or transmission of the contents, irrespective of the form, is not permitted.

This material has not been reviewed by any regulatory authorities. In mainland China, it is used only as supporting material to the offshore investment products offered by commercial banks under the Qualified Domestic Institutional Investors scheme pursuant to applicable rules and regulations. This document does not constitute a public offer by virtue of Act Number 26.831 of the Argentine Republic and General Resolution No. 622/2013 of the NSC. This communication's sole purpose is to inform and does not under any circumstance constitute promotion or publicity of Allianz Global Investors products and/or services in Colombia or to Colombian residents pursuant to part 4 of Decree 2555 of 2010. This communication does not in any way aim to directly or indirectly initiate the purchase of a product or the provision of a service offered by Allianz Global Investors. Via reception of his document, each resident in Colombia acknowledges and accepts to have contacted Allianz Global Investors via their own initiative and that the communication under no circumstances does not arise from any promotional or marketing activities carried out by Allianz Global Investors. Colombian residents accept that accessing any type of social network page of Allianz Global Investors is done under their own responsibility and initiative and are aware that they may access specific information on the products and services of Allianz Global Investors. This communication is strictly private and confidential and may not be reproduced. This communication does not constitute a public offer of securities in Colombia pursuant to the public offer regulation set forth in Decree 2555 of 2010. This communication and the information provided herein should not be considered a solicitation or an offer by Allianz Global Investors or its affiliates to provide any financial products in Brazil, Panama, Peru, and Uruguay. In Australia, this material is presented by Allianz Global Investors Asia Pacific Limited ("AllianzGI AP") and is intended for the use of investment consultants and other institutional/professional investors only, and is not directed to the public or individual retail investors. AllianzGI AP is not licensed to provide financial services to retail clients in Australia. AllianzGI AP (Australian Registered Body Number 160 464 200) is exempt from the requirement to hold an Australian Foreign Financial Service License under the Corporations Act 2001 (Cth) pursuant to ASIC Class Order (CO 03/1103) with respect to the provision of financial services to wholesale clients only. AllianzGI AP is licensed and regulated by Hong Kong Securities and Futures Commission under Hong Kong laws, which differ from Australian laws.

This document is being distributed by the following Allianz Global Investors companies: Allianz Global Investors U.S. LLC, an investment adviser registered with the U.S. Securities and Exchange Commission; Allianz Global Investors Distributors LLC, distributor registered with FINRA, is affiliated with Allianz Global Investors U.S. LLC; Allianz Global Investors GmbH, an investment company in Germany, authorized by the German Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin); Allianz Global Investors (Schweiz) AG; Allianz Global Investors Asia Pacific Ltd., licensed by the Hong Kong Securities and Futures Commission; Allianz Global Investors Singapore Ltd., regulated by the Monetary Authority of Singapore [Company Registration No. 199907169Z]; Allianz Global Investors Japan Co., Ltd., registered in Japan as a Financial Instruments Business Operator [Registered No. The Director of Kanto Local Finance Bureau (Financial Instruments Business Operator), No. 424, Member of Japan Investment Advisers Association and Investment Trust Association, Japan]; and Allianz Global Investors Taiwan Ltd., licensed by Financial Supervisory Commission in Taiwan.