Asset allocation, China: stocks with still attractive margins | Marcel Zimmerman's latest outlook

We translate and publish the market view of our portfolio manager Marcel Zimmermann, taken from Bluerating. The original article in Italian can be found at this link: https://bit.ly/3grTHqh

> *Global investors were already reducing Chinese investments before the Communist Party National Congress because of the real estate crisis, the Covid zero-tolerance policy and the sanctions imposed by the United States and Europe on the technology sector. However, Xi Jinping's aggressive power grab, the election of close associates and the absence of an heir apparent in the lineup have stalled global investors. This has caused a sharp sell-off in Chinese stocks. However, we continue to find Chinese stock valuations attractive.*

This is the analysis of Marcel Zimmermann, manager of the Lemanik Asian Opportunity fund.

International markets began disinvesting from Chinese stocks before Congress, and this led the intrinsic capitalization-to-equity ratio of the Hang Seng China Enterprise index to reach a **new low for more than 20 years**. Capitalization fell to just 0.545 times assets at the end of October, down from a high of more than 5 times during the bubble in the Chinese market in 2007. However, we believe that the **importance of China's economy** in a global context-both in terms of its exports and its domestic market-will continue to justify investment in the country's stock market, despite the fact that it is currently subject to a momentary underweight.

The month of October was dominated by the outcome of the **20th National Congress of the Communist Party of China**. Xi Jinping further consolidated his power by appointing his loyal aides to the Politburo Standing Committee, the highest governing body in China.

Moderate figures have also been removed. Back in 2018, Xi had abandoned the two-term five-year presidential ceiling introduced by the great reformer Deng Xiaoping to limit the personal cult of Mao Zedong.

The Nccp Congress thus overshadowed the generally positive sentiment that had been prevalent during October, with Japanese, Korean, and Indonesian stock markets posting positive returns. The Bank of Japan intervened for the second month in currency markets with $42.8 billion to boost the value of the yen.

> *In our portfolio, we have maintained full hedging on our exposure to the yen, but we are watching closely for any reversal in the U.S. dollar. We have increased the fund’s weighting toward South Korea, Japan, the Philippines, and Thailand, but have taken profits in Indonesia and further reduced exposure to China. We still find Chinese stock valuations attractive, but we await stronger technical, political, and/or economic signals to increase our weighting*

Marcel Zimmermann

Marcel has over 30 years of experience in the financial industry in the analysis of financial markets, financial instruments and currencies with a specialisation in Asian equity markets. After 9 years in the Asian Secondary Markets desk of a leading bank in Lugano, he founded an Asset Management company in 1993 and distinguished himself in market research and analysis to support asset allocation decisions and stock picking of Asian companies on behalf of institutional clients….

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