



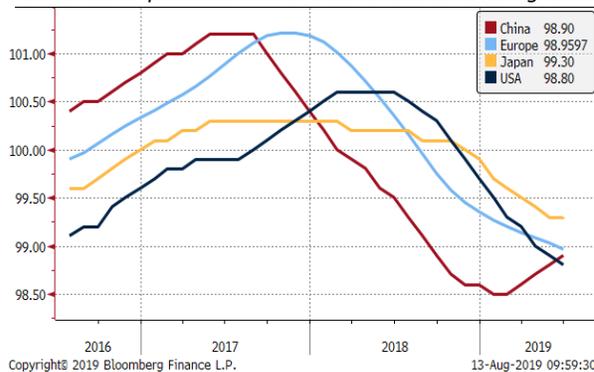
August 14th, 2019

为什么中国？ (Why China?)

We are overweight Chinese equities despite all the perceived risks to the country’s outlook. For RBA, it almost always comes down to some combination of profits, liquidity and sentiment. Corporate profits in China are currently declining, but the macro data increasingly suggest that accelerating stimulus could be helping them find a bottom — particularly relative to most other regions of the world. The US Federal Reserve is attempting to boost liquidity through its “mid-cycle interest rate adjustment,” but China has been easing monetary policy all year, which explains why China’s yield curve remains steep and the US curve just inverted. Lastly, investors’ fears regarding China are palpable, and are evident in China’s 35% valuation discount to the US market. None of these indicators represents an all-clear signal, but the risk-reward ratio appears more compelling in China than it is in most regions of the world.

OECD leading indicators:

China has surpassed the US and continues to head higher

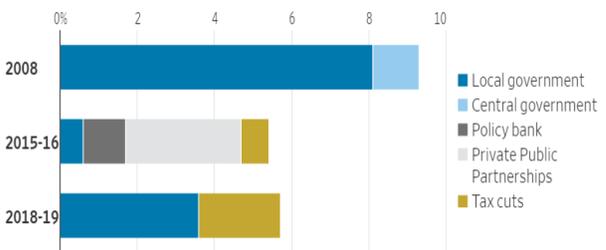


China stimulus as a % of GDP:

The magnitude of stimulus is bigger than 2015-2016

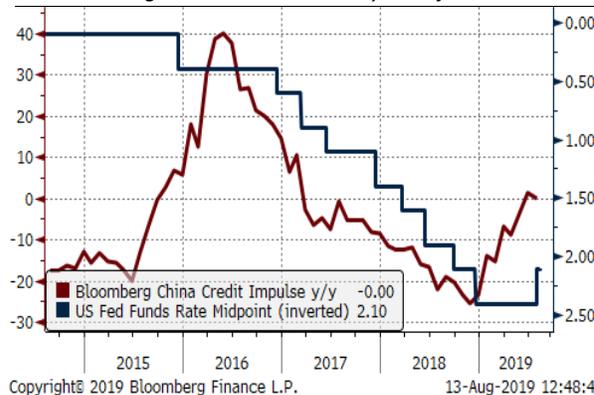
Chinese policy makers are cranking up stimulus measures...

Chinese stimulus packages as a percentage of domestic GDP



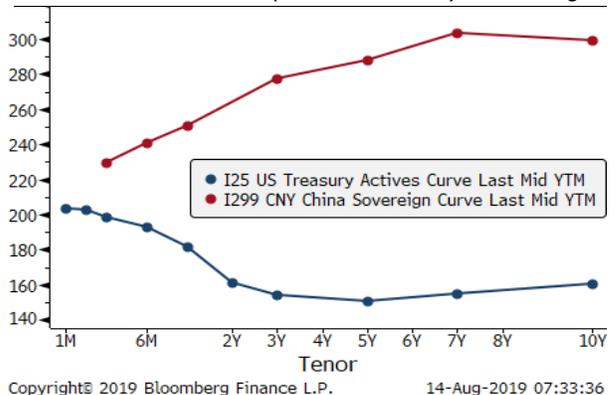
Bloomberg China Credit Impulse y/y vs. US Fed Funds Rate:

China's easing is more than a “mid-cycle adjustment”

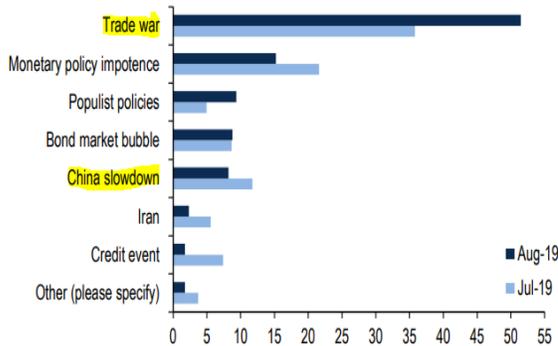


Sovereign Yield Curves: China vs. US

China’s curve remains steep while the US may be inverting



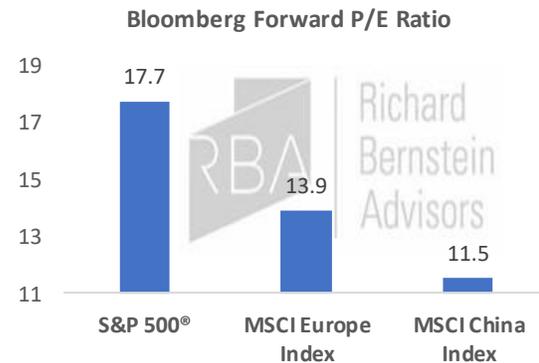
BofAML Global Fund Manager Survey: “Biggest tail risk”
2 of the top 5 investor fears are related to China



Source: BofA Merrill Lynch Global Fund Manager Survey

Source: Richard Bernstein Advisors LLC, BofAML

Forward P/E Ratio: US, Europe & China
Chinese stocks trade at a 35% discount to the US



Source: Richard Bernstein Advisors LLC, Bloomberg

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