ARIA | CAPITAL

INVESTMENT INSIGHT

A weekly look inside the investment world.

> *Of all the teams in the Six Nations, the Welsh players dislike the Irish the most and they are all very motivated to be playing on Saturday.*
> ***Warren Gatland (2009)***

Friday, 3 February 2023

In this week's Investment Insight

Year of the rabbit
The new lunar year (or Chinese New Year) was ushered in to a Covid-ravaged China on 22nd January. An auspicious start to the year of the rabbit which is supposed to bring longevity, peace and prosperity. Despite the challenging start, 2023 could be a very good year for investors in China. In *The Inside Track* we look at some of the reasons.

Nasback
Last week we highlighted several stocks that had staged decent recoveries after huge declines in 2022. This week, in *Pic of the Week* we widen the lens to the Nasdaq 100 and see how well it has fared since the turn of the year.

Newswire
Some interesting nuggets from this week's newswires.

Market view
A visual snapshot of recent market performance.

The Inside Track: Year of the rabbit

In the process of securing his reelection in 2022, Chinese premier Xi Jinping completed the process of monopolising control of China's political instrastructure, removing dissenting voices and installing loyal apparatchiks in their stead. Now in uncontested control of the levers of power, he has nowhere to hide when it comes to delivering upon the prosperity promised to the Chinese populus. This might partly explain why China's strict zero-Covid policy, with which China's citizens had lost patience, has been abandoned. A rapid consequence was the spread of the Covid virus, stalling re-opening somewhat while people recovered from illness. However, with that largely behind them, the Chinese are preparing to enjoy the longevity, peace and prosperity that the year of the rabbit is supposed to bring. So what will drive such prosperity?

Pent up demand is the first factor. Chinese citizens are now permitted to travel, purchase and socialise again, privileges denied to them for 3 years. This will provide a big boost to domestic demand, something the Chinese government wants to develop.

Secondly, while at a leadership level, relations between the US and China may be thawing, many Chinese firms are hell bent on deglobalising, or at least de-americanising their supply chains. Chasened by the experience of a highly protectionist Trump presidency, many see it as a priority to reduce or eliminate exposure to the possibility of the US pulling their economic strings. This is good for domestic demand, emerging market demand, European demand and Japanese demand, in that order. It is bad for the US.

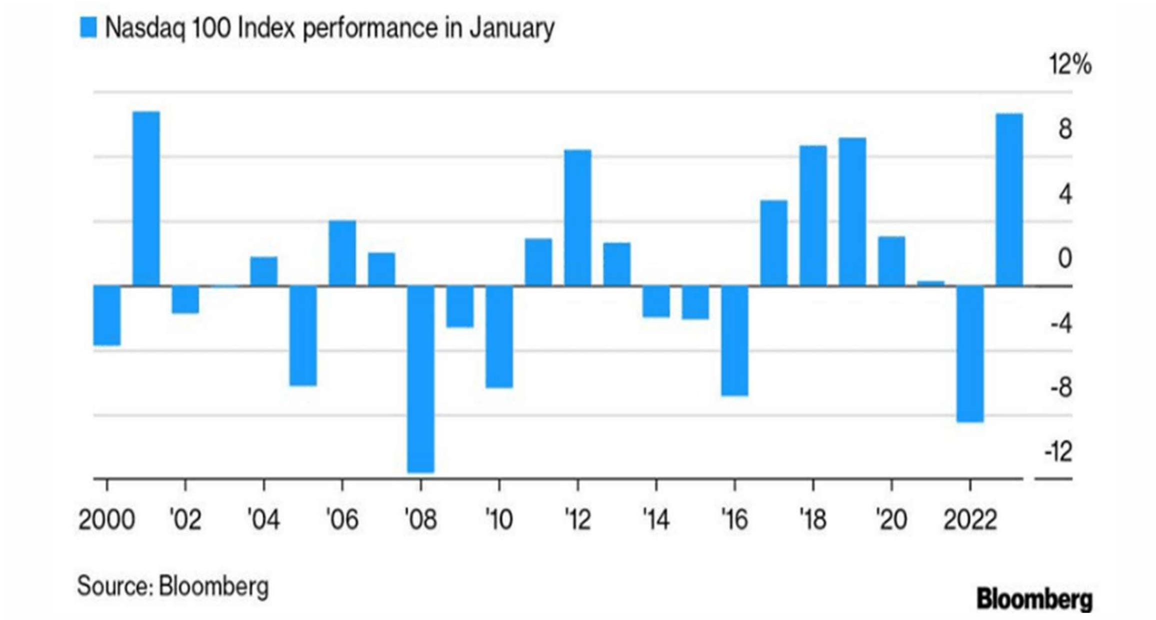
Central bank policy is also a big tailwind. Contrary to almost all leading economies, China is cutting its interest rates in order to stimulate economic growth. The impacts of increased rates have been felt very acutely in the Western world, and China, being the only major economy cutting them, should see the benefits in their economy. This would seem to demonstrate that China is in a different cycle to the rest of the world. They are now going into an expansionary phase, which should provide immediate support to the domestic economy.

Looking further out, Western economies are clearly at a tough point right now, but after recessions come recoveries. Should developed economies bottom out later in 2023, it could cause a recovery in their demand that will be supportive to China, too, due to its role as the ‘factory of the world’.

Finally, from an investor's standpoint, Chinese equities are cheap. At a time when investors globally are keenly focused on value, this is a highly supportive consideration for Chinese equity investors.

Pic of the Week: Nasback

The Nasdaq is Nasback it seems. As has been the case for many individual growth stocks that were brutally sold off last year, the Nasdaq 100 has gotten off to a flyer this year, pu almost 11% in January, it's strongest start to the year since 2001. However, let's hope that's where the similarity to 2001 ends. The Nasdaq 100 went on to report a -33% return in 2001, following on from a -37% the previous year, as it retrenched following the collapse of the dot.com boom.



Newswire

...on Monday
Reports confirm Norway's sovereign wealth fund fell 14% in 2022.

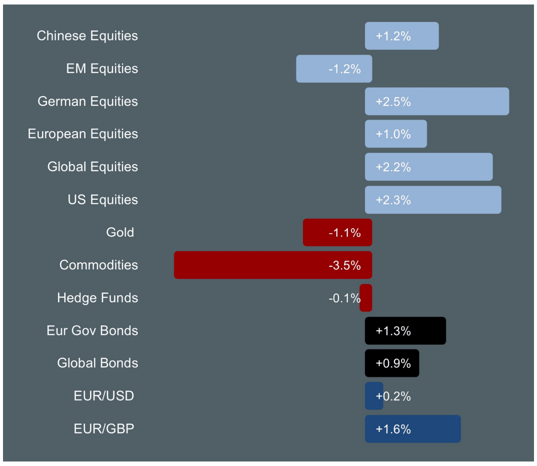
...on Tuesday
US markets rise on softer economic data.

...on Wednesday
US Fed raises rates by 0.25% and signals easing of inflation pressures.

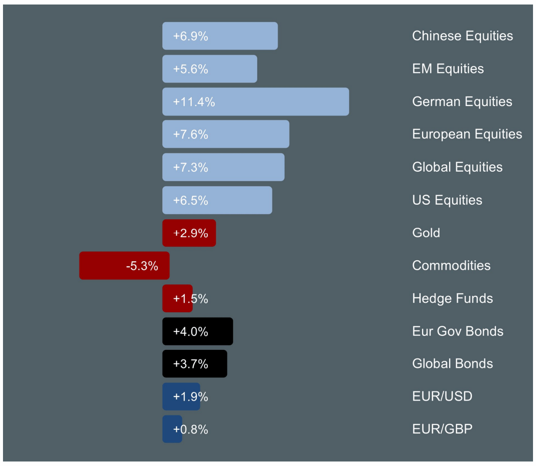
...on Thursday
Shell deliver's a record profit of $40 billion for 2022.

Market View

Last 7 days (€)



Year to date (€)



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