China Universal
CUAM Asset Management

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China's Market Outlook 2Q2019

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1. **The global economy confronts the challenge of insufficient aggregate demand as well as the sluggish economic growth at the same time. Quantitative easing policy cannot be withdrawn while the marginal effect is decreasing.**

   The US employment data did not live up to expectations; certain indicators such as retail sales and inflation also illustrate that the momentum of economy is gradually weakening. Meanwhile the U.S. Treasury yield curve inversion indicates an increasing of macroeconomic risks. Consequently, the Fed ended interest rate hike cycle, and announced an end to balance sheet reduction in this September. Globally, the European economy is even weaker, and the ECB continues to ease its monetary policy.

2. **The Sino-US trade frictions and negotiations, which lasted for one year, have almost come to an end at a technical level. Focusing on the bigger picture of Sino-US relations, China has made some concessions, yet the trade frictions brought by the global economic slowdown still exist in other areas.**

   Several negotiations between China and the United States in the first quarter sent a positive signal to the world. With the negotiations reopening this year, China is expected to open the market wider and improve intellectual property protection and inefficient industrial subsidies against the backdrop of emphasizing China-US relations and domestic economic reform and opening-up.

3. **The importance of the capital market has been enhanced and the scientific innovation will be boosted by Sci-Tech Innovation Board.**

   Improving the proportion of direct financing shoulders the key responsibilities of the capital market reform. Through the registration system and the development of delisting system, Sci-Tech Innovation Board has become the most important factor affecting the market. Looking forward to the future, it is a long-term policy to support scientific and technological innovation through direct financing. It is expected that with the launch of the first batch of enterprises in June this year, market sentiment will explode.

4. **With the acceleration of the opening up of capital markets, China will receive the long-term overseas capital inflows.**

   A-Shares have been included in international indexes such as MSCI and FTSE Russell due to the gradually opened policies. Influenced by these factors, a large amount of overseas capital flowed into China in the first quarter of 2019, and the northbound inflows have exceeded 110 billion since this year. A-Shares only account for a small proportion of the global asset allocation, yet also constituted by many competitive enterprises, it is expected that with the gradual opening of the capital market, more and more foreign capital will flow in and the foreign capital inflow is likely to exceed 500 billion RMB this year.

5. **Market outlook: The combination of undervalued enterprises and gradually opened policies are likely to lead an optimistic future.**

   At present, the overall valuation level of A-Shares is still at the bottom. With the policies supporting the development of the capital market, there is still much room for the market to grow in the short future. With the long-term inflows from the foreign capital and insurances into China, A shares are expected to start a slow bull market. However, it is important to notice that the current corporate profitability has not been significantly improved. It is expected that corporate earnings will hit the bottom by the end of the second half of the year, and then valuation, policy and profit will develop to the same direction.

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