China: Resilient Despite Challenges

May Ling Wee, CFA
China Equities | Portfolio Manager

A slowing economy, geopolitical adversity and a ratcheting down of global growth expectations have been the backdrop for the most of 2019, but there's evidence China can weather the turmoil.

Key Takeaways

- Limited fallout on Chinese economy from US/Sino trade friction.
- China is accelerating move to self reliance, especially in technology.
- China's domestic growth story remains a formidable force which can help China weather external pressures.

How has trade friction impacted Chinese businesses?

May Ling Wee: First and foremost, most direct impact that we've seen is actually the domestic businessman, and also the foreign investors' confidence in China, that's currently quite low. That also impacts manufacturing investment; we've seen manufacturing investment in the electronics and light industries in China come to almost a standstill because confidence levels are low among the businesspeople in China.

This won't continue because the manufacturing relocation started in China, even before the trade war started, and if anything, this accelerates the manufacturing relocation. In terms of what China will do because of economic friction with the US is to try to ensure that it is able to be self-sufficient and self-reliant in a lot of what it needs in the supply chain, especially in the technology sector.

This won't continue because the manufacturing relocation started in China, even before the trade war started, and if anything, this accelerates the manufacturing relocation. In terms of what China will do because of economic friction with the US is to try to ensure that it is able to be self-sufficient and self-reliant in a lot of what it needs in the supply chain, especially in the technology sector.

Why will China remain resilient in the face of the various challenges it faces?

May Ling Wee: We see relative resilience in the Chinese economy. The trade numbers, we've had more than one year of tariffs on US merchandise imports from China, but trade numbers are actually flat, rather than down, so far this year. A lot of that is because China has a big domestic market where manufacturing is in China, not just for the US market but also for its own domestic growing demand, and also for global demand.

And not just US demand, that's why we think there's been some resilience in the manufacturing industry in China. It is weak, but the trade numbers haven't actually fallen off the cliff. The corporate sector in China remains relatively resilient, especially amongst the leading companies in China, is because of the big home market, domestic demand in this market, where the consumer remains relatively Consumption remains relatively stable; these companies have a big domestic market to build scale. And what they're doing right now is actually to take their businesses overseas in emerging markets like India and Vietnam. So these companies continue to do relatively well with the scale that they've built at home; they're now exporting that to markets and economies in the region as well.

What are the emerging opportunities for investors looking to access the China market?

May Ling Wee: In our view, the opportunities for investors looking to access the China market remain the same as what we've said for the past several years. The domestic consumer market is a large, relatively fast-growing market. In some ways it's also underdeveloped and the corporates and the companies who can supply the right products and services into this market continue to do well. We also see opportunities in the technology innovators in the Chinese market; these companies have a lot of scale, they have a big consumer base where they've actually grown over the past several years, over the past decade, meeting the needs of the Chinese consumer in China.

They are now actually building an adjacent market for themselves in the business and corporate sector in the field of industrial automation, in artificial intelligence, and in robotics as well. So we continue to see opportunities in this sector. We also like the service sectors in China, where we believe the aging population also drives that demand for financial products such as life insurance.

The market right now is under-penetrated and as we believe with growing wealth and assets to protect, the Chinese consumer will actually look more and more at the protection gap for themselves.

Past performance is not a guide to future performance. The value of an investment and the income from it can fall as well as rise and you may not get back the amount originally invested.

The information in this article does not qualify as an investment recommendation.

Important information

The content herein is produced for information, illustration or discussion purposes only and does not constitute an advertisement or investment advice or an offer to sell, buy or a recommendation for securities in any jurisdiction and do not purport to represent or warrant the outcome of any investment strategy, program or product, other than pursuant to an agreement in compliance with applicable laws, rules and regulations. Not all products or services are available in all jurisdictions. Investment involves risk. Past performance cannot guarantee future results. Janus Henderson Investors is not responsible for any unlawful distribution of this document to any third parties, in whole or in part, or for information reconstructed from this document and do not make any warranties with regards to the results obtained from its use. It is not intended to indicate or imply that current or past results are indicative of future profitability or expectations. In preparing this document, Janus Henderson Investors has reasonable belief to rely upon the accuracy and completeness of all information available from public sources. Unless otherwise indicated, the source for all data is Janus Henderson Investors. This material may not be reproduced in whole or in part in any form, or referred to in any other publication, without express written permission. Anything non-factual in nature is an opinion of the author(s), and opinions are meant as an illustration of broader themes, are not an indication of trading intent, and are subject to change at any time due to changes in market or economic conditions. It is not intended to indicate or imply that any illustration/example mentioned is now or was ever held in any portfolio. No forecasts can be guaranteed and there is no guarantee that the information supplied is complete or timely, nor are there any warranties with regard to the results obtained from its use.

Issued in (a) Singapore by Janus Henderson Investors (Singapore) Limited, licensed and regulated by the Monetary Authority of Singapore. Janus Henderson Investors (Singapore) Limited Company Registration No. 199700782N, for use only with institutional investors as defined in Section 4A of the Securities and Futures Act, Singapore. This advertisement or publication has not been reviewed by Monetary Authority of Singapore. (b) Hong Kong by Janus Henderson Investors Hong Kong Limited, licensed and regulated by the Securities and Futures Commission, (c) Taiwan R.O.C by Janus Henderson Investors Taiwan Limited, licensed and regulated by the Financial Supervisory Commission R.O.C. Independently operated by Janus Henderson Investors Taiwan Limited. Suite 45 A-1, Taipei 101 Tower, No. 7, Sec. 5, Xin Yi Road, Taipei (110). Telephone: (02) 8101-1001. Approved SICE licence number 023, issued in 2018 by Financial Supervisory Commission, (d) South Korea by Janus Henderson Investors (Singapore) Limited. In South Korea, this material is issued for the exclusive use of the recipient who warrants by receipt of this material that they are Qualified Professional Investors, (e) Japan by Janus Henderson Investors (Japan) Limited, regulated by Financial Services Agency and registered as a Financial Instruments Firm conducting Investment Management Business, Investment Advisory and Agency Business and Type II Financial Instruments Business, (f) Australia and New Zealand by Janus Henderson Investors (Australia) Institutional Funds Management Limited (ABN 16 165 119 561, AFSL 444266) and (g) the Middle East by Janus Capital International Limited, regulated by the Dubai Financial Services Authority as a Representative Office. No transactions will be concluded in the Middle East and any enquiries should be made to Janus Henderson.

For Other Countries/Regions in APAC: This material is provided for your information purposes only and must not be distributed to other persons or redistributed. This material is issued for Institutional Investors only (or professional/sophisticated/qualified investors as such term may apply in local jurisdictions).

Note to China (PRC), Africa and Colombia Readers: Janus Henderson is (a) not licensed, authorised or registered with the China Securities Regulatory Commission for investment management business or investment consultancy business or otherwise approved by any PRC regulatory authorities to provide investment management services or investment consultancy services in the People's Republic of China (the "PRC") (which, for such purposes, does not include the Hong Kong or Macau Special Administrative Regions or Taiwan). Janus Henderson Investors makes no representation and warranties that it is, and will be, in compliance with PRC laws.This document and the information contained in it is only available to select targeted institutional investors in the PRC, (b) not authorised in South Africa for marketing and (c) not authorised to market its products and/or services in Colombia or to Colombian residents unless such promotion and marketing is made in compliance with applicable rules and regulations.

Janus Henderson and Knowledge. Shared are trademarks of Janus Henderson Group plc or one of its subsidiary entities. © Janus Henderson Group plc.

Janus Henderson
—KNOWLEDGE. SHARED—