

# On The Road In China – Is there a gap between perceptions and reality for EM investors?

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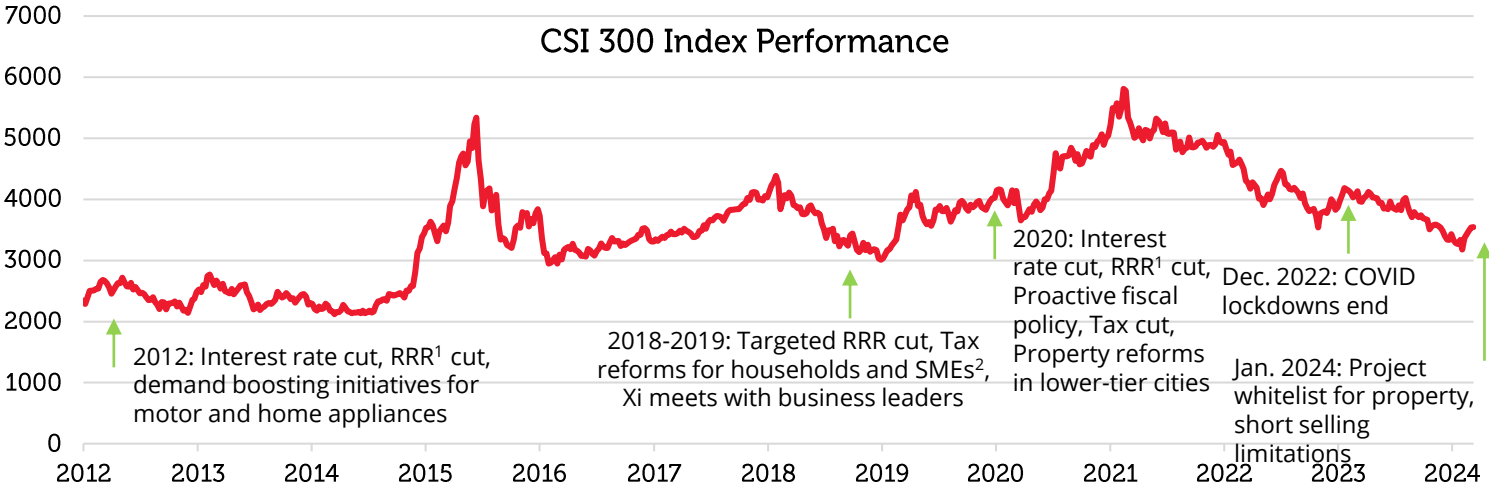
The Redwheel Global Emerging Markets Team spent a week in China in February, holding meetings with companies across various sectors, including electric vehicle manufacturers, property developers, and internet companies, as well as a range of investors, strategists, and economists. The Team returned critical insights into the investment landscape on the ground. The key takeaways follow:

1. **Positive Economic Outlook:** The team interacted with a wide range of companies across sectors in China. In general, companies had an optimistic outlook that pointed to a gradual recovery in economic activity. For example, Kanzhun shared that job postings across industries grew in 4Q23. In addition, management believes that youth unemployment is peaking.
2. **Stimulus and Market Confidence:** Significant fiscal and monetary stimulus measures have been implemented by China's government amidst the economic reopening. On February 5, 2024, the country's reserve requirement ratio was reduced by 50 bps in an effort to bolster liquidity throughout the financial system. The team anticipates additional supportive policies to boost market confidence further. We believe that upcoming policies will focus on supporting capital markets, stabilizing property prices, and boosting economic activity.
3. **Electric Vehicle (EV) Sector Momentum:** The EV sector showcased impressive advancements in self-driving technologies and product offerings. The Team had meetings with Li Auto, Xpeng, and BYD. Each manufacturer highlighted the robust build quality of their vehicles, as well as the high-tech systems that are powering them. In the long-term, we anticipate that the competitive pricing of Chinese EVs will increase their attractiveness globally and could lead to them overtaking Western brands in terms of penetration.
4. **Property Market Approaching Trough:** Despite previous downturns, the property market is showing signs of stabilization, aided by government policies and strong buyer demand. For example, the government started the whitelist support project ("Project Whitelist") at the end of January. This project creates a formal whitelist mechanism for the government and banks to provide financing solutions to property developers. In addition, companies like Country Garden Services and Longfor Group Holdings are making strategic moves to navigate through the market's trough.

**Pictured:** Top (from left to right), John Malloy, Tianyu Xiang, Eloise Veillet, Colin Liang; Bottom, an ultrasound machine from Mindray (Credit: Redwheel)

- 5. Consumer Trends and Consumption Recovery:** There's a bifurcation in consumer trends, with the luxury segment showing resilience and optimism for growth. The mass market, however, is awaiting job market improvements to drive consumption further. Job market recovery, especially among the youth, is generally seen as a key driver for mass market consumption in our experience.
- 6. Innovative Urban Projects:** The trip to Xiong'an New Area debunked misconceptions of it being a "ghost town," showcasing instead a high-tech, green city initiative reflecting the success of common prosperity goals. One of the properties that the team visited began sales in November 2023, and 70-80% of the project is already sold according to the developer.
- 7. Automation and AI Opportunities:** Meetings with automation leaders and internet companies highlighted China's rapid advancements and strategic shifts in automation and AI, including generative AI. These technologies are seen as opportunities for Chinese companies to lead or catch up in global competition. In our meeting with Baidu, company representatives highlighted that around 10,000 client have already started using AI-enabled features in their ads. This is driving a +23% conversion rate in ads for these clients.

**Policymakers in China have shifted to more accommodative policies to stabilize markets after drawdowns. Historically, this has led to a rally in China equity markets.**



<sup>1</sup>RRR is an acronym for reserve requirement ratio.  
<sup>2</sup>SME is an acronym for small and medium enterprises.  
 Source: Bloomberg, Redwheel, as at 29 February 2023.  
 Past performance is not a guide to the future.

**Valuations show signs of having reached a low point – we believe a gradual recovery is underway**



Source: Redwheel, Bloomberg as of 19 March 2024.  
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