

# China Macroeconomic and Market Outlook

January 2023



By special arrangement, this article is based on the views of Lirong Xu, General Manager and Chief Investment Officer of Franklin Templeton Sealand Fund Management Co., Ltd.



**Lirong Xu, CFA, CPA (Non practicing)**  
General Manager  
Chief Investment Officer  
Industry experience: 25 years (as of 31 December 2022)

## Macro overview

We iterate our positive view of China economy supported by Chinese government's strong willingness and capability to underpin the economy and sustain a relatively high GDP growth from the macro perspective, and the strong motivation to expand business of enterprises from a bottom-up perspective.

### GDP growth

Divergent views are held at home and abroad on China's economic growth. In our view, China's GDP growth target is likely to be at positive side:

- China's central bank remained prudent in the past 3 years compared to its global peers amid the massive liquidity injection of global central banks. In addition, though not comparable with decades ago, China remains a healthier balance sheet of government and household than global peers. Therefore, China has the resources and capability to provide support to underpin the economy from both fiscal and monetary side in the future.
- China has the most efficient top management with strongest execution compared with the past 40 years. It is undoubted that the China's government will be very proactive to shift back to boost the economy. We observed that many companies have already taken the lead to go overseas for business promotion, cooperation, and expansion. In fact, the overseas expansion of listed companies in various industries has never stopped even in the difficult time in 2022.

### Infrastructure investment

Some investors expect a low single-digit growth of infrastructure construction out of concern for fiscal pressure. However, we expect a relatively high growth rate in 2023 from the perspective of liquidity support. Represented by U.S. and Europe, monetization of fiscal deficits is widely used in the world, however China is quite restrained in using the tool. If it is really necessary, China will consider using it properly in 2023.

### Consumption

As China's Covid policies are optimally adjusted, the recovery of the whole society far exceeded expectation. As such, China's economic recovery is likely to be faster and more robust.

However, we hold a relatively prudent view on consumption. Despite the probability of short-term consumption boom, the recovery of household disposable income still takes time, and the Chinese government seems unlikely to provide direct subsidies to boost consumption. Consequently, it still takes time for the recovery of consumption. Although consumption recovery is a matter of time rather than a yes-or-no question, it requires further observations for the speed and progress of recovery in the medium to long term, and we should not be overly optimistic about the consumption in the short term deluded by the short-term rebound.

## China's exports

We hold a relatively neutral view:

- As a stock picker, we do have observed many listed companies we are tracking have expanded their market share thanks to increasing overseas demands resulted from their product competitiveness, cost-benefit advantages and brand awareness, etc.
- Although different drivers of China's exports in last three years, one thing in common is that the export to ASEAN are continuously increasing and has become the largest export destination of China. Looking forward to 2023, we expect China's export growth may stand at around zero or even record a very small positive growth based on our observations.

## Market Overview

- Based on our on-the-ground observations as a bottom-up stock picker, there emerged more good quality names, enabling us to select those with more attractive risk-return profile in the longer term (3Yrs and above). After 40 years of rapid growth, China's economy has entered a stage of medium- to high-speed growth with volatilities decreased substantially. Most of the sub sectors have seen rising concentration with leading companies in the industry started to expand their market share in last 3 years. These companies have exhibited attractive earnings growth and valuation level compared to peers in emerging markets and developed markets. We are confident to see strong earnings growth of these companies in the upcoming years.
- From the perspective of liquidity, both the domestic household asset reallocation and overseas fund inflow of global investors will support liquidity to the China equity market. On one hand, the long-term trend of domestic household asset reallocation from real estate market to equity market has just started; on the other hand, foreign participation is still low, accounting for 4% of the total market cap of China A share market. We expect foreign participation in China A share is likely to double or more in the next few years.
- From the perspective of valuation, the current valuation level is relatively lower compared to historical average and vs. global peers. We believe now is good time to pick up good names for long term holding with good upside and limited downside.
- As a stock picker with bottom-up approach, we are confident to find more quality names with sustainable growth potentials, strong balance sheet and management team in almost every sector including old economy and traditional cyclical sectors represented by chemistry and machinery, as well as new economy including photovoltaic, new energy vehicles and Internet sectors. These companies will benefit from China's economic recovery in the next few years, and some of them have expanded their capacity and market shares against the headwinds in the past years. We believe these companies will support and lead the growth of China equity market to a more sophisticated and developed stage.
- In the medium to long term, we think the internal risks is limited. The soft landing of real estate is likely and the consumption recovery is also a matter of time rather than a yes-or-no question. The biggest challenges remain to be the geopolitical uncertainties and the ever more intensified competition between China and U.S. In our view, China and western economies will face a scenario that decoupling and recoupling coexisting in the future, while decoupling being the mainstream for high-tech represented areas and recoupling more prevailing in financials and some other areas.

**This document is for information only and does not constitute investment advice or a recommendation and was prepared without regard to the specific objectives, financial situation or needs of any particular person who may receive it and does not constitute legal or tax advice. This document may not be reproduced, distributed or published without prior written permission from Franklin Templeton.**

Any research and analysis contained in this document has been procured by Franklin Templeton for its own purposes and may be acted upon in that connection and, as such, is provided to you incidentally. Data from third party sources may have been used in the preparation of this email and Franklin Templeton has not independently verified, validated, or audited such data. Although information has been obtained from sources that Franklin Templeton believes to be reliable, no guarantee can be given as to its accuracy and such information may be incomplete or condensed and may be subject to change at any time without notice. Any views expressed are the views of the portfolio manager as of the date of this email and do not constitute investment advice. The underlying assumptions and these views are subject to change based on market and other conditions and may differ from other portfolio managers or of the firm as a whole. The mention of any individual securities should neither constitute nor be construed as a recommendation to purchase, hold or sell any securities, and the information provided regarding such individual securities (if any) is not a sufficient basis upon which to make an investment decision. The information provided in this material is not intended as a complete analysis of every material fact regarding any country, region or market. There is no assurance that any prediction, projection or forecast on the economy, stock market, bond market or the economic trends of the markets will be realized. Franklin Templeton accepts no liability whatsoever for any direct or indirect consequential loss arising from the use of any information, opinion or estimate herein and reliance upon the comments opinions and analyses in the email is at the sole discretion of the user.

The value of investments and the income from them can go down as well as up and you may not get back the full amount that you invested. Past performance is not necessarily indicative nor a guarantee of future performance.

Products, services and information may not be available in all jurisdictions and may be offered by other Franklin Templeton affiliates and/or their distributors as local laws and regulation permits. Please consult your own professional adviser for further information on availability of products and services in your jurisdiction. This is not an offer to sell or a solicitation of an offer to purchase securities in any jurisdiction where it would be illegal to do so.

Copyright© 2023 Franklin Templeton. All rights reserved.

**Singapore:** Issued by Templeton Asset Management Ltd, Registration Number (UEN) 199205211E

**Malaysia:** Issued by Franklin Templeton Asset Management (Malaysia) Sdn. Bhd and Franklin Templeton GSC Asset Management Sdn. Bhd. This document has not been reviewed by Securities Commission Malaysia.

**Hong Kong:** Issued by Franklin Templeton Investments (Asia) Limited. This document has not been reviewed by the Securities and Futures Commission of Hong Kong.”

