UBS Global WM CIO downgrades Chinese equities to neutral from most preferred in its asset class preferences. (UBS)

Moving to neutral on Chinese equities

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The week-long National People's Congress (NPC) has officially drawn to a close. Though economic targets set at the NPC are numerically in line with expectations, policy details were lacking and there were no positive surprises. Without bolder steps, UBS Global WM Chief Investment Office (CIO) believes growth will fall short of official target at 4.6%.

With no positive policy surprises emerging from the NPC and corporate earnings likely to remain challenged, UBS Global WM CIO downgrades Chinese equities to neutral from most preferred in its asset class preferences.

Why now?

- Policy expectations are the single biggest driver for the Chinese equity market, and the NPC marks a second consecutive major policy letdown following the Central Economic Work Conference in December. With the NPC now over, policy surprises are likely to be limited in the near-term unless macro conditions meaningfully deteriorate. We see this policy environment as more aligned with a neutral stance on Chinese equities.
- Second, downward earnings revisions have continued into 1Q24. We expect the trend to continue in 2Q in the absence of a strong macro recovery and see earnings growth of around 8% this year (vs. consensus of 13%).
- Finally, valuations remain depressed and below the historical average, but valuations alone do not provide a compelling reason to buy now. With macro and geopolitical concerns, we think the market could continue to trade at lower multiples.

What next?

- Our neutral view means investors should ensure their portfolio allocations to China are in line with their longer-term strategic targets.

To read more, do refer to our CIO reports on "**China asset allocation shifts to neutral**" and "**Positioning after the NPC**".