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How to read Chinas latest stimulus push

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The expansive raft of monetary policy stimulus and stronger rhetoric suggests to us that there has been a sea change in the policy attitude. We expect more stimulus to follow to keep the growth rate on track for the official target of “around 5%” this year. But there are still questions around implementation and durability. Investors need to be careful to avoid being caught up in the fevered excitement. We suggest adding some growth exposure during the rally, but investors should maintain a balanced barbell approach.

China’s policymakers delivered a raft of monetary stimulus over the last week that covers multiple areas, from broad liquidity to property and capital markets. This was in the wake of—and likely at least in part due to—China’s economic data for August indicating that both consumption and investment remain anemic on account of the flagging property sector. The package was stronger than financial markets had been expecting, and triggered a strong response in China’s equity markets. Since 23 September, the CSI 300 has risen 24.7% and the MSCI China 16.9%.

In a rare move, a Politburo meeting was chaired by President Xi and held just two days after the stimulus package. At the meeting, China’s top leaders delivered a strong, supportive tone on property, and explicitly pledged to "stop the property market from falling." This is the first time that such a high-level meeting has so directly and specifically mentioned such a target.

But investors need to be careful to avoid being caught up in the fevered excitement Notably, there are still lingering issues around implementation and fiscal policy commitments. Investors should adjust their exposure, but maintain a balanced barbell approach along the following lines.

Add quality growth stocks. We keep Chinese equities at Neutral in our Asia strategy, but recommend investors add quality internet and consumer stocks on the growth side to obtain higher-beta exposure without aggressively chasing the

market higher at this stage. We think that quality internet names with still-depressed valuations, resilient growth prospects, and clear shareholder return policies can outperform the broader market. The improved economic outlook should also support the consumer (including staples and durable goods) sector given the potential for the negative wealth impact to fade as housing conditions stabilize.

But don't jettison what's working. Investors should also remain exposed to the high-dividend-yielding and state-owned-enterprise-heavy sectors like financials, utilities, energy, and telecoms. A lower rate environment and further rate cuts should continue to support these high-yielding sectors. In addition, the announced capital market support measures should benefit market cap heavyweights with policies to enhance shareholder returns. Furthermore, the capital market support is likely to prefer leading companies with strong balance sheets, resilient earnings, and predictable yields.

Banks and property remain mixed bags that need sorting through. We remain selective on Chinese banks, and prefer large joint-shareholding banks with decent dividend yields, the policy rate cuts could pressure bank net interest margins (NIMs), but the extension of property inventory purchases might help improve banks' asset quality, which could lead to a valuation rerating. On the property sector, we remain concerned about property developers' profitability and earnings prospects in the near term. The property easing measures could have a limited positive impact on property sales and price trends, but the sustainability of any benefits will still depend on policy implementation details. We prefer other direct beneficiaries of higher property sales volumes like leading property agencies, and downstream property players like home appliance leaders for better earnings clarity and resilience.

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