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Enter the China hawks

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Pressure has intensified on offshore Chinese equities as President-elect Trump's cabinet comes into view, with several figures known for an aggressive stance on China tipped for major positions.

Since 5 November, US-listed Chinese ADRs and the Hang Seng index are down around 7.9% and 5.5%, respectively, while the Chinese yuan has depreciated by 1.8%. On Tuesday, Trump named Congressman Mike Waltz as his new National Security advisor, enlisting a figure who last year said China had "entered a new cold war." US Senator Marco Rubio, who has previously called China "dangerous" and pushed legislation targeting the country, has been tipped as the next secretary of state. Politico, meanwhile, reports pro-tariff figures have pushed back on the front-runner for Treasury secretary.

Our view: We had warned of more near-term pressure on Chinese equities given both the US election result and China's lackluster stimulus response. The cabinet front-runners so far suggest a China hawk contingency could be building, though this may be tempered somewhat by Trump's own transactional approach to foreign policy. We recently revised down our MSCI China targets to 67 by June 2025 and 74 by December 2025, from 76 and 79, respectively, mainly to factor in the expected pressure relating to the higher tariff imposition. We suggest investors tilt their China equity exposure back toward defensive and high-yielding value sectors in the near term, such as financials, utilities, energy, and telecoms. These domestically oriented segments, with significant state-owned-enterprise presence, should outperform in a period of choppy US-China relations, in our view. We think growth sectors will be more susceptible to both US policy risk and stimulus disappointments.

Main contributors: Solita Marcelli, Mark Haefele, Daisy Tseng, Brian Rose, Vincent Heaney, Jon Gordon

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