

# Five Reasons to Allocate to China in 2022-Update

China has been one of the weakest major equity markets in 2022, following an equally weak 2021. Even with this performance in mind, I still believe of the roughly 30 countries in emerging markets which we cover, China is still my favorite country for the next year and here are five updated reasons why:

## 1. We believe that regulatory headwinds have peaked

As we mentioned before, while we think that regulatory oversight will remain a component of China's development, we believe that the cadence and severity of regulatory announcements has peaked.

## 2. Zero-COVID policies are easing

We believe the Chinese government has reached its tolerance for economic slowdown and that the government understands that full lockdowns of major cities are not necessary or ideal. We think localized response to COVID cases will be the protocol going forward and this approach will allow for a significant rebound in economic activity.

## 3. Ongoing accommodative monetary policies

In China, core inflation has been contained and short-term borrowing rates are trending lower—not higher—like similar rates within the USA or Europe. We expect continued monetary support, especially within the stressed real estate sector, which could bode well for equity prices going forward.

## 4. GDP and economic growth have bottomed-out

Zero-COVID policies have taken a toll on the Chinese economy from travel and mobility to restaurants and leisure and day-to-day consumption of goods and services. While major developed economies such as the United States and Europe may be headed for a liquidity constrained, engineered economic slowdown, we believe that China is the opposite and we see a strong potential upswing in economic recovery.

## 5. Prospect of robust corporate earnings

Analysts have already marked down earnings significantly in China from the low teens earlier this year to basically flat earnings growth today. We see upside from here, especially in beaten down sectors which were targets of significant regulatory scrutiny early last year.

*For more information on the role China can play in portfolios, visit [Matthewsasia.com](https://matthewsasia.com).*

**David Dali**

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Head of Portfolio Strategy  
Matthews Asia



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