

Five Reasons to Allocate to China in 2022

China has been one of the weakest major equity markets in 2021. Unforeseen regulatory headwinds, the threat of de-listing Chinese companies from U.S. exchanges, and negative geopolitical rhetoric all contributed to investor uncertainty. With those risks in mind, I think that, of the roughly 30 investable emerging equity markets, my single favorite country next year is China, here's why:

1. We believe that regulatory headwinds have peaked

Although we expect that regulatory oversight will remain a component of Chinese development, we believe that the cadence and severity of regulatory announcements has peaked.

2. Valuations are close to long-term averages

This is nuanced because Chinese stock valuations are not the cheapest they have ever been—rather, they are close to long-term averages. As of December 2020, we believe Chinese valuations are some of the least risky and most attractive of all major markets.

3. The prospect of robust earnings in 2022

As the global economy exits COVID and supply chains begin to normalize—China could be a beneficiary. As of December 2020, consensus estimates for the MSCI China Index peg next year's earnings growth in the low to mid-teens—we see upside to these estimates especially in certain small and mid-cap sectors.

4. Xi Jinping will be affirmed for a third term

In November 2022 the Party Congress is slated to affirm Xi Jinping for his third term as the Party Leader. What does this mean for investors? We think we should not expect much gross domestic product (GDP) growth volatility, foreign exchange rate volatility, or significant, unpopular regulatory announcement. What we do expect is a year without significant surprise. We believe a year without significant surprise equals a better stock market.

5. The Chinese government is ready to stimulate their economy

If we're wrong and the Chinese economy suffers—either because of a 'zero COVID' policy or a significant downturn in the global economy—the Chinese government stands ready to stimulate.

For more information on the role China can play in portfolios, visit [Matthewsasiasia.com](https://matthewsasiasia.com) or contact your Matthews Asia representative.

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