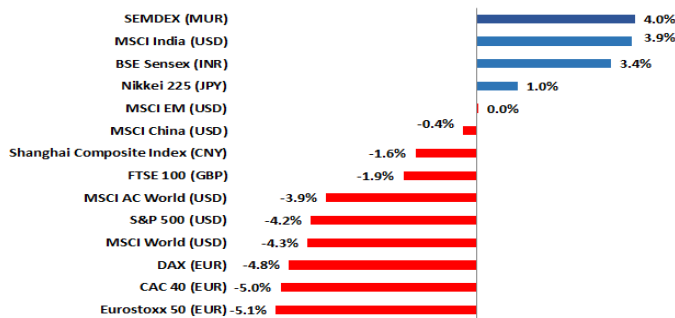


MARKET SUMMARY

Equities: Aug 22 performance (in Index currency)



- Global equities markets started the month of August positively but then shed the gains over the second half of the month, with most developed markets in the red.
- This was driven mainly by the prospect of continued aggressive rate hikes by the US Fed and the ECB, in the face of persistent high inflation, sparking recession fears.
- In Europe, the looming energy crisis remained on investors' minds.
- Japanese equity markets rose as the BoJ stressed the need to maintain stimulus to support the economic recovery, whilst in India, equities benefitted from cooler inflation figures and lower commodity prices.
- The SEMDEX surged over the month after there was no credit rating downgrade of the three main banks.
- Headline inflation in Mauritius for the 12 months to August stood at 8.8% (vs 3.0% for the previous period).

INVESTING IN CHINA: CHALLENGES AND OPPORTUNITIES

- 2021 witnessed a major selloff in the Chinese equities market due to the government regulatory crackdown. Despite the numerous challenges that it faces, the market offers investment opportunities over the long term.

Challenges

1. Drag from the property sector

- China's property market has been one of the most important contributors to the Chinese economy, accounting for approximately 29% of the country's GDP.
- However, in 2020, the Chinese government intervened to deflate a property bubble that could threaten the entire economy.
- The 'three red lines' policy for the real estate sector was introduced in August 2020 to limit the yearly new borrowings by property developers. The tightening credit conditions, to curtail property price appreciation and speculation, led to a liquidity crunch and pushed many

developers to the brink.

- According to S&P Global Ratings, home sales could fall by approximately 30% this year (worse than the 20% drop in 2008).

2. Zero-covid policy

- At the July politburo meeting policymakers emphasized that they would stick to the dynamic zero-Covid policy stance despite China's economic slowdown.
- In August 2022, more than 70 cities (with more than 300m population) have been placed under full or partial lockdowns.
- The recent Covid resurgence is an important challenge to China's near-term recovery.
- According to the WHO, the total number of local Covid cases increased from approximately 5.6m on July 31, 2022, to 6.4m on August 31, 2022 (an increase of 14.3%).
- In its latest forecast, the IMF has revised China's GDP growth downwards by 1.1pp to 3.3% in 2022 (lowest growth in more than 40 years, excluding the initial COVID-19 crisis in 2020).

Opportunities

1. Stimulus measures

- China's State council unveiled a package of 19 measures in August to revive a flailing economy.
- The 1trn yuan stimulus package includes fiscal stimulus (300bn yuan funding to state policy banks for infrastructure projects), energy supply (issuance of 200bn yuan of bonds), property support (special loans to property developers to finish housing projects) and agricultural funding.
- This new package comes on top of a set of 33 measures issued in late May by the State council to boost consumer spending and support businesses.

2. Easing measures on technology stocks

- On August 26, the Public Company Accounting Oversight Board (PCAOB) announced that it had signed a Statement of Protocol (SOP) with the China Securities Regulatory Commission (CSRC) and China's Ministry of Finance.
- The agreement is an important milestone for both China and the US as it will make it possible for the PCAOB to inspect audit records for US listed Chinese companies. This will prevent Chinese tech companies from being delisted from US stock exchanges in early 2024.
- Currently, more than 200 Chinese companies are listed on the US markets with a market capitalization of over \$1 trn.
- While China offers investment opportunities in the long term, caution has to be exercised due to near-term headwinds.

14th September 2022

For more information about our services, please contact:

André Chung Shui
Managing Director
+230 52 51 22 16
ac@peaqadvisors.com

Michael Yap San Min
Investment Advisor
+230 55 00 90 88
my@peaqadvisors.com

Ishrat Cheeroo
Investment Advisor
+230 55 01 29 00
ic@peaqadvisors.com



Source: BBC, People's Daily, CNN, WSI, Bloomberg, S&P Global, US SEC, IMF, SEMDEX, Statistics Mauritius, MSCI.

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