QUARTELY CLIENT NEWSLETTER

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WILL CHINA'S ECONOMY REGAIN ITS ROAR IN THE YEAR OF THE DRAGON?

Allianz Global Investors

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As East Asia celebrates the Lunar New Year on 10 February 2024, investors in Chinese equities will be relieved to bid farewell to the disappointing Year of the Rabbit, and may wonder whether the Year of the Dragon – traditionally considered one of the luckiest in the Chinese zodiac – will live up to its reputation. Yet, neither astrologic wisdom nor a fatalistic extrapolation of the recent past will be good guides for investors. As always, analysing the prospects of China's equity markets requires a clear and dispassionate look at the key factors pivotal for their success. Indeed, while China's structural problems are very real, viewing the current bout of economic weakness as the new status quo is likely to be as misguided as the unbridled optimism of just three years ago.

So, what are these key factors that will be pivotal in 2024?

First, the extent of fiscal and monetary stimulus the Chinese government is willing to deploy – and the manner in which it deploys it – will be closely watched. Premier Li Qiang's speech at Davos, comparing the Chinese economy to a healthy person with a strong immune system, and highlighting that last year's growth had been achieved "without resorting to massive stimulus", has led equity markets to question whether more support is in the pipeline. We continue to believe, however, that the government will have little choice in extending support, even while it remains cautious not to significantly expand its debt burden. Indeed, policy makers will endeavor to meet China's 2024 GDP growth target – expected to be around 4.5 - 5% – and additional stimulus may be unavoidable to facilitate this.

In an additional sign of a potentially shifting government response to China's economic challenges, the People's Bank of China (PBoC) announced that it would lower the reserve requirement ratio (RRR) – the proportion of liabilities that banks must hang on to, rather than lend out or invest – by 50bps, effective from 5 February. PBoC Governor Pan Gongsheng also confirmed further supporting measures for the agricultural sector and small and medium-sized enterprises. Also welcomed was the joint announcement by the PBoC and the National Administration of Financial Regulation of measures to improve the scope of fund use and liquidity for property developers. This points to establishing a more coherent framework for managing the restructuring of the property sector – an essential part of China's recovery story. We expect this will be a complex, multi-year process.

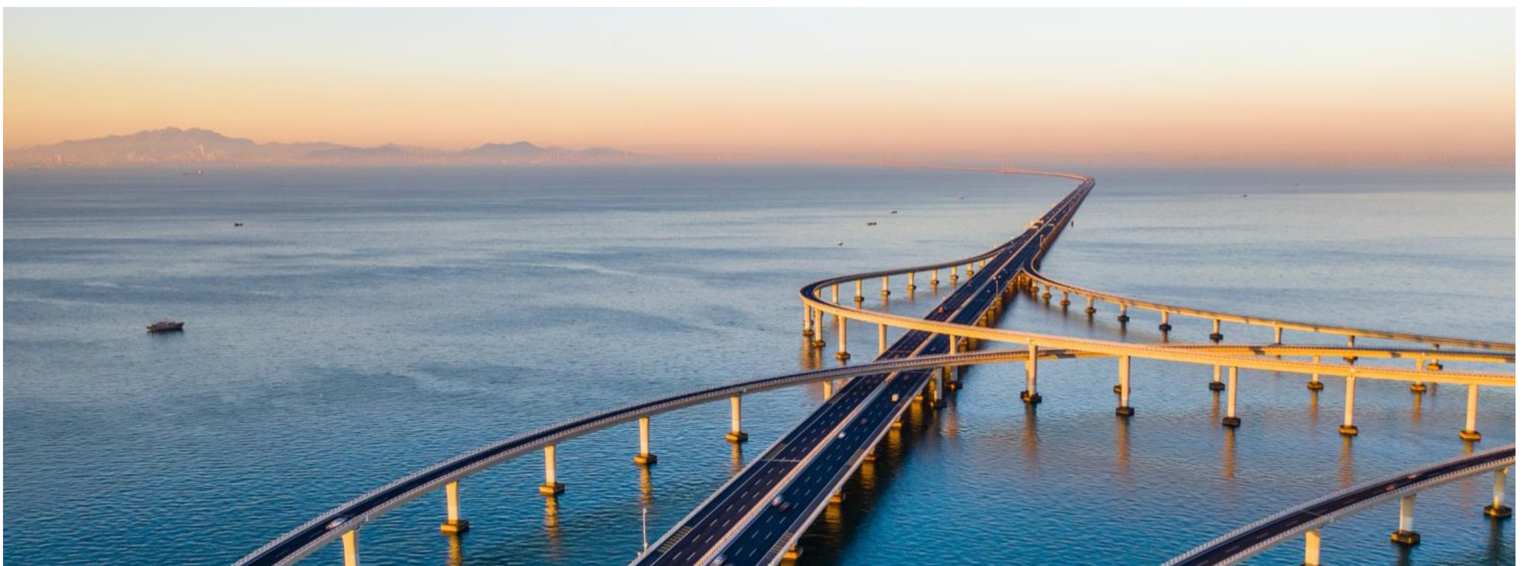
Second, market valuations are at depressed levels. The MSCI China A Onshore Index is trading close to 11x forward PE, well below its long-term average (Bloomberg, 29 January 2024). Much of the China equity market decline seen over the past year is due to derating, as opposed to weaker corporate earnings. To a large extent, this derating reflects both the higher risk premium placed on the asset class, as well as a loss of confidence across domestic and global investors. For the market to recover, an important first step will be restoring this investor confidence.

Signs of improvements in China's economic outlook will be crucial for taking this step. An uptick in domestic consumption – potentially helped by a spike in "dragon babies" born in this auspicious year – could be just such a sign. While numbers remain subdued, the queues to acquire a Lots-o'-Huggin' Bear (the fluffy villain from Pixar's Toy Story 3) at the recent opening of a CostCo in Shenzhen, and and the social media frenzy the five-foot bear generated, may offer anecdotal evidence that the Chinese consumer is alive and well!

Third, China's progress in 2024 in transitioning to an innovation-led economy will be key to its long-term economic success. We see China as being at a strategic economic crossroads. On the one hand, China needs to gradually wean itself off the previous growth model based on capital-intensive property and infrastructure. On the other hand, it needs to find replacement growth from other areas, in particular to pivot to higher-value, more innovation-driven sectors – a path previously taken by Korea.

This change of economic direction can only be achieved with ongoing, high levels of capital investment (including human capital) in critical technologies. In some ways, China is already well advanced. Significant advances have already been made in a range of areas including industrial automation, green technology, electric vehicles, autonomous driving, renewable energy, and software. But overall, we view China as being at the relatively early stages of transitioning to a new model based around innovation and the development of new technologies. And it is these areas where investors can find some of the most interesting opportunities, especially now that many stocks have de-rated to more attractive valuations.

The Year of the Dragon will not magically eliminate the headwinds China has recently faced. But with policy responses getting into gear, market sentiment may finally recover, and give due consideration to the exciting innovations Chinese companies are developing.



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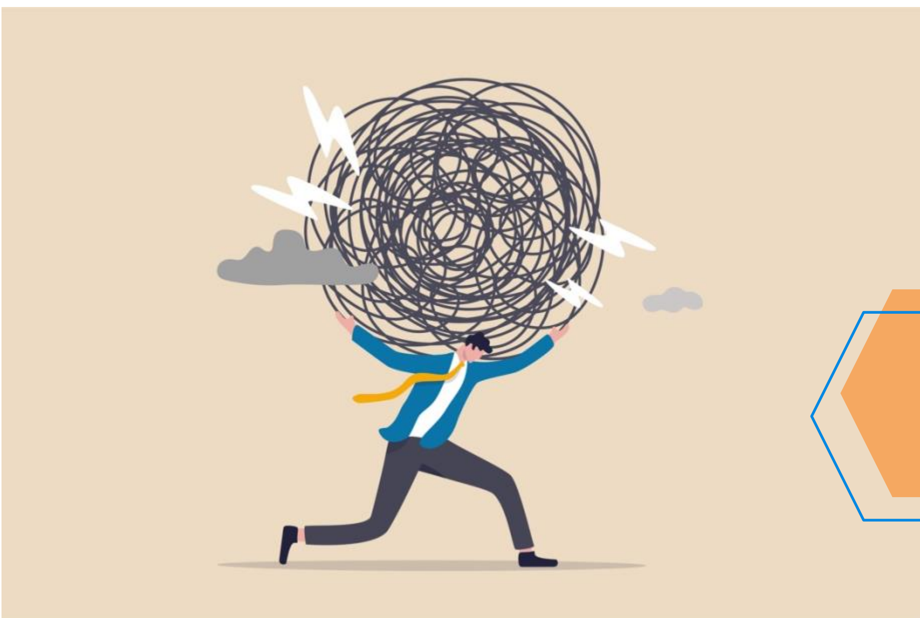
UNDERSTANDING **MENTAL ILLNESS COVERAGE**

Mental illness is more common than we think

Just as we focus on our physical health, we should also pay equal attention to our mental health. But unfortunately, it's often overlooked.

So while COVID-19 has brought about many devastating effects and stress-tested our resilience, there was one other thing that it did: it placed a spotlight on the importance of mental health. Among the different news coverage on mental health and related illnesses, a statistic from a TODAY article[1] stood out. It suggests that during the pandemic, as high as 21 per cent of respondents said they were depressed. In fact, almost 4 in 10 had considered suicide at some point.

But just as we are trying to catch a break post-pandemic and recalibrate, the global economy presents a new set of challenges – rising costs of living and waves of retrenchments. These instabilities have clearly taken a toll on the mental health of our working adults because PMETs^ seeking counselling due to retrenchments saw an average increase of 30 per cent year-on-year, as reported by the Singapore Counselling Centre[2].



Suffering from mental illnesses not only robs our quality of life, but it also impacts our economy. A recent study estimated that mental health issues such as anxiety and depression could cost us as much as 2.9 per cent of our gross domestic product – or nearly $16 billion every year in lost productivity (Source: TODAY[3]).

Common types of mental illness

Mental illnesses appear in different forms, each presenting its own unique challenges. Some common mental illnesses include:

- Depression
- Schizophrenia
- Bipolar disorder
- Obsessive Compulsive Disorder (OCD)

Just like all other illnesses, it is important to detect and treat mental illnesses early so it does not affect our daily functions and impact our relationships, work life as well as family. You might find the following articles useful to recognise the symptoms for depression, schizophrenia, bipolar disorder, and OCD.

Get professional help[4]

If you suspect that you or someone close to you has been experiencing mental health challenges for an extended period of time, it is important to reach out for professional help. Seek online support through helplines such as:

- Samaritans of Singapore (SOS)
    - 24-hour hotline: 1767
    - 24-hour CareText (via WhatsApp): 9151 1767
- Silver Ribbon Singapore: 6385 3714
- Institute of Mental Health (IMH) Mental Health Hotline: 6389 2222

Financing treatment for mental illness

At a glance, treatment for mental illnesses in Singapore may be costly and add a barrier for patients who need it most. Fortunately, there are resources available for individuals to receive the care they need without having to worry about the cost. These are some ways to reduce out-of-pocket spending:

1. **Chronic Disease Management Programme (CDMP)[5,6]**

   Under the Chronic Disease Management Programme (CDMP), individuals who suffer from dementia and mental illnesses like schizophrenia, major depression, bipolar disorder and anxiety can avail support under Medisave for Inpatient Psychiatric Episodes which covers hospital charges up to $150 a day, subject to a maximum of $5,000 a year. Similarly, outpatient treatments related to the specified 23 chronic conditions can cover up to $500 per year for non-complex situations and up to $700 for complex cases.

2. **Community Health Assist Scheme (CHAS)[7]**

   Besides the CDMP, extra financial support through the Community Health Assist Scheme (CHAS) can be provided if treatment is received from participating General Practitioner (GP) clinics. CHAS is available to all Singapore Citizens, including Pioneer Generation (PG) and Merdeka Generation (MG) cardholders. It complements the Chronic Disease Management Programme (CDMP) by allowing for the use of MediSave to pay for outpatient care while benefiting from CHAS subsidies.

3. **Insurance with mental illness coverage**

   Arming yourself with a life plan that includes coverage for mental illnesses can come in handy during an unexpected crisis. One could use the payout upon diagnosis to seek treatment or cover daily expenses in situations where one is unable to continue working. Besides life plans, you could also look towards microinsurance solutions that supports your mental wellness journey by covering psychiatric consultation and psychotherapy treatment.

While the journey of understanding and managing mental health issues might be complex, financial considerations needn't be. With the right strategy in place – comprising financial assistance and insurance policies – the path to emotional and holistic wellness becomes clearer and more achievable. Learn more at www.income.com.sg/life-insurance or speak with your trusted advisor today.

Notes

^ *PMET: Professionals, Managers, Executives, and Technicians.*

[1] TODAY. (2022, August 31). *Singaporeans are leading healthier lives but experiencing more mental health problems: Survey*. https://www.todayonline.com/singapore/singaporeans-leading-healthier-lives-but-experiencing-more-mental-health-problems-survey

[2] Workipedia by MyCareersFuture. (n.d.) *How to deal with your emotions after being retrenched in Singapore*. Retrieved 2024, March 22, from https://content.mycareersfuture.gov.sg/retrenched-singapore-deal-emotions/

[3] TODAY. (2023, April 27). *Lost productivity due to depression and anxiety may cost Singapore nearly S$16b a year: IMH, Duke-NUS study*. https://www.todayonline.com/singapore/depression-anxiety-lost-productivity-cost-singapore-billions-2159496

[4] The Income Blog. (2024, January 9). *Signs of depression and how to get help in Singapore (2024)*. http://www.income.com.sg/blog/depression-in-singapore

[5] Ministry of Health. (n.d.). *Chronic disease management programme (CDMP)*. Retrieved 2024, March 22, from https://www.moh.gov.sg/policies-and-legislation/chronic-disease-management-programme-(cdmp)

[6] Ministry of Health. (n.d.). *Medisave*. Retrieved 2024, March 22, from https://www.moh.gov.sg/healthcare-schemes-subsidies/medisave

[7] Ministry of Health. (n.d.). *Mental Health and Preventive Care in Primary Care*. Retrieved 2024, March 22, from https://www.moh.gov.sg/news-highlights/details/mental-health-and-preventive-care-in-primary-care

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Information is correct as at 28 March 2024.

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PIAS INVESTMENT OUTLOOK (Q2 2024)

Author | Investment, Product Management | PIAS
Source | ECB, Bloomberg, March 2024 & Ministry of Statistic, Bloomberg, March 2024

- Major economies have made significant progress in addressing inflation, with a continued downward trend expected in 2024. The US economy began 2024 from a position of strength, continuing from positive trends observed in business activity, job markets, public sentiment, and inflation. In March's Federal Open Market Committee meeting, the projections through a "dot plot," suggested three interest rates cut of 0.25% each in 2024. **With the US leading the way in the Artificial Intelligence revolution, a development that is expected to drive increased capital spending in the short term and enhance productivity in the long term, coupled with a resilient labour market, moderating inflation, and forthcoming interest rate cuts, we believe that the US economy would remain supported in 2024.**

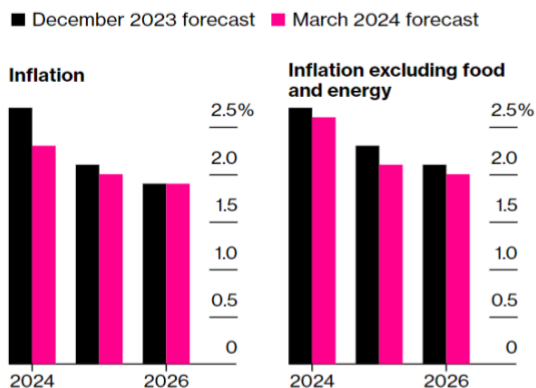
- In Europe, economic activity indicators are exceeding expectations, while core inflation is moving closer to the European Central Bank's (ECB) target of 2%, with the ECB's latest quarterly outlook revising inflation from 2.7% to 2.3% for 2024 (Chart A). **Europe's unemployment rate is also at a historic low of 6.4% and the ECB has indicated that rate cuts are probable to start in June in reaction to the downward trajectory of core inflation.** On the other hand, the economic outlook for the UK remains challenging. GDP growth is stagnant, and inflation is decreasing at a slower rate compared to other developed economies. **Market forecasts suggest that the Bank of England is likely to initiate interest rate reductions in the third quarter, which could offer some alleviation.**

- Similarly, Japan has also exceeded expectations in terms of economic activity, corporate profit growth and financial market performance, with the Tokyo Stock Price Index (TOPIX) emerging as one of the top-performing markets year-to-date. In the March meeting, the central bank of Japan announced the end of its negative interest rate policy, yield-curve control, and its quantitative easing program involving the purchase of exchange-traded funds. **This is largely anticipated by market participants and the outlook for Japan indicates a continuation of trend-like growth for the remainder of the year. Wage growth and inflation expectations have been aligning with levels that are in line with the Bank of Japan's (BoJ) inflation target. The BoJ has also indicated its intention to maintain an accommodative stance and continue purchasing government bonds at the current rate. This alignment should enable the BoJ to gradually normalize its policy throughout 2024 and remain supportive of the Japan's economy.**

- The situation in China remains a mix of positive and negative developments. Challenges persist in the property market, with China's new home prices declining for the 8th consecutive month in February. The urban and youth unemployment rates also remain high at 5.3% and 14.9% respectively in February. However, consumption has increased higher than expected, with February's retail sales measuring 5.5%, higher than market expectation. While there are also deflationary pressures on the consumer price index, the economic data indicates a modestly positive trajectory, with CPI figures rebounding to 0.7% in February after four consecutive months of declining inflation. **This suggests that deflationary pressures may be beginning to alleviate in China. Although the stimulus efforts implemented have thus far been incremental, the government's ambitious 5% GDP growth target for 2024 indicates that more substantial policy actions can be expected in the near future and as such, we maintain our neutral stance on China.** Elsewhere in Asia, India continues to shine, supported by a boost in output due to increased export orders and domestic demand. Investments in technology and positive sales trends have also contributed to the growth of the service industry. **India is expected to continue to lead major economies in real GDP growth in 2024, with its GDP growing at 8.4% YoY in Q4 2023 (Chart B), beating estimates of 6.6%. Morgan Stanley has raised India's GDP growth forecast for FY25 to 6.8% from its previous estimate of 6.5%.**

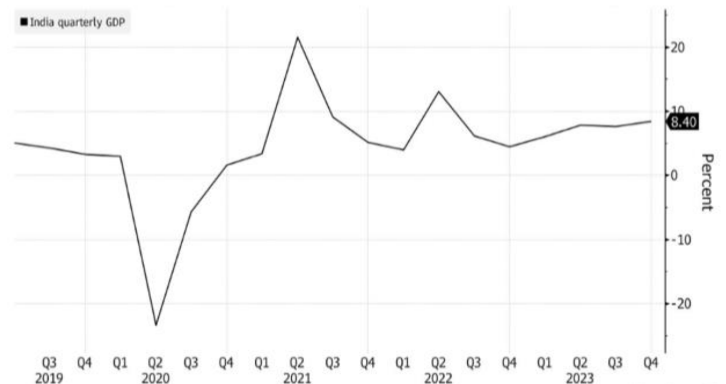
- **Looking ahead to the second quarter of 2024, while macroeconomic challenges persist, the market sentiment is cautiously optimistic. Global inflation seems to be moderating from its peak, with efforts underway to bring it back in line with targets. However, we emphasize the importance for investors to seek opportunities across different asset classes in a well-diversified portfolio, thereby leveraging on the diverse opportunities offered by various asset classes and regions.**

ECB Cuts Inflation Projections (Chart A)



Source: ECB, Bloomberg, March 2024

India GDP growth (Chart B)



Source: Ministry of Statistic, Bloomberg, March 2024

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