For professional investors only - not for retail investors.

April 2020

Five reasons to keep the faith

Aberdeen Standard Investments

Amid the coronavirus pandemic and oil price war, our A-share team urges investors to consider why China's stock market is outperforming right now.

The novel coronavirus pandemic is taking a heavy toll on the global economy and capital markets, creating uncertainty and causing widespread investor panic. At this point it's worth taking stock of where we are now, and why investors should keep faith in the A-share market.

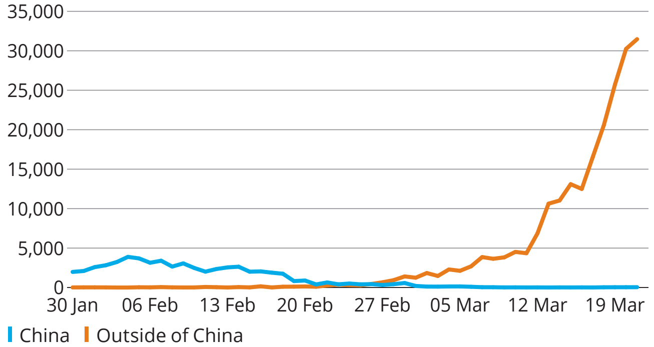
1

Better shape

China is now an old hand at managing crises. To all intents and purposes, it contained the COVID-19 outbreak in one province (Hubei), sparing huge populations in cities such as Shanghai, Beijing, Guangzhou and Shenzhen from the brunt of this pandemic. The Chinese leadership team's response has been quick, decisive and effective, in contrast to hesitancy among governments elsewhere. It has left China in better shape than the rest of the world (see chart). In addition, the People's Bank of China has prioritised timely liquidity management over a major rate cut, using targeted measures such as tax breaks to support sectors under most strain. Its measured approach helps to explain the relative outperformance of MSCI China A Onshore Index, which has returned -13.35% year to 23/03/2020 versus -30.43% for the S&P500 and -35.05% for MSCI Europe. Moreover, amid the oil price war, it's worth noting that the energy sector makes up just 1.5% of MSCI China A Onshore.[1] In other words, the A-share market is less oil-driven – and effectively less risky – than many major markets around the globe.

Daily new confirmed COVID-19 Cases

China vs outside of China (persons)



Source: National Health Commission, CICC Research, 21 March 2020.

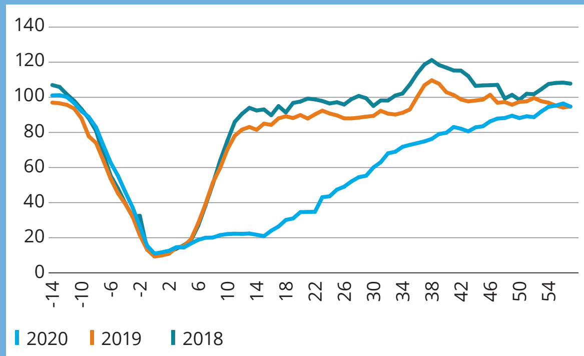
2

Getting back to work

Slowly but surely the Chinese are returning to work, even as nations elsewhere are shutting economic activity down and declaring states of emergency. In March, President Xi Jinping visited Wuhan in Hubei province – the epicentre of what was to become a global pandemic – to encourage migrant workers to return to work. Gradually authorities have lifted the lockdown in Hubei. With factories in China starting to resume production and migrant workers returning to their day jobs, freight logistics rates – indicating the movement of goods around the economy – are on the rise and people are consuming again. It underscores how the swiftness of Chinese leaders' actions has enabled the nation to get back on its feet quickly.

Freight logistics activity index

Average of 3rd week before LNY = 100



Source: Ministry of Transport, G7, CICC Research, 21 March 2020.

[1] Source: Bloomberg, MSCI, 23 March 2020.

3

Stimulus

China responded rapidly after Lunar New Year with an injection of liquidity into the banking system, which has helped to support market volumes and retail investor participation. More recently the People's Bank of China (PBoC) has made credit more freely available by cutting the amount of cash that banks need to set aside as reserves. It is a continuation of China's targeted approach to stimulus. Investors can expect more fiscal and administrative measures to support the resumption of normal operations, including tax cuts and exemptions as well as low-cost loans. To date the PBoC has been less aggressive in its response than other global central banks, which have acted to steady markets but are running low on conventional monetary firepower. China, on the other hand, has yet to unleash the full power of its fiscal and monetary might. It retains dry powder.

4

Relatively insulated

As the needs of China's population have evolved, so its policymakers have switched from prioritising economic growth at all costs via industrial manufacturing and exports to driving self-sufficient expansion through domestic consumption and services. The latter makes up more than 50% of China's GDP growth today. Its economy is being powered by urbanisation, an increasingly wealthy population and a huge domestic market. This is where investors can anticipate continued structural growth. The customers and supply chains of domestically orientated companies are largely based in China, so the bulk of their revenues and costs are renminbi-based. As such they are more reliant on internal than external demand, pointing to sustainability in earnings growth. It leaves them relatively insulated during downturns in global economic growth.

Premium consumption

Our long-term investment thesis remains unchanged. China today has the world's second-largest economy. Rising wealth and living standards mean the country is moving rapidly to higher value goods and services. The key is identifying companies that can tap into these growing disposable incomes. China's 380 million millennials are earning and spending more than their parents ever did. This increased spending power is driving demand for premium products ranging from electric appliances to cars and even high-end liquor. We also see structural demand for insurance and wealth planning. These are some of the things people demand as they get richer. In our view, investors should focus on the prospects for Chinese consumers, especially at the premium end.

Key investment themes

Spending switch

Resilient companies benefiting from change in work and consumption patterns following the outbreak of covid-19. This includes plays on cloud computing, cyber-security, online grocery deliveries and a thermal camera maker.

Higher-end food and beverages

With wages on the rise, we see strong prospects in higher-end food and beverage producers including liquor, milk and soy sauce.

Matter of policy: life insurance on the rise

Chinese insurers are improving their product mix towards life insurance and away from savings products. Life insurance is under-penetrated, which bodes well for future growth in premiums.

Health & Wellness

Rising disposable incomes are driving demand for healthcare products and services. The opportunity set is diverse. We see opportunities in hospitals, contract research for the pharma industry, and demand for traditional Chinese medicine.

Source: Aberdeen Standard Investments, 20 March 2020. Investment themes are subject to change.

5

Important Information

The value of investments, and the income from them, can go down as well as up and investors may get back less than the amount invested. Past performance is not a guide to future results.

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121041403 04/20 | DH: GB-030420-114021-1

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