

CIO Viewpoint

Chinese tech turmoil and equality distract from fundamentals

Investment Solutions

23 August 2021

China's regulatory crackdown on technology firms continued last week, prompting another decline in the country's biggest equity names. At the same time, the government reiterated calls for greater income equality, triggering declines in education stocks. The falls in Chinese share prices have prompted investors, including ourselves, to look closer at China's prospects. Short-term volatility should not cloud China's underlying investment strengths.

The crackdown is in part an attempt to put in place the data protection and anti-trust legislation that was, until now, weak compared with global peers, and brings China closer to international standards. Chinese regulators have strengthened anti-trust enforcement, including fines, warnings and investigations on acquisitions and joint ventures to counter monopolies. These rules have challenged firms such as Alibaba, Tencent, Baidu, Didi Global and Meituan. Chinese authorities have also set higher standards for Initial Public Offerings, including suspending Ant Group's USD 37 billion [listing](#) in Hong Kong and Shanghai, which would have been the world's biggest, as well as tightening online lending and banks' capital requirements.

The Cyberspace Administration of China (CAC) has led changes to data security, restricting personal data collection after Weibo Corp.'s social media work to influence public opinion last year. In mid-July, the CAC also [removed Didi Global](#), with almost 500 million ride-hailing customers, from Chinese app stores. Didi first listed shares on the NYSE on 30 June. Authorities now require firms with more than one million users wanting to list in a foreign market to go through a cybersecurity review. Separately, one of Tencent Holding's computer games was criticised as "electronic drugs" by a state-owned media earlier this month. Shares in Tencent, China's most valuable company, fell 11% taking its slide to 45% since a January 2021 high.

'Prosperity for all'

Some of the regulation has been explained in terms of levelling incomes. The country's Central Financial and Economic Affairs Commission said last week that it plans to "regulate excessively high incomes and encourage high-income groups and enterprises to return more to society". In a further challenge to the tech industry last week, Chinese President Xi Jinping demanded "regulation of high incomes." Rather than working to generate wealth at any cost, the party now aims at "common prosperity for all."



Stéphane Monier
Chief Investment Officer, Lombard Odier Private Bank

Key takeaways

- Tech firm regulations and crackdowns have seen equity markets fall as China sets out oversight standards and data protection
- China's ageing population will impact GDP, however the country's productivity means it can still achieve its goal of doubling the economy by 2035
- Monetary and fiscal policies are more supportive, and the regulatory environment should shift focus to compliance within 6-12 months
- Short-term volatility means investors should stay reactive. China's underlying strengths support investments in the world's second-biggest economy.

Important information: Please read the important information at the end of the document.

Weekly publication of Lombard Odier - Contacts: Investment Solutions, investment-solutions@lombardodier.com

Data as of 23 August 2021 unless otherwise stated.

Lombard Odier · CIO Viewpoint · 23 August 2021

China wants to become a high-income economy over the next 15 years by [doubling gross domestic product](#). The World Bank defines a high-income economy as per capita gross national income of more than USD 12,535. In 2019, China's GNI per head was USD 10,410, a ten-fold rise since the country joined the World Trade Organisation in 2001. The World Bank estimated in 2018 that 373 million Chinese citizens earned less than USD 5.50 per day, its poverty threshold in "upper middle-income countries".

In a further indication of the Communist Party's thinking, last month regulators also said after-school private tuition in core subjects must be not-for-profit, aiming to lower living costs and so increase China's birth rate. In October 2015, China lifted its one-child policy after more than three decades, to [two children](#) per couple. That has not been enough to stop 2020 recording the country's slowest population growth since the first reliable census of 1953, and the nation's fertility rate has fallen to 1.3 children per woman, below both the US' 1.7 and 1.4 in Japan. In May 2021, the Chinese government lifted the limit to three children.

China's demographic challenges are mounting as its population ages and fewer workers must compensate for a lower taxable base. The nation's ratio of working-age people to those over 65 years old has increased from 11% to 20% within one decade as the working-age population fell 3%.

While the United Nations has forecast that China's population will peak in 2030, it is also possible that it has already reached its highest level. Even the People's Bank of China (PBoC) has warned that there are incentives to over-state population data at the regional and ministerial levels, because population numbers are tied to budgets. "We must realise that China's demographic picture has reversed," the central bank [said in April](#).

Growth outlook

China's demographic ageing began to detract from headline growth in 2016 at the rate of 10-to-30 basis points per year. Over the next 15 years, we expect this process to cut an average of 50 basis points from growth, removing as much as 1 percent from GDP by 2035. However, if China successfully replicates the productivity paths of South Korea or Taiwan, it should be able to maintain annual growth of 4.0-to-4.5% despite its demographic pressures.

In March, the PBoC projected potential annualised growth of between 5% and 5.7% through 2025. We believe that China's long-term potential growth is now below 5%. That said, next year, we expect the economy to grow 5.3%, suggesting that there should be no decline in employment, despite the negative demographic effects of an ageing population.

In the very near term, the economic impact of Covid's Delta variant, a slowdown in credit and investment flows as well as recent regulatory changes will all undermine third-quarter growth. Nevertheless, the economy still enjoys fiscal and monetary support. We expect the last three months of 2021 to compensate for some of this quarter's weakness, and forecast above-potential growth of 8.7% for this full year.

Adjusting equity allocations

For now, with Chinese regulation news driving the market, investors need to remain reactive. Nevertheless, we believe that the drive to deliver a new regulatory framework will slacken within six to 12 months as China moves into a compliance phase and companies adapt. In particular, those companies not already targeted will move to meet the rules in order to avoid more damaging attention. Nor do we expect this regulatory drive, filling a gap where there was little before, to take an even more dramatic turn towards nationalisation.

In March, we cut our exposure to Chinese equities to an underweight portfolio position, as we saw growing regulatory risks, tightening monetary policy and unfavourable momentum in earnings. That cautious positioning paid off. Now, equity valuations are closer to their averages and with the PBoC's more accommodative monetary policy, we expect business activity to improve. As a result, we believe that markets will prove more stable and the risk-reward balance has already changed. We have therefore taken advantage of recent market price moves to bring our positioning back to neutral.

Chinese fixed income yields remain attractive and continue to offer portfolio diversification. The renminbi continues to benefit from solid valuations and a robust balance of payments, however exports have slowed and the central bank's [more neutral policy](#) mean we have taken some profits on our exposure to the currency by halving our overweight allocation.

Important information

This is a marketing communication issued by Bank Lombard Odier & Co Ltd (hereinafter "Lombard Odier"). It is not intended for distribution, publication, or use in any jurisdiction where such distribution, publication, or use would be unlawful, nor is it aimed at any person or entity to whom it would be unlawful to address such a marketing communication. This marketing communication is provided for information purposes only. It does not constitute an offer or a recommendation to subscribe, purchase, sell or hold any security or financial instrument. It contains the opinions of Lombard Odier, as at the date of issue. **These opinions and the information contained herein do not take into account an individual's specific circumstances, objectives, or needs. No representation is made that any investment or strategy is suitable or appropriate to individual circumstances or that any investment or strategy constitutes personalised investment advice to any investor.** Each investor must make his/her own independent decisions regarding any securities or financial instruments mentioned herein. Tax treatment depends on the individual circumstances of each person and may be subject to change in the future. Lombard Odier does not provide tax advice. Therefore, you must verify the above and all other information provided in the marketing communication or otherwise review it with your external tax advisors. Some investment products and services, including custody, may be subject to legal restrictions or may not be available worldwide on an unrestricted basis. The information and analysis contained herein are based on sources considered reliable. Lombard Odier uses its best effort to ensure the timeliness, accuracy, and comprehensiveness of the information contained in this marketing communication. Nevertheless, all information and opinions as well as the prices, market valuations and calculations indicated herein may change without notice.

Investments are subject to a variety of risks. Before entering into any transaction, an investor should consult his/her investment advisor and, where necessary, obtain independent professional advice in respect of risks, as well as any legal, regulatory, credit, tax, and accounting consequences. The investments mentioned in this marketing communication may carry risks that are difficult to quantify and integrate into an investment assessment. In general, products such as equities, bonds, securities lending, forex, or money market instruments bear risks, which are higher in the case of derivative, structured, and private equity products; these are aimed solely at investors who are able to understand their nature and characteristics and to bear their associated risks. On request, Lombard Odier will be pleased to provide investors with more detailed information concerning risks associated with given instruments. **Past performance is no guarantee of current or future returns, and the investor may receive back less than he/she invested.** The value of any investment in a currency other than the base currency of a portfolio is subject to the foreign exchange rates. Exchange rates may fluctuate and adversely affect the value of the investment when it is realised and converted back into the investor's base currency. The liquidity of an investment is subject to supply and demand. Some products may not have a well-established secondary market or in extreme market conditions may be difficult to value, resulting in price volatility and making it difficult to obtain a price to dispose of the asset. **This marketing communication is not issued by the organisational unit of the Bank Lombard Odier & Co Ltd responsible for the production of financial research,** as defined under the Swiss Bankers Association Directives on the Independence of Financial Research. Consequently, it is not prepared in accordance with the provisions of the referred Directives or any other legal requirements designed to promote the independence of the production of financial research. Opinions expressed in this marketing communication may differ from the opinions expressed by other divisions of Lombard Odier, including Bank Lombard Odier & Co Ltd's Research Department. Nevertheless, if opinions from financial analysts belonging to the Research Department are contained herein, such analysts attest that all of the opinions expressed accurately reflect their personal views about any given instruments. In order to ensure their independence, financial analysts are expressly prohibited from owning any securities that belong to the research universe they cover. Lombard Odier may hold positions in securities as referred to in this marketing communication for and on behalf of its clients and/or such securities may be included in the portfolios of investment funds as managed by Lombard Odier or affiliated Group companies. Lombard Odier recognises that conflicts of interest may exist as a consequence of the distribution of financial instruments or products issued and/or managed by entities belonging to the Lombard Odier Group. Lombard Odier has a Conflict of Interests policy to identify and manage such conflicts of interest.

European Union Members: This marketing communication has been approved for use by Lombard Odier (Europe) S.A. in Luxembourg and by each of its branches operating in the following territories: **Belgium:** Lombard Odier (Europe) S.A. Luxembourg · Belgium branch; **France:** Lombard Odier (Europe) S.A. · Succursale en France; **Italy:** Lombard Odier (Europe) S.A. · Italian Branch; **Spain:** Lombard Odier (Europe) S.A. · Sucursal en España. Lombard Odier (Europe) S.A. is a credit institution authorised and regulated by the Commission de Surveillance du Secteur Financier (CSSF) in Luxembourg. In addition, this marketing communication has also been approved for use by the following entity domiciled within the European Union: **Spain:** Lombard Odier Gestión (España) S.G.I.I.C., S.A.U., an investment management company authorised and regulated by the Comisión Nacional del Mercado de Valores (CNMV), Spain.

Hong Kong: This marketing communication has been approved for use by Lombard Odier (Hong Kong) Limited, a licensed entity regulated and supervised by the Securities and Futures Commission in Hong Kong for the general information of professional investors and other persons in accordance with the Securities and Futures Ordinance (Chapter 571) of the laws of Hong Kong.

Singapore: This marketing communication has been approved for use by Lombard Odier (Singapore) Ltd for the general information of accredited investors and other persons in accordance with the conditions specified in Sections 275 and 305 of the Securities and Futures Act (Chapter 289). Recipients in Singapore should contact Lombard Odier (Singapore) Ltd, an exempt financial adviser under the Financial Advisers Act (Chapter 110) and a merchant bank regulated and supervised by the Monetary Authority of Singapore, in respect of any matters arising from, or in connection with this marketing communication. The recipients of this marketing communication represent and warrant that they are accredited investors and other persons as defined in the Securities and Futures Act (Chapter 289). This advertisement has not been reviewed by the Monetary Authority of Singapore.

Panama: This marketing communication has been approved for use in Panamá by Lombard Odier (Panamá) Inc., an entity authorised and regulated by the Superintendencia del Mercado de Valores de Panamá. Licensed to operate as an Investment Adviser. Res. SMV No.528-2013.

Israel: This marketing communication has been approved for use in Israel by the Israel Representative Office of Bank Lombard Odier & Co Ltd, an entity not supervised by the Supervisor of Banks in the Bank of Israel, but by the Swiss Financial Market Supervisory Authority, which supervises the activities of Bank Lombard Odier & Co Ltd.

South Africa: This marketing communication has been approved for use in South Africa by the South Africa Representative Office of Bank Lombard Odier & Co Ltd, an authorised financial services provider Registration number 48505.

Switzerland: This marketing communication has been approved for use in Switzerland by Bank Lombard Odier & Co Ltd Geneva, a bank and securities firm authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA).

United Kingdom: This marketing communication has been approved for use in the United Kingdom by Lombard Odier (Europe) S.A. – UK Branch, a bank authorised and regulated by the Commission de Surveillance du Secteur Financier ("CSSF") in Luxembourg and deemed authorised in the UK by the Prudential Regulation Authority ("PRA"). Subject to regulation by the Financial Conduct Authority ("FCA") and limited regulation by the Prudential Regulation Authority. Financial Services Firm Reference Number 597896. **Details about the extent of our authorisation and regulation by the Prudential Regulation Authority and regulation by the Financial Conduct Authority are available from us on request.**

United States: Neither this document nor any copy thereof may be sent to, taken into, or distributed in the United States of America, any of its territories or possessions or areas subject to its jurisdiction, or to or for the benefit of a United States Person. For this purpose, the term "United States Person" shall mean any citizen, national or resident of the United States of America, partnership organised or existing in any state, territory or possession of the United States of America, a corporation organised under the laws of the United States or of any state, territory or possession thereof, or any estate or trust that is subject to United States Federal income tax regardless of the source of its income.

This marketing communication may not be reproduced (in whole or in part), transmitted, modified, or used for any public or commercial purpose without the prior written permission of Lombard Odier.

Data protection: You may be receiving this communication because you have provided us with your contact details. If this is the case, note that we may process your personal data for direct marketing purposes. If you wish to object to this processing, please address your objection to the Group's Data Protection Officer: Bank Lombard Odier & Co Ltd, Group Data Protection Officer, 11, Rue de la Corraterie, 1204 Geneva, Switzerland. E-Mail: group-dataprotection@lombardodier.com. For more information on Lombard Odier's data protection policy, please refer to www.lombardodier.com/privacy-policy.

© 2021 Bank Lombard Odier & Co Ltd – all rights reserved. Ref. LOCH/LOESA/LOASIA-MWNPR-en-012021.

SWITZERLAND

GENEVA

Bank Lombard Odier & Co Ltd¹

Rue de la Corraiterie 11 · 1204 Genève · Suisse
geneva@lombardodier.com

Lombard Odier Asset Management (Switzerland) SA

Avenue des Morgines 6 · 1213 Petit-Lancy · Suisse
Support-Client-LOIM@lombardodier.com
Management Company regulated by the FINMA.

FRIBOURG

Banque Lombard Odier & Cie SA · Bureau de Fribourg¹

Rue de la Banque 3 · 1700 Fribourg · Suisse
fribourg@lombardodier.com

LAUSANNE

Bank Lombard Odier & Co Ltd¹

Place St-François 11 · 1003 Lausanne · Suisse
lausanne@lombardodier.com

VEVEY

Banque Lombard Odier & Cie SA · Agence de Vevey¹

Rue Jean-Jacques Rousseau 5 · 1800 Vevey · Suisse
vevey@lombardodier.com

ZURICH

Bank Lombard Odier & Co Ltd¹

Utoschloss · Utoquai 29-31 · 8008 Zürich · Schweiz
zurich@lombardodier.com

EUROPE

BRUSSELS

Lombard Odier (Europe) S.A. Luxembourg · Belgium branch²

Avenue Louise 81 · Box 12 · 1050 Brussels · Belgium
brussels@lombardodier.com

Credit institution supervised in Belgium by the National Bank of Belgium (NBB) and the Financial Services and Markets Authority (FSMA).

LONDON

Lombard Odier (Europe) S.A. · UK Branch²

Queensberry House · 3 Old Burlington Street · London
W1S 3AB · United Kingdom
london@lombardodier.com

The Bank is deemed authorised in the UK by the Prudential Regulation Authority (PRA). Subject to regulation by the Financial Conduct Authority (FCA) and limited regulation by the Prudential Regulation Authority. Financial Services Firm Reference Number 597896. Details about the extent of our authorisation and regulation by the Prudential Regulation Authority and regulation by the Financial Conduct Authority are available from us on request.

Lombard Odier Asset Management (Europe) Limited

Queensberry House · 3 Old Burlington Street · London
W1S 3AB · United Kingdom
london@lombardodier.com

Investment firm authorised and regulated by the Financial Conduct Authority (FCA register No.515393).

LUXEMBOURG

Lombard Odier (Europe) S.A.

291, route d'Arlon · 1150 · Luxembourg · Luxembourg
luxembourg@lombardodier.com

Credit institution authorised and regulated by the Commission de Surveillance du Secteur Financier (CSSF) in Luxembourg.

Lombard Odier Funds (Europe) S.A.

291, route d'Arlon · 1150 · Luxembourg · Luxembourg
luxembourg@lombardodier.com

MADRID

Lombard Odier (Europe) S.A. · Sucursal en España²

Paseo de la Castellana 66 · 4^a Pl. · 28046 Madrid · España · madrid@lombardodier.com

Credit institution supervised in Spain, by the Banco de España and the Comisión Nacional del Mercado de Valores (CNMV).

Lombard Odier Gestión (España) S.G.I.I.C, S.A.U.

Paseo de la Castellana 66, 4^a Pl. · 28046 Madrid · España · madrid@lombardodier.com

Management Company supervised by the Comisión Nacional del Mercado de Valores (CNMV).

MILAN

Lombard Odier (Europe) S.A. · Succursale in Italia²

Via Santa Margherita 6 · 20121 Milano · Italia
milano-cp@lombardodier.com

Credit institution supervised in Italy by the Commissione Nazionale per le Società e la Borsa (CONSOB) and la Banca d'Italia.

MOSCOW

Bank Lombard Odier & Co Ltd · Representative Office Moscow

Letnikovskaya st. 2, bld. 1 · 115114 Moscow · Russian Federation · moscow@lombardodier.com

Under the supervisory authority of the Central Bank of the Russian Federation.

PARIS

Lombard Odier (Europe) S.A. · Succursale en France²

8, rue Royale · 75008 Paris · France. RCS PARIS
B 803 905 157 · paris@lombardodier.com

Credit institution supervised in France by the Autorité de contrôle prudentiel et de résolution (ACPR) and by the Autorité des Marchés Financiers (AMF) in respect of its investment services activities. Business permit No.23/12. Registered in Luxembourg · No.B169 907.

Insurance intermediary authorised by the Commissariat aux Assurances (CAA) No.2014 CMO02. The registration with the CAA can be verified at www.orias.fr.

AFRICA | AMERICAS | MIDDLE EAST

ABU-DHABI

Bank Lombard Odier & Co Ltd · Abu Dhabi Global Market Branch

Al Maryah Island · Abu Dhabi Global Market Square · Al Khatem Tower · 8th floor · P.O. Box 764646 · Abu Dhabi · UAE · abudhabi@lombardodier.com

Arranging Deals in Investments · Advising on Investment or Credit · Arranging Credit. Regulated by the ADGM Financial Services Regulatory Authority.

BERMUDA

Lombard Odier Trust (Bermuda) Limited

3rd Floor, Victoria Place · 31 Victoria Street · Hamilton
HM 10 · Bermuda · bermuda@lombardodier.com

Licensed to conduct Trust, Investment and Corporate Service Provider Business by the Bermuda Monetary Authority.

BRASIL

Lombard Odier (Brasil) Consultoria de Valores Mobiliários Ltda.

Avenida 9 de Julho No. 3624, Torre DGN 360, 6^o andar · Jardim Paulista · CEP 01406-000 · São Paulo · Brasil
sao.paulo.office@lombardodier.com

Supervised by the Comissão de Valores Mobiliários of Brazil.

DUBAI

Bank Lombard Odier & Co Ltd · Representative Office Dubai

Conrad Business Tower · 12th Floor · Sheikh Zayed Road · P.O. Box 212240 · Dubai · UAE
dubai@lombardodier.com

Under the supervisory authority of the Central Bank of the UAE.

ISRAEL

Israel Representative Office ·

Bank Lombard Odier & Co Ltd

Alrov Tower 11th floor · 46 Rothschild Blvd. · Tel Aviv
6688312 · Israel · telaviv@lombardodier.com

Not supervised by the Supervisor of Banks in the Bank of Israel, but by Swiss Financial Market Supervisory Authority which supervises the activities of Bank Lombard Odier & Co Ltd.

JOHANNESBURG

South Africa Representative Office ·

Bank Lombard Odier & Co Ltd

4 Sandown Valley Crescent · Sandton · Johannesburg
2196 · South Africa · johannesburg@lombardodier.com

Authorised financial services provider Registration number 48505.

NASSAU

Lombard Odier & Cie (Bahamas) Limited

Lyford Cay House · Western Road · P.O. Box N-4938 · Nassau · Bahamas · nassau@lombardodier.com

Supervised by the Central Bank of the Bahamas and the Securities Commission of the Bahamas.

PANAMA

Lombard Odier & Cie (Bahamas) Limited · Representative Office in Panama

Oceania Business Plaza Torre 2000 · Oficina 38-D · Blvd. Pacifica · Urb. Punta Pacifica · Corregimiento de San Francisco · Panamá · panama@lombardodier.com

Supervised by the Central Bank of the Bahamas and the Superintendencia de Bancos de Panamá.

Lombard Odier (Panama) Inc.

Oceania Business Plaza Torre 2000 · Oficina 38-D · Blvd. Pacifica · Urb. Punta Pacifica · Corregimiento de San Francisco · Panamá · panama@lombardodier.com

Supervised by the Superintendencia del Mercado de valores de Panamá. Licensed to operate as an Investment Adviser.

Res. SMV No.528-2013.

ASIA - PACIFIC

HONG KONG

Lombard Odier (Hong Kong) Limited

3901, Two Exchange Square · 8 Connaught Place · Central · Hong Kong · hongkong@lombardodier.com

A licensed entity regulated and supervised by the Securities and Futures Commission in Hong Kong.

SINGAPORE

Lombard Odier (Singapore) Ltd.

9 Raffles Place · Republic Plaza #46-02 · Singapore
048619 · singapore@lombardodier.com

A merchant bank regulated and supervised by the Monetary Authority of Singapore.

TOKYO

Lombard Odier Trust (Japan) Limited

Izumi Garden Tower 41F · 1-6-1 Roppongi, Minato-ku · Tokyo 106-6041 · Japan · tokyo@lombardodier.com

Regulated and supervised by the Financial Services Agency (FSA) in Japan. It holds a trust business license (FSA No.208)

and is registered with Kanto Local Finance Bureau for Financial Instruments Business Operator (No.470).

¹ Private bank and securities firm authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA).

² Branch of Lombard Odier (Europe) S.A., a credit institution based in Luxembourg, authorised and regulated by the Commission de Surveillance du Secteur Financier (CSSF) in Luxembourg.