LOMBARD ODIER
LOMBARD ODIER DARIER HENTSCH

CIO Viewpoint

Chinese, US policies cross paths, on different headings

Investment Solutions

13 December 2021

In 2021 the US enjoyed solid economic expansion and China experienced a year of slower growth. As we approach a new year, those trends are poised to reverse. The world's two superpowers' monetary and fiscal policies are crossing paths, heading in different directions.

This year China's economic expansion slowed as the country tightened borders to fight Covid and restricted support, while a rebounding US economy was driven by accommodative monetary policy and historic levels of federal spending. That is about to change. The US economy is far enough along its recovery path that the US Federal Reserve will roll back its asset purchases. In contrast, China will now target more growth as the Chinese Communist Party prepares for its 20th Congress late in 2022. There it is expected to swear in President Xi Jinping for an unprecedented third term.

Last week the People's Bank of China reduced the amounts of cash that commercial banks must keep in reserve for the second time this year, adding an estimated USD 188 billion of liquidity to the financial sector. The requirement will cut the 'reserve requirement ratio,' or RRR, by 50 basis points, starting 15 December. In addition, the central bank increased its foreign currency RRR by 200 bps to 9%, as part of a move to limit the renminbi's recent appreciation against the US dollar and investments in foreign-denominated debt (see chart).

China shifts up a gear

Earlier this year, the Chinese authorities worked to cool their economy and continued a shift to increasing domestic demand. They introduced tougher mortgage lending limits and halted credit lines to property developers. The measures acted as a catalyst for the debt defaults of Evergrande in September, removing the implicit guarantee for the property sector, and keeping a lid on demand for new real estate.

With the Winter Olympics in February and the Communist Party's Congress expected to be held in the second half of 2022, we expect the focus on stimulating growth to translate to annual GDP of 5% and annualised consumer price inflation around 2%. The Communist Party's recent 'Central Economic Work Conference,' part of preparations for next year's Congress, made a series of commitments pointing to additional support. These included infrastructure investment, changing the focus of housing away from speculation and developing the private sector.

Stéphane Monier
Chief Investment Officer, Lombard Odier Private Bank

Key takeaways

- The world's two superpowers' monetary and fiscal policies are moving in opposite directions
- The People's Bank of China begins to increase liquidity; the Fed plans tighter financial conditions
- In 2022, China will stimulate its economy as it hosts the Winter Olympics and holds its twice-per-decade Communist Party Congress
- We are underweight US equities and neutral Chinese stocks. We see value in Chinese high yield credit as the systemically-important real estate sector restructures.

China's government will continue to manage macroeconomic regulation in line with its longer-term ambition to double per capita income by its 2035 target. More recently, the government set out goals of targeting long-term economic and strategic independence and resilience, rather than boosting short-term growth.

Much of this stimulus may be couched in the language of 'common prosperity,' meaning improvements to citizens' quality of life, wealth equality, financial sector stability, curbs on pollution and, in the light of US restrictions on semi-conductors and Chinese firms, technological independence. Still, China's 'common prosperity' mantra has not yet translated into tangible policies or reforms and, as yet, looks more a shift in mindset than a regulatory reality designed to rebalance the economy.

Covid boost?

Equipped with relatively inefficient vaccines against the pandemic, China will maintain a zero Covid strategy through 2022, adjusted to minimise disruptions to production. The domestically-developed Sinovac, for example, has shown an efficiency of 51% against the coronavirus, according to the World Health Organisation, compared with 95% for Pfizer/ BioNTech.

China has not approved distribution of the Pfizer jab, and there is a home-developed vaccine in Phase 3 clinical trials. If both were approved in 2022, we can imagine that China may be in a position to re-open its borders late next year, or in early 2023, offering the economy a further boost. In the shorter-term, the Chinese economy will remain highly sensitive to the evolution of infections in the country, especially in the light of the third-quarter slowdown, which reflected restrictions containing a series of Delta variant outbreaks.

Covid restrictions combined with energy shortages that created manufacturing challenges, third quarter GDP increased 4.9% and growth may register nearer 3% for the last three-months of this year.

US reaches cruising speed

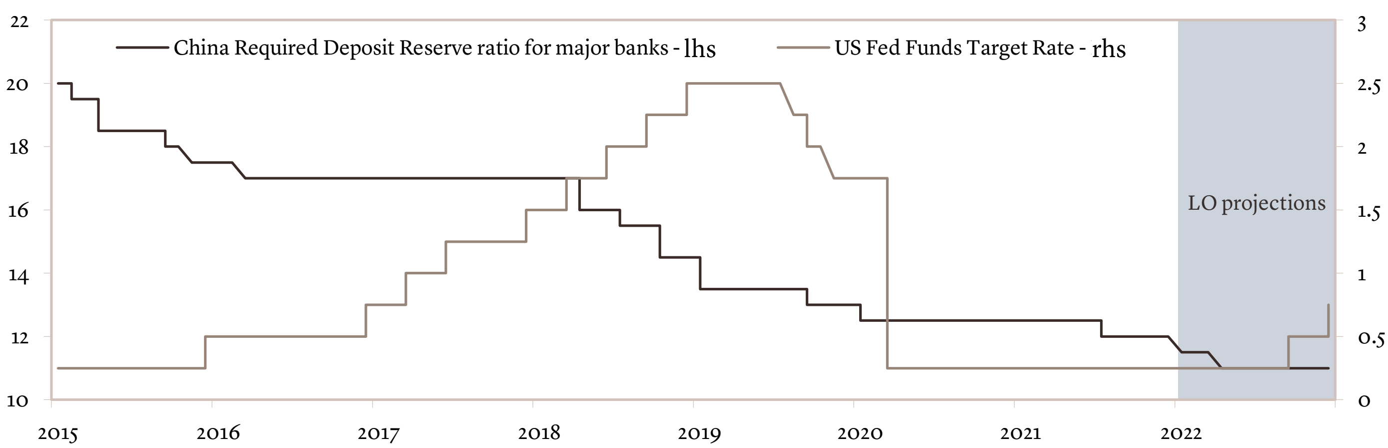
The outlook for America's 2022 is very different. As we wrote last week, the Fed said that it plans to accelerate the pace at which it cuts monthly asset purchases. It may double the speed of cuts at its 14/15 December meeting, creating space for the central bank to begin raising interest rates with a 25 basis point increase as early as June 2022. We expect the Fed to impose two rate hikes in 2022, with further increases bringing the benchmark rate to around 2.5% in 2024.

With the Fed no longer using 'transitory' to describe inflation in the US, we believe that price rises are likely to remain high in 2022, before declining towards the year-end for a core annualised inflation increase of 2.6%. Core PCE (personal consumption expenditures) inflation reached a three-decade high of 4.1% in October, compared with a year earlier. The factors driving inflation this year, including shipping congestion in and at the approach to American ports, are now easing. In addition, we expect oil prices, which in November hit a three-year high at nearly USD 85 per barrel for Brent crude, to continue to decline. On the demand side, consumer backlogs are freeing-up, and the pandemic's support programmes coming to an end as needs move from goods to services.

Investment opportunities

China's policies should create a significantly more domestic-focused economy. From a foreign investment perspective, this may increase opportunities, especially for portfolio

Diverging credit cycles



Source: Bloomberg, Lombard Odier calculations diversification. Chinese equity markets now offer investors a discount of around 40% on 12-month forward earnings, compared with a US universe such as the S&P500. In the context of improving economic expectations and more balanced risk outlook, this may be interesting for multi-asset portfolios. With this in mind, we are underweight US stocks, and hold a neutral position in Chinese equities versus our strategic benchmark. We remain overweight in Chinese sovereign bonds, which continue to provide a hedge against market volatility.

We do not see a new wave of regulatory threats ahead as the government looks to rebuild growth. Foreign investors in China remain focused on any indications of excessive leverage or tighter regulation.

We see selective value in Chinese high yield. The sector has been under pressure after a series of missed property company payments pushed the default rate to 8%; this is likely to rise next year. Almost 60% of China's high yield offshore credit is now trading at distressed levels with 'BB'-rated property bonds averaging yields close to 12%, while single 'B' property bonds are yielding more than 30%.

Still, Chinese real estate remains systemically important to the economy. This makes it highly likely that the government will ease conditions for some companies to continue operations, without causing major disruptions to the economy and financial sector. Stronger companies will then be able to refinance their short-term debt, and deleverage their balance sheets. Identifying companies strong enough to survive – or large enough to be considered of systemic importance – is therefore crucial.

Finally, as China's monetary policy alters, we believe that there is limited room for further renminbi gains against the dollar, leaving it stable through 2022.

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 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.

SWITZERLAND

GENEVA
Bank Lombard Odier & Co Ltd[1]
Rue de la Corraterie 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 Fribourg[1]
Rue de la Banque 3 · 1700 Fribourg · Suisse
fribourg@lombardodier.com

LAUSANNE
Bank Lombard Odier & Co Ltd[1]
Place St-François 11 · 1003 Lausanne · Suisse
lausanne@lombardodier.com

VEVEY
Banque Lombard Odier & Cie SA · Agence de Vevey[1]
Rue Jean-Jacques Rousseau 5 · 1800 Vevey · Suisse
vevey@lombardodier.com

ZURICH
Bank Lombard Odier & Co Ltd[1]
Utoschloss · Utoquai 29-31 · 8008 Zürich · Schweiz
zurich@lombardodier.com

EUROPE

BRUSSELS
Lombard Odier (Europe) S.A. Luxembourg · Belgium branch[2]
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 Branch[2]
Queensberry House · 3 Old Burlington Street · London W1S 3AB · United Kingdom
london@lombardodier.com
The Bank is 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 España[2]
Paseo de la Castellana 66 · 4ª 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, 4ª 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 Italia[2]
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 France[2]
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 CM002. 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° 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.*