

# CHINA INVESTMENT SYMPOSIUM - PART II

## China's Equity Market: Exposure, Access and Benchmarks



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China's rapid growth has made it one of the largest and most important economies in the world. But the country's equity markets are complex and ever-changing, and along with the many opportunities that come with investing in China are some unique risks. PGIM recently brought together a panel of thought leaders to discuss China's rising role in the global economy and surrounding geopolitical tensions in the second installment of our *China Investment Symposium* series. Following are a few highlights from the webinar, which can be viewed [here](#).

- **Institutional interest in China equities is growing:** While it remains a complicated time for western companies to invest in China, the sheer size and potential growth of the second-largest economy in the world makes it impossible to ignore, despite significant geopolitical concerns. Increasing equity index inclusion and a growing number of globally competitive Chinese companies will likely attract more institutional interest, and benchmark performance may be enhanced by the inclusion of more new-economy names. Market access has improved dramatically, and given the alpha opportunities in China, investors may also take a more active approach going forward.
- **Chinese equity markets may offer selected unique opportunities:** The breadth of Chinese companies sets it apart from other emerging markets for investors focused on building diverse portfolios. For quantitative investors looking to capture long-term factor trends, having a market that is not just a few hundred but thousands of names can be a unique opportunity. For fundamental investors, China's rebalancing to a more dynamic economy can allow for ample pockets of growth and innovation and can offer a good source of diversification and alpha generation.
- **Information flow is improving:** Investors have seen an uptick in both the quality and quantity of data coming out of China. Regulators are catching up to global standards and are increasingly discouraging companies that are not acting in good faith. While data cleanliness is still a risk factor, it's similar to that of other emerging markets,

and working with local vendors allows investors to access alternative data and uncover unique insights not provided by many of the larger data providers.

- **Megatrends in China can't be ignored:** Technology advancements, improvement in healthcare and changes in consumption driven by demographics will all play a key role in China in coming years. Over the next decade a massive new generation of consumers will enter the middle class, and even the elderly in China are moving their spending from offline to online. Healthcare spending in China as a percentage of GDP is expected to rise substantially, and the country continues to direct resources towards becoming a world-class biotech and pharma player.
- **The bear case...** Geopolitics is a constant concern, for both exporters and for domestic Chinese companies that require external technologies to grow. The growth model in China has shifted to one directed by domestic consumption, and how smoothly that transition goes and whether systemic issues such as the amount of debt and asset quality issues in the banking system are a concern. Likewise, any unexpected restrictions on capital markets would raise a red flag for investors.

The next installment of PGIM's China Investment Symposium, slated for the winter of 2020, will focus on US/China relations and offer a US election recap. Watch Part 1 of our Symposium [here](#), and to access all the thought leadership from PGIM and its autonomous businesses, visit [pgim.com](http://pgim.com).

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