CHINA'S STIMULUS BOOSTS INVESTOR SENTIMENT

PZENA Investment Management

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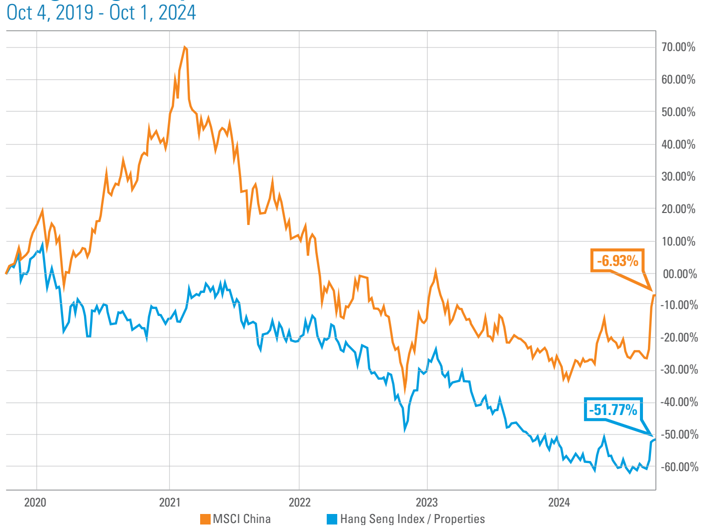
For Professional Investors Only

China recently announced several stimulus measures, mostly targeting the beleaguered property sector, which have been interpreted positively by investors. These initiatives include

1. The required downpayment for second homes has been reduced to 15% from 25% previously
2. The interest rate on existing mortgages was reduced by 50 basis points
3. The PBOC is allowing Chinese banks to draw down the full amount of its RMB 300bn lending facility, which is designed to encourage Chinese SOEs to buy up excess property inventory via cheap financing
4. The government is issuing one-off cash handouts to the poor (unspecified amount)
5. It's being reported that the government is considering a RMB 1T capital injection into the nation's state-owned banks, which is similarly designed to spur cheaper lending to weak areas of the economy
6. Perhaps most consequentially as it pertains to equities, minutes released from the latest Politburo meeting indicate that the CCP is ready and willing to deploy potentially substantial fiscal stimulus to stabilize the economy, with the property sector specifically cited as a target of that stimulus (though it should be noted that details on these plans are scarce)

Clearly this is positive for investor sentiment, as it implies President Xi and the CCP are at least acknowledging that the existing stimulus measures haven't been enough to really move the needle, and more will be required if China is to achieve its 5% GDP growth target for this year. As a result, the Chinese property sector and broader market are both up double digits over the past ~2 weeks. Though we point out that both are still down materially from pre-pandemic levels, and, as such, Chinese stocks broadly remain extremely cheap, with the MSCI China trading at a single-digit forward earnings multiple.

Exhibit 1
Hang Seng / Properties / MSCI China
Oct 4, 2019 - Oct 1, 2024

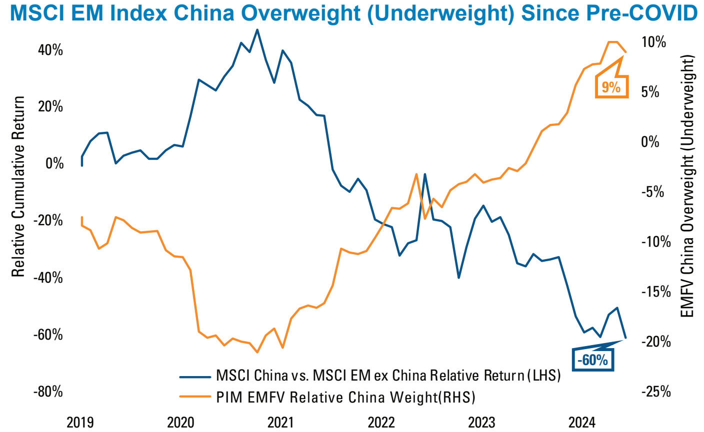


Source: FactSet, Pzena analysis.
Returns in HKD.

All of this is to say that the Chinese property sector – which is of particular economic importance given that an estimated 70% of household wealth is tied up in real estate[1] – is still in considerable pain, and it remains to be seen whether these recent stimulus measures will help put a floor under housing prices, which, in turn, could provide a boost to consumer spending.

Importantly, our investment theses for the individual Chinese stocks that we own are not predicated on significant monetary or fiscal support from the government. These businesses are, in our view, trading at exceptionally low valuations that already discount persistent and severe pain – the result of investors' indiscriminate selling of anything with a Chinese domicile in recent years. As Chinese valuations collapsed, we selectively took up our exposure to stocks we believe have been unjustifiably sold off due to temporary geopolitical and macroeconomic headwinds.

Exhibit 2
China Relative Performance[1] and Pzena EMFV[2] vs. MSCI EM Index China Overweight (Underweight) Since Pre-COVID



Source: FactSet, Pzena analysis
1 Total return data in US dollars December 31, 2018 – June 30, 2024.
2 Pzena Emerging Markets Focused Value Composite estimate; includes both China and Hong Kong.

1 Source: Bloomberg

FURTHER INFORMATION

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