

## China bucks the trend




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**Beijing now seems determined to ease policies on several fronts – whether in terms of public health, regulations, or fiscal or monetary policy – in an effort to reboot China’s economy. Does this mean we’ll see a prolonged rebound in Chinese stocks?**

## **China’s credit impulse and equity performance**

Source: Carmignac, Bloomberg

**Chinese policymakers have changed their tone recently in an attempt to bolster the country’s slowing output.**

This comes in stark contrast to the moves being taken in other major economic blocs and to the strict approach Beijing itself had taken until recently – an approach that had been weighing heavily on Chinese equities for over a year.

In the past few days, the central government has underscored its recommendation to **lift the overly aggressive Covid restrictions** and preventive measures that some areas introduced. And **it has loosened its regulatory stranglehold**, easing the pressure on certain businesses.

**On the monetary policy front**, the People’s Bank of China lowered the reserve requirement ratio for banks again this spring; it also cut its benchmark lending rate for the second time this year and reduced its medium-term lending facility rate. The goal is to spur investments (by getting banks to grant more loans) and support housing demand (the real estate sector accounts for 25% of China’s GDP) – and therefore stimulate the economy. This comes as a welcome counterweight to the policy tightening being carried out by central banks in the developed world amid a slowdown in those regions.

**A pick-up in credit impulse could therefore be a key driver** of the economic recovery in China. In the second half of the year, we should also start seeing the benefits of **other measures intended to stoke domestic demand**, such as a fresh round of infrastructure spending (through increases in the issuance of local government bonds), a reduction in corporate taxes, and financial assistance for poorer households.

**All these factors could, finally, revitalise Chinese stocks.**

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