

# OCM Asset Management

Discretionary Asset Managers | Stockbrokers

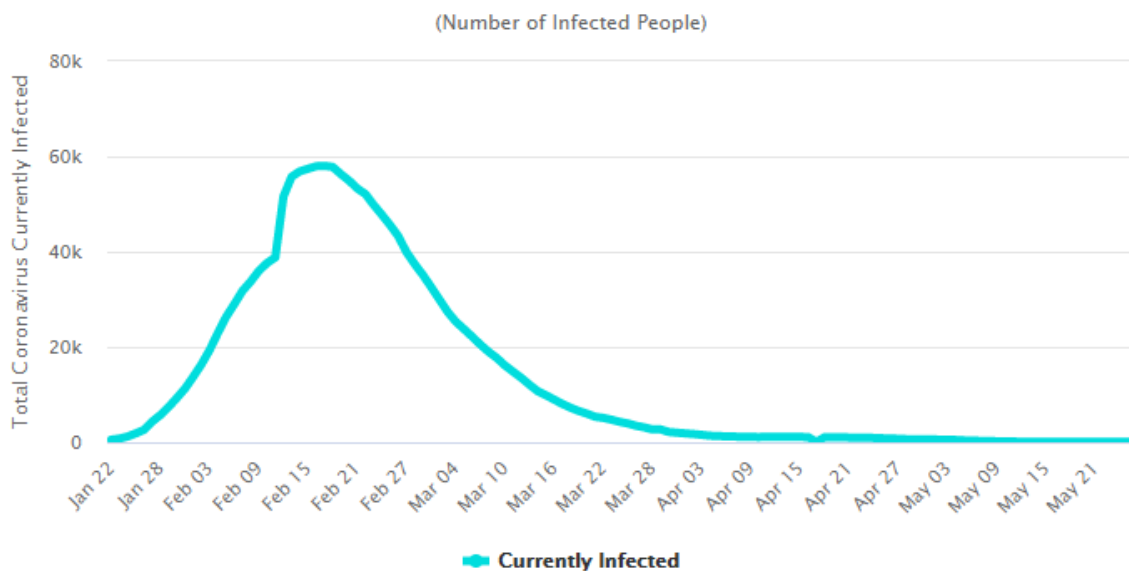
## Market Update: 28<sup>th</sup> May 2020

### Recovery in China Provides Optimism for Struggling Lockdown Economies

After emerging from lockdown earlier in the year, China's economy looks to be on the road to recovery after the coronavirus outbreak effectively brought economic activity in key regions to a standstill. A return to normal may not happen until next year, but consumer spending, manufacturing and investment appear to be all bouncing back strongly.

When looking at the prospects for the Chinese economy, one of the most important factors to consider is the epidemiology and whether the coronavirus remains under control. China appears to have effectively controlled the virus at this stage, however must continue testing, tracking and tracing efforts to ensure any renewed outbreak is nipped in the bud quickly to avoid a second wave of infections. As it stands, according to data compiled by Worldometer, there are currently only 79 reported cases in China, down from a peak of 58,016 in mid-February. The recovery rate is now 94% across China, up from 12% three months ago.

**Figure 1: Active Covid-19 Cases in China**



Source: Worldometers.com

### Gaining Control Over the Virus

China began gradually lifting social distancing and other restrictions for outside of Hubei Province (the epicentre of the outbreak) on 9<sup>th</sup> February. During the 2 weeks prior to the date, the average daily number of new cases was 657, and the average daily number of deaths was two. In contrast, the restrictions began to be lifted in Wuhan on 8<sup>th</sup> April. During the 14 days prior to that date, there were a total of only two new Covid-19 cases in the region, and the average daily number of deaths was 3. In

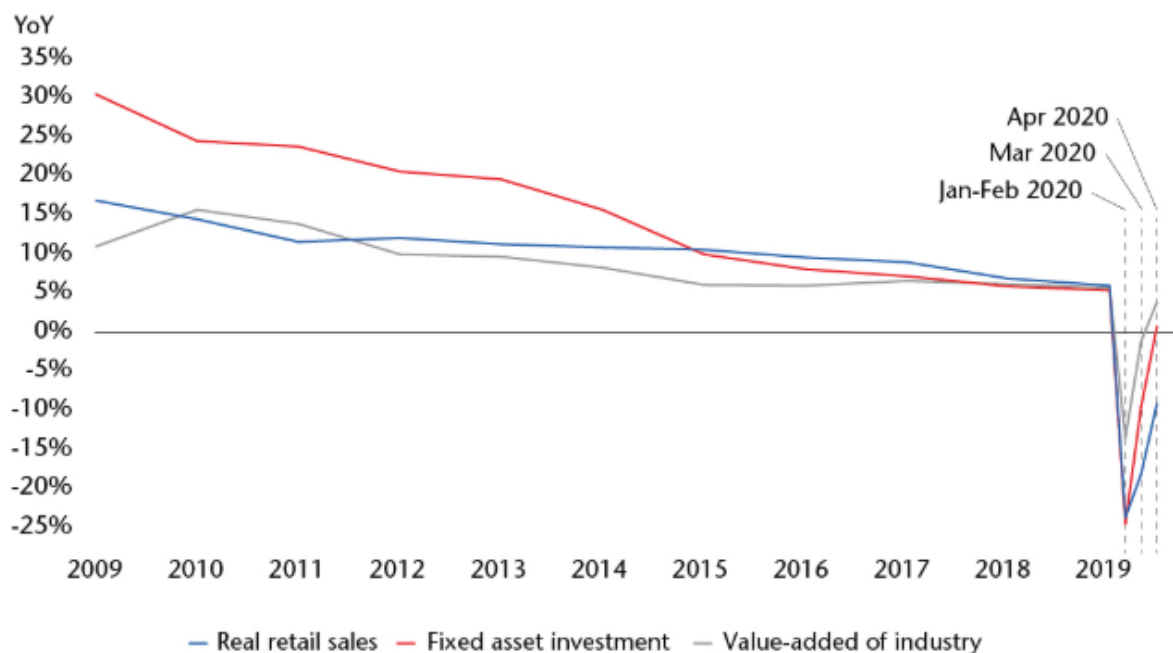
the last two weeks, there has been only one death and 60 new cases reported for the whole of China, indicating that despite new cases being reported, progress continues to be made in controlling the spread of the virus. On 23<sup>rd</sup> May, the country reported no new cases and no new deaths in China for the first time since the beginning of official reporting in January. It is also encouraging that two weeks after a five-day national holiday in China earlier this month, when over 100 million people travelled for leisure, there has not been a spike in Covid-19 cases.

As is the case in countries across the globe, the potential for a rebound in cases is the biggest risk to a post-lockdown recovery, but at the moment, China's strategy of testing, contact tracing and social distancing appears to be keeping the virus at bay.

### Improving Economic Data

As expected, China's first quarter economic data was dismal, as the virus shuttered most shops, factories, offices and restaurants, however did not reflect structurally weak supply or demand, or a financial system crisis. Now that the virus has been brought under control in China, those businesses have gradually been reopening, and life is starting to return to normal, with key economic indicators recovering.

**Figure 2: Economic Indicators Starting to Bounce Back**



Source: CEIC

China is a domestic-demand driven economy, so the recovery in consumer spending is critical. Last year was the eighth consecutive year in which consumer and services contributed the most to GDP, and consumption accounted for almost 60% of GDP growth.

The recovery of auto and home sales reflect that middle-class and wealthy consumers have sufficient money and confidence in the future to spend it. Additionally, business confidence appears to be returning, with capex spending coming back under control. Although there is concern over the reliability of the economic data coming from China, the recovery story has been corroborated by the performance of Multinational Corporations in the region.

In terms of employment, at the height of the Covid-19 outbreak, it is likely that 70-80 million urban workers in China either lost their jobs or were unable to work. That number is likely now down by a half,

but still indicates an unemployment rate of 8-10%. The absence of social unrest and the rebound in consumer spending suggests that the government's support for workers and businesses has provided a cushion for many who lost their jobs, laying a foundation for an economic recovery. Moving forward, we expect to see further stimulus designed to broaden the cushion and accelerate the pace of recovery back towards normal.

### **US-China Tensions**

As the country continues to recover, a key risk to the outlook is the potential for a re-escalation in trade tensions with the US. The US administration has stepped up rhetoric against the Communist Party over its initial handling of the coronavirus and intention to crack down on dissent in Hong Kong. The US is considering a range of sanctions on Chinese officials and businesses to retaliate against Beijing's new national security legislation in Hong Kong. As it stands, China has confirmed it will go ahead with commitments made within the phase one trade deal, however as tensions escalate, markets are likely to remain volatile. Although neither side is in a position economically to re-escalate trade tensions to last year's levels, both sides remain unpredictable, therefore we are prepared to see further volatility on this issue moving forward.

*Past performance cannot be used as a guide to future performance and the value of your investment will fall as well as rise in value. You may not get back all of your investment and the final value of your investment will depend on the performance of your portfolio. The actual performance of an individual client's portfolio may differ due to different funds being used and being restricted in relation to certain asset allocations. Performance figures quoted include fund manager charges but exclude adviser, discretionary, custodian and switch charges. Unless stated, income is reinvested into the portfolio. The information contained in this document is for information purposes only. It does not constitute advice or a recommendation or an offer or solicitation for investment.*

*OCM Wealth Management Limited is authorised and regulated by the Financial Conduct Authority (FCA Registration No: 418826)  
OCM Asset Management is a trading name of OCM Wealth Management Limited.*