



## Time to take another look at China

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Given the weak economic outlook and record low interest rates in many economies around the globe, investment opportunities may appear to be limited. Nonetheless, I strongly suggest that investors revisit the 'fallen angel' that is China. Before the financial crisis in 2008, investors were willing to pay a lofty price for the BRIC (Brazil, Russia, India and China) markets and yet at current levels, the Chinese markets (as measured by the MSCI China Index) is trading on a prospective PE of just 9.5 times.

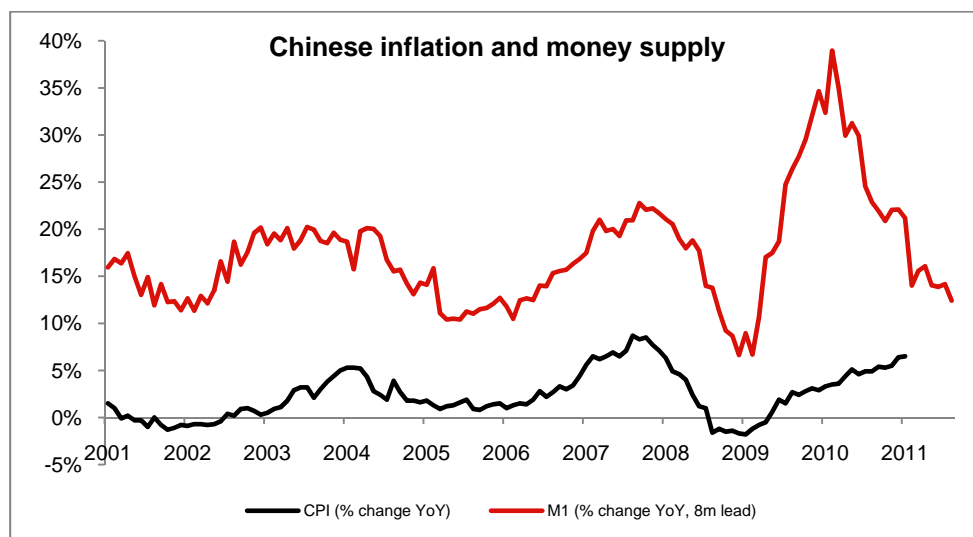
The reason why China is trading at such a low valuation is because of market fears that the Chinese economy may be heading towards a hard landing. However, China's problems should not be detrimental, while its fundamentals are far stronger than most developed markets. The current market concerns include:

**Inflation:** although CPI is high at 6.5% year-on-year, China started to tighten monetary supply as early as 2009, so inflation should start to fall soon, as the chart below suggests.

**Growth:** although the pace of economic expansion is slowing, it is still running at a respectable 8-9%, far higher than that of developed markets.

**Banking crisis:** China still has the problem of non-performing loans, resulting from over-stimulation, but the magnitude is far more manageable and it does not pose a systematic risk to the financial system.

In short, in times of uncertainty, investors should look to value, growth, fundamentals and China.



Source: Datastream

Source: rlam as at 31<sup>st</sup> August 2011 unless otherwise stated.

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