



Concerns about the economic and financial impact of the coronavirus outbreak have seen some offshore Chinese equities come under pressure¹. However, Ronald Chan, Chief Investment Officer, Equities, Asia (ex-Japan), believes that if these worries lead to a broad-based correction, then any market decline should be short-lived or contained. While economic uncertainty could also hurt China's first-quarter manufacturing and GDP numbers, Chan thinks that the government could introduce further policy easing measures to ensure growth stability. As the viral outbreak may improve with warmer weather in the coming spring, investment sentiment should gradually improve. In the meantime, investors should remain focused on the market's long-term fundamentals.

The impact of coronavirus on Chinese equities

Worries about the coronavirus have seen global investors become risk-adverse and triggered a sell-off in some offshore Chinese equities. However, if we use market performance² and the experience learnt during the SARS outbreak in 2003 as a reference, we believe that a broad-based correction should be relatively short-lived with a more effective virus containment policy.

In light of a heightened public health precaution and the introduction of provincial travel bans, selective segments, such as hospitality, transportation, and gaming activities are expected to face some short-term pressure. Meanwhile, on-line consumption activities may benefit.

Uncertainty over the extended Spring Festival holiday period may also cause some disruption to manufacturing production in the first quarter. As such, the Chinese authorities might engage in further policy easing to ensure growth stability.

Nevertheless, if the situation shows signs of containment, then high quality companies with diversified footprints and strong business models should be resilient. These firms could lead the rebound, as consumption demand gradually resumes. Moreover, while a full economic recovery may be delayed, the momentum in the underlying economy, such as the resumption of corporate capital expenditure in the fourth quarter of 2019 should provide a buffer to this unexpected business disruption.

Overall, investors should remain convicted of the view that key secular trends that form the basis of our investment themes are unchanged: online-led consumption upgrade, 5G roll-out beneficiaries, and policy-driven opportunities in medical reform, supply-side reforms, and sustainability topics.

As we mentioned in our 2020 outlook, we think that disposable-income growth across China and the convergence of urban and rural incomes offer unique opportunities for e-commerce platforms and apps.

5G roll-out should be a prominent theme in Greater China equities, especially in China A-shares, as the cell-phone replacement cycle in mainland China is expected to shrink from 24 months to its historical average of 15–16 months. Therefore, investors should be constructive on battery producers, chips, frequency, and antenna-related industries.

¹ Bloomberg, 24 January 2020 to 30 January 2020: Hong Kong's Hang Seng Index (in HK dollars) dropped by 5.37%, while MSCI's China Index (in US dollars) corrected by 4.1%.

² Financial Times, 28 January 2020: [Investors look to history for clues on market impact of coronavirus](#).

Finally, investors should remain focused on policy-driven opportunities and we are positive in areas of environmental protection, such as natural gas distribution and some waste-to-energy companies. This stance is based on long-term support from the government.

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