# International Market Update

## Is China's Rally Sustainable?

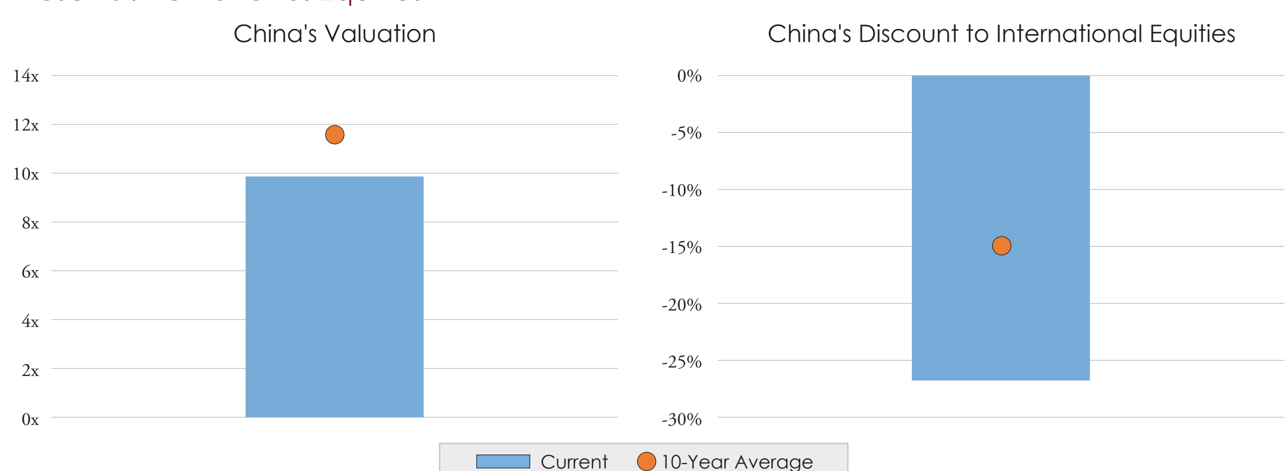
Chinese equities[1] have seen wild swings in performance over the past ten years, significantly outperforming broader international equities[1] from 2014–2020, followed by a period of significant underperformance from 2021–2023. The tide turned in February 2021 as the property bubble burst, regulators cracked down on technology companies, and COVID lockdowns caused economic turmoil. While the move lower has been severe, Chinese equities have experienced several rallies during this downdraft. This includes the current rally that began in February that was driven by the Chinese government's step up in support of the beleaguered property market. Yet, it is important to question whether or not this rally will be more sustainable than those in the past.

### China Boom and Bust


Data from 5/30/2014–5/31/2024 based on Indexed Total Returns; 100 = 5/30/2014
*Source: FactSet*

Certainly, recent government support has been China's most meaningful attempt thus far to stabilize its property market. The central government has targeted both demand and supply by relaxing mortgage rules and urging local governments to step in to buy unsold homes to alleviate oversupply. While these steps may help stabilize the property market, they are likely not enough to balance the supply/demand mismatch, and home prices will likely need to fall further to stimulate demand. However, the dark cloud surrounding the property market downfall and resulting lower home prices does have a silver lining, albeit over the long term. Chinese consumers have a lengthy history of significantly higher savings rates than global averages, as they

### Chinese vs International Equities[2]




Data from 6/30/2014–5/31/2024
[2] Based on Next 12-Months Price-to-Earnings Ratio.
*Source: FactSet*

*[1] All information in this commentary related to Chinese equities refers to the iShares MSCI China ETF, while all information related to International equities refers to the iShares MSCI ACWI ex U.S. ETF.*

*The Disclosures Section on the following page is an integral part of this presentation.*

saved their money to buy property due to the persistently increasing value of real estate in China, which further pushed housing prices higher and decreased affordability. However, with prices now plummeting, homes should become more affordable, giving consumers excess discretionary income. The fall in home prices could lead to a substitution effect amongst Chinese consumers, compelling them to invest less money in property and spending their increased discretionary income elsewhere. However, a rebound in consumer sentiment in addition to the stabilization of housing prices will likely be required to see a significant rebound in consumer spending.

The recent rally is supported by several factors. Equity valuations in China are very attractive, trading at a 15% discount to their ten-year average and a larger-than-usual discount to broader international equities. Management teams have taken notice of these valuations, with companies such as Alibaba and Tencent implementing share buybacks to take advantage of their discounted stock prices. The cheap valuations are complemented by an improving earnings outlook for Chinese companies, as earnings per share are expected to grow over 14% year over year in 2024 *(Source: FactSet Estimates)*.

After falling over 50% from peak to trough, Chinese equity markets may have already seen their bottom. Yet, further government support for the property market will likely be needed to give this bull market additional legs given the headwinds that the economy faces. The days of a booming property market supporting economic growth appear to be over, while an aging population is also expected to weigh on economic growth. In addition, headline and geopolitical risks are likely to rise as we approach the upcoming U.S. elections in November. Nonetheless, double-digit earnings growth and attractive valuations could bring in investors who are seeking inexpensive equities in a world where many country indices are at or near record highs.

## DISCLOSURES



## PERFORMANCE



## REFERENCED ETFs

**iShares MSCI ACWI ex US ETF**—The iShares MSCI ACWI ex U.S. ETF seeks to track the investment results of an index composed of large- and mid-capitalization non-U.S. equities. iShares ETF names are registered trademarks of Blackrock, Inc.

**iShares MSCI China ETF**—The iShares MSCI China ETF seeks to track the investment results of an index composed of Chinese equities that are available to international investors.