International Market Update

Chinese equities are off to a good start this year, continuing a positive trend that began in September. Through February 21, 2025, Chinese equities have risen 38% in just over five months. However, the rapid advance has caused China's stock market valuation to increase to 11.6x earnings (based on estimates for the next 12 months), which is now in-line with its ten-year average. So, can this rally continue?

iShares MSCI China ETF

Data from 2/20/2015–2/21/2025
Sources: FactSet

Even after the recent gains, Chinese stocks are down 43% from their peak in early 2021, as a crackdown on technology companies, the bursting of the real estate bubble, and tensions between China and the United States weighed on Chinese equities for three consecutive years. However, all these issues have become more positive recently. While still early, and despite the recent announcement of an additional 10% tariff against China, President Trump has taken a less confrontational approach with China in his second term, even suggesting an openness to negotiate a deal with China that would help avoid another trade war. While the trade war during Trump's first term caused volatility in Chinese markets, Chinese equities showed resilience, performing in line with their international peers despite the tariffs imposed on them.

The Chinese economy has also been plagued by the collapse of its property market. Given the oversupply of housing in China, the property market is unlikely to become the growth engine it once was. However, government stimulus has helped stabilize the market, which should help improve consumer sentiment.

Lastly, the crackdown on technology companies cast a dark cloud over the entire sector and caused a massive sell-off across many of China's largest companies. While the government had previously signaled that its crackdown was over, a recent meeting between President Xi and several top technology leaders was the clearest signal of a government shift, as Xi pledged unwavering support for the non-public sector of the economy. Of particular note was the attendance of Alibaba founder Jack Ma, who had largely stayed out of the public eye after his criticism in October 2020 of Chinese regulators triggered the crackdown.

Although Chinese equities as a whole are trading near historical averages, technology stocks continue to trade at attractive valuations. Previous market darlings such as the BAT stocks (Baidu, Alibaba, Tencent), trade at substantial discounts to their pre-crackdown levels, making them attractive investment opportunities given the government's recent support of the private economy.

	BAIDU	ALIBABA	TENCENT
Current Valuation(1)	8.9x	14.8x	18.9x
Pre-Crackdown(1)(2)	21.9x	25.5x	31.6x
Discount	-59%	-42%	-40%

(1) P/E based on analyst estimates over the next twelve months.
(2) Pre-Crackdown is the average from 12/31/2015-12/31/2020.
Sources: FactSet, Renaissance Research

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Although headlines are likely to induce periods of volatility, we believe that the rally will carry on, as large-scale stimulus announcements which sparked the start of the rally in September should continue after the National People's Congress meets in March. Investor expectations will be high after a recent Politburo readout indicated a "more moderately loose" monetary policy for the first time since 2011 and a more proactive fiscal policy. Particularly important is the shift in priorities as the government is now focused on expanding consumption and boosting domestic demand, which should help consumer-focused companies including many of China's largest technology companies.

DISCLOSURES

PERFORMANCE

REFERENCED ETF

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