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Why investors cannot ignore China

Published on: 17 January, 2025 | Author: Investment Team

The UK chancellor's visit to China last week grabbed headlines due to the US president-elect's dislike of the Chinese as well as the long standing security risks. In reality the UK has no choice but to work with China, as it has no choice but to work with the US. These are the two largest economies in the world and almost of similar size as the chart below illustrates.

Source: Visualcapitalist.com

Less well publicised is that Tesla actually produces nearly 50% of its cars in China whilst Apple produces many of its iPhones there. The US political rhetoric and the commercial and economic reality are two very different things.

This strategic rivalry will remain a risk however the interdependence these two countries have on each other will also limit the economic fallout over time. It is just not in anyone's interests to stop trading with each other. The US is trying to slow down the technological advancements in China whilst China is trying to use the US consumer's appetite for its cheap goods to fund its economy.

As investors, our job is to look through rhetoric and consider the opportunities that present themselves in investment markets. At present, we cannot help but look at the extreme valuation anomalies that have arisen due to investors' mistrust of the Chinese economy coupled with the sheer scale of the profits available in the US technology sector. At present US equities are valued at historically high valuations whilst Chinese equities, and many emerging markets, all

trading at 20 year lows. In fact, as shown below, the emerging markets index is trading at a near 50% discount to the US equity market today having traded more expensive in the 2000s.

Source: Artemis Fund Managers Limited

This valuation anomaly is not sustainable in our opinion, even with most of the world's technological leaders being based in the US. These technology companies generate supernormal profits, however that does not make them the only game in town when investing. Our strategies have significant exposure to US technology stocks, however the valuations in many Asian countries and emerging markets more generally make these a compelling investment opportunity looking forward. In fact they provide one of the best diversifiers in a world concentrated so heavily in the Magnificent 7 US technology companies. This is one of the reasons our strategies have nearly as much invested in emerging markets as they do in the US at present.

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