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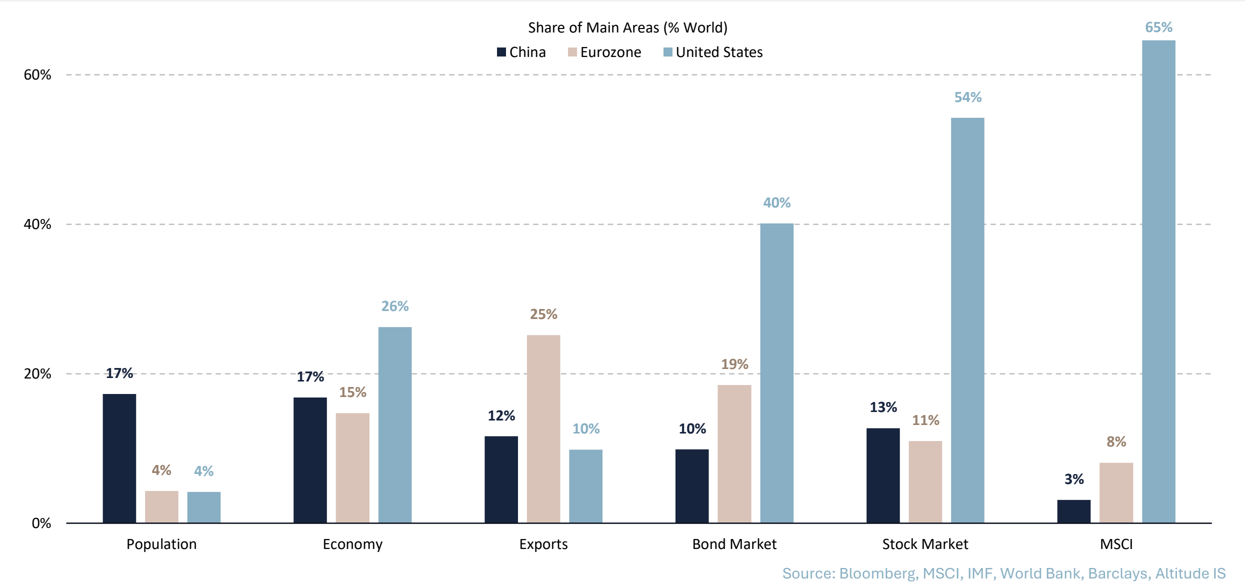
"CHINA MOVES TOWARDS DEVELOPED COUNTRY STATUS"

- China is fascinating, but it tends to worry investors
- Its growth is less dynamic than before, and its governance is restrictive
- However, Chinese assets are becoming indispensable
- They must gradually acquire a prominent place in asset allocation

CHART OF THE WEEK: "China's weight in the world: spot the mistake"



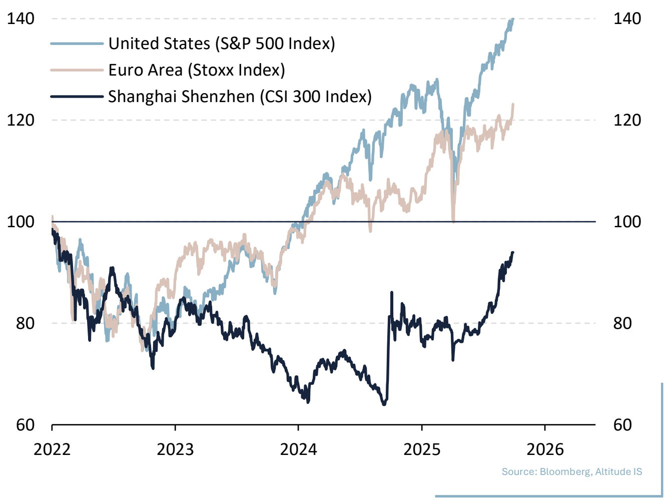
Source: Bloomberg, MSCI, IMF, World Bank, Barclays, Altitude IS

FINANCIAL MARKETS ANALYSIS

The framework for interpreting Chinese markets is well established. On the economic support side: a large-scale stimulus plan, gradual stabilisation of the property market and a transition to a model focused on domestic consumption rather than exports. Similarly, the risks are clearly identified: an ageing population, centralised governance that can constrain private initiatives, and US tariff pressure. **The new highlight is the so-called "anti-involution" measures announced by Beijing.** These aim to reduce destructive competition between large Chinese companies, impose price floors and reduce overcapacity in key sectors such as steel, batteries, solar panels and automobiles. These measures are very positive and signal a major shift from a volume-based approach to a margin-based approach. **The goal of Chinese industry therefore will no longer be to produce in quantity, but to ensure profitability.** Growth should continue to rebound (see Fig. 2). The most visionary investors have already understood this and, by accumulating Chinese assets, have enabled stock market indices to rise, from Hong Kong to Shanghai and Shenzhen (see Fig. 3).

Fig. 2 – Growth of the Chinese economy

Fig. 3 – Performance of Chinese stock indices



Exceptionally, this article will not focus on China's economic situation, but rather **highlight the structural factors that will drive Chinese assets to the point where they become essential in any diversified allocation**.

Here, then, is a very factual overview of China's global ranking in various areas:

1. **Economy & governance**
   #2 in terms of population (1.41 billion), between India (1.46 billion) and the United States (0.34 billion).
   #2 for nominal GDP ($19 trillion), behind the US ($30 trillion) and ahead of the Eurozone ($17 trillion).
   #1 for GDP in PPP ($40 trillion), ahead of the US ($30 trillion) and the Eurozone ($20 trillion).
   #1 for goods exports (17%), ahead of the Eurozone (12%) and the United States (10%).
   #4 for exports of services ($450 billion), behind the EMU ($1,300), the US ($1,200) and the UK ($650).
   #1 for aluminium and steel production, well ahead of India.
   #1 for rare earth refining (90% of global capacity), a key asset for cutting-edge technologies.
   #1 for high-speed rail networks (48,000 km), far ahead of Europe (12) and Japan (3).
   #1 for commercial shipbuilding (53% of the total), ahead of Korea (28%) and Japan (12%).
   #1 for e-commerce (27% of sales) and mobile payments (73% of transactions).
   #3 for Foreign Direct Investment ($3 trillion), behind the EU ($14.5 trillion) and the US ($9.4 trillion).
   #3 for military spending ($314 billion), behind the US ($1,000) and the European Union ($380).
   #4 for arms exports (5.8% of the total), behind the US (42%) and the Eurozone (27%).
   #2 for orbital launches (68 per year), between the United States (154) and Russia (19).
   #76 for the corruption perception index, a very low ranking out of the 180 countries assessed.
   #97 for the rule of law index, a mediocre ranking considering that 142 countries are assessed.

2. **Education & Innovation**
   #20 for universities, with Tsinghua followed by 12 other institutions in the global Top 100.
   #10 for the global innovation index, well behind Switzerland, Sweden and the United States.
   #1 worldwide for scientific articles (900,000), ahead of the US (605,000) and the EU (520,000).
   #1 for industrial designs (883,000 designs registered), ahead of the EU (170,000) and the US (70,000).
   #2 in R&D expenditure ($723 billion), just behind the US ($784) and far ahead of the Eurozone ($350).
   #1 for patents (70,000 filings), ahead of the United States (54,000) and the Eurozone (51,000).
   #1 in patents related to generative AI (38,000), far ahead of the US (6,000) and Korea (4,200).
   #1 for total CO_2 emissions (11 Gt), a sad record, ahead of the United States (6) and India (3.3).
   #1 for total installed electrical power (3.6 TW), ahead of the US (1.3) and the Eurozone (1.0).
   #1 for renewable electrical power (1,800 GW), ahead of the Eurozone (600) and the US (430).
   #3 for robot density (470 per 10,000 employees), behind Korea (1,000) and Singapore (770).

3. **Financial markets**
   #3 for bond market size ($20 trillion), behind the US ($53 trillion) and the Eurozone ($25 trillion).
   #2 for market capitalisation ($15 trillion), between the US ($64 trillion) and the Eurozone ($13 trillion).
   #1 within the MSCI Emerging Markets Index (29%), ahead of Taiwan (20%) and India (17%).
   #1 for decoupling power from major developed market indices.
   #5 for the yuan in the forex market (7%), behind the dollar, the euro, the yen and the sterling.
   #1 for foreign exchange reserves ($3.3 trillion), ahead of Japan ($1.3) and Switzerland ($0.7).
   #3 for official gold reserves (2,300 tonnes), behind the Eurozone (10,200) and the US (8,100).
   #3 for the yuan in the IMF's SDR basket (12%), behind the dollar (43%) and the euro (29%).
   #6 for the yuan in payments using the SWIFT system (3%), far behind the dollar (43%).
   #1 for the cross-border interbank payment system (CIPS) that bypasses SWIFT.
   #1 for central bank digital currency (e-yuan), with the dollar and euro still in the planning stages.

4. **Leading companies**
   #3 for banks, ICBC (£346bn) and ABC (£315bn) rank just behind JPMorgan (£869bn) and BofA (£384bn).
   #4 for insurers, Ping An ($133 billion) and China Life ($132) behind UnitedHealth ($312) and Allianz ($162).
   #1 for 100% electric vehicles, with BYD (416,000 sales) ahead of Tesla (336,000)
   #1 for electric batteries, with CATL (38% of sales) and BYD (18%), ahead of LGES (10%).
   #1 for solar modules, with Jinko, LONGi, Trina and JA Solar taking the top spots.
   #1 for telecom equipment, with Huawei (30% of sales) ahead of Ericsson and Nokia.
   #1 for computers, with Lenovo (25% of sales), ahead of HP (20%) and Dell (14%).
   #1 for household appliances, with Haier (17% of sales), behind Beko (9%) and Whirlpool (6%).
   #1 for mobile operators, with China Mobile (1.05 billion subscribers) ahead of Bharti and Reliance Jio.
   #1 for video games, with Tencent ($9.7 billion in revenue) ahead of Microsoft ($5.5) and Sony ($5.2).
   #4 for maritime transport, with Cosco (3.4 million TEU), behind MSC (6.8), Maersk (4.6) and CMA (4).

Each of these factors alone justifies exposure to Chinese assets in diversified portfolios. Taken together, they easily justify an allocation of 5% to 20%. Paradoxically, Chinese assets currently account for only 2% to 6% of allocations made by institutional investors, in line with their weight in the MSCI World Index (see Fig. 4), and are sometimes absent from retail investors' portfolios. Sooner or later, capital will eventually flow in and initiate a structural trend. In the short term, this flow could be supported by the depreciation of the dollar. Since 2017, Chinese equities have outperformed every time the greenback has lost ground (see Fig. 5). In the long term, capital flows will be reinforced by China's transition from an emerging to a developed country. The process is underway and accelerating. As proof, Beijing has said it is ready to give up the "special and differential treatment" that developing countries enjoy under the World Trade Organisation (WTO).

Fig. 4 – China's weight in the MSCI World index

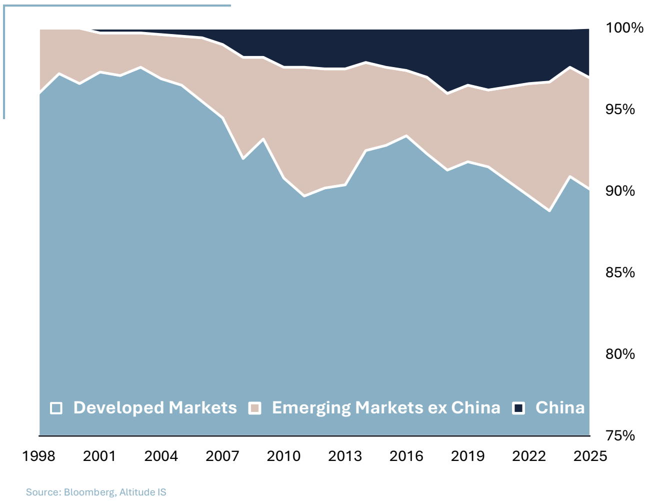
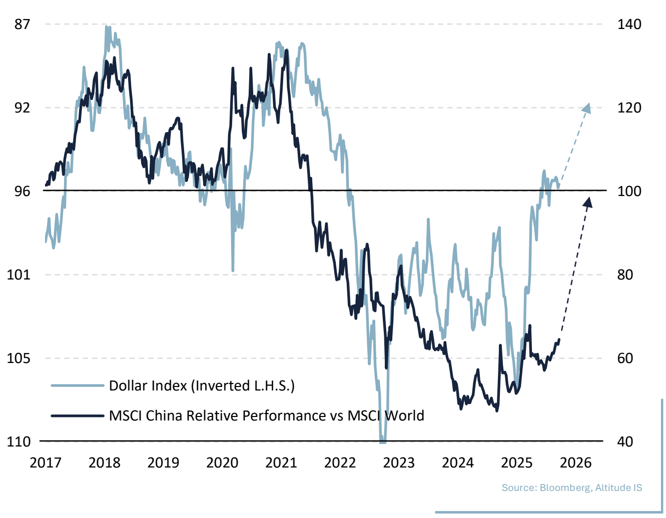


Fig. 5 – Relative performance of Chinese equities



Beyond the figures, Beijing is orchestrating a strategic transformation. Against a backdrop of geopolitical shift towards multilateralism and a possible monetary rebalancing, with the dollar becoming less dominant, China is attempting to assert itself. It is no longer content with a dominant commercial role, but is seeking to offer an alternative in all areas.

Conclusion:

Investors who have identified this silent shift are not only investing in Chinese assets, but are also considering changing their allocation grids to include a "China" line that is independent of the "emerging countries" category.

RETURN ON FINANCIAL ASSETS

Markets Performances (local currencies)	Last Price	Momentum Indicator (RSI)	1-Week (%)	1-Month (%)	2025 Year-to-Date (%)	2024 (%)	2023 (%)
Equities							
World (MSCI)	993.2	74.21	1.7%	4.9%	19.9%	18.0%	22.8%
USA (S&P 500)	6 716	69.23	1.1%	4.3%	15.3%	25.0%	26.3%
USA (Dow Jones)	46 758	68.45	1.1%	3.4%	11.3%	15.0%	16.2%
USA (Nasdaq)	22 781	67.79	1.3%	6.0%	18.6%	29.6%	44.7%
Euro Area (DJ EuroStoxx)	595.2	72.10	2.7%	5.8%	21.3%	10.2%	19.5%
UK (FTSE 100)	9 491	72.74	2.3%	3.5%	19.5%	9.6%	7.7%
Switzerland (SMI)	12 507	67.03	4.8%	2.7%	11.3%	7.5%	7.1%
Japan (Nikkei)	47 945	66.21	1.5%	9.8%	16.7%	21.3%	31.0%
Emerging (MSCI)	1 374	73.55	3.7%	8.6%	30.8%	8.0%	10.2%
Brasil (IBOVESPA)	144 201	54.17	-0.9%	3.1%	19.9%	-10.4%	22.3%
Mexico (IPC)	61 984	58.55	-0.5%	4.1%	28.7%	-11.0%	22.4%
India (SENSEX)	81 575	48.85	1.0%	0.8%	5.1%	9.6%	20.3%
China (CSI)	4 641	67.74	2.7%	3.3%	20.7%	18.2%	-9.1%
Com. Services (MSCI World)	158.0	50.77	-1.1%	2.2%	27.7%	31.9%	38.1%
Cons. Discretionary (MSCI World)	460.8	58.23	0.4%	4.4%	10.4%	20.7%	29.5%
Cons. Staples (MSCI World)	286.8	36.04	0.2%	-2.2%	7.4%	4.7%	3.2%
Energy (MSCI World)	259.5	51.44	-2.4%	1.4%	11.6%	2.9%	6.0%
Financials (MSCI World)	216.4	56.51	0.5%	2.1%	23.2%	25.1%	16.4%
Health Care (MSCI World)	376.5	72.88	7.1%	5.3%	9.5%	1.5%	4.1%
Industrials (MSCI World)	463.5	66.90	2.1%	4.6%	24.9%	12.8%	22.5%
Info. Tech. (MSCI World)	956.1	75.36	3.0%	10.0%	25.1%	31.9%	51.4%
Materials (MSCI World)	373.7	69.99	2.2%	4.7%	24.7%	-7.7%	12.6%
Real Estate (MSCI World)	1 014	51.16	0.4%	1.5%	6.5%	-0.4%	5.3%
Utilities (MSCI World)	193.0	69.69	2.1%	5.8%	23.4%	13.0%	1.6%
Bonds (Bloomberg)							
World (Aggregate)	3.46%	56.26	0.6%	1.0%	8.0%	-1.7%	5.7%
USA (Sovereign)	3.91%	57.99	0.4%	0.9%	5.5%	0.6%	4.1%
Euro Area (Sovereign)	2.86%	57.18	0.4%	0.8%	0.4%	1.9%	7.1%
Germany (Sovereign)	2.46%	55.02	0.3%	0.4%	-1.0%	0.6%	5.6%
UK (Sovereign)	4.65%	52.91	0.5%	0.7%	3.3%	-3.0%	5.6%
Switzerland (Sovereign)	0.42%	49.44	-0.3%	0.3%	1.0%	5.4%	7.9%
Japan (Sovereign)	1.46%	37.71	0.0%	-0.2%	-2.6%	-2.1%	0.9%
Emerging (Sovereign)	6.28%	62.94	0.3%	1.0%	9.7%	7.0%	11.0%
USA (IG Corp.)	4.78%	61.30	0.2%	0.6%	7.2%	2.1%	8.5%
Euro Area (IG Corp.)	3.07%	64.28	0.2%	0.3%	2.9%	4.7%	8.2%
Emerging (IG Corp.)	5.97%	59.67	0.1%	0.3%	7.2%	7.0%	6.7%
USA (HY Corp.)	6.68%	70.74	0.1%	0.6%	7.3%	8.2%	13.4%
Euro Area (HY Corp.)	5.28%	73.07	0.1%	0.6%	4.7%	8.2%	12.1%
Emerging (HY Corp.)	7.81%	55.69	0.2%	0.2%	9.3%	14.9%	13.1%
World (Convertibles)	541.3	81.51	2.6%	6.3%	22.9%	9.4%	12.3%
USA (Convertibles)	716.9	80.95	2.9%	7.1%	19.8%	10.1%	14.6%
Euro Area (Convertibles)	289.1	62.55	0.5%	1.4%	24.2%	14.7%	7.3%
Switzerland (Convertibles)	274.1	45.99	0.2%	0.0%	13.8%	-10.5%	5.8%
Japan (Convertibles)	250.7	66.12	0.0%	2.3%	10.6%	6.4%	7.6%
Hedge Funds (Bloomberg)							
Hedge Funds Industry	1 729	89.21	n.a.	1.9%	7.4%	11.1%	7.8%
Macro	1 376	74.50	n.a.	1.8%	2.6%	7.4%	1.6%
Equity Long Only	2 395	82.83	n.a.	1.6%	8.3%	12.0%	15.9%
Equity Long/Short	1 860	89.15	n.a.	2.5%	10.9%	14.0%	7.7%
Event Driven	1 831	87.42	n.a.	1.9%	6.1%	8.7%	7.3%
Fundamental Equity Mkt Neutral	1 793	96.09	n.a.	2.2%	8.6%	12.4%	6.6%
Quantitative Equity Mkt Neutral	1 753	85.20	n.a.	0.7%	5.3%	9.8%	7.8%
Credit	1 678	98.58	n.a.	0.8%	5.2%	8.5%	8.1%
Credit Long/Short	1 698	100.00	n.a.	0.4%	4.3%	10.0%	11.2%
Commodity	1 922	92.89	n.a.	1.4%	7.4%	14.7%	7.3%
Commodity Trading Advisors	1 309	54.71	n.a.	2.2%	-2.5%	7.9%	-3.6%
Volatility							
VIX	16.65	55.22	8.9%	1.8%	-4.0%	39.4%	-42.5%
VSTOXX	16.09	45.65	-3.7%	-12.6%	-5.4%	25.3%	-35.0%
Commodities							
Commodities (CRB)	543.2	n.a.	-0.5%	-2.0%	1.2%	5.1%	-8.0%
Gold (Troy Ounce)	3 933	n.a.	2.6%	9.7%	49.9%	27.2%	13.1%
Silver (Troy Ounce)	48.51	n.a.	3.4%	17.3%	67.8%	21.5%	-0.7%
Oil (WTI, Barrel)	60.88	n.a.	-7.4%	-4.8%	-15.1%	0.1%	-10.7%
Oil (Brent, Barrel)	66.33	n.a.	-7.8%	-1.8%	-10.5%	-4.6%	-4.5%
Currencies (vs USD)							
USD (Dollar Index)	98.15	54.44	0.3%	0.4%	-9.5%	7.1%	-2.1%
EUR	1.1692	46.87	-0.3%	-0.6%	12.9%	-6.2%	3.1%
JPY	150.16	37.62	-1.0%	-1.8%	4.7%	-10.3%	-7.0%
GBP	1.3434	46.08	0.0%	-0.8%	7.3%	-1.7%	5.4%
AUD	0.6603	53.94	0.4%	0.2%	6.7%	-9.2%	0.0%
CAD	1.3951	36.91	-0.3%	-1.1%	3.1%	-7.9%	2.3%
CHF	0.7976	49.62	0.0%	-0.5%	13.8%	-7.3%	9.9%
CNY	7.1224	57.37	-0.1%	0.2%	2.5%	-2.7%	-2.8%
MXN	18.435	52.78	-0.4%	1.2%	13.0%	-18.5%	14.9%
EM (Emerging Index)	1 845.3	54.28	0.4%	0.7%	6.8%	-0.7%	4.8%
XBT	124 057	n.a.	5.5%	12.6%	32.4%	120.5%	157.0%

Source: Bloomberg, Altitude Investment Solutions

Total Return by asset class (Negative \ Positive Performance)

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