China's Stealth Economy Keeps Chugging Along

Economic growth in China has proven resilient and even showing signs of picking up.

Resilient Economy in Uncertain Times

The talk among analysts has begun to turn from fears of hard landing to the possibility of accelerating economic expansion. China's stealth economy has been quietly plugging along at 6.5% growth over the past year, well ahead of the more developed West, and expecting to remain strong into the coming decade. While there has been some volatility over the past year or two signs are pointing to resiliency in both the equities market and the economy. The latest sign is a bounce-back in export and import numbers, an indication of demand at home and abroad.

The March read on import/export data showed double digit growth in both figures. Exports rose at the fastest pace in over two years, 16.4%, as Yan Pengcheng, official spokesperson for the country's economic planning office, told reporters there were increasing signs of “warming in the global economy”. Import data was equally strong, rising more than 20%, as domestic demand kept pace with global trends. Analysts had been expecting a much smaller export figure, closer to 3%, following a small decline the previous month. First quarter export growth came in at 8.2% over the same period last year.

A Thaw in Rhetoric

Adding to the positive vibe is an apparent about-face by President Trump. News from the Trump/Xi summit of early April was at least optimistic and hopeful, if not positive. The two leaders were able to agree on many things including the need to equalize and stabilize trade ties, topics which will be discussed further in the near future. Chinese Customs spokesperson Huang Songping says that “better communication between China and the US will benefit trade and investment” for both nations.

Dato’ Seri Cheah Cheng Hye, chairman and co-chief investment officer at Value Partners, had this to say in a recent interview “The Chinese yuan is also beginning to stabilize. The Chinese economy will probably grow 6.5% this year, which is decent. There were many fears people had when Donald Trump was elected, such as fears that he would do negative things to global trade. Well, I don’t see that happening, at least for 2017.”

Value Partners is Asia's largest independent money manager. The company is headquartered in Hong Kong where it is publicly traded. They managed more than $14 billion in assets with a focus on China and the entire Asian economic arena. Aside from China, Cheah sees opportunity in other countries within the region, many of which are trading at or near long-term highs. One of those is Malaysia although there are still risks present. “There still some risks in Malaysia. For example, Malaysia is not particularly cheap despite its strong underperformance. If I recall, it is trading at a price earnings ratio of 16 times. That is not a symptom of a cheap market.”

One of Value Partners many funds, and one available to US retail investors, is the Asia Pacific Fund, Inc. The Asia Pacific Fund is a closed end fund trading on the NYSE under ticker symbol APB. It focuses on growth and income, investing in small to mid-cap value opportunities across the Asia Pacific region, ex-Japan.

The fund has recently seen a massive surge in share prices and narrowing of its discount to NAV, driven by improving sentiment in Asian markets and thawing of relations between China and the US. The dividend is paid annually, from NII, and varies from year to year. The past year's distribution is equal to a rate of 1.25% at today's prices but, discounting a recent surge, closer to 3% at time of issuance.

The fund's managers, Philip Li and Norman Ho, stated this in the latest fund fact sheet, “We are pleased to see solid macro data within the region and economic activities remain on the expansionary mode. In particular, the Chinese government is on track to transition from ‘pro-growth’ in 2016 to ‘growth stability’ in 2017. With rounds of sustainable growth data, China policymakers are more likely to focus on risk control measurements such as financial regulation strengthening and the speed up of supply.”

The Outlook Is Positive

So long as the US and China are able to maintain positive trade ties both should benefit and this means profits for Asian businesses, higher prices for Asian equities, increased NAV and improved earnings potential for Asian based funds. The sudden improvement in APB's discount is likely a sign of increased investor interest, and a bullish bet on the future of China and Asia. There may be continued volatility in the near-term, the geo-political situation is improving but far from stabilized, but long-term outlook is positive. Asia and China remain a solid investment and actively managed funds such as the Asia Pacific Fund are a prime method for US investors to get exposure.