Unease among China's stock market darlings

China's rise in recent decades is by no means limited to industrially produced goods. Although it is still possible to speak of the Middle Kingdom as the world's workbench, this statement overlooks the progress and developments in many other sectors of the economy.

Especially when it comes to the digital sector, several Chinese companies are among the leaders. And for the state, gaining and maintaining data sovereignty is of paramount interest. The density of the Chinese surveillance system is unparalleled, even though citizens in Western democracies are far from not being exposed to state data surveillance. In this regard, Wikileaks' and especially Edward Snowden's revelations from a few years ago have led to disillusionment among many people in Europe and the United States of America.

But beyond industry and digitalization, a large financial market has now grown up in China. German dividend stocks can only dream of some important Chinese companies' market capitalizations. Alibaba, the Chinese equivalent of Amazon, is valued more than 500 billion US dollars. The situation is similar for the media and gaming giant Tencent Holdings. Market experts are clear that only China has the potential to stand up to the dominant American stock market in the future. In recent years, Chinese stocks have also been able to attract a lot of capital on Wall Street. Now, however, this development seems to be coming to an end, after the Chinese government first denied the financial conglomerate Ant Group to go public in America, and recently the Chinese Uber clone Didi Global was put on Beijing's short data leash. In the U.S., the Securities and Exchange Commission recently announced it would not approve any further listings of Chinese companies for the time being. In addition, it became known that the U.S. has intervened with the Dutch semiconductor manufacturing equipment supplier ASML to stop the sale of related manufacturing equipment to China.

The developments described in here are in the overall context of the rivalry or disputes that erupted between the U.S. and China after Donald Trump took office and are being continued by his successor, Joe Biden. In Washington, the main thrust of foreign policy is now to slow China's economic and military rise. But unlike Trump, President Biden is trying to forge as large an alliance of allies as possible in the process, with the result that Europe and Japan will inevitably be drawn into the conflict.

On the stock market, the Chinese government's interventions in recent weeks have led to severe price setbacks for previously popular stocks. For example, while Didi Global shares were issued at $14, they recently traded just over $10. The price implosion of Gaotu Techedu was much more spectacular. This digital education stock lost about 95% of its market value.

Overall, investors should prepare for rougher trading in China stocks, as the influence of politics on companies is increasing strongly. However, the changed landscape does not pose a problem for LOYS' globally investing funds, as stocks from the Middle Kingdom have not played a significant role there so far.

Sincerely yours,

Fund managers and co-investors

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This text was originally published in German.

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