

Sectoral Asset Management - China's Regulatory Shift: From Quantitative to Qualitative Growth

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GENEVA, SWITZERLAND, September 6, 2021 /EINPresswire.com/ -- China's recent regulatory dictates, particularly those restricting fintech, big tech, and after-school tutoring, have triggered a significant across-the-board sell-off of Chinese equities. These initiatives reflect a shift in the government's priorities, a move from "growth first" to a balancing of growth and sustainability. (In this framework, "sustainability" refers to policies that privilege the promotion of social equality and self-sufficiency.) Although at first glance this regulatory shift appears abrupt and unpredictable, it is consistent with President Xi's stated objectives. Having achieved the 2010-2020 goals of doubling per-capita income and eliminating extreme poverty, the government is now moving toward the next target: achieving common prosperity over the upcoming decade. The new approach is likely to have long-

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*Michael Sjöström, CFA, Chief
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term and far-reaching effects. From a macro perspective, we expect the Chinese equities market to remain volatile, with a potentially elevated equity-risk premium, until there is greater clarity on the duration and impact of the current regulatory cycle. Based on an analysis of previous major regulatory cycles that took place in China 1 it may take from 3 months to 3 years, with a median duration of 9 months, before market sentiment fully recovers. We expect regulatory headwinds for industries associated with rising tensions stemming from social inequality, environmental sustainability, and data-security risks, along with further government support for advanced manufacturing, technology localization, and renewable energy.

For the Chinese healthcare sector, these changes suggest a country in transition from predominantly quantitative to increasingly qualitative growth. The message of promoting social equality and self-sufficiency should translate into: greater sustainability of China's single-payer, national medical-insurance fund through continuous budget control and more efficient asset allocation; and support for domestic innovation to remain globally competitive, especially in

areas where imported medical products remain dominant. (Keep in mind these messages comport well with the drug regulatory-system reform introduced in 2015.) Looking forward, we expect the new policy regimen to continue to favor companies that invest in, enable, or develop new technologies and differentiated innovation, and to see new business models that are associated with the internet economy (eg, pharma e-commerce) and data security risks (eg, digital healthcare). We further anticipate greater regulatory oversight to foster a healthier market environment and sustainable growth.

While the current regulatory uncertainties may continue to dampen market sentiment in the near-term, China will remain a key growth driver of the healthcare sector within emerging markets (EMs) over the next decade, one supported by robust economic growth and greater emphasis on innovation. In the meantime, our broad EM-based healthcare investment strategy should continue to provide a balanced alternative to benefit from growth opportunities across this space.

Michael Sjöström, CFA, Chief Investment Officer, Sectoral Asset Management

1 China's Regulatory Reset, Morgan Stanley Research, August 1, 2021

About Sectoral Asset Management

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