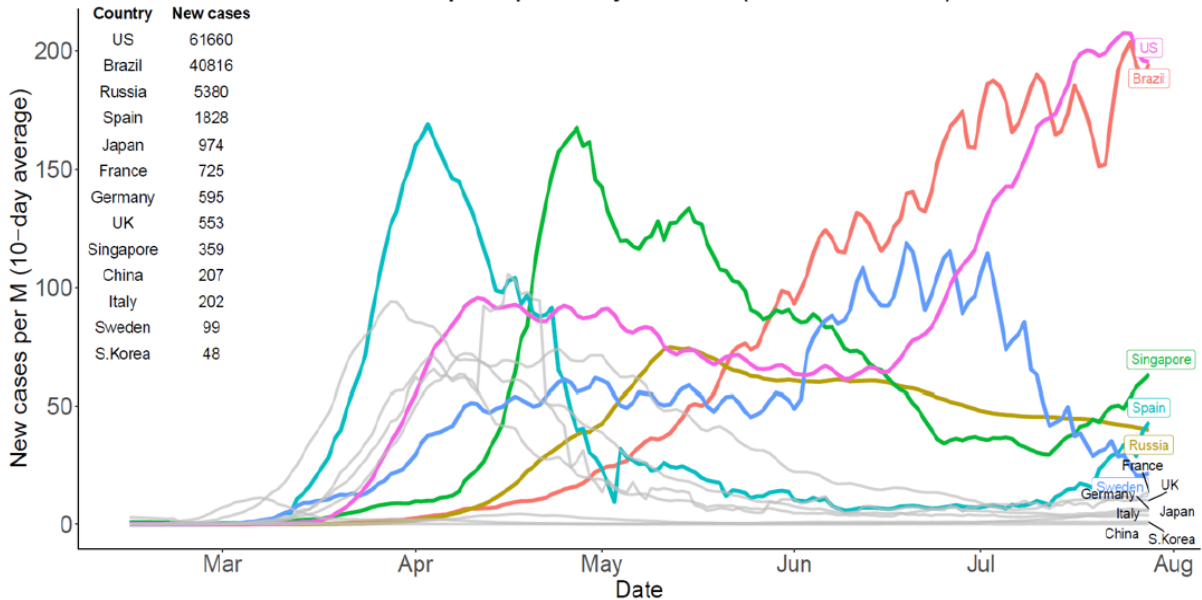




### All Eyes on China

New cases per capita in key countries (cutoff 2020-07-28)



Source: Johns Hopkins

In September 2018, we highlighted the attractive valuations of Chinese equities and internet stocks in particular. Two years later, the CSI 300 Index, comprised of the largest 300 stocks on the Shanghai and Shenzhen stock exchanges as measured by market capitalization, was the best performing major stock market in 2019 and thus far in 2020, according to Bloomberg. We see the Chinese market differently from that of the West and this continues to evolve with near, intermediate and longer-term implications.

The near-term difference we speak about in client discussions is that in 2020 we saw different COVID-19 case rates across countries with varied timing and impact on local economies. As seen in August, the U.S. and Brazil witnessed an upward trend in cases while China remained at the bottom. One implication is that, with the virus relatively contained, the Chinese economy was able to gradually re-open with positive economic results. This is evident in measures such as the Evercore ISI China Sales Survey, which collects sales data from multinationals in China. These gains are highlighted in the chart on the next page.

While near-term results are impressive, a number of reforms are underway as China's leader implements Xinomics. These policy reforms seek to refine an

economy that now represents 16% of world GDP at market prices. Xinomics consists of three elements, the first of which is greater control of the economic cycle while forcing the banking sector to build capital buffers. China's success is demonstrated in its fiscal and monetary response to COVID-19 which was half that of the U.S., at roughly 5% of GDP. The second element of Xinomics is constructing a commercial legal system to resolve business disputes and enhance business formation. For example, according to the World Bank, it now takes only nine days to set up a new business in China versus four days in the U.S. The third element of Xinomics is that industrial policy is being directed at strategic areas for self-sufficiency in critical technologies, such as batteries and semiconductors.<sup>1</sup>

The far-reaching implication for investors is that unlike other developing markets that are dependent on commodity based companies in the energy and material sectors, China is endeavoring to differentiate itself with these technology initiatives. For example, the largest weights in the MSCI China index are technology related companies Alibaba and Tencent Holdings.

<sup>1</sup>Source: "Xi Jinping is reinventing state capitalism. Don't underestimate it," *The Economist*, August 2020.



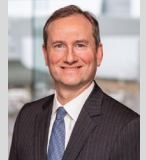
Source: Evercore ISI

As the Wall Street Journal noted in August, Alibaba filed an initial public offering for its affiliate Ant Financial, the operator of Alipay, one of the two dominant payment companies in China. Alipay is similar to Venmo in the U.S., but with 711 million users and \$17 trillion in transactions over the past 12 months, it is significantly larger. With China set to be the home of what the

Journal stated could be one of the largest IPOs ever, changes in the region may warrant more investors' attention.

As always, thank you for your interest and trust managing your investments.

**Charles J. Wittmann, CFA®**, Executive Director, joined Sterling Capital Management in 2014 and has investment experience since 1995. Chip is an equity portfolio manager. Prior to joining Sterling, he worked for Thompson Siegel & Walmsley as a portfolio manager and (generalist) analyst. Prior to TS&W, he was a founding portfolio manager and analyst with Shockoe Capital, an equity long/short hedge fund. Chip received his B.A. in Economics from Davidson College and his M.B.A. from Duke University's Fuqua School of Business. He holds the Chartered Financial Analyst® designation.



*Past performance is not indicative of future results. The volatility of an index varies greatly; all indices are unmanaged and investments cannot be made directly in an index.*

*Specific securities identified and described do not represent all of the securities purchased, sold or recommended to clients. There are no assurances that securities identified will be profitable investments. The securities described are neither a recommendation nor a solicitation. Security information is being obtained from resources the firm believes to be accurate, but no warrant is made as to the accuracy or completeness of the information.*

*The **Chartered Financial Analyst® (CFA)** charter is a graduate-level investment credential awarded by CFA Institute — the largest global association of investment professionals. To earn the CFA charter, candidates must: 1) pass three sequential, six-hour examinations; 2) have at least four years of qualified professional investment experience; 3) join CFA Institute as members; and 4) commit to abide by, and annually reaffirm, their adherence to the CFA Institute Code of Ethics and Standards of Professional Conduct.*

*The opinions contained in the preceding commentary reflect those of Sterling Capital Management LLC, and not those of BB&T Corporation now Truist Financial Corporation or its executives. The stated opinions are for general information only and are not meant to be predictions or an offer of individual or personalized investment advice. They are not intended as an offer or solicitation with respect to the purchase or sale of any security. This information and these opinions are subject to change without notice. Any type of investing involves risk and there are no guarantees. Sterling Capital Management LLC does not assume liability for any loss which may result from the reliance by any person upon such information or opinions.*

*Investment advisory services are available through Sterling Capital Management LLC, a separate subsidiary of BB&T Corporation now Truist Financial Corporation. Sterling Capital Management LLC manages customized investment portfolios, provides asset allocation analysis and offers other investment-related services to affluent individuals and businesses. Securities and other investments held in investment management or investment advisory accounts at Sterling Capital Management LLC are not deposits or other obligations of BB&T Corporation now Truist Financial Corporation, Branch Banking and Trust Company now Truist Bank or any affiliate, are not guaranteed by Branch Banking and Trust Company now Truist Bank or any other bank, are not insured by the FDIC or any other federal government agency, and are subject to investment risk, including possible loss of principal invested. Sterling Capital personnel are not permitted to give legal or tax advice.*