globalmatters Weekly

momentum
global investment management

China is on the move

Matt Connor
Investment Analyst

12 February 2024

Over 13 years ago an episode of US sitcom The Office aired in which Michael Scott tried to raise the alarm surrounding China's impending global dominance, and in 2023 China dominated a new market – Electric Vehicles. In the final quarter of 2023[1] Chinese Electric Vehicle (EV) manufacturer BYD outsold the western incumbent Tesla, to become the world's top selling electric carmaker.

With BYD leaving Western carmakers as roadkill, other Chinese firms like Geely (which owns Volvo, Polestar, & Lotus) are breathing down the necks of long-standing European and American brands such as Volkswagen and General Motors and are already larger than neighbours South Korea's Hyundai and Japan's Nissan. Xiaomi, a Chinese tech company known for its mobile phones is steering into the space, a decision that Apple and Google have contemplated over for many years.

In 2017 BYD only produced 420,000 cars (mainly internal combustion engines), so what has led to the rapid ascension? There has been a massive amount of state support from China to help homegrown manufacturers with generous subsidies totalling over $50bn, along with billions of dollars in financing via cheap loans and equity stakes. The state support coupled with China's domination in the production of lithium-ion batteries, a key component for an EV, has helped Chinese firms gain economies of scale and pricing advantages over western counterparts in the Chinese market. China is the biggest market for carmakers, with foreign brands enjoying a 50% market share of the domestic Chinese car market. When it comes to EVs however, domestic manufacturers dominate[2], with Chinese brands holding an 80% share within EVs according to UBS.

Chinese brands often have better technology, with new models updated frequently to reflect changing tastes, a desire for better infotainment systems, and thanks to the economies of scale they now enjoy, Chinese EVs can be much cheaper than their Western counterparts giving them a route to increasing market share in Europe and the US by offering better technology for cheaper. BYD is looking to expand its European production capacity, adding to its existing factory in Hungary to counter moves by European governments to impose tariffs. The same is happening in Mexico, with Chinese carmakers scouting production locations to find a way around the USA's punitive import tariffs.

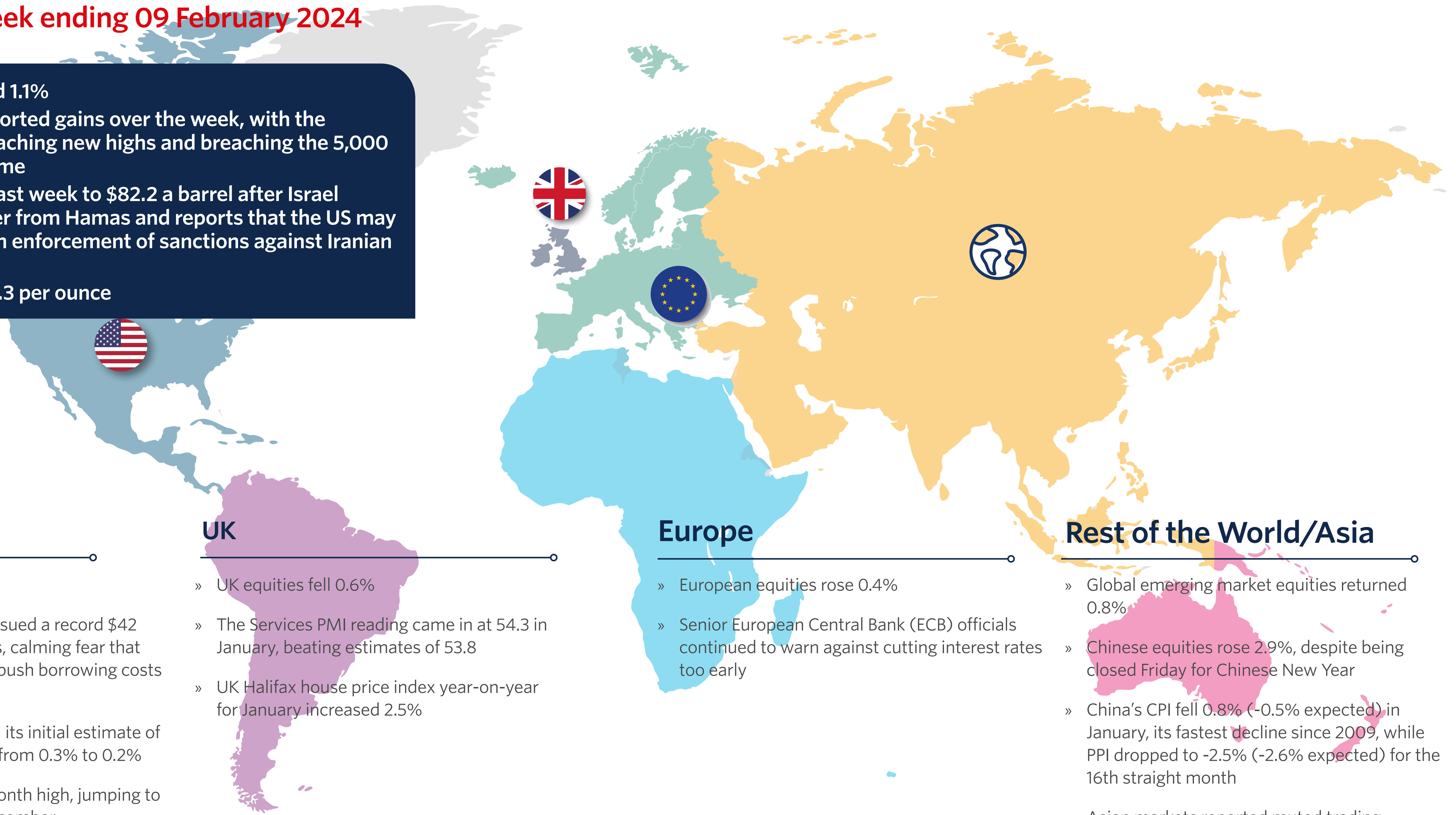
It would seem that CEOs of Western carmakers have been asleep at the wheel when it comes to their new competition. For how long European marques such as Volkswagen and BMW can keep on relying on their brand allure remains to be seen. A recent study by ALD Automotive[3] found 86% of UK respondents said that brand was not a primary consideration, with drivers valuing price and reliability above all else.

As EV sales begin to moderate in the UK after a very inflationary couple of years[4], it will be interesting to see whether consumers start to switch to the cheaper Chinese brands to do their bit for the environment – leaving the traditional brands in the rearview mirror.

"Chinese EVs can be much cheaper than their Western counterparts giving them a route to increasing market share in Europe and the US "

Sources: [1]BYD overtaking Tesla. [2]Economist article (includes Market share figures). [3]ALD Automotive. [4]UK EV Sales moderating.

Market Review - week ending 09 February 2024



- Global equities returned 1.1%
- Most major indexes reported gains over the week, with the benchmark US Index reaching new highs and breaching the 5,000 threshold for the first time
- Brent crude rose 6.3% last week to $82.2 a barrel after Israel rejected a ceasefire offer from Hamas and reports that the US may be looking to strengthen enforcement of sanctions against Iranian oil
- Gold fell 0.8% to $2024.3 per ounce

US

- US equities rose by 1.4%
- The US Treasury Department issued a record $42 Billion of 10-year treasury notes, calming fear that record borrowing levels would push borrowing costs higher
- The Labor Department lowered its initial estimate of December consumer inflation, from 0.3% to 0.2%
- Service sector PMI hit a four-month high, jumping to 53.4 in January from 50.5 in December
- At a weekend presidential rally, Trump said he would "encourage" aggressors to do whatever the hell they want" with Nato countries that fail to pay their dues, which has prompted immediate condemnation from the White House. A spokesman called the comment "appalling and unhinged", saying it was "encouraging invasions of our closest allies by murderous regimes"

UK

- UK equities fell 0.6%
- The Services PMI reading came in at 54.3 in January, beating estimates of 53.8
- UK Halifax house price index year-on-year for January increased 2.5%

Europe

- European equities rose 0.4%
- Senior European Central Bank (ECB) officials continued to warn against cutting interest rates too early

Rest of the World/Asia

- Global emerging market equities returned 0.8%
- Chinese equities rose 2.9%, despite being closed Friday for Chinese New Year
- China's CPI fell 0.8% (-0.5% expected) in January, its fastest decline since 2009, while PPI dropped to -2.5% (-2.6% expected) for the 16th straight month
- Asian markets reported muted trading volumes as many markets across the region were closed for holidays, with investor sentiment looking ahead to US inflation data for clues as to any changes in Fed Policy

globalmatters

momentum investments

Market Performance - week ending 09 February 2024

		Cumulative returns			
Asset Class / Region	Currency	Week ending 09 February	Month to date	YTD 2024	12 months
Developed Markets Equities					
United States	USD	1.4%	3.8%	5.5%	24.6%
United Kingdom	GBP	-0.6%	-0.7%	-1.9%	-0.5%
Continental Europe	EUR	0.4%	0.0%	2.0%	9.3%
Japan	JPY	0.7%	0.3%	8.1%	32.1%
Asia Pacific (ex Japan)	USD	0.7%	1.7%	-3.2%	-4.2%
Australia	AUD	-0.7%	-0.5%	0.7%	6.4%
Global	USD	1.1%	2.4%	3.6%	19.5%
Emerging Markets Equities					
Emerging Europe	USD	0.0%	1.7%	4.0%	32.1%
Emerging Asia	USD	1.0%	2.6%	-2.8%	-3.6%
Emerging Latin America	USD	0.0%	0.0%	-4.8%	22.2%
BRICs	USD	1.7%	2.0%	-3.8%	-7.2%
China	USD	2.9%	3.0%	-7.9%	-26.3%
MENA countries	USD	1.2%	1.6%	1.8%	8.4%
South Africa	USD	-2.3%	-3.7%	-9.2%	-10.9%
India	USD	-0.2%	0.4%	0.7%	22.4%
Global emerging markets	USD	0.8%	2.0%	-2.7%	-0.3%
Bonds					
US Treasuries	USD	-0.8%	-1.1%	-1.4%	1.2%
US Treasuries (inflation protected)	USD	-0.6%	-1.4%	-1.2%	1.1%
US Corporate (investment grade)	USD	-0.8%	-1.2%	-1.1%	4.2%
US High Yield	USD	0.2%	0.2%	0.2%	9.3%
UK Gilts	GBP	-0.9%	-1.8%	-4.1%	-3.1%
UK Corporate (investment grade)	GBP	-0.6%	-1.1%	-2.2%	2.6%
Euro Government Bonds	EUR	-1.0%	-1.6%	-2.0%	2.3%
Euro Corporate (investment grade)	EUR	-0.6%	-1.1%	-1.0%	4.4%
Euro High Yield	EUR	-0.1%	-0.2%	0.7%	7.9%
Japanese Government	JPY	-0.4%	0.2%	-0.6%	-0.4%
Australian Government	AUD	-0.7%	-0.5%	-0.4%	1.7%
Global Government Bonds	USD	-0.9%	-1.6%	-3.3%	-1.3%
Global Bonds	USD	-0.9%	-1.5%	-2.7%	1.1%
Global Convertible Bonds	USD	0.3%	0.4%	-1.7%	2.0%
Emerging Market Bonds	USD	-0.2%	-0.2%	-1.5%	6.0%

		Cumulative returns			
Asset Class / Region	Currency	Week ending 09 February	Month to date	YTD 2024	12 months
Property					
US Property Securities	USD	0.2%	0.8%	-3.4%	-0.7%
Australian Property Securities	AUD	0.4%	2.1%	3.5%	8.8%
Asia Property Securities	USD	-0.4%	-1.5%	-7.1%	-12.9%
Global Property Securities	USD	-0.3%	-0.6%	-4.4%	-1.7%
Currencies					
Euro	USD	0.0%	-0.6%	-2.5%	0.3%
UK Pound Sterling	USD	0.1%	-0.7%	-1.0%	4.0%
Japanese Yen	USD	-0.5%	-2.0%	-5.7%	-12.2%
Australian Dollar	USD	0.2%	-1.2%	-4.6%	-6.3%
South African Rand	USD	-0.6%	-2.0%	-4.1%	-6.8%
Swiss Franc	USD	-0.8%	-1.7%	-4.1%	5.2%
Chinese Yuan*	USD	0.0%	-0.3%	-1.3%	-5.7%
Commodities & Alternatives					
Commodities	USD	1.3%	-0.8%	0.8%	-1.4%
Agricultural Commodities	USD	0.6%	0.3%	1.8%	1.1%
Oil	USD	6.3%	0.6%	6.7%	-2.7%
Gold	USD	-0.8%	-1.2%	-1.9%	8.3%

Source: Bloomberg Finance L.P. Past performance is not indicative of future returns.

globalmatters

momentum investments

For more information, please contact:

Distribution Services

E: distributionservices@momentum.co.uk

T: T: +44 (0)207 618 1803

Important notes - This document is only intended for use by the original recipient, either a Momentum Global Investment Management Limited (MGIM) client or prospective client, and does not constitute investment advice or an offer or solicitation to buy or sell. This document is not intended for use or distribution by any person in any jurisdiction in which it is not authorised or permitted, or to anyone who would be an unlawful recipient. The original recipient is solely responsible for any actions in further distributing this document, and in doing so should be satisfied that there is no breach of local legislation or regulation. This document should not be reproduced or distributed except via original recipients acting as professional intermediaries. This document is not for distribution in the United States.

Prospective investors should take appropriate advice regarding applicable legal, taxation and exchange control regulations in countries of their citizenship, residence or domicile which may be relevant to the acquisition, holding, transfer, redemption or disposal of any investments herein solicited.

Any opinions expressed herein are those at the date this document is issued. Data, models and other statistics are sourced from our own records, unless otherwise stated. We believe that the information contained is from reliable sources, but we do not guarantee the relevance, accuracy or completeness thereof. Unless otherwise provided under UK law, MGIM does not accept liability for irrelevant, inaccurate or incomplete information contained, or for the correctness of opinions expressed.

The value of investments in discretionary accounts, and the income derived, may fluctuate and it is possible that an investor may incur losses, including a loss of the principal invested. Past performance is not generally indicative of future performance. Investors whose reference currency differs from that in which the underlying assets are invested may be subject to exchange rate movements that alter the value of their investments.

Under our multi-management arrangements, we selectively appoint underlying sub-investment managers and funds to actively manage underlying asset holdings in the pursuit of achieving mandated performance objectives. Annual investment management fees are payable both to the multimanager and the manager of the underlying assets at rates contained in the offering documents of the relevant portfolios (and may involve performance fees where expressly indicated therein).

MGIM (Company Registration No. 3733094) has its registered office at The Rex Building, 62 Queen Street, London EC4R 1EB. MGIM is authorised and regulated by the Financial Conduct Authority in the United Kingdom (registration no.232357), and is exempt from the requirements of section 7(1) of the Financial Advisory and Intermediary Services Act 37 of 2002 (FAIS) in South Africa, in terms of the FSCA FAIS Notice 141 of 2021 (published 15 December 2021). For complaints relating to MGIM’s financial services, please contact distributionservices@momentum.co.uk