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China upside without Beijing risk

Equity bulls sense a favourable policy shift. Beijing is showing signs of more aggressively supporting the economy & risk appetite. The Fed have seemingly removed the more aggressive 75bp rate hike option.

There are good reasons to question both those assertions but, for the optimists, one consideration is how to gain exposure to China for any tactical upside.

Chinese equities have badly lagged China's economic expansion. Since 2000, Chinese real GDP in USD is up 17x; but the CSI 300 total return has only been 3.4x. With only 3% of Chinese equities foreign owned & political / regulatory risks still prominent, **onshore Chinese equities do not efficiently capture China exposure.**

But a number of US & European blue chips generate significant revenue from China. **It may be more effective to access China's enormous economic growth via US/European stocks.**

Qi's optimizer uses Ai to find the combination of stocks that best tracks China exposure (the CSI 300) without use of hindsight or backfitting, providing a true out-of-sample simulation of what would have happened.



The only constraints are we remove the 10 largest SPX / SXXP stocks by market cap & a 5% cap for any one holding. The result is a long only vehicle of liquid western stocks that are not yet another FAANG product.

Full details are available on request but note from Jan'16 to end Q1'22:

- Great tracking - total period correlation of 93%
- Higher total return versus CSI 300 (165% vs. 11%) and S&P500 (165% vs. 124%)
- Lower volatility (15% vs. 17%)
- Lower max drawdown (30% vs. 32%)

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