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New Economy A-Shares in Focus for Retirement Investing

October 2021

Investment strategies vary – some prefer short-term speculation, while others belong to the school of long-term investment. In the realm of retirement investing, long-term is trusted as being central to wealth planning. In Hong Kong, working citizens are allowed to take back their pensions after their retirement at age 65, meaning that we can have decades to accumulate our retirement wealth.

Where is the structural growth located in China's capital markets? It is possible to find it in the new economy. According to the OECD, the "new economy" refers to a sector that relies heavily on innovative methods or new technologies for production, particularly those that leverage computers, telecommunications and the Internet to produce, sell and distribute goods and services. For example, Chinese consumers are moving from purchasing gasoline cars to electric vehicles, and from cash transactions to digital wallets.

New Economy Companies are the Key to the Future

In the past, most of the Chinese stocks listed in Hong Kong primarily belonged to the "old economy" sectors, including real estate, conventional energy, industrial and banking. As China transforms from an export-led economy to a "new economy", local consumption and high-growth sectors are rapidly emerging as new drivers of long-term economic development. Opportunities lie in tourism, entertainment, healthcare equipment, industrial automation, new energy vehicles, biotechnology, software and new materials.

These mentioned stocks are more widely found in the China A-shares market than in Hong Kong's stock market. Another edge of the A-shares is that the space is not occupied by a handful of mega-sized companies. To illustrate this, 38.1% of the MSCI China A Onshore Index is composed of small/medium-sized stocks with a market capitalization below US\$10 billion. Only 13.5% of the index is made up of mega-cap stocks with a market cap of more than US\$100 billion. Therefore, working individuals could capitalize on the growth momentum of the Chinese economy via the A-shares market.

Key takeaways

- Investing for retirement is a long-term process. Shares in new economy companies with structural growth will be the focus
- Market for China A-shares is home to a wide array of new economy companies, many of which are small and medium-sized names with considerable potential
- Key sectors include tourism, health care, automation, new energy, biotechnology and new materials and more.

Stay Focused and Away From Market Noise

Five major benefits from China's transitioning to the new economy:

- 1** Self-sufficiency – China is committed to promoting self-sufficiency in key areas such as 5G, semiconductors and renewable energy.
- 2** Import substitution – As the quality of products improves, Chinese companies are capable of gradually replacing foreign competitors to steadily supply the needs of the domestic economy.
- 3** Renewable energy – China pledges to achieve carbon neutrality by 2060, stimulating investment in solar energy and electric vehicles.
- 4** Domestic consumption – In the post-pandemic era, domestic tourism picks up the growth pace. Rising per capita income should also act as a catalyst in the consumer market in the long run.
- 5** Health care – Biotechnology and medical innovation are indispensable for an ageing population and heightened public health awareness after the pandemic.

For retirement investing, focusing on opportunities with structural growth will steer us clear of the day-to-day market noise and stay the course for the names with substantial long-term potential.



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¹ Bloomberg, Allianz Global Investors. Data as of 31 January 2020

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Issuer: Hong Kong – Allianz Global Investors Asia Pacific Ltd.

Admaster: 1816983