Global Market Outlook 2023

Fidelity China Fund

Nitin Bajaj, Alice Li

November 2022

China Focus – An eye on solid businesses

Our core belief is that many companies in China are trading below their intrinsic value. We identify firms with solid business structures and buy with a margin of safety.

Key points

- Our focus is heavily weighted towards value stocks, and we continue to find many companies that have strong long-term businesses.
- Value stocks are trading at a significant discount to their growth counterparts in an environment where interest rates are no longer zero.
- We believe there is no separation between investing and sustainability. As such, we avoid businesses with questionable management and companies that mistreat their employees, customers, or society.

Against the backdrop of inflation, geopolitical tensions and slowing growth, what is the investment outlook for Asian Equities in 2023?

Our focus is heavily weighted towards value stocks, and we continue to find many companies with strong long-term businesses, are run by competent management and are available with a margin of safety.

This is most true in China, despite the understandably prevailing reservations and negative sentiment. We have seen this kind of sentiment before – the US in 2008/09 and India in 2012/13, for example. But China is an essential part of the global economy and is built on both central party leadership and the entrepreneurial ability of its people.

What do you think could surprise the market in 2023, either positively or negatively?

Surprises are generally unforecastable, so for us, the key is to own businesses that can withstand negative surprises – good businesses with competent management that are conservatively financed – and not overpay for them.

What themes, sectors or regions would offer opportunities and potential risks?

Incrementally, we also spend time in Korea and Taiwan, where valuations have corrected significantly, especially in Korea. We have found it difficult in the past to find many investable businesses in Korea because of corporate-governance issues. However, with the current decline in stock prices, some of the most well-managed companies are now available at reasonable valuations, and we are investigating a number of these.

Taiwan has historically been a very shareholder-friendly jurisdiction, albeit very cyclical, given its high exposure to the very competitive area of technology hardware. With the current downcycle in technology, we expect to be able to back some of the long-term winners at attractive prices. Again, we are spending more time in this market.

Conversely, we find valuations for smaller companies in India challenging. There are some well-run businesses in India, but most are priced to perfection. Most of our current exposure in India is with banks and a few special situations.

Within your portfolio, what has worked well in 2022, and what will you do differently in 2023?

Our process of owning good businesses will not change. We do feel value stocks are in a period of sustained outperformance. Given that they are still trading at a very significant discount to growth stocks in an environment where interest rates are not zero anymore (hence there is less fuel to speculate), we believe people will focus more on cash flows and solid businesses.

How do you expect sustainability factors to influence returns in 2023, and how is this reflected in your portfolios?

Sustainability has always been an integral part of investing. We believe there is no separation between investing and sustainability. As such, we avoid businesses with questionable management and companies that mistreat their employees, customers, or society.