Chart of the Week

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Chinese Equities Sold Off in July

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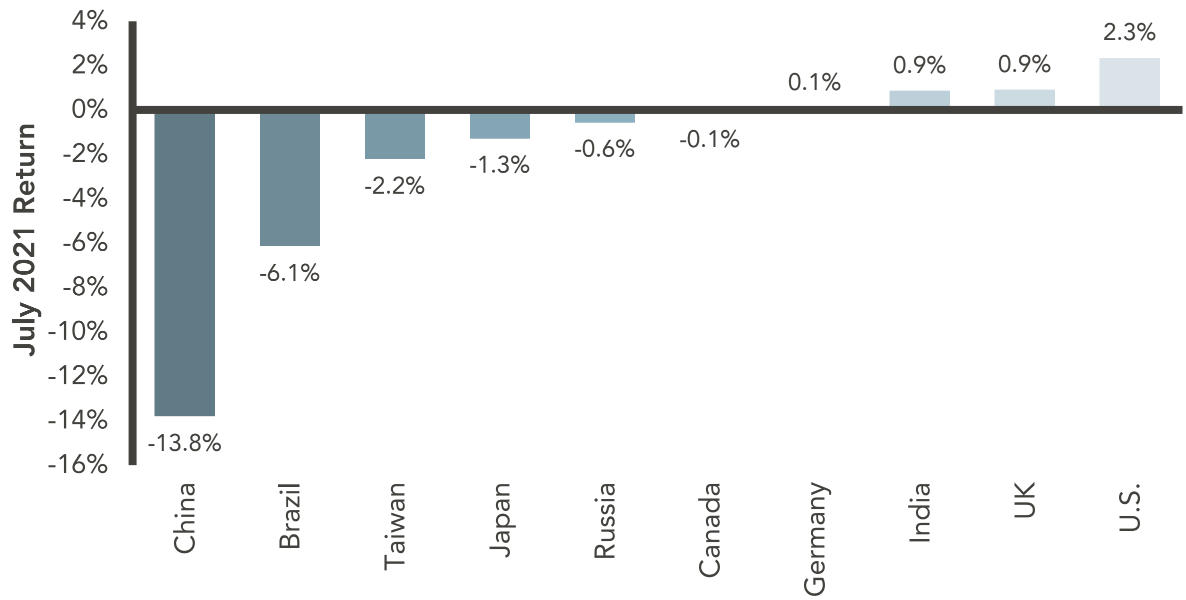
Chinese equities were down in July amid new regulatory restrictions



Source: Bloomberg

In 2020, China was a top performer in the global equity market, returning 29.5%. In 2021, however, Chinese equities have struggled relative to peers. In July, the MSCI China Index lost 13.8%, dragging the broader MSCI Emerging Markets Index to a 6.7% loss for the month.

On July 23rd, the Chinese government, as part of its efforts aimed at boosting a declining birth rate, announced that private for-profit education companies were no longer allowed to make a profit. Among other restrictions, these companies are now required to transform into non-profit entities. As a result, two of the largest education companies — New Oriental Education and TAL Education — were down 73.5% and 75.9%, respectively, in July. This dramatic change is a recent event in a series of regulatory actions that have been taken by the Chinese government over the last nine months. Previous changes predominately impacted internet-based businesses.

Chinese equities have sold off as investors assess the risks of the new regulatory climate and the potential impact to future profitability of several key industries. From here, the market will likely remain jittery on Chinese stocks, especially within regulated industries. However, this is not a new phenomenon. We have seen the Chinese government increase regulations in the past after periods of unchecked growth. The online gaming industry, for example, came under pressure in 2018 when the Chinese government imposed a curfew for minors as a means of limiting gaming consumption. In those past instances, the market recalibrated to the new regulatory environment and the resulting winners and losers were identified. We anticipate a similar outcome in this case.

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