Ropes Wealth Reacts to China Stimulus News

There was a swath of mixed and modest U.S. economic data released this week related to inflation, housing, manufacturing, spending, and consumer confidence that painted a picture of an economy making a soft landing, but also softening. There was also a mighty strong earnings report from semiconductor giant Micron, which set the tone for chip earnings thanks to its broad exposure to industries dependent on the tiny powerhouses, including data centers, phones, and personal computers. Micron credited AI for its strong results which has kept the fuel under the tech sector's continued fire into month-end.

But the biggest news of this week was the "shock and awe" $142 billion stimulus program announced by China's central bank on Tuesday designed to pull the economy out of its deflationary funk and back towards the government's growth target. The CSI 300, the nation's benchmark index, surged to its highest level since July 2020, which was needed relief as the CSI had been down a whopping -40% from its 2021 peak. In fact, it has been an open question for investors whether China is even investable following years of poor market performance, waning growth, and dubious economic data.

I am also well aware of the news this week that a leading Chinese economist named Zhu Hengpeng, director of government thinktank the Public Policy Research Center, has reportedly disappeared after being disciplined for criticizing President Xi Jinping in a private WeChat group. He has not been seen since April of 2024. Yikes.

Turning to the details of the stimulus announced, the People's Bank of China (PBoC)—the central bank of the world's second biggest economy—unleashed triptych stimulus package aimed at spurring consumer spending to counter persistent deflation. First, they unveiled a policy interest rate cut of 0.2% on the seven-day reverse repo rate combined with a lowering of banks' reserve requirements and the cutting of existing mortgage interest rates, both by 0.5%. For the PBoC to unveil three rate cuts at once is itself unprecedented. They further floated a potential 0.25% or 0.50% further cut to reserve requirements before the end of the year. This is remarkable in that the PBoC hasn't historically dabbled in forward guidance.

But that's not all. The PBoC also announced plans to inject more liquidity into the stock market by refinancing bank loans to help firms buy back their own shares. It will also help institutional investors such as securities companies raise funds by allowing them to borrow liquid assets using their own stock holdings as collateral. There was also a cut in the minimum downpayment requirement to 15% on all types of homes. Finally, the PBOC will also allow commercial banks to use 100% from the 300 billion yuan relending loan facility to finance loans they offer to state-owned firms for acquiring unsold flats for affordable housing.

The purpose of all these unprecedented maneuvers is to jumpstart a moribund economy. Yet while the PBoC measures may provide some relief, experts are pessimistic they alone will get the Chinese economy humming again. Detractors note that support for the stock market is not terribly important given the Chinese economy is not very financialized and only some 10% of Chinese citizens hold stocks (as opposed to 70% of Americans). In contrast, real estate accounts for up to 80% of China's household wealth, as well as 30% of GDP. Other critics cite the measures as just not going far enough to stimulate the consumer which many believe would be the key to unleashing the full potential and growth opportunity of the Chinese economy. Finally, following similar "shock and awe" announcements after 2008 and 2020, there are concerns that the execution and uptake will fall flat and end up sparking inflation or further compound surging levels of debt.

We shall see. Perhaps the most important thing about the announcement is that it signals a greater sense of urgency around supporting the economy than before, and in a global marketplace, that was a positive for the markets this week, which continue to maintain momentum through a historically tricky seasonal period. Some clients want to know if this move by China signals a buying opportunity, and we would respond by saying our investment plans with you typically weave in exposures to diversified markets, including China and other emerging economies, though in measured amounts given the risk and higher volatility. It is also true that as primarily U.S. stock market investors, you are shareholders in multinational companies with revenues coming from Asia and Europe as well as the U.S. and will benefit from these actions. Bottom line, interest rates declining across the globe and stimulus efforts from China are supportive to the broader markets, a helpful boost as we head into election season and steer through a modest economic soft patch with a higher bar thanks to current valuations.

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Ropes Wealth Advisors
800 Boylston Street Boston, MA 02199-3600