WUTIS

China vs US: How will it play out?

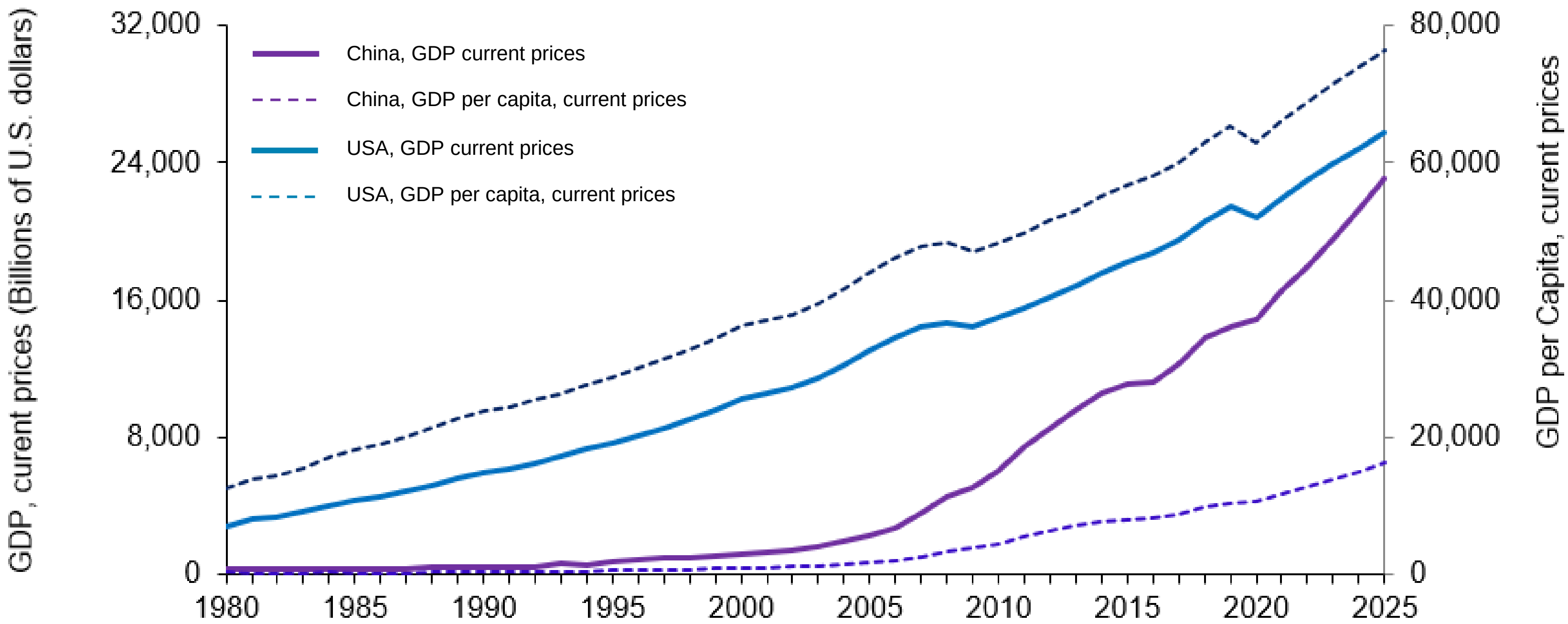
WUTIS Chief Investment Office

by
Anastasia Chechkova
Christian Hanley
Jasmin Seliansky
Dawit Wolde

Overview

Macroeconomic overview

Macroeconomic overview: GDP indicator



Insights on US and China's economy

- Nominal GDP rates are narrowing
- Growing wealth gap could lead to social unrest in both economies
- Massive population and GDP growth (GDP per capita) will stay low in the future

Implications for investors

Forecast: China will become the largest economy by 2028 but its growth should be treated cautiously

Macroeconomic overview: Consumption

Households and NPISHs final consumption expenditure

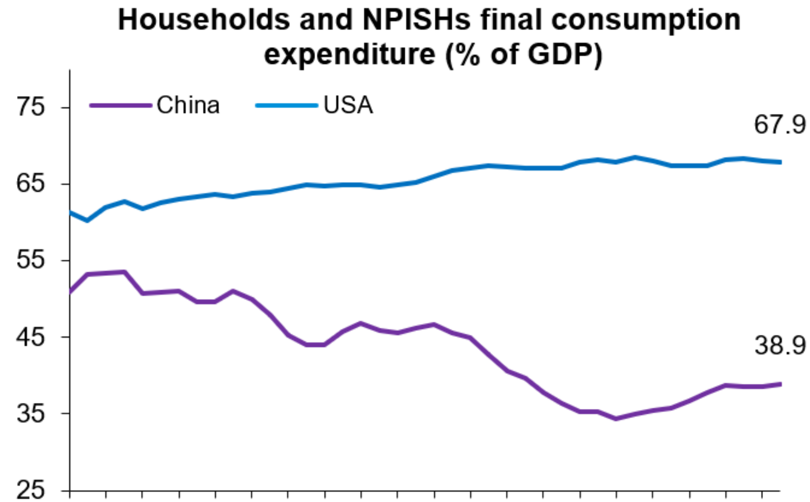
- **China** has growing consumption since 2010
- **China** announced dozens of measures that should help foster domestic consumption expenditures
- **US** has a relatively stable consumption expenditure

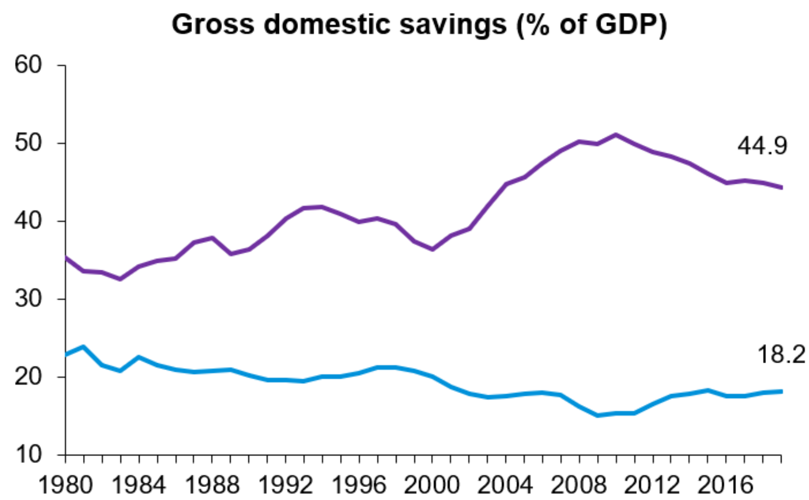
Gross domestic savings

- **US** saving rate is has been increasing for the past 3 years
- **US** shifts focus from consumer-driven economy
- **US** (other possible reasons): difficulty to get access to credit and uncertainty about the future
- **China** since 2010 slow decrease in saving rates
- **China** still has a relatively high savings rate

Implications for investors

Chinese companies operating in consumer goods and services sector are a promising investment (short-/medium-term)





Areas of conflict and interdependencies

Areas of conflict and interdependency

W U T I S

Trade war

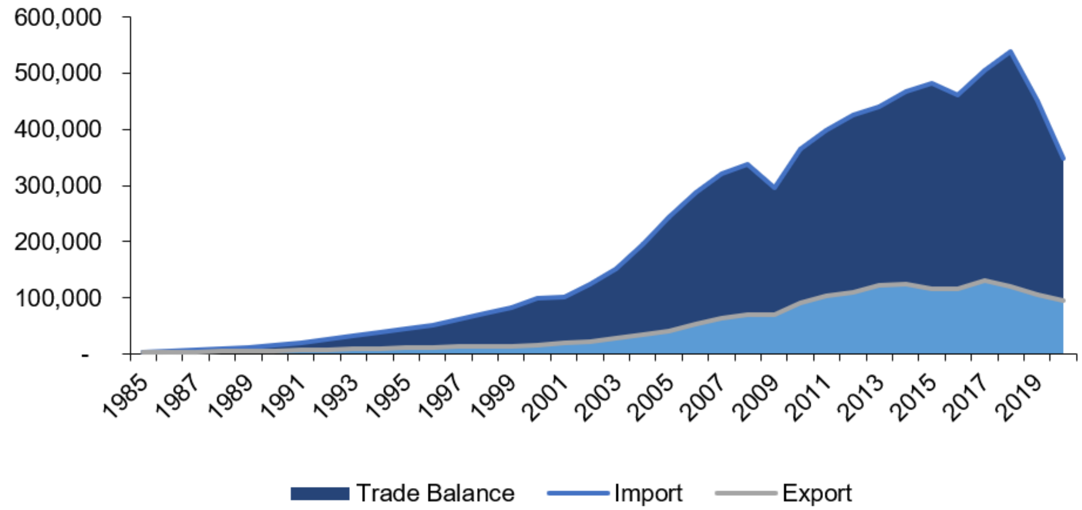
- US represents 20% of Chinese trade
- Tariffs on almost all export products
- Restrictions for high-tech industries
- High risk for companies reliant on Sino-American trade

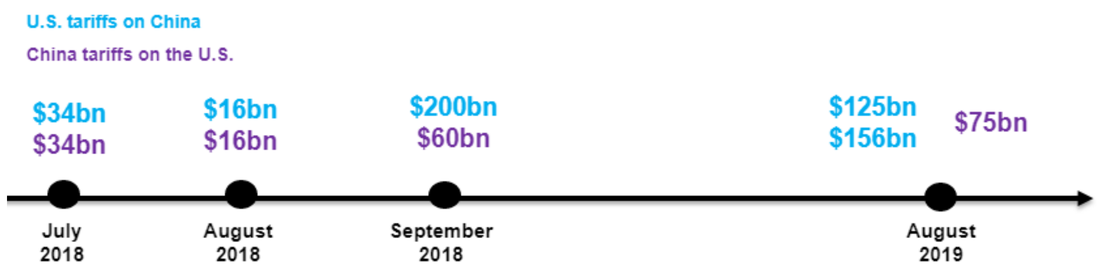
Foreign-held debt

- China is the 2nd biggest holder of US foreign debt
- Chinese companies owe almost 3 $trillion to foreign lenders
- Chinese debt repayments and defaults are rising rapidly

Implications for investors

More tariffs are expected. Both countries are minimizing their interdependencies.





Areas of conflict and interdependency

Bloc formation

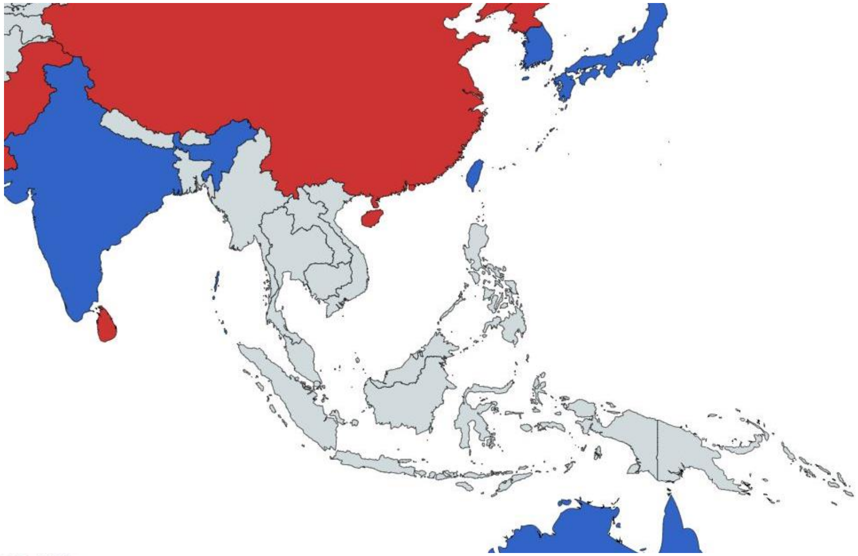
- Increasing tension leads to bloc formation
- 27.8% to 69.8% of revenue from the top 10 companies in the S&P 500 generated in China
- High risk for companies dependent on multiple countries for production or revenue

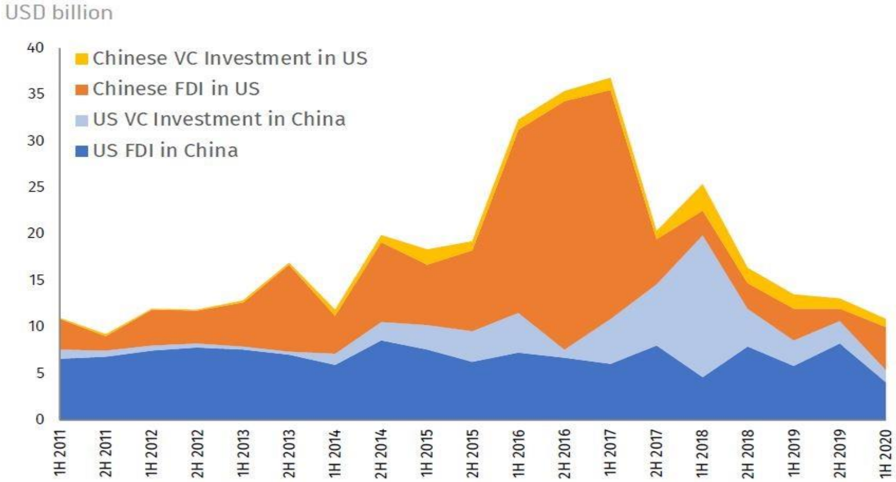
Foreign direct investment and supply chains

- Chinese investment into the US has fallen drastically
- Value of greenfield projects in China has decreased
- American companies are moving their supply chains out of China
- Companies dependent on goods produced in China or ongoing foreign investments are at risk

Implications for investors

Companies which rely on multiple countries on opposing sides to provide products or services will be affected the most.





Recommendations for investors and conclusion

Sector Analysis I

W U T I S

The current developments have both negative and positive impacts on companies across all sectors.

1 – Communication services
- Bearish
- Bearish

2 – Consumer discretionary
- Neutral
- Neutral

3 – Consumer staples
- Bullish
- Bullish

4 – Energy
- Bearish
- Neutral

5 – Health care
- Bullish
- Bullish

6 – Materials
- Neutral
- Neutral

Sector Analysis I

W U T I S

The current developments have both negative and positive impacts on companies across all sectors.

Neutral
Bearish
Real Estate
7

Neutral
Bearish
Financials
8

Bullish
Bullish
Industrials
9

Bearish
Neutral
Utilities
10

Bullish
Bullish
Technology
11

Conclusions

1. Both countries will continue to **diverge** and **decrease their interdependencies**.
2. The US will **continue with sanctions**, tariffs and restrictions for individuals, companies and whole industries.
3. The US is **unwilling to cede any power** and China will not stop their pursuit of global leadership.
4. **Technology** and **health care** sector are most affected by the frictions between two countries.
5. Investors should **avoid** opportunities, which rely on trade, manufacturing or **any cooperation between the two countries**.
6. The US is plagued by **political instability** and polarization.
7. China has a short-term advantage due to their drastic lockdowns, but **long-term economic stability is unlikely**.

Therefore, we recommend that investors take a **balanced approach without over-investing** in one of the economies and spread risk as much as possible.

Q&A