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The China rally may just be getting started

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Kinger Lau: The China rally may just be getting started.

Chinese equities have surged since the announcement of a significant stimulus package, before giving some of those gains back. We think the rally makes sense. The Chinese government has shown its commitment to supporting economic growth - which is exactly what investors have been waiting to hear.

Now, some are hesitant about buying after this huge move, which may explain why the market has corrected from its highs. But history tells us that this rally could have legs. On average, when we have seen 20% rallies in Chinese stocks, that rally has continued over the next several months. And importantly, Chinese stocks are still quite reasonably valued - with valuations only rising back up to historical averages.

For international investors there is an additional reason to add China exposure. Correlations with developed markets have fallen just to 30%. So even if the rally does lose momentum, we believe Chinese equities still have a place in investors portfolios.

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