Chinese Stock Prospects for 2023

By: www.ProfitableInvestingTips.com

For years, as the Chinese economy grew, investing in Chinese stocks was often profitable. A common issue was that while the Chinese economy grew exceptionally well, it could be difficult to pick the right Chinese stock due to incomplete or inaccurate reporting for financials. Then Covid hit and China went into a **protracted lockdown** and has **only recently emerged**. What are Chinese stock prospects for 2023 now that the country is back to work?

2023 Chinese Stock Market Recovery

According to *CNBC*, Goldman Sachs expects to see a **24% surge in Chinese stocks** by the end of 2023. They are specifically talking about the **MSCI China index** which tracks 714 Chinese stocks and includes Commercial Bank of China, BYD, and Tencent. Goldman's opinion is that business will pick up and cash flow will improve first of all. Profits will take until the end of the year. Investing in China appears to be led at this point by hedge funds that are seeing Chinese stocks as less risky than during the last few years. Like in the US and Europe, not everyone was out of work during Covid and many people have increased their savings and are ready to spend. Thus, it would appear that Chinese consumer stocks may be the first to benefit from the 2023 Chinese stock market recovery.

How Will a Renewed Cold War Affect Chinese Stocks?

The US has **restricted exports** of advanced chips and chip technology to China. The US and China are gradually sliding back into a modified Cold War footing. US concerns include the potential for a Chinese invasion of Taiwan which could cut off supplies of the most advanced computer chips to the US. For the longer term the US does not want China to become the tech leader in chip technology, military weaponry, or any tech necessary for economic dominance. To the degree that this sort of Cold War competition continues, we would expect it to affect the tech sector but not affect Chinese consumer stocks where growth is expected in 2023.

Will the Delisting of Chinese Stocks Reduce Investment Opportunities?

A problem for investors for years when choosing Chinese stocks has been that one never really sees the full picture of their financials. Many Chinese companies are closely aligned with or largely directed by the Chinese military or intelligence services. Others simply do not want anyone to see how shaky their financial pictures are. As the US has insisted that Chinese companies provide the same level of financial disclosure including independent audits as US companies listed on the Nasdaq or NYSE many Chinese companies are **delisting from US exchanges**. Big Chinese companies that are doing this are Aluminum Corporation of China Limited, PetroChina Company Limited, Life Insurance Company, China Petroleum & Chemical Corporation, and Sinopec Shanghai Petrochemical Company Limited. These folks traded via ADRs.

Picking Chinese Stocks for 2023

Yahoo Finance provides **four specific stock picks** for 2023. As we would have expected they are consumer related and likely to benefit from pent up consumer demand. These stocks are Pinduoduo which runs an e-commerce platform, China Automotive Systems which sells power steering systems and components, TAL Education which features a smart learning system, and Tencent Music Entertainment which operates an online music platform. One should notice that none of these companies has anything to do with high tech, military applications, or sales in or to the USA. If you are considering an ETF like FXI that covers China large cap stocks check out their price over the years and you will see that it has tended to run between $30 and $45 a share. It is currently at $27.91, which may indicate an opportunity to buy as it rises toward its normal upper range. For the long term the mix of large cap stocks in this ETF would seem to argue against long term impressive growth potential.

Black Swan Risks With China

The very real risks with investing in anything China is that they could, in fact, invade Taiwan or start to supply lethal military aid to Russia for its war in Ukraine. Either of these would have dire consequences on US-China trade, China's economy, and their stock market.

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