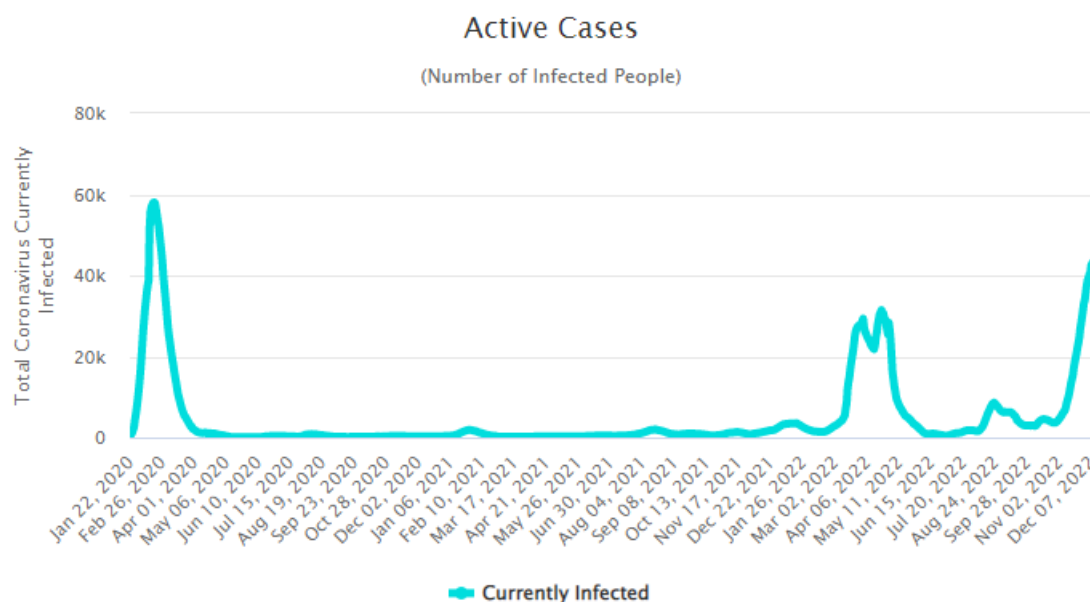


The sleeping dragon opens an eye.

Winston Churchill famously said that the world should “beware the sleeping dragon, for when she awakes the Earth will shake”, and even though these words were uttered many decades ago, they are as pertinent today as they were then.

Only a totalitarian state could have spent many months of trying to tackle the spread of COVID by adopting a zero-COVID policy, quarantining entire districts and cities for prolonged periods. National pride has outweighed common sense as the state has refused to accept that there were many other non-Chinese manufactured vaccines that have proved to be effective in building up some form of immunity in other regions of the world. Even the dramatic devaluation of Chinese (and Hong-Kong) equities, a property market in state of disarray and a rapidly falling currency did not lead the Chinese government to shift from its policy, and in November’s congress Opening fell behind Security, Economy, Innovation and Reform in terms of topics mentioned



As COVID cases rose this autumn the Chinese population were facing lockdowns that were much more widespread than those experienced in March, and scenes of people fleeing factories and areas to avoid being caught in a quarantine zone started to emerge. Despite the autocratic nature of the Chinese state, the population were being pushed to breaking point, and earlier this month protests broke out, in what was a rare act of defiance. Whether it was a fire in a quarantined building where people could not escape from or images of supporters at the FIFA world cup mingling unmasked that caused the spark is unclear, but the dragon is definitely stirring from his slumbers and starting to breath fire once again; It is now apparent that what the party fears most is civil unrest given the speed that the party has stepped away from zero-COVID to almost total freedom of movement.

26-27 November
7 December

- Protests break out across China
- National health Commission: 10 New Measures**
- End of PCR tests for movement on public transport
- Negative PCR tests only required for medical and educational institutions
- Quarantine at home rather than centralised facility



- High risk areas to be opened after 5 days of no new cases
- Mass testing to be wound down
- Renewed focus of vaccinating the elderly (only 40% of over 80's are fully vaccinated)

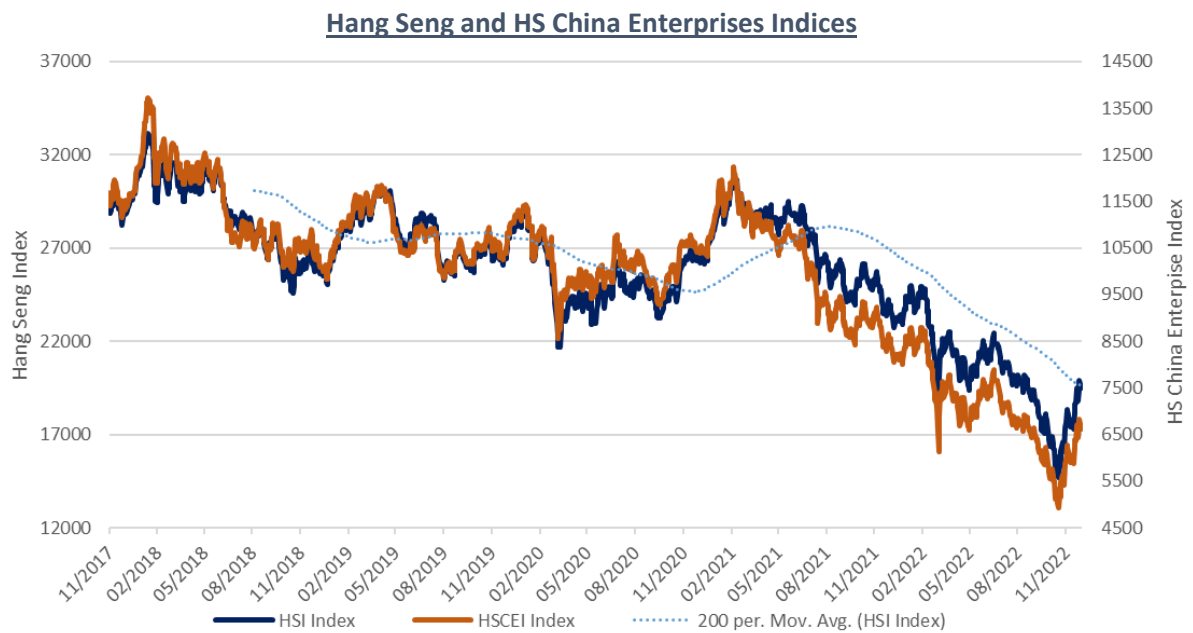
12 December

End of Location tracking

13 December

End of foreign visitor restrictions in Hong Kong

The result of what seems to be a definitive end of zero-COVID and a transition to focusing on growth has been a significant and sharp rally in China exposed equities as the chart below shows.



Source: TIM/ Bloomberg

Whether the speed of the reopening proves to be too far and too fast, as hospitals in Beijing are already starting to show signs of stress, and we expect other cities to find capacity issues as cases spike, it is positive to see that the government has accepted that the country needs to learn to live with COVID, if only for the wrong reasons.

For investors, there are numerous ways to benefit from this new dawn, especially as certain sectors such as the Macau casino operators have been hit harder than others, and many of other companies listed on the Hong Kong and Shanghai exchanges are probably only in the early stages of recovering their losses of the past year.

Many Western companies have also seen the share prices fall as supply chain and Chinese sales have fallen short due to movement restrictions. Apple has been probably the most high-profile victim' as the Foxconn production factory was one of the first locations where employees were pictured scaling the fences to avoid quarantine controls, but others such as Estée Lauder, reported in their recent releases about sales falling short of expectations as customers have not been able get to locations to buy their products and movement restrictions hindered their ability to fulfil e-commerce sales.

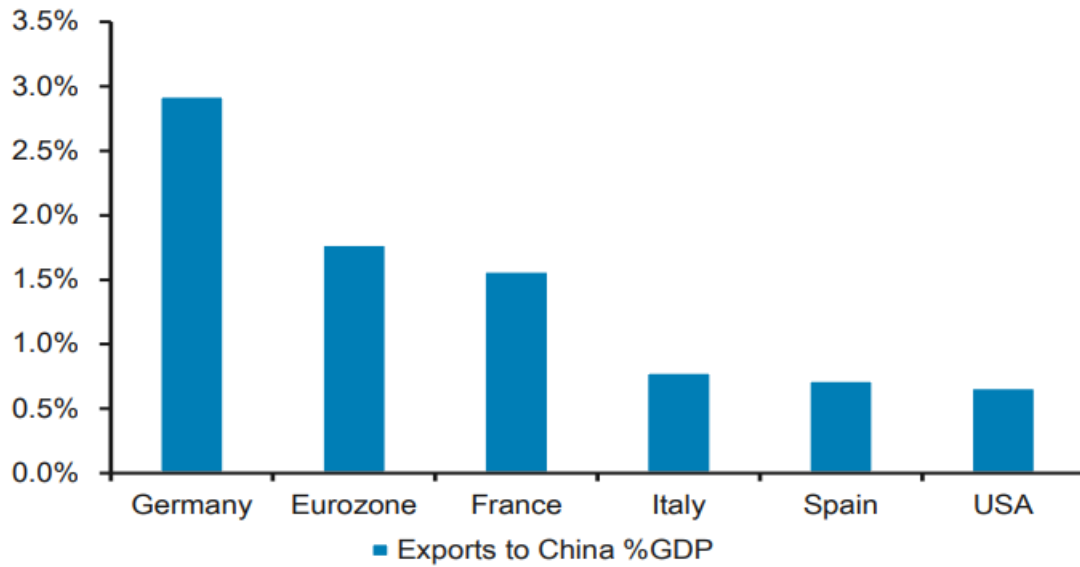
While there are a plethora of companies facing similar issues, whether it be in supply chains or sales, Eurozone countries are more exposed to a growing China than the US, as exports to China have been a growing as a percentage of GDP over the past 20 years.



Capital at Risk – the value of investments can fall as well as rise and you may not get back what you invested

Past performance is not a reliable indicator of future results.

Europe has more to gain from China reopening



Source: Barclays

European equities have been languishing at record discounts to the US since the pandemic, however, in recent months have they seen an increase in investor interest, recovering some of their year-to-date losses. A reopening of China and the ability to export to the region should add a further leg to this recovery as investors extrapolate the consequences of China returning to normality.

German DAX and French CAC Indices finally show signs of life



Source: Bloomberg

Richard Scrope CFA, Fund Manager, VT Tyndall Global Select Fund 13th December 2022

Contact Details:

Fund Manager – rscrope@tyndallim.co.uk
 Fund Distribution – trussell@tyndallim.co.uk



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Investment Manager: 5-8 The Sanctuary, London, SW1P 3JP.



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