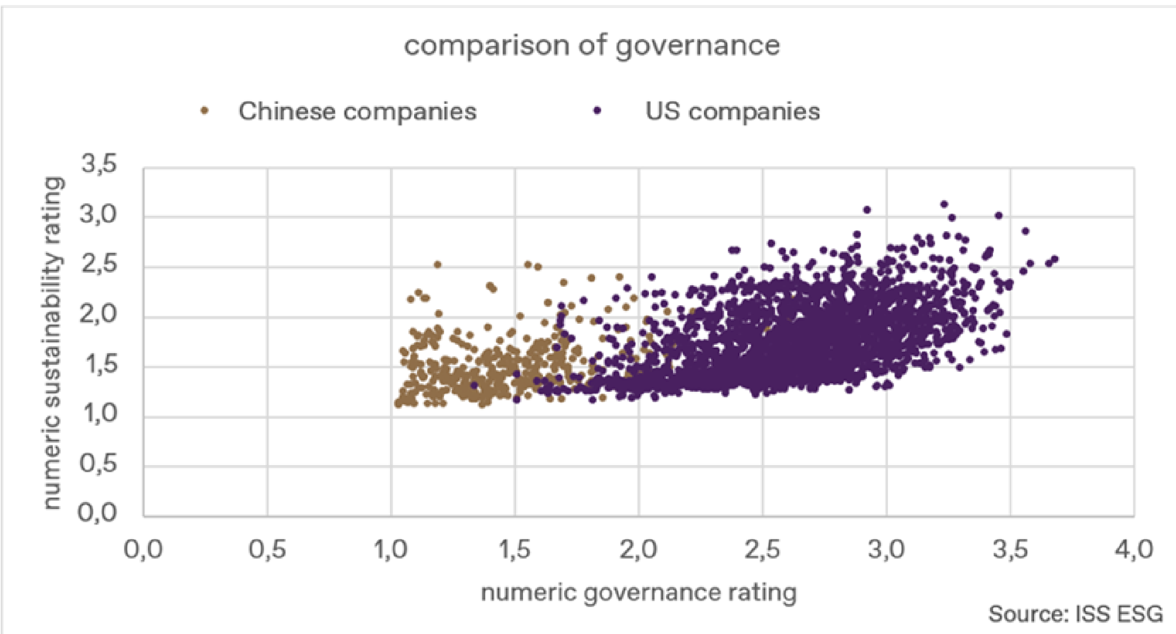
KATHREIN PRIVATBANK

MONDAY MARKETS MAIL

Key topics at a glance.

Goodbye, China



While Marie Le Pen has to say goodbye again to her aspirations to become French President, Kathrein says goodbye to the Chinese equity portion of Kathrein House View. There are more and more factors that

speak against an investment in the once promising stock market. This led to the decision to reduce the invested share capital to zero.

It is worth making a short list of why the Chinese stock market has lost its attractiveness:

- mistakes in terms of strategy in dealing with Covid, which now seems to be catching up with the Chinese People's Republic and is once again leading global supply chains to the brink of collapse,
- influence on listed companies and their management, anti-business legislation and the associated loss of attractiveness of entrepreneurship,
- questionable geopolitical interests as well as the current positioning in the Ukraine-Russia war (and the associated sanction risks) and also
- the structurally weaker "governance" (corporate management), are just a few examples of the prevailing risk factors.

The positive outlook for the once flourishing country and the search for alternative earnings opportunities due to the extremely low earnings potential in other asset classes made market participants overlook a lot, but the pain threshold now seems to have been reached here. The calendar year to date has been particularly weak, with the NASDAQ Golden Dragon China Index losing around 27 %; this compares with around -3.2 % for the MSCI World, just under -2.8 % for the S&P 500 and around -4.3 % for the Stoxx Europe 600 (in each case from a euro investor perspective from December 31, 2021 to April 21, 2022).

One aspect - structurally weaker "governance" - is well illustrated by the numerical governance rating compared with U.S. companies.

In the chart above, the horizontal axis shows that Chinese companies have a less attractive rating. While the letter "G" in "ESG", standing for "governance", is an integral part of sustainable investments, a special focus should also be placed on it in conventional forms of investment, as corporate risks are of enormously high importance in any form of investment.

The reallocation of equity has increased the weighting in other emerging markets, such as Taiwan, India, South Korea, and Brazil. These countries have already set themselves apart from China in terms of governance: On average, companies from these countries have a better governance rating. In the near future, we do not see a scenario in which investability in Chinese equities returns, as this would also require a structural change, which from today's perspective is given only an extremely low probability. Probably the most essential aspect would be a more liberal entrepreneurship in order to be able to exploit the potential of the Chinese economy on the equity side again.

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About us

Kathrein Privatbank AG, headquartered in Vienna's first district, was founded by Carl Kathrein in 1924 and is one of the leading private banks in the German-speaking countries. Our core competence lies in the management of private, corporate and institutional assets as well as the assets of private foundations. As a subsidiary of Raiffeisen Bank International AG, Privatbank offers the advantages of a flexible, independent as well as service-oriented institution and the security of a stable, international banking group.

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Contact

Adress:
Wipplingerstraβe 25
1010 Vienna, Austria

+43 1 53451-0
privatbank@kathrein.at

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