



FINANCIAL  
SERVICES



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# **China drives market volatility but nothing out of the ordinary**

**Investors around the globe are catching their breath after one of the most turbulent day's trading in many years.**

The Chinese share market fell by more than 8.5%, as measured by the Shanghai Composite Index, marking its largest single-day descent since 2007. The US stock market also saw its biggest sell-off in four years with the S&P 500 and Nasdaq both in correction territory, down 10% on recent peaks.

Market falls around the world appear to reflect a combination of factors that are contributing to negative sentiment among investors. More notably for Chinese shares, despite the volatility experienced over the past few weeks, those who have been invested in the market for the past year have still generated positive returns of approximately +70%.



## China drives market volatility but nothing out of the ordinary continued

### Are we heading into another major financial crisis?

Our current analysis suggests that the negative sentiment we have seen in the last few days is not out of the ordinary, with occasional sharp market sell offs during bull markets.

Following the share market fall in 1987, as well as the Global Financial Crisis, share markets took time to build firm bases and entered periods of protracted volatility before then commencing clear rising trends. It's likely that this is what we are now experiencing with China.

While the recent market downturn has been sizeable, it's not among the worst in market history. Financial markets in the west have been booming for the past six years at a time when global macro divergences have intensified. Recovery from the last recession has been patchy and weak by historical standards, but that has not prevented a bull market in equities.

For all the talk of 'Black Monday' in China, this was more of a correction in western markets, with 12-month market gains of around +70% even despite the sell-off this week.

### What impact does this have on AMP Capital's long term view?

Globally, while volatility is likely to remain high and a further correction is possible, we see little risk of a recession or bear market in global shares at this point in time. What we have is a sharp adjustment of market sentiment and extreme fear without a real change in the underlying economic backdrop.

We also expect the Chinese government will support economic growth through strong

monetary policy easing and other measures which, in turn, should help support growth in China and the broader emerging markets.

We will continue to watch and monitor the market, and will make necessary changes to our portfolios as the situation evolves.

### Do you see any opportunities?

Going through August-September, we expect to see continued volatility. Historically, the September quarter is one of the weakest quarters of the year so we will not necessarily be putting all money to work at the moment but if we see further dips over the next few weeks, we will take advantage of these buying opportunities.

In terms of our views on asset allocation, we currently see the share market correction in China as a buying opportunity. While there has been a significant readjustment in valuations, the earnings backdrop for Chinese companies remains good.

We remain confident there will also be aggressive support from central banks to stem any negative impact to economic fundamentals.

### About the Author

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With over 18 years' experience in Australia's financial markets, including 15 years as part of AMP Capital's Investment Strategy and Economics team, Nader's responsibilities include analysis of key economic and market factors influencing global markets.

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