ROCKEFELLER
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CIO MONTHLY PERSPECTIVE

IDEOLOGY VS. FACT

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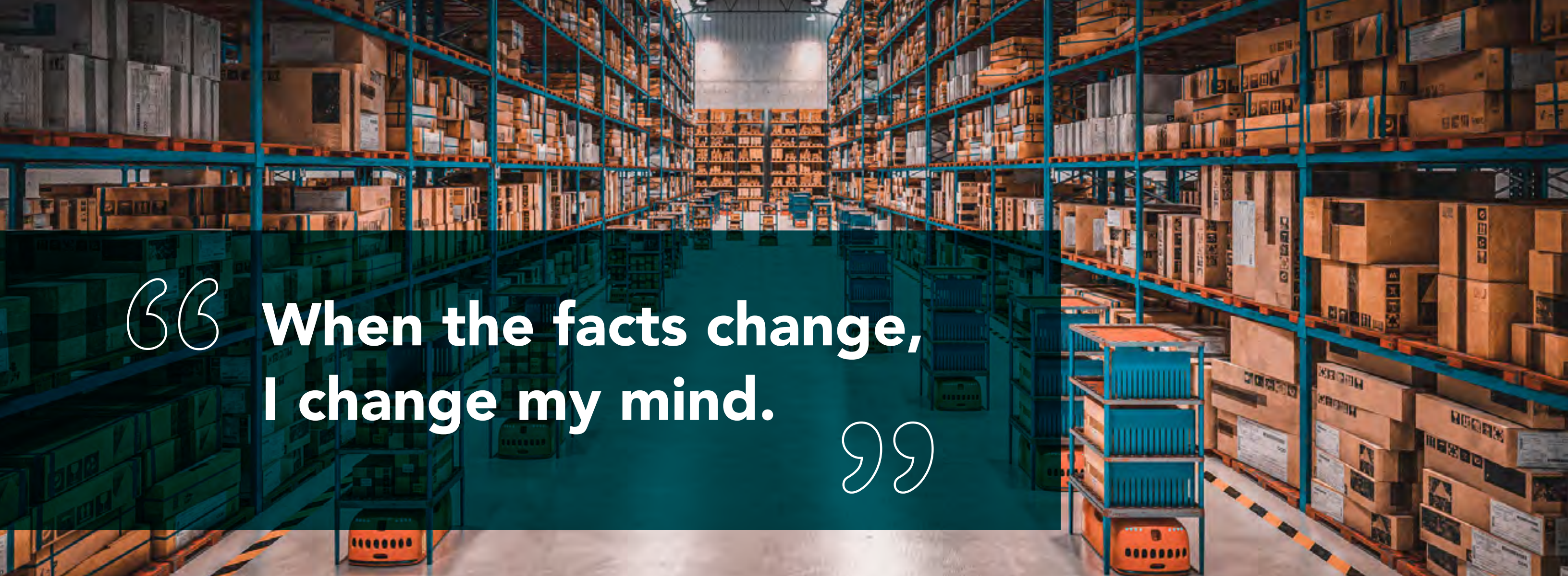


“When the facts change, I change my mind.”

Despite elevated fear of recession at the start of 2023, investors found a silver lining in softer-than-expected inflation data and spun it into rising optimism for an economic soft landing.

The optimism was further buoyed by better-than-expected U.S. real GDP growth (2.9% annualized in 4Q22), solid employment data, a much warmer-than-expected European winter (even Mother Nature went against Putin), and the prospect of a rapid post-COVID economic rebound in China. Markets behaved as if a Goldilocks scenario had made a triumphant return—Treasury yields fell sharply across the curve, bond spreads narrowed, and equities rallied hard, especially among riskier names.

There is an unresolved debate on whether it was John Maynard Keynes or Paul Samuelson, two brilliant economists, who made the famous quote, “When the facts change, I change my mind. What do you do, sir?” With supposedly forward-looking markets rallying, it makes me wonder if my guarded views need to be changed.

Unfortunately, the facts still point to a weakening economy and downward revisions to 2023 consensus earnings estimates do not appear to be over.

For instance, more than half of the 4Q22 GDP growth came from inventory buildup, and the real final sales to domestic purchasers slowed to just 0.8% annualized. Final sales to domestic private purchasers were even weaker at 0.2% annualized, the lowest level since the 2020 recession.

Leading indicators such as new orders components of both ISM Manufacturing and Services PMI have fallen to the mid-40s. The last man standing in the strong economic data camp is the jobs data, with initial jobless claims at 9-month lows. That said, softening data in weekly hours worked and temporary jobs are pointing to weakness ahead.

Unlike the 2020 pandemic-induced downturn that was clear and abrupt, the current slide into a likely recession is a gradual process with fits and starts. As history has shown, rallies are quite common during this phase of the cycle, especially with investors expecting a Fed pivot.

I would continue to be patient, defensive, and selective, as I suspect the most aggressive Fed tightening cycle and the unwinding of some of the biggest bubbles in decades could still inflict more pain in the months ahead.

SALT OF THE EARTH

It was a movement two years in the making: frustrated with policymakers who were ignoring their pleas, protesters decided to march to the nation's capital in the dead of winter to voice their grievances and to rally public support.

Thousands braved the elements to start their weeks-long, snail-paced journey across the vast country in January. On February 5, several caravans of these slow-moving vehicles converged on the capital, creating gridlocks for commuters.

City officials and police feared vandalism and violence, but these burly and weather-hardened protestors wound up endearing themselves to local residents.

This scene may be reminiscent of the so-called Freedom Convoy anti-vaccine protest movement that took place in Canada a year ago. However, this story goes further down memory lane to 1979: the so-called Tractorcade protest by beleaguered American farmers during the Jimmy Carter Administration happened during this month forty-four years ago.

The rally of thousands of farmers riding their tractors to Washington, D.C. was the culmination of the American Agriculture Movement started by a group of family farmers in 1977. Times were hard for American farmers as they were squeezed by collapsing crop prices and surging fuel, pesticide, and seed costs.

The movement was aimed at uniting family farmers across the nation to lobby for adequate government price support for crops and to level the playing field where foreign producers were allowed to use chemicals banned in the U.S. In late 1977, farmers began driving their farm vehicles to rallies at state capitals in the Midwest to get the public's attention. Placards with slogans like "Crime Does Not Pay, and Neither Does Farming" and "Fair Prices or a Real Food Crisis" were hung on green and yellow John Deere and red International Harvester tractors.

However, these demonstrations failed to create momentum for the movement, and the farmers decided to hold some big rallies in Washington, D.C. to get national attention.

President Carter, being a peanut farmer himself, offered words of support to the farmers and ordered the Farmers Home Administration to halt all foreclosures of farms.

However, Congressional members, the Capitol police, and Washingtonians viewed these tractors as a major nuisance. The protestors had another problem—they showed up in D.C. only to find out that no one had plans for what to do next.

The police managed to herd all the tractors to one location at the National Mall and cordoned off the area with trucks and buses surrounding it. A few arrests were made but most protestors were non-confrontational as they settled down in the makeshift "tractortown."

After spending weeks getting to D.C., none of them wanted to just pack up and head home empty-handed. They wound up camping out on the National Mall for weeks, darting in and out of the Smithsonian Museum to stay warm and dine in the cafeteria. They came to realize that their encampment was ideally located—they could easily walk to the Capitol Building and other government agencies to meet with elected officials and regulators to make their case in person.

Two weeks into this awkward standoff—the capitol police were patiently waiting for protestors to lose their zeal and head home – Washingtonians were caught off guard by the worst blizzard in more than 50 years.

Against early forecasts of just a few inches of snow, the city, which could barely function in the face of

a couple of inches of powder on the ground, was paralyzed by more than 20 inches of snow. The public transit system and the area's three airports were all shut down.

With the city's snowplows overwhelmed, the farmers – heretofore disdained by the bureaucracy and residents – came to the rescue by driving their tractors to plow the streets.

They ferried doctors, nurses, and emergency medical services personnel throughout the city, towed fire trucks, and transported women in labor. The then-newly elected Senator from Virginia, John Warner, also hitched a ride so he could get to the Capitol to deliver the annual reading of George Washington's farewell address.

As the city dug out of the snow, residents were grateful to these farmers. A carnival-like atmosphere befell the National Mall as locals took their kids there for free tractor rides and invited farmers home for hot meals.

People became more tolerant of traffic jams caused by the continued protests, including one in front of the Federal Reserve headquarters on March 1. Some Fed employees appeared and applauded in appreciation when a group of seven farmers and a volunteer attorney entered the marbled building.

Four Fed officials in suits and ties greeted these farmers who wore flannel shirts, jeans, and caps. They said that Fed Chairman G. William Miller could not meet with them due to a scheduling conflict and listened politely to the farmers' complaints about high interest rates and demands to lower rates on loans to farmers.

At the end of the meeting, Board Secretary Ted Allison promised that their two-tier interest rate proposal would be studied, though he knew full well that nothing would be done.

In early March, short on money and low on morale, most of the protestors left the city with the same sense of despondency that they had when they started the journey.

As a parting gesture of goodwill and civic responsibility, a group of farmers repaired the National Mall by sowing grass seed at their own expense.

Shortly after Tractorcade was over, the Farmers Home Administration resumed foreclosures. That was only the beginning of even darker days for American farmers.

The combination of the tight money policy implemented by Paul Volcker, who became Fed Chair in August 1979, and the U.S. grain embargo against the Soviet Union in the 1980s for its invasion of Afghanistan, led to the worst American farm crisis since the Great Depression. Farming communities were hit with collapsing land prices, soaring numbers of bankruptcies hitting record-highs, and swelling suicide rates.

By the time the crisis peaked in the mid-1980s, some Tractorcade protestors had given up on farming, though the memory of their protests lived on.

In 1986, the American Agriculture Movement donated to the Smithsonian National Museum of American History one of the tractors from Tractorcade—an International Harvester Model 1486 that had traveled 1,800 miles from Texas to the capital.

Market Watch

Equity Market Indices[1]	12/31/22 Price	1/31/23 Price	MTD Changes	YTD Change
MSCI All Country World	605	648	7.1%	7.1%
S&P 500	3840	4077	6.2%	6.2%
MSCI EAFE	1944	2100	8.1%	8.1%
Russell 2000®[2]	1761	1932	9.7%	9.7%
NASDAQ	10466	11585	10.7%	10.7%
TOPIX	1892	1975	4.4%	4.4%
KOSPI	2236	2425	8.4%	8.4%
Emerging Markets	956	1032	7.9%	7.9%
Fixed Income				
2-Year U.S. Treasury Note	4.43%	4.20%	-23	-23
10-Year U.S. Treasury Note	3.88%	3.51%	-37	-37
BBG U.S. Agg Corp Spread	1.30%	1.17%	-13	-13
BBG U.S. HY Corp Spread	4.69%	4.20%	-49	-49
Currencies				
Chinese Renminbi (CNY/$)	6.90	6.76	-2.1%	-2.1%
Brazilian Real (Real)	5.28	5.08	-3.9%	-3.9%
British Pound ($/GBP)	1.21	1.23	-1.9%	-1.9%
Euro ($/Euro)	1.07	1.09	-1.5%	-1.5%
Japanese Yen (Yen/$)	131.12	130.09	-0.8%	-0.8%
Korean Won (KRW/$)	1265.50	1231.90	-2.7%	-2.7%
U.S. Dollar Index (DXY)	103.52	102.10	-1.4%	-1.4%
Commodities				
Gold	1824	1928	5.7%	5.7%
Oil	80.3	78.9	-1.7%	-1.7%
Natural Gas, Henry Hub	4.48	2.68	-40.0%	-40.0%
Copper (cents/lb)	381	423	10.9%	10.9%
CRB Index	278	278	0.1%	0.1%
Baltic Dry Index	1515	681	-55.0%	-55.0%

Source: Bloomberg

TRACTORCADE REDUX

Tractorcade was a textbook example of democracy and civility at work. The protesters were vocal but respectful of the boundaries set by the authorities and residents. The police were patient and took pains to defuse rather than escalate tension.

Media coverage was fair and balanced. However, fast-forward 43 years to early 2022: the Canadian government and its media allies chose a different approach in dealing with the Freedom Convoy protest.

Canada and the U.S. had originally exempted cross-border truckers from COVID-19 vaccines to avoid disrupting the already tight supply chain between the two countries. However, in January 2022, the exemption was terminated on both sides, which affected an estimated 12,000 to 16,000 Canadian truckers.

Some of the disenchanted truckers quickly responded to a call to protest by Brigitte Belton, a fellow trucker and grandmother who was denied reentry into Canada a few months earlier for her failure to wear a mask.

Thousands of trucks rolled into downtown Ottawa in late January where they blocked several major streets and disrupted local lives and businesses.

The movement resonated with and attracted many who were fed up with lockdowns and vaccine mandates. An Ipsos poll released on February 11 showed that 46% of Canadians thought the protesters' frustrations were legitimate and worthy of sympathy.

The truckers wound up transforming parts of downtown Ottawa into rowdy encampments where people held street parties that featured bouncy castles, food stalls, live bands, and even hot tubs. Unlike President Carter who had sought to deescalate tension with the protesting farmers by expressing his sympathy with their plight, Prime Minister Trudeau chose a combative strategy of vilifying the convoy protestors as racists and extremists.

This culminated in a shocking finale – despite being informed that the protest organizers had reached an agreement with the City of Ottawa to vacate the city's residential streets, Trudeau still invoked the rarely used Emergencies Act, which was designed specifically for a national emergency that "seriously threatens the ability of the Government of Canada to preserve the sovereignty, security and territorial integrity of Canada that cannot be effectively dealt with under any other law of Canada."

Under the extraordinary measures invoked by Trudeau, police wielding batons and pepper spray rode into the crowd on horseback to forcibly break up the protest while tow-truck operators were compelled to work with authorities to seize trucks and other vehicles used in the blockades.

The Emergencies Act also allowed the government to freeze the protestors' bank accounts without a court order. All told, more than 200 bank accounts belonging to the protestors and entities holding donated funds were frozen by Canadian banks at the behest of the government.

It's nothing out of the ordinary to dispatch police to break up a protest, but it's disconcerting that a liberal democracy can freeze the financial accounts of protesters without a court order. These protestors were not engaged in money laundering, terrorist funding, or drug trafficking.

The ring leaders were charged with mischief, obstructing police, intimidation by blocking and obstructing one or more highways, etc.—not grave crimes like sedition or terrorism that would justify the invocation of the Emergencies Act.

Freezing the bank accounts of citizens who thought they were exercising their freedom of speech, right to assemble and petition the government could undermine many people's trust in the system and fuel a desire to hide money in cryptocurrencies or under the mattress.

However, for anyone who might consider moving some assets into Bitcoin to shield them from the government's tentacles, it's instructive to know that the Canadian government had also blacklisted crypto wallets associated with the protestors and demanded Canadian digital currency exchanges to freeze those accounts. Big Brother is always watching!

IDEOLOGY OVER SCIENCE

One could argue that Prime Minister Trudeau's invocation of the Emergencies Act was due to one of the side-effects of COVID-19 – it brought out the innate authoritarian tendency that we all possess.

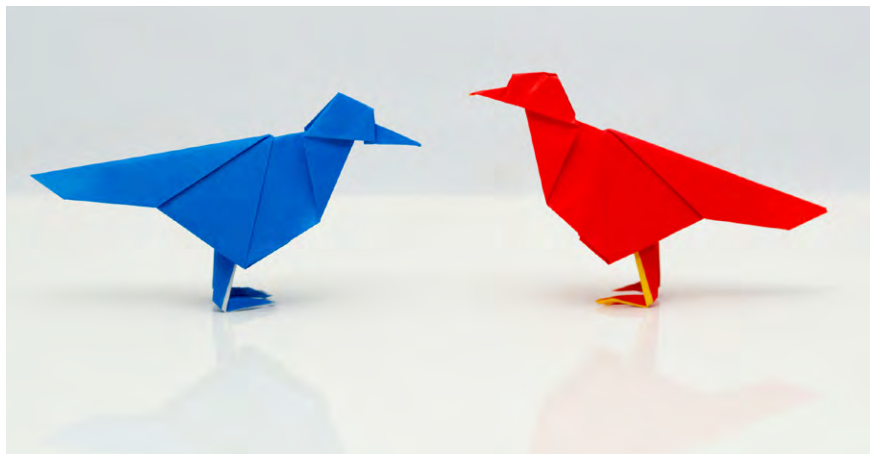
To wit, the pandemic had driven some Western governments to impose martial law-like measures – people were arrested, in some cases by force, for not wearing masks. A few bureaucrats were empowered to determine strict treatment guidelines and to shoot down alternatives suggested by credible physicians and scientists.

The supposedly independent media anointed themselves as the arbiters of scientific truth and political correctness and have actively silenced or denigrated dissenting voices, even some of legitimate scientists. COVID-19 also further divided our society that was already fractured by the blue vs. red ideological chasm.

Faced with the fear of a prolonged public health crisis, many viewed those who refused to get vaccinated as mortal threats who should be ostracized. The so-called anti-vaxxers felt aggrieved that a democratic government would forcibly inject them with arguably experimental vaccines lacking long-term safety data.

One would hope that three years into COVID-19's known existence and guided by more than two years of empirical data, many public health related controversies can be put to rest by now.

Unfortunately, it seems that some still cling to ideology over science, as shown in the trials and tribulations of Dr. Leana Wen. Dr. Wen, a former public health official turned columnist for the Washington Post and medical analyst for CNN, was once an ardent supporter of mask and vaccine mandates. She had even suggested vaccine mandates for travelers on planes and trains, triggering some to make death threats against her and her family.



However, as more empirical data became available, she gradually shifted her position in 2022 by suggesting dropping mask mandates and embracing individual responsibility to help society return to pre-pandemic norms. Her shifting stance provoked the ire of pro-mandate activists, and hundreds of them petitioned the American Public Health Association to drop her as a panelist at a conference where she was to lead a discussion ironically titled, "Harassment, bullying and death threats: Staying the course while under attack."

IDEOLOGY OVER SCIENCE

The bullying worked as Dr. Wen eventually backed out of the conference. Undaunted, Dr. Wen penned a column last December supporting Congressional Republicans' move to lift vaccine mandates in the military by citing real-world data showing the superiority of natural immunity, high levels of prior infection in the population, and similar degrees of infectiousness between unvaccinated and vaccinated people.

Unsurprisingly, her fact-based analysis triggered an avalanche of vitriol, with many accusing her of selling out to the right-wing. Instead of being lauded for being open-minded – adhering to the maxim, "When the facts change, I change my mind," – Dr. Wen is now ridiculed by the right and hated by the left.

What happened to Dr. Wen is not lost on politicians who might thereby prioritize ideology over science for fear of offending their political base. It may explain the glaring inconsistencies in our public health policies. The Pentagon has rescinded the vaccine mandate for our troops, yet many schools still won't accept unvaccinated students.

The administration allows millions of migrants to cross our Southern border without regard for their vaccine status, but the Transportation Security Administration (TSA) just extended a ban on unvaccinated non-resident travelers from entering the country. Does it make sense to bar tennis great Novak Djokovic from entering the U.S. to compete in various tournaments because of his unvaccinated status?

If being unvaccinated remains a serious threat to public health, why not demand proof of vaccination at all public venues?

The inability of Washington to craft consistent and reasonable policies on vaccine mandates is emblematic of the political malpractice and paralysis that will likely unnerve the market in due time. If politicians can't do the right thing on a simple issue like lifting the vaccine mandate for inbound travelers, how are they going to tackle complex issues such as raising the debt ceiling, prioritizing expenditures, and crafting a sensible immigration policy?

The 15-rounder that Kevin McCarthy had to endure to become the Speaker of the House portends a contentious budget battle that will likely push the U.S. government to the brink of default. The Freedom Caucus in the House will try to maximize the impact of its newfound leverage to extract as many concessions – spending cuts and legislative priorities – from Speaker McCarthy as possible.

Congressional Democrats may be itching for a budget impasse so they can paint Republicans as extremists who dare to cut Social Security and Medicare benefits. Lost in the brouhaha is the need for a sensible debate on our fiscal profligacy long indulged by both parties.

The timing of this self-inflicted political crisis in the summer or early fall may just coincide with a recession to give financial markets – stocks, bonds, and currencies – the one-two punch to shake investors out of their FOMO (fear of missing out) mindset.

CHINA AS A ROLE MODEL?

The fractious nature of democracy may drive some to favor the brutal efficiency of China's political system and development model. At the APEC (Asia-Pacific Economic Cooperation) CEO Summit in Bangkok last November, Klaus Schwab proclaimed that "the Chinese model is certainly a very attractive model for quite a number of countries."

However, the wily founder and Chairman of the World Economic Forum (WEF) might have spoken too soon. A few days after Schwab's praise for China, which has been a generous sponsor of WEF, many Chinese citizens took to the streets in protest of the government's COVID lockdown policies that have resulted in unnecessary fatalities and hardships.

The protests, also known as the White Paper Revolution with demonstrators holding up blank sheets of paper symbolizing censorship, were so widespread that the authorities wound up yielding to their demands by abruptly lifting the draconian zero-COVID tolerance policy that has bedeviled China for nearly three years.

Under Chairman Xi Jinping's iron fist, the Chinese political system has been transformed into a monolith that emphasizes the purity and uniformity of ideas and loyalty – strict adherence to "Xi Jinping Thoughts" and the powerful leader's wishes.

Opposing factions at the highest level of power were systematically dismantled, resulting in Xi's total victory at the 20th Party Congress where the top posts were all filled by Xi's loyalists. Li Qiang, the former party boss of Shanghai who put the metropolis under a draconian lockdown for two months last spring, was promoted to the number two spot in the power hierarchy as the next premier despite not having served as a vice-premier as had all his predecessors.

Chinese bureaucrats got the message and further escalated mass testing, forced quarantine, and lockdown measures at the expense of economic growth, social stability, and real health concerns.

The Chinese economy deteriorated rapidly as a result, with local government coffers running on empty. By late November, the Chinese Communist Party (CCP) was already contemplating a pivot away from zero-COVID without losing face, and the popular protests acted as an accelerant.

China's about-face on their COVID policy in early December caught the populace by surprise. Government media quickly changed its description of COVID-19 from a grave public health threat that warranted containment at all costs to a mutated virus with mild symptoms akin to a cold.

CHINA AS A ROLE MODEL?

Gone were the mass COVID-testing stations, security and healthcare workers in hazmat suits (called Da Bai, or "Big Whites"), and hastily constructed quarantine centers. People were left to fend for themselves as the virus spread quickly in densely populated cities. The healthcare system was totally unprepared for the surge in new cases and fatalities. Pharmacies quickly ran out of supplies, such as fever-reducing medicines and even thermometers.

Incredibly, for the first month after the lifting of COVID-19 restrictions, the Chinese Center for Disease Control and Prevention (CDC) had attempted to downplay the impact on public health by fabricating exceedingly low death counts even in the face of snaking lines outside of funeral homes and crematoriums across the country.

On January 7, one month into China's abrupt reopening, the CDC reported just three new COVID-19 deaths for January 6, compared with five deaths a day earlier. It's as if the Chinese CDC had hired Baghdad Bob—the bombastic former Iraqi Minister of Foreign Affairs who boasted to the media that American soldiers in defeat were committing suicides by the hundreds even when the approaching American tanks were just a few hundred meters away from his podium in April 2003 —as a messaging consultant.

China's unbelievably low death counts, being so far divorced from the reality on the ground, were viewed by Chinese citizens as an insult to their intelligence and common sense.

By mid-January, under pressure from international health organizations and being totally discredited at home, the Chinese CDC upped its COVID-19 death tolls since the December reopening to just under 60,000. Many believed that the actual death toll was multiples of this figure and is still climbing.

CCPIVOT

The Chinese Communist Party's (CCP) let-it-rip COVID-19 policy is intended to quickly achieve herd immunity to enable economic activity to normalize. It's part of a multi-pronged policy package designed to rekindle economic growth and enhance China's international image.

After several years of tightening the noose around property developers and technology companies, regulators have signaled policy reversals. Some of the leverage restrictions on property developers were relaxed while the crackdown on technology companies was characterized as "basically over."

In the midst of a raging COVID-19 wave, the Chinese government lifted all travel restrictions and even encouraged outbound tourism by facilitating the passport application process. Qin Gang, the newly appointed Foreign Minister, toned down the counter-productive wolf warrior diplomacy by reassigning the ministry's most controversial spokesperson, Zhao Lijian, who had once accused the U.S. military of spreading COVID-19 to Wuhan.

To some, it appears that Chinese diplomats have been instructed to put on sheep's clothing to win back friends and influence. Xi's economic confidant, Liu He, wined and dined with the global elites at Klaus Schwab's party at Davos and urged the West to abandon its Cold War mentality, unilateralism, and protectionism. Liu emphasized China's commitment to opening to the world and building a shared future for mankind.

This outgoing technocrat also had a constructive meeting with Treasury Secretary Yellen in Zurich, which raised hopes of an improvement in the Sino-U.S. relationship.

These pivots by the CCP reflect Xi's prior strategic misjudgment and a newfound policy flexibility now that he has solidified his grip on power. Investors have been excited by the pivots, and Chinese equities, after nearly two years of underperformance versus developed markets, have been turbo-charged since last November.

While China's near-term outlook appears grim with rising death tolls and an uneven pace of normalization among various regions, investors are hopeful that the near-term pain in forcing herd immunity upon an unprepared population will lead to solid gains by the springtime with pent-up demand being unleashed.

China's new kinder and gentler regulatory and diplomatic soundbites are the icing on the cake for investors and business executives looking to rekindle their own China dreams.

DIFFERENT BROTH, SAME MEDICINE

There is a Chinese idiom, "Changing the broth but not the medicine," which implies a change in form but not substance. It's an apt description of what is happening in China. Although the Chinese economy will likely experience a cyclical bounce coming off its draconian lockdowns, the longer-term challenges and risks have not changed.

Chinese policymakers may say all the right things to attract investments, but private enterprises and capital will remain subservient to state-owned entities and at the mercy of the regime's self-interest – the preservation of its core leader and the CCP's supremacy.

While foreign investors are getting excited about China's investment prospects, many well-to-do Chinese nationals are looking for ways to circumvent capital controls so they can emigrate with their assets.

They realize that it is just a matter of time before debt-laden local governments squeeze them for "donations" under the guise of common prosperity. On the diplomatic front, one should not underestimate the risk of abrupt policy reversals despite China's conciliatory signals.

In early January, the civil servants at Chinese embassies in South Korea and Japan bared their teeth by unilaterally suspending the issuance of short-term visas as retaliation for these countries' testing of travelers from China for COVID-19.

It's quite ironic considering what China had done to inbound travelers for more than two years – multiple rounds of tests, including a blood test before arrival, and weeks of quarantine at the travelers' expense.

The thawing tension between Washington and Beijing is obviously a positive catalyst for geopolitics and global trade. Many in the academic and business circles are probably chomping at the bit to resume business dealings with China. Some may even lobby for the CCP on issues such as easing technology sanctions.

They will call for offering carrots to China to incentivize it to support common initiatives in climate change, opening markets, and a ceasefire in Ukraine. Right on cue at a forum in Australia last week, Bill Gates publicly stated, "I see China's rise as a huge win for the world."

The erstwhile enfant terrible seemed perturbed by the antagonistic nature of the Sino-U.S. relationship but not by the CCP's value system and human rights record. To Bill Gates' chagrin, the only unifying cause in Washington's polarizing politics these days is to be tough on China, as evidenced in the overwhelming bipartisan support for the formation of the Select Committee on China in the House (with the official name as the Select Committee on the Strategic Competition Between the United States and the Chinese Communist Party).

I suspect the warming Sino-U.S. relationship will be tested by House Speaker McCarthy's planned trip to Taiwan later this year, perhaps as early as April.

In addition to the regulatory and ideological risks, China's demographic outlook has just taken a turn for the worse. In 2019, Chinese statisticians had projected that the country's population would start to decline in 2030.

Two weeks ago, China's National Bureau of Statistics pulled the start of the negative population growth era forward by eight years to 2022.

The population contraction makes it highly improbable for China to achieve real economic growth of 4% to 5% per annum into 2030, as forecasted by many economists. It portends less demand to digest the country's over-priced and over-built real estate market, and greater burden on its already strained pension system.

Some may make the cynical observation that the large number of COVID-induced fatalities among China's elderly population would lower the country's pension and medical care burden for several years.

While that may be true, it's a double-edged sword as many households rely on their elderly family members' pensions for supplemental income. The sudden loss of these streams of cash flow would impinge on discretionary spending power.

EMERGING MARKETS IN THE SPOTLIGHT

In the final analysis, three years after the start of the COVID-19 crisis, it is clear that the West's chaotic crisis management turned out to be more effective than China's top-down, ideology-driven, air-tight (pun intended) containment approach.

Ironically, some policymakers in the West probably wished they had power similar to the CCP in suspending liberty and controlling the flow of information.

New Zealand's outgoing Prime Minister, Jacinda Ardern, who had actually emulated China's strict lockdown and border control for months in 2020, had made this comment to her citizens despite her good intentions, "We will continue to be your single source of truth… Unless you hear it from us, it is not the truth."

The lesson learned from this difficult episode of history is that, when confronted with a new virus with no proven treatment, nobody ought to have a monopoly over evolving scientific truth. As the facts change, so should policies.

At China's upcoming 14th National People's Congress in March, Chairman Xi will likely take credit for having decisively ended the pandemic in China as the CCP is now counting on natural immunity among its populace to make up for lost time.

The government may even unveil some stimulus measures to boost the post-COVID-19 economic recovery. In a market short on growth stories at the moment, the rebound narrative of Chinese equities is now a consensus view and may still attract more fund flows to sustain the rally.

However, judging by history and the CCP's primacy above all, I would view an exposure to Chinese equities as a trade rather than a buy-and-hold investment.

As a matter of fact, from the inception of the MSCI China Index on January 1, 1993, to December 31, 2022—a 30-year period during which China's nominal GDP grew 13% per annum from $445 billion to $18 trillion (about 8.3% per annum in real growth)—the Index generated a 36% cumulative loss.

With the benefit of dividends, the total return over that 30-year period came out to 0.85% annualized. If Chinese equities in aggregate could not even deliver a 1% annualized total return during the most splendid period of economic growth and market opening, what will a future with low-single digit real growth potential and more government interference portend?

Investors also need to stomach the elevated volatility of Chinese equities – over its three decades of existence, the MSCI China Index's average yearly maximum drawdown is 30%, twice that of the S&P 500 Index. In short, keep a short leash on the China trade and do not overstay the welcome.

For investors who may not be focused or nimble enough to trade Chinese stocks or ETFs, there are other investment options that could benefit from the expected economic rebound with potentially longer shelf lives.

The commodity sector – from energy to base metal mining stocks – should benefit from higher Chinese demand in 2023 and the longer run supply constraint given many years of underinvestment in new mining projects.

Some countries and sectors – e.g., Thailand, and the European hospitality industry – should benefit from the return of Chinese tourists. One can gain exposure via country and sector specific ETFs, though some are not U.S. listed.

Lastly, one can entrust seasoned emerging markets (EM) fund managers to exploit the tactical and secular opportunities.

Speaking of EM, I can't help but notice that over the last few years, strategists and fund managers have consistently started each year with renewed optimism on emerging markets.

The investment rationale always came down to their cheaper valuations and the expectation that the unusually long stretch of outperformance by U.S. equities would eventually come to a halt.

They were left disappointed at the end of most years – EM has underperformed the U.S. in all but one year (2017) over the last ten years. Well, hope springs eternal – we are once again seeing strong interest in EM here in early 2023.

Judging by the confluence of likely catalysts – China's potential rebound off lockdowns, a likely U.S. recession, and a plausible thesis that the greenback could weaken further from its multi-decade highs reached last year – 2023 may just be the year when emerging markets finally manage to outperform the U.S. for the second time in ten years.

In short, investors may want to revisit their portfolio exposure to EM in the face of evolving macro risks and opportunities. After all, when the facts change, we ought to at least consider changing our minds.

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