
Weekly Market Flash

Petulant China

September 8, 2023

This should be the best of times for Apple, the world's most valuable company with a \$2.8 trillion market capitalization. The company is ever so close to knocking rival Samsung off its perch as the leading seller by volume of smartphones. Next week will see the launch of the iPhone 15, the company's newest model, along with all the overcaffeinated hype that accompanies any Apple new product launch. And even in an environment where overall smartphone sales by unit are set to decline for a second consecutive year, Apple continues to set revenue records in its Services segment, which includes video, music, payment services, healthcare and cloud.

Leave Those Phones At Home

But this week saw Apple lose about \$190 billion from that \$2.8 trillion market cap. It should be noted here that \$190 billion is more than the total current market cap of all but 36 companies on the S&P 500, and roughly the same size as streaming giant Netflix or Big Pharma leader Pfizer (for Apple it was a mere loss of six percent).

The proximate cause of this reversal of fortune, like so much other bad news of late, was China. Specifically, an apparent edict from somewhere high up in Beijing leadership circles banning the use of iPhones and other Apple products for public officials in their offices. China is one of Apple's biggest markets, and relations between the country and the company have always been, or at least seemed to be, excellent. A crackdown on the use of iPhones, iPads and the like in state-owned facilities (which can include government agencies, state-owned enterprises, research centers, hospitals and a great deal more) could be very bad news indeed. It could also be a tempest in a teapot – as of yet there has been no official word either from anyone in China or from Apple about this apparent ban. But will be a matter of concern to a great many other US companies for whom China is a major contributor to their total sales.

Nothing To See Here, Go Away

The Apple story is just the latest in a series of developments that seems to reflect an unsettling petulance among China's leaders. Last month the country quietly stopped reporting data on youth unemployment, which economists estimate to be well in excess of twenty percent. Even as the government tries to put window-dressing on the mounting problems in the property sector (for example, coming up with the means for Country Garden, a very large and very troubled developer, to make two bond payments and thus temporarily stave off technical default), nothing suggests a near-term solution for an industry sector that contributes more than a quarter of total gross domestic product. In a recent article in *Foreign Affairs* magazine Adam Posen, President of the Peterson Institute for International Economics, argued that China is suffering from "economic long Covid" – likening the country's worsening economic condition to the chronic health problems suffered by patients whose Covid symptoms persist for months or years.

In the authoritarian playbook, the best way to solve problems is to cover them up – thus the cessation of reports about youth unemployment, thus the attempt to divert attention away from problems in the property sector, and thus – possibly – the attempt to reshape domestic consumer demand away from the popular products from the West that have become staples of daily life, be they iPhones or Starbucks lattes or Nike sneakers. It is perhaps not a coincidence that news about the purported Apple ban happened at the same time that Huawei, the Chinese phone maker burdened by a slew of Western sanctions,

announced a new leading-edge phone that has outsiders wondering where the latest-generation semiconductor technology the phone appears to have come from.

Meanwhile, though, the numbers that do manage to get reported keep telling the same story. Exports declined in August for a fourth straight month, the Chinese yuan is trading at its lowest level versus the US dollar in sixteen years, wages are stagnant and property values – that linchpin of economic growth – seem to have nowhere to go but down. We will be listening very carefully to what the management teams of China-intensive US companies that we track have to say about their business prospects there when the next earnings season comes around next month.

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