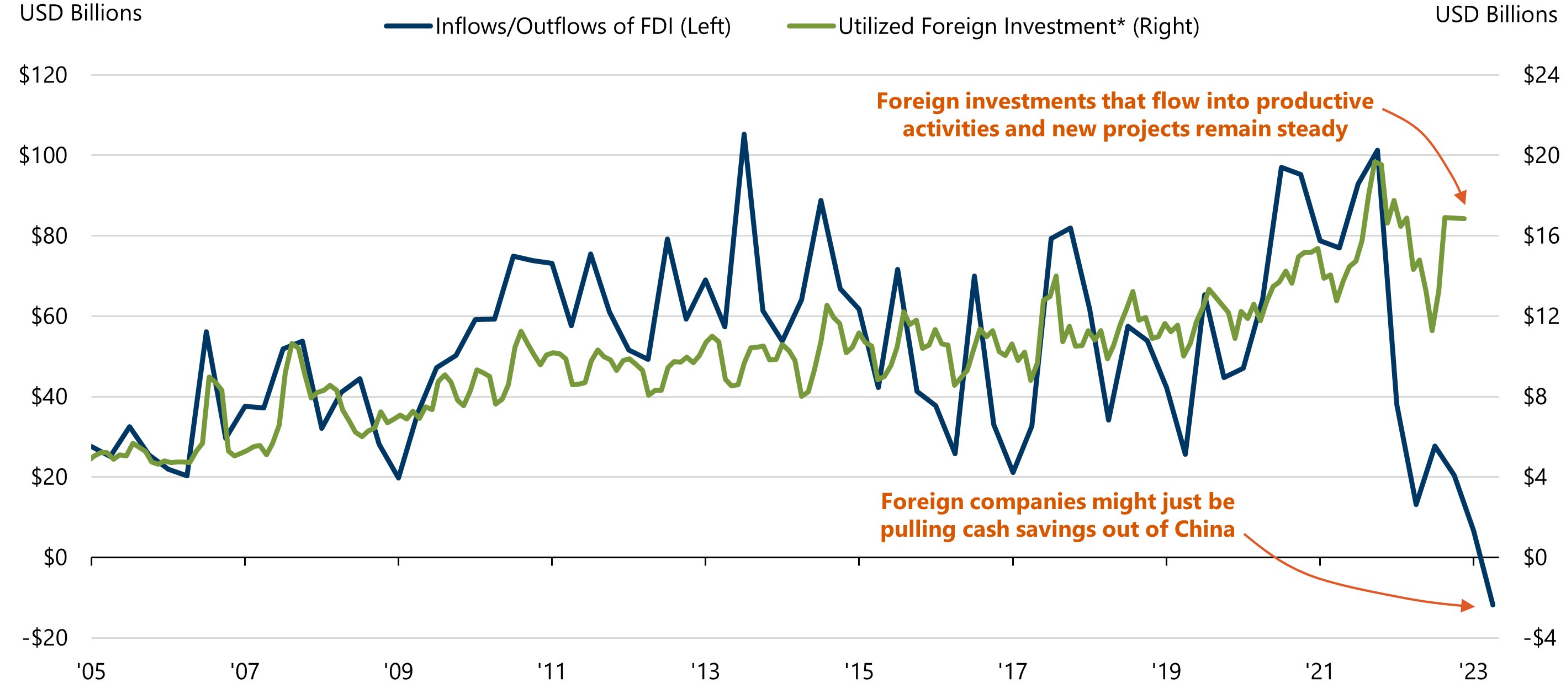
CHART OF THE WEEK

Payden&Rygel

Fog City Forum

China Foreign Direct Investment (FDI): Inflows/Outflows Versus Utilized*

For The Week Ending 11/17/2023



Source: State Administration of Foreign Exchange of China, China Ministry of Commerce

**FDI excluding re-invested earnings, 3-month moving average*

Two economic giants met in San Francisco this week, and tensions eased. The annual Asia-Pacific Economic Cooperation (APEC) gathering brought Xi Jinping from Beijing and Joe Biden from Washington to the Fog City. China is a polarizing topic in the U.S. (as the U.S. is in China). However, we fear that the polarization might cloud investment judgment. For example, some investors point to the recent plunge in foreign domestic investment (FDI) in China as a sign of global corporations abandoning it. As usual, the story is more complicated. Adjusted for the impact of re-invested earnings, actual FDI used in productive activities and new projects remain relatively stable. Sure, non-Chinese companies could be extracting retained earnings from existing operations out of China due to geopolitical fears. However, we'd posit another explanation: interest rate differentials. U.S. interest rates are much higher than similar maturity instruments in China (U.S. 2-year Treasuries yield nearly 5% while China's equivalent offers 2.3%). Capital flight or yield chasing? We'll let you decide.