PUBLIC EQUITIES

China: Bringing the Long-Term Picture into Focus

INSIGHTS

While Chinese equities have faced increasing scrutiny, we believe the long-term case for the asset class remains compelling—supported by technological advancement, policy support, a resurgent consumer, and attractive current valuations.

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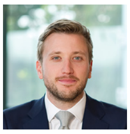

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This year has seen a resurgence in market volatility following the introduction of comprehensive trade tariffs by the Trump Administration. Adding to this uncertainty, the extent of the tariffs under negotiation remain ever-changing, dampening the global macro demand environment. While disruptive, attempts have been made to de-escalate tensions, with trade talks held in early May between the U.S. and China in Geneva—marking the first high-level interaction between the two sides since Chinese Vice President Han Zheng attended Trump's inauguration ceremony in January. This followed admissions from the U.S. that the two nations have a shared interest, and that the high level of tariffs between them are unsustainable. While the trade talks have made positive progress with both sides agreeing to significantly lower tariffs for 90 days, future discussions will be closely watched.

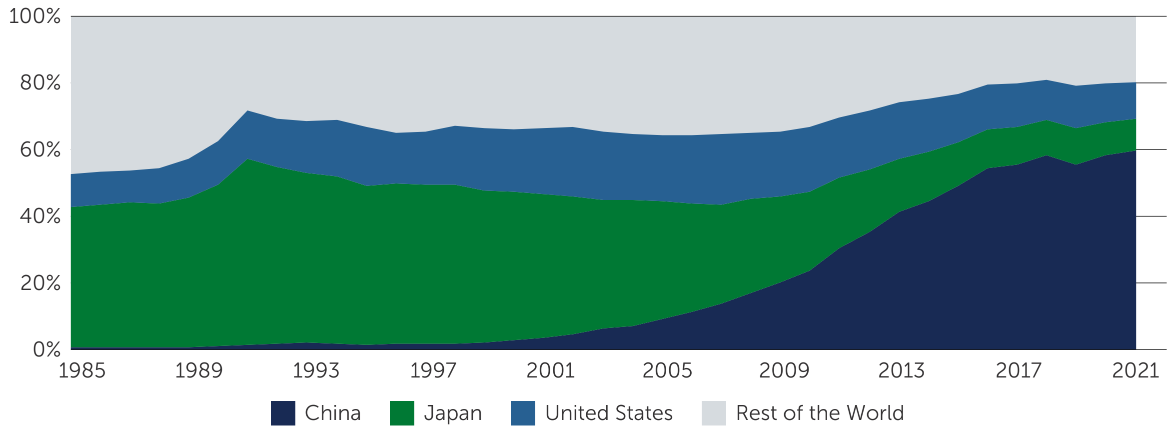
Despite the uncertainties ahead, long-term opportunities in equity markets persist—and we believe China remains one such case. This view is centered on four key principles:

1	2	3	4
CHINA'S LONG-TERMISM	STATE SUPPORT	DOMESTIC-LED CONSUMPTION	VALUATIONS

1. LONG-TERMISM

China's long-termism refers to its strategy of prioritizing long-term economic goals over short-term gains, often guided by five-year plans and its focus on sustainable development. A key long-term strategy has been a focus on technology, in what it calls the "New Quality Productive Forces," which includes leading-edge fields such as artificial intelligence (A.I.) and robotics. The culmination of this approach has allowed China to keep pace. In particular, many industries now possess a technological edge and are well-positioned as technology leaders capable of significant innovation—where only a short time ago they were perceived as followers. This is best demonstrated in two examples. The first is in the sheer number of annual patents China accounts for today. In just two decades, China has progressed to represent more the 50% of global share **(Figure 1)**. The second is in the disruption caused by DeepSeek's breakthrough A.I. model, which challenged the performance of western models and was developed at only a fraction of the cost.

Figure 1: Share of Annual Global Patent Applications



Source: WIPO; World Bank. As of May 2025.

Charm Offensive

Notably, this shift occurred even as China was considered a rising power adapting in a world dominated by a U.S. hegemony. This long-termism theme should therefore persist going forward, particularly in light of the recent geopolitical shifts that have left China positioning itself as a champion of economic globalization. The seeds of this diplomatic campaign are already taking shape with President Xi visiting important regional trading partners in recent months, such as Vietnam, Malaysia, and Brazil. The diplomatic campaign underscores that for China, Trump's latest trade war is a critical moment—both as a chance to push back against U.S. influence around the world, and for managing any dangers to its other export markets.

2. STATE SUPPORT

China has faced the dual pressure of property woes and an adjustment of its economic trajectory toward a new growth model. This economic shift, however, is a committed move toward higher-quality growth, revolving around industrial production and the hope for greater consumption. Interestingly, in this transitional phase, big-bang stimulus had been notably absent. This change of tact reflected the variety of counter problems caused or worsened by large-scale stimulus in the past, which includes the increase in local-level debt, the heavy reliance on the property market, and the associated risks this created within the financial system.

Support to-date comprises substantive measures to reinforce domestic exchanges, including new funding channels and forward guidance from the central bank that the scale of support for stocks could be further expanded if needed.[1] The Two Sessions in March also reflected some changes in intent and determination, with the meeting emphasizing a re-embrace between the state and private enterprise—and its equity market—echoing the symposium held by President Xi with leading tech business entrepreneurs in the private sector earlier in the year. Monetary and fiscal policies also remain supportive. For instance, in early May, there was further support in the form of cuts to both the policy rate and Reserve Requirement Ratio (RRR) for banks, along with expansion of the quota for re-lending tools covering sectors including technology, services consumption and elderly care, agriculture, and small and medium-sized enterprises (SMEs). Meanwhile, a number of companies have announced share buybacks in a bid to stabilize prices, which is also encouraged by the government.

1. Source: Gongsheng Pan; Governor of the People's Bank of China; public address. As of September 2024.

3. DOMESTIC CONSUMPTION

Until recently, China was steadfast in driving growth through coordinated state investment in what it has determined to be key industries: electric vehicles (EVs), batteries, and renewables. While this initially supported growth, saturation of EVs and economic malaise in key markets such as Europe have led to diminishing returns. In addition, with property failing to normalize, China has become increasingly concerned that it will fail to meet its growth targets—placing economic stability and employment at further risk.

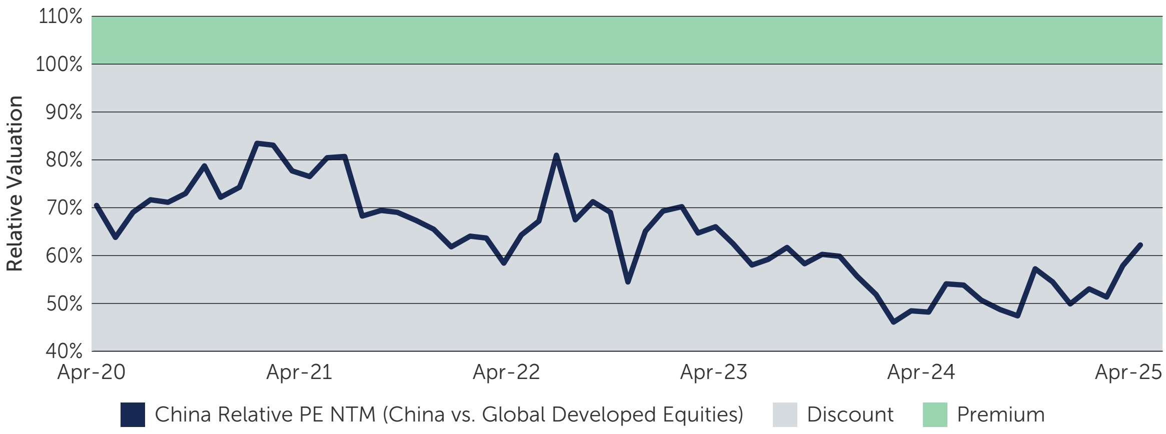
Additionally, retail sales have failed to rebound significantly. While cash savings at the household level have increased, consumption has not matched this fervor, leading to deflationary pressures within the economy. This is likely because property represents a significant proportion of household wealth, and as values have failed to stabilize, people have felt increasingly less-well-off and been reluctant to spend.

The government is acutely aware of this and has introduced targeted measures, including interest rate cuts, help for homeowners, and the reconstitution of unfinished properties to social housing. The effects now tentatively being felt, with property volumes showing evidence of stabilization—in particular, the recently announced Golden Week retail sales numbers have been strong, even in light of the poor external environment. In a world of rising uncertainty and trade disruption, having access to strong, domestically led drivers is hugely beneficial. This position is further strengthened considering that China is now coming out of a multi-year economic reset in a stronger position. In contrast, U.S. economic data is just starting to deteriorate and consensus forecasts for earnings appear at odds with the current economic environment: high uncertainty, weak consumer and investor confidence, and elevated import duties.

4. VALUATION

Starting points often are crucial when it comes to equity valuations. The current valuation of the equity market in China remains attractive compared to its history, which suggests the market is positively exposed to even small earnings normalizations, let alone a pronounced economic recovery. However, it is likely that a corporate earnings recovery will be gradual rather than V-shaped, reflecting the steady pass-through of current stimulus as it takes its time to weave through the economy.

Figure 2: China's Valuation Relative to Global Developed Equities



Source: MSCI, Refinitiv. As of April 30, 2025. China measured by MSCI China and Global Developed Equities measured by MSCI World.

It can also be argued that returns to shareholders today look different than those of the past in China. Indeed, one positive outcome of the recent economic woes has been the huge increase in dividend payouts and share buybacks—which are now at all-time highs—with corporates having to refocus their attention on supporting minority shareholders in a bid to shore up their share prices. In addition to rising growth expectations, this should provide fundamental support to valuations.

Conclusion

Despite the recent returns in Chinese equities, the long-term case for the asset class remains attractive, supported by technological advancement, policy support, a resurgent consumer, and attractive current valuations. Given the variety of these drivers, we believe it is important to have access to a broad array of Chinese companies and share types. In particular, the A-share market provides exposure to unique areas within technology, while the broader China and Hong Kong exchanges provide investors opportunities in sectors that are well-positioned to benefit from the recovery in consumer spending.

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