

PUBLIC EQUITIES

INSIGHTS

Hong Kong & China Stock Markets: Investment Case for 2026

Hong Kong and China stock markets are nearing a pivotal moment, driven by secular trends, policy support and evolving global dynamics. The key investment themes of the region are technological innovation, sectoral transformation, consumer opportunity and market structure.



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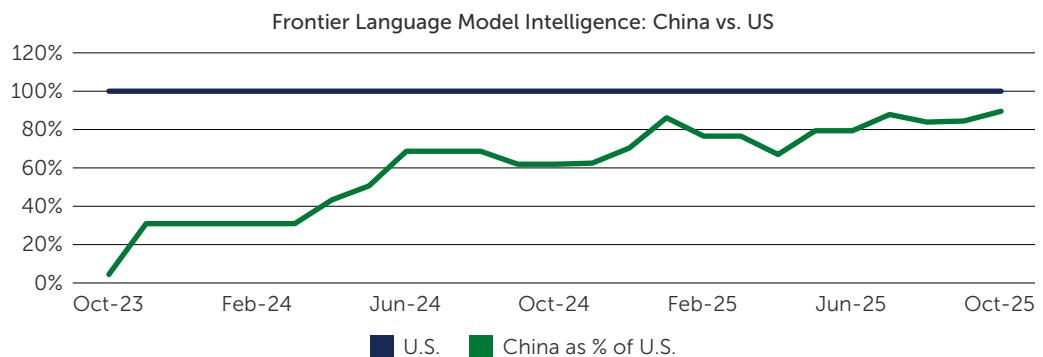
Technology as a National Priority

AI, SEMICONDUCTORS & LOCALIZATION

China's unwavering commitment to technological advancement remains at the heart of its forward-looking investment agenda. Artificial intelligence (AI) is poised to become a transformative force, driving productivity gains in an economy where the workforce has already peaked and is now shrinking. Amid this backdrop, government industrial policy continues to prioritize foundational sectors, including semiconductors, foundries, memory and analogue components. In turn, Chinese equity markets are increasingly benefiting from this trend, with a diverse pipeline of technology IPOs enhancing the breadth and depth of investment opportunities.

China's domestic AI models are rapidly narrowing the gap with their U.S. counterparts, achieving near-parity in a range of practical applications, from language processing to image and video analysis. This progress is mirrored in the local ecosystem's surge in innovation, driven by both large-scale and specialist developers working across verticals such as voice, video and image recognition. The localization of technology—reducing reliance on foreign suppliers and cultivating indigenous platforms—has become a strategic imperative, further supporting sustainable, long-term growth.

Figure 1: China's AI Models are Reaching Parity with the U.S.



Source: Jefferies. As of October 31, 2025.

Figure 2: China's Localization Efforts are an Important Driver of Growth and Innovation



Source: Gartner, WSTS, SIA, Company Data, Morgan Stanley research. As of November 30, 2025.
E = estimates.

Strategic Sectors & Fiscal Support

MANUFACTURING UPGRADES, AUTOMATION, ENERGY & THE NEW ECONOMY

Beyond technology, China's policy agenda is channeling fiscal and regulatory support into a constellation of strategic sectors. Manufacturing upgrades are accelerating, fueled by automation, industrial artificial intelligence and the anticipated commercial launch of humanoid robots in 2026. Mining automation and autonomous driving are also expected to deliver productivity improvements, with domestic hardware and software firms well-positioned to capture incremental value potential.

Within pharmaceuticals and biotechnology, China's expertise is now becoming increasingly recognized on the international stage as a strong and reliable outsourcing partner. This comes at a time when many of the largest and most well-recognized global pharma companies are looking to adjust their cost base in response to downward pressure on drug pricing and upcoming patent expirations. In addition, China is building a global reputation in product innovation which will likely generate large revenue streams for locally listed companies over the coming years. Recent in-licensing deals with major global pharmaceutical companies confirms the significant progress made by Chinese companies in this field.

Figure 3: Over Half of Global ESS (Energy Storage System) Battery Demand is Expected to Come From China



Source: China Securities, Barings. As of November 30, 2025. E= estimates.

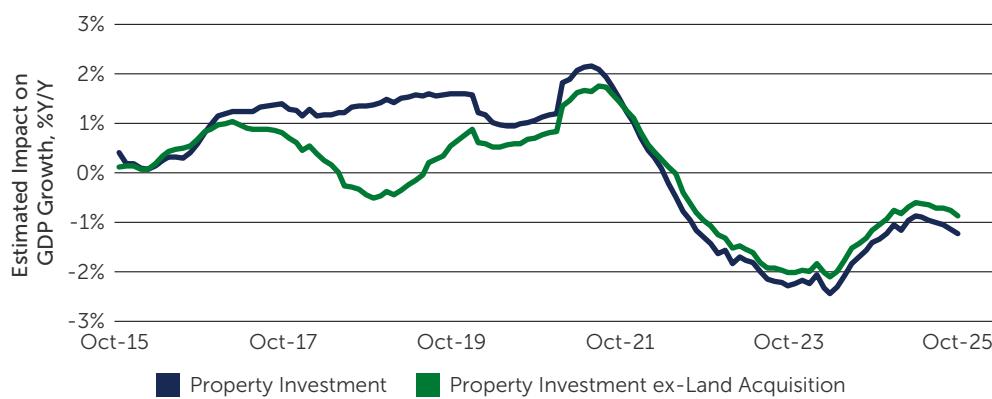
The energy transition also plays a central role, as the policy focus turns to energy storage solutions (ESS), advanced batteries and system integration. The value chain for electrification—from battery materials to component manufacturing—offers a broad set of opportunities for investors. Complementary sectors such as advanced materials, agricultural machinery and gas engines, are also emerging as areas of new economic growth. While government incentives for consumer and equipment upgrades may moderate from previous highs, winners are likely to consolidate market share, and bottom-up opportunities remain abundant.

Property Market, Governmental Support & Consumer Confidence

PROPERTY HEADWIND BEGINNING TO EASE

Since the peak of the China property sector in the third quarter of 2021, transaction volumes, property investment and new housing starts have fallen by 55%, 41% and 72% respectively.¹ These developments are estimated to have weighed on GDP growth by approximately 0.9%, and potentially more than 1.2% when considering broader effects on consumption and construction.² The fall in property values has understandably impacted household balance sheets, pulling consumer confidence lower, which can be observed in household savings rates which now sit near record highs. Nonetheless, government initiatives to steady the market have helped cushion against steeper declines, and stabilization efforts are beginning to bear fruit, laying the groundwork for a more sustainable property sector and a reduced drag on economic activity.

Figure 4: Estimated Impact of China's Property Investment on GDP Growth (YOY%)



Source: National Bureau of Statistics, Haver, Barings. As of October 31, 2025.

Consumer Sector Opportunities

EXPERIENCE-DRIVEN BUSINESSES, IP ADVANTAGES & EVOLVING CONSUMPTION PATTERNS

China is continuing to encourage a shift in economic growth toward consumption by harnessing the nation's vast savings pools to boost domestic demand and shift away from its traditional sole pillars of investment and exports. Interestingly, this also comes at a time when the broader consumer landscape is evolving in China, with experience-led segments standing out as structural beneficiaries. Businesses focused on travel, leisure, sports and gaming are better insulated from macroeconomic volatility, offering attractive long-term earnings growth potential. Companies with robust intellectual property (IP) portfolios are also poised to benefit as Chinese society reaches higher levels of wealth, making cultural and creative consumption a key theme.

1. Source: National Bureau of Statistics, Haver, Barings. As of October 31, 2025.

2. Source: National Bureau of Statistics, Haver, Barings. As of October 31, 2025.

Market Environment

RECENT TRENDS: LIQUIDITY, FLOWS & IPOS IN HONG KONG

Regulatory changes have encouraged insurance companies and pension funds to allocate more to onshore A-shares, while southbound flows—mainland capital invested into Hong Kong equities via Stock Connect—reached record highs in 2025. This influx not only boosts liquidity but also narrows the discount between H-shares and their onshore counterparts. Mainland investors' greater willingness to assign higher valuations is a structural tailwind to the Hong Kong market, reflected in a shrinking A-H premium and supporting overall market valuations.

Figure 5: Cumulative Southbound Net Flows Per Year (HKD Billion)

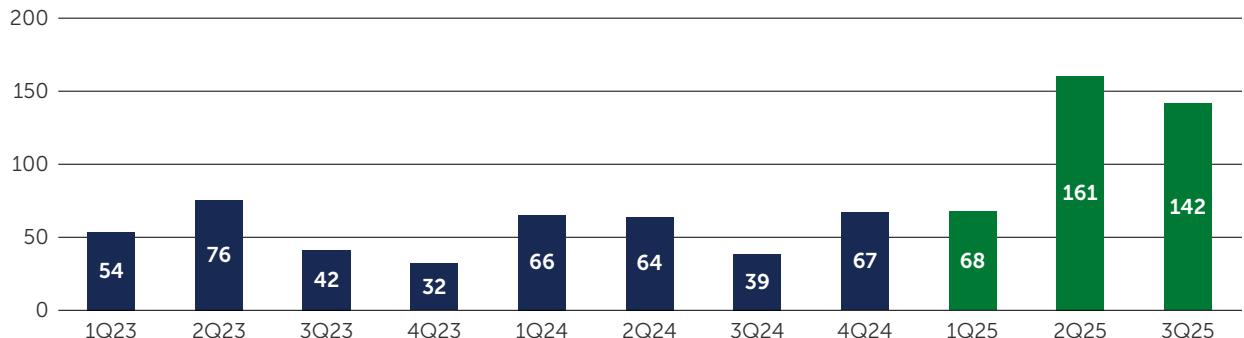


Source: Bloomberg, Barings. As of November 30, 2025.

Hong Kong's IPO market rebounded strongly in 2025, more than doubling fundraising volumes from the previous year.³ This resurgence was driven by streamlined listing processes, improved liquidity and a wave of high-quality, large-cap offerings in technology, materials, consumer and health care sectors. As a result, Hong Kong has reinforced its status as a premier fundraising hub for Chinese corporates, broadening the opportunity set for offshore investors. Looking ahead, IPO activity is expected to remain robust in 2026.

“Hong Kong's IPO market rebounded strongly in 2025, more than doubling fundraising volumes from the previous year.”

Figure 6: Hong Kong IPO Application Submissions



Source: HKEx, KPMG analysis. As of September 30, 2025. Included listing by introduction and excluded SPAC or De-SPAC deals.

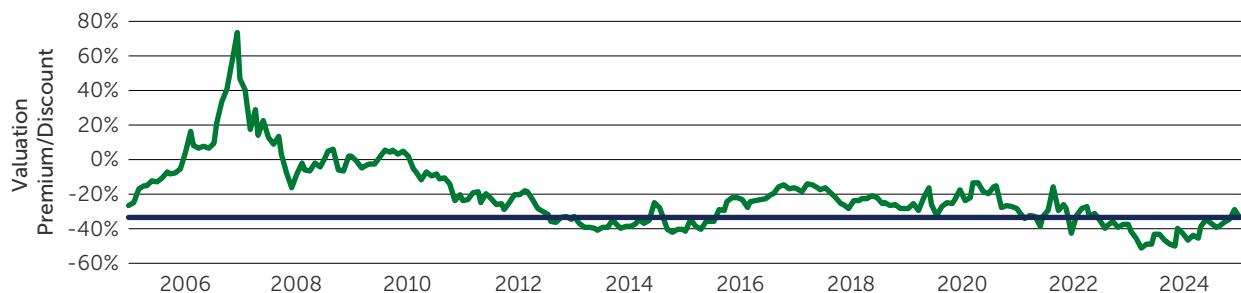
3. Source: HKEx, KPMG analysis. As of September 30, 2025.

Valuation & Earnings & Capital Flows

RELATIVE ATTRACTIVENESS REMAINS

Valuation remains relatively attractive for Chinese equities. Despite a notable re-rating in 2025, with the MSCI China's forward price-to-earnings (PE) ratio climbing to 13.1x, the market still trades at a substantial discount—over 35% relative to developed market peers and below other emerging markets.⁴ Chinese equities are under-owned both domestically and globally, providing scope for increased allocation should earnings visibility and investor confidence continue to improve. With strong capital inflows, policy support and attractive valuations, the asset class still potentially provides a wealth of opportunity as we move into 2026.

Figure 7: Chinese Equities Continue to Trade at a Discount Relative to Global Equities



Source: Refinitiv, Barings. As of November 30, 2025. Chinese equities based on MSCI China, Global equities based on MSCI AC World.

Risks

- **Geopolitical Risks:** U.S.-China relations have stabilized with trade tensions easing and the prospect of comprehensive arrangements ahead of key political milestones. Japan-China tensions appear set to persist, likely resulting in a diplomatic stalemate and subdued cross-border activity. In Europe, trade frictions are intensifying as Chinese exports gain competitiveness through currency depreciation, prompting fresh protectionist measures. Nevertheless, Chinese manufacturers are adapting by investing directly in the E.U. and leveraging their cost advantages.
- **Weak Consumer Demand:** Domestic consumption remains subdued despite policy efforts. While retail sales have posted year-on-year gains, momentum looking ahead remains key.
- **Property Market Drag:** The property sector's downturn since 2021 has weighed on GDP growth and household balance sheets. While price declines are slowing, further downside could pose risk. Policy measures have, however, focused on mitigating this risk.
- **Fiscal Constraints:** Fiscal policy is expected to be supportive; however scope is limited by high levels of local government debt. While central authorities are extending credit support to local governments, a large-scale stimulus ("policy bazooka") appears unlikely.

4. Source: MSCI China Index. As of November 30, 2025.

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Conclusion

The Hong Kong and China stock markets offer a landscape rich with stock picking opportunities. China's steadfast prioritization of technology—notably in artificial intelligence, semiconductors and localization—supports its position as an important participant in innovation-driven growth. Simultaneously, strategic government support for manufacturing upgrades, automation, energy transition and new economy sectors is broadening the investment opportunity set.

The property market, once a significant drag, is showing early signs of stabilization following government measures, laying the groundwork for a more resilient real estate sector and a gradual recovery in consumer confidence. This shift is further bolstered by the evolving consumer landscape, where experience-driven businesses are offering new and exciting ways to consumers to spend their time and money. Market reforms, robust capital flows and a vibrant IPO environment in Hong Kong are enhancing liquidity and attracting a broader spectrum of investors, both domestic and international. Valuations also remain relatively attractive, with Chinese equities trading at a meaningful discount compared to global peers, offering a relatively attractive entry point for long term investors.

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