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Investing for a
world of change

Navigating the Year of the Horse



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What were the key events of 2025?

News out of China came thick and fast in 2025. In January, DeepSeek shocked markets by announcing the development of an AI model with the same functionality as ChatGPT but seemingly at a fraction of the cost. This showcased that China's technology capabilities are far more advanced than previously assumed.

The most significant event came in April, when the US announced a 34% reciprocal tariff on top of a previously announced 20% tariff increase. This triggered a sharp sell-off across global equities. A further negative surprise was the broad application of tariffs to all US trading partners, which raised complications for Chinese corporates with overseas production. Despite this, the recovery was swift. Chinese equities ended the year up more than 30% - their best return since 2017. Tech leadership stood out, with AI momentum and semiconductors among key drivers of performance.

Beijing also launched an 'anti-involution' initiative to combat hyper-competition in its key industries, such as electric vehicles, solar, and lithium batteries, aiming for market-based consolidation to restore pricing power. The property market remained a drag on sentiment, but its weight in the economy has fallen from more than 30% of GDP five years ago to the low teens, reducing the relative size of this macro headwind.

What can investors anticipate from Chinese policymakers in the coming year?

The upcoming 15th Five-Year Plan, slated for release in March and covering 2026-2030, is likely to be the centre of attention in the coming year. Priorities are likely to be centred around improving economic resilience, which will include diversifying trade partners and reducing reliance on imports for critical materials. Potential measures to raise household income, provide a social security cushion, and improve domestic capabilities in key technologies are also on the cards.

A more assertive domestic strategy should help to offset weaker external demand. We also expect to see continued attention on the anti-involution agenda, with sector-by-sector consolidation where excess capacity has pressured prices. Investors should track reform signals and company-level policy tailwinds.

How do you see trade tensions with the US developing in 2026?

The risk of further tensions between the US and China remains a crucial determinant of future volatility. The face-to-face meeting between Presidents Xi and Trump in late October 2025 was a positive development, resulting in a one-year deal between China and the US to pause export controls on rare earths and chips. However, this is just a pause, and the threat of action from both sides has not been permanently taken off the table.

Moreover, China has begun to develop a fully-fledged export control regime, not just for rare earths but for a wide range of critical materials and technologies. So, while it may seem as if both sides have simply wound back the clock on their tit-for-tat retaliatory measures, the reality is that this process has helped spur the development of China's defensive and offensive tech-industrial capabilities. Therefore, the risk of tensions escalating once again remains very real.

Many Chinese firms have already de-risked by diversifying their revenue and manufacturing footprints, especially into Southeast Asia, which should limit firm-level disruption if frictions continue or flare up again. In fact, China's share of overseas revenues has continued to rise despite punitive US tariffs, helped by deeper trade links with the rest of the world and by moving up the value chain in higher-value-added manufacturing, thanks to its technological advances in recent years. This trend can help cushion bilateral shocks.

Looking at the broader asset class, where do you see the most exciting opportunities in China?

We believe there are abundant opportunities in the Chinese equity market, and it has an important role to play in global asset allocation. While it is difficult to predict market direction in the near term, we do see the quality of earnings growth improving, backed by decades of R&D investment, and there are areas of untapped opportunities that are more return and profit-generating. There are many leaders in high-value-add industries, such as semiconductors, hardware and electronics, and high-end industrials, with improving trends also in healthcare and financials. What's more, despite the strong rebound from April's lows, China still trades at a notable discount to developed markets, which supports selective exposure if earnings momentum continues to improve.

A blended approach remains prudent. There are high-quality growth opportunities in tech and healthcare, as well as value in names with strong cash returns in materials and financials. Several of these businesses are demonstrating resilient and improving earnings power. In addition, households have built up large deposits and may reallocate away from property into long-term savings and equities, providing incremental domestic demand for listed assets.

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