

CIO PERSPECTIVES

7 October 2025

Is China becoming investable again?

China’s stock markets in Shanghai and Shenzhen have delivered impressive gains this year, drawing renewed interest to Chinese equities. Once (mistakenly) dismissed as “un-investable” due to regulatory uncertainty and underperformance, these markets are now recovering strongly, thanks to attractive valuations, targeted policy measures, and improving consumer sentiment. While sceptics argue the rally is purely liquidity-driven, we see reasonable valuations, growing domestic consumption and a 25 trillion dollars domestic savings cushion. We remain positive on the potential of China’s equity markets.

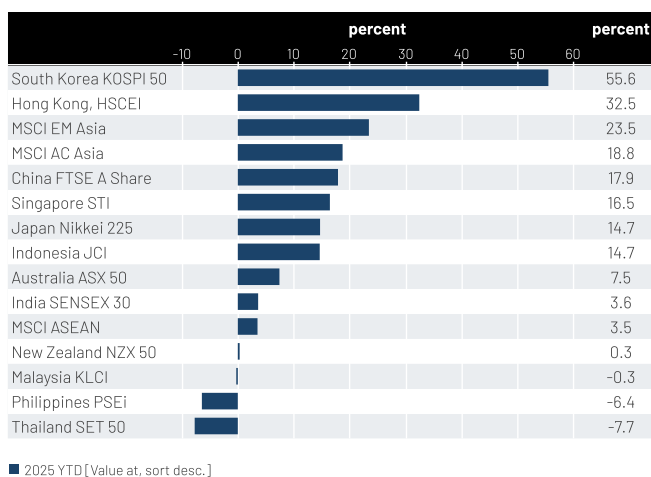
The factors behind the rally

The remarkable performance of Chinese equities can be attributed to several key factors.

First, Chinese equities had been beaten down due to a combination of factors, including the COVID-19 pandemic, real estate sector weakness, and government crackdowns on tech companies. This prolonged period of underperformance left valuations at relatively attractive levels.

Take the Shenzhen Stock Exchange, a reliable proxy for Chinese tech-related stocks: while valuations have climbed higher this year, they are still only at the average of their long-term trend.

Chart 1: Asian equity indices performance in 2025 year-to-date (LCY)



Source: Macrobond.

In contrast, US equities are trading at stretched valuations, prompting global investors to seek diversification. This “push and pull” dynamic has made Chinese equities an appealing choice for those looking to rebalance their portfolios.

Chart 2: Undemanding valuations (Shenzhen SE)



Source: Macrobond, Shenzhen Stock Exchange.

Chart 3: Stretched US equity valuations

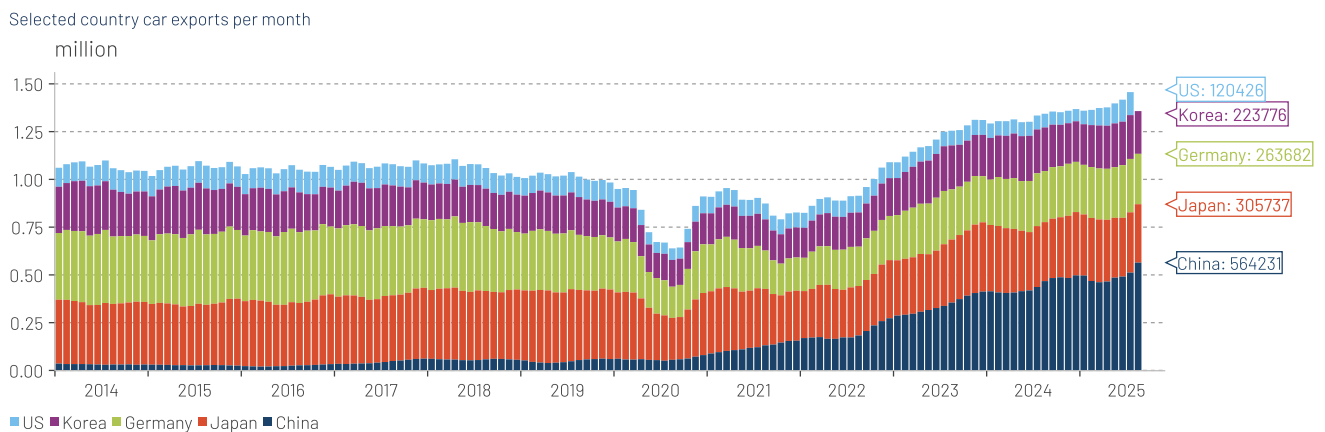


Source: Macrobond, Robert Shiller.

Second, Chinese companies boast strong fundamentals, and recent developments have bolstered both domestic and foreign investor confidence. For instance, the emergence of “Deepseek,” a major technological breakthrough, has shifted sentiment and renewed enthusiasm for the country’s innovation-driven sectors.

Chinese companies have also shown global tech and industrial leadership. An example is how Chinese car makers have overtaken the key industrial powers in automotive exports, exporting over half a million vehicles every month.

Chart 4: New pecking order as China becomes largest car exporter

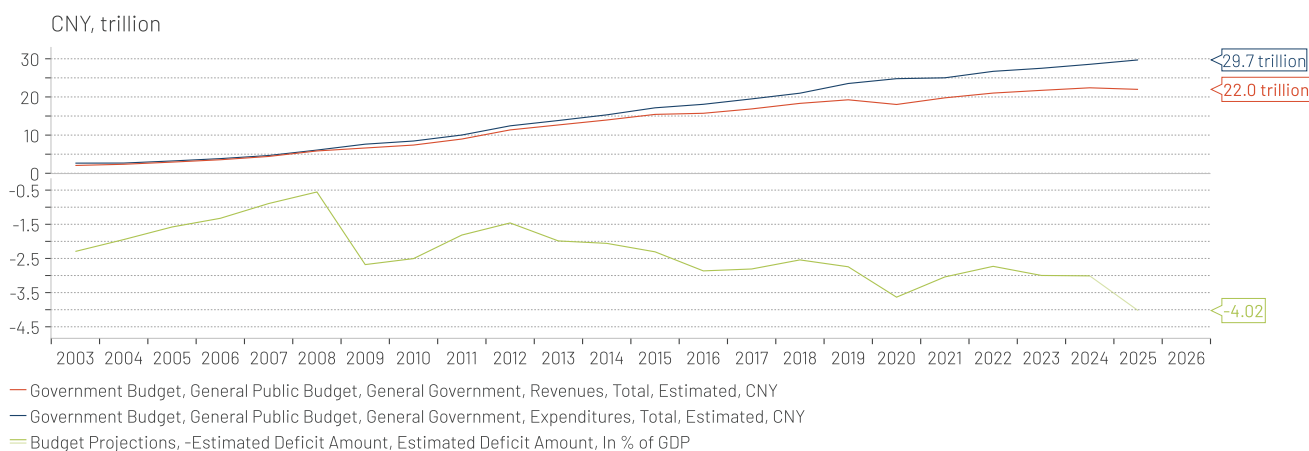


Source: Macrobond, China General Administrations of Customs (GAC), Japan Manufacturers Associations (JAMA), German Association of the Automotives Industry (VDA), U.S. Bureau of Economic Analysis (BEA), Korea Manufacturers Association.

Third, targeted Chinese policy measures¹ have significantly boosted equities. The **“Nine-point Guidelines”** introduced in April 2024 have incentivised companies to deliver record cash returns to shareholders and increased share buyback announcements by A-share firms, enhancing the appeal of Chinese stocks.

Additionally, fiscal policy has been a key driver, with fiscal spending growing at its fastest pace in three years and the budget deficit nearing a record 4% of GDP. Looking ahead, the upcoming **15th five-year plan**, set for October, is expected to provide further economic *momentum*.

Chart 5: China’s budget



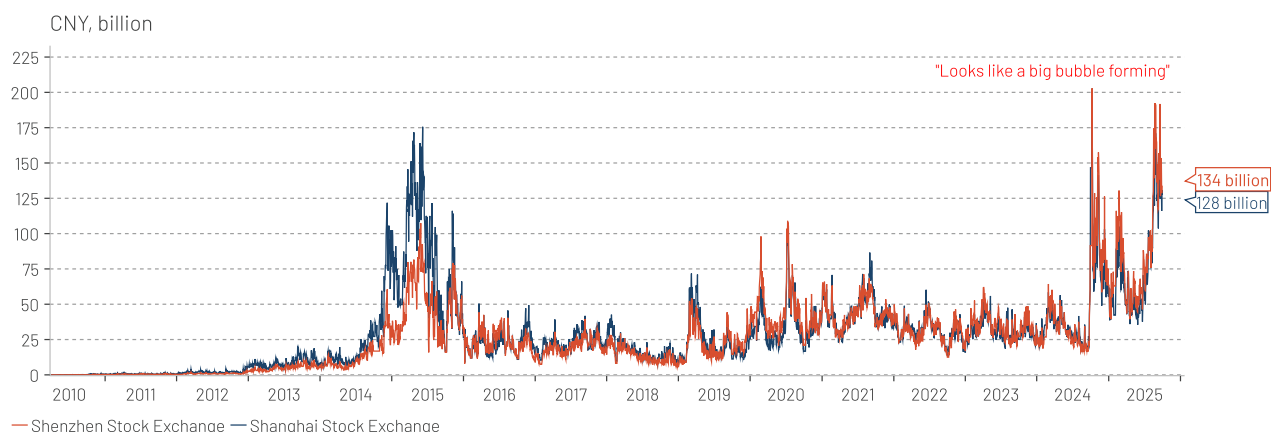
Source: Macrobond, China Ministry of Finance, China National Development & Reform Commission (NDRC).

Finally, Mainland China now accounts for nearly 28% of global emerging market (EM) fund portfolios, up from 22.5% in August 2024². While foreign investors are increasingly participating in China’s markets, domestic retail investors remain a crucial source of liquidity. The so-called “national team” has also intervened to curb market volatility, with ETF purchases helping to sustain equity prices.

Are the gains sustainable?

Concerns have been mounting over potential red flags in China’s onshore stocks, with sceptics attributing the year-to-date (YTD) surprise rally to liquidity rather than solid economic fundamentals. Critics point to factors such as rising margin financing, lofty valuations, and technical indicators suggesting an overheated market poised for a correction.

Chart 6: China purchased amount margin, CNY



Source: Macrobond, Shanghai Stock Exchange, Shenzhen Stock Exchange, World Federation of Exchanges.

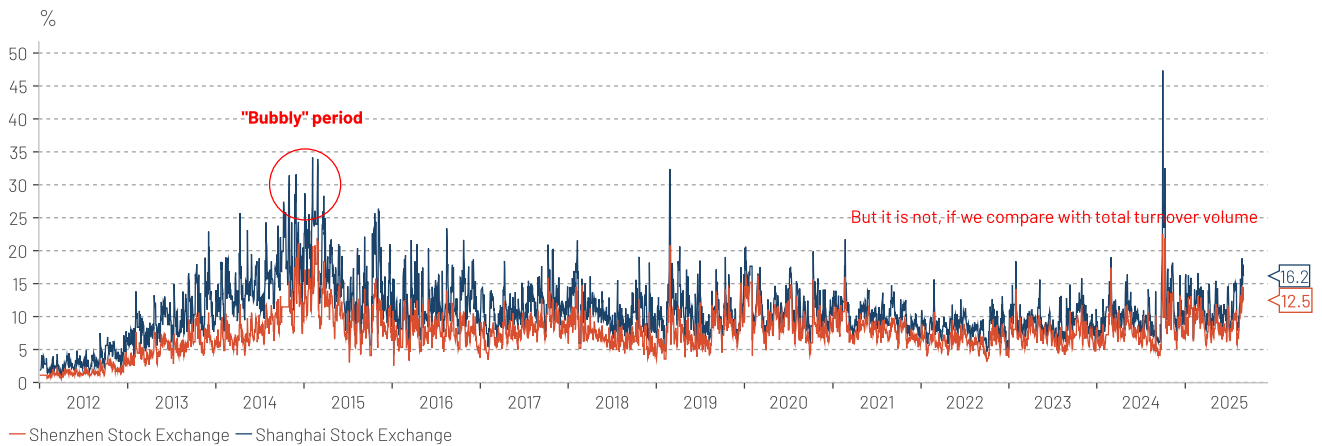
¹ Read “Introducing XiNomics” – 30 September 2024, CIO Perspectives – Indosuez Wealth Management.

² <https://www.globaltimes.cn/page/202509/1343279.shtml>

However, we take a different view.

Stock prices, particularly when undervalued, often move ahead of economic fundamentals, anticipating future growth. Moreover, evaluating margin financing in isolation can be misleading. When measured as a share of total turnover volume, today's margin financing levels remain far below the frothy heights of 2015, signalling a more measured market environment.

Chart 7: Shenzhen & Shanghai Stock Exchange – Margin Trades as % of turnover volume



Source: Macrobond, Shanghai Stock Exchange, Shenzhen Stock Exchange, World Federation of Exchanges.

That said, technical indicators do suggest valuations look stretched, and some short-term profit-taking may be on the horizon. Still, we see any potential pullback as an opportunity. A buy-on-dip strategy remains our preferred approach, given the long-term potential of China's equity markets.

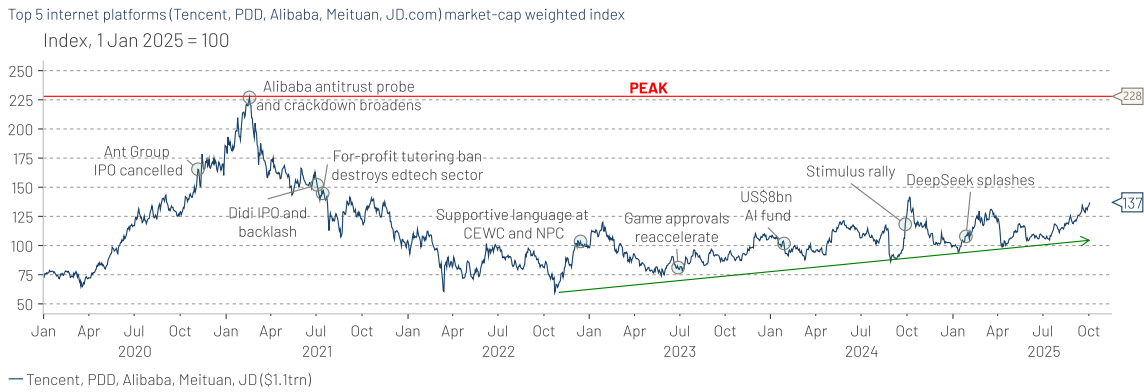
Chart 8: China's CSI 300



Source: Bloomberg.

Indeed, the gains this year are primarily liquidity-driven, underpinned by institutional investors such as wealth management firms and quant funds. Retail investors, who often drive speculative bubbles, have remained on the sidelines, contributing to market stability.

Chart 9: Chinese tech stocks have rallied, but remain far from their peak



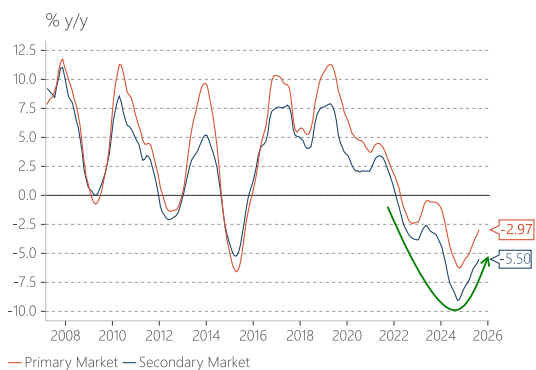
Source: Macrobond, MSCI, China Securities Index Company Limited, Nasdaq.

Valuations remain reasonable, particularly in the technology-heavy Shenzhen market, suggesting the rally is not indicative of a bubble. We constructed a market cap-weighted index of the top 5 Chinese internet platforms and found that despite YTD 34% price increase, it remains far from the recent peak in 2021.

Consumer sentiment and domestic consumption are improving, supported by cautious optimism in the real estate market. The 70-city residential price index is showing gains, while a shift in bank loan growth from industrial sectors to real estate indicates renewed confidence in the property market.

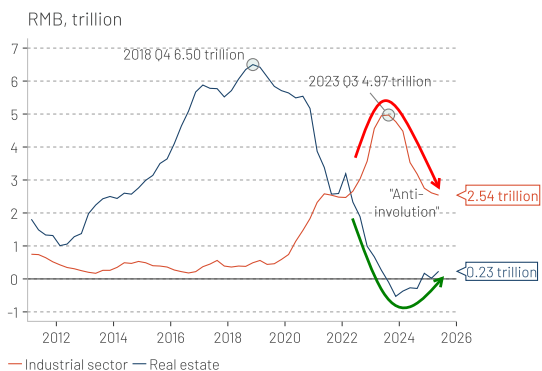
Additionally, city-level property easing measures in major hubs like Beijing and Shenzhen aim to stabilise the sector, potentially boosting consumer demand and economic momentum.

Chart 10: China 70-city residential price index



Source: Macrobond, China National Bureau of Statistics (NBS).

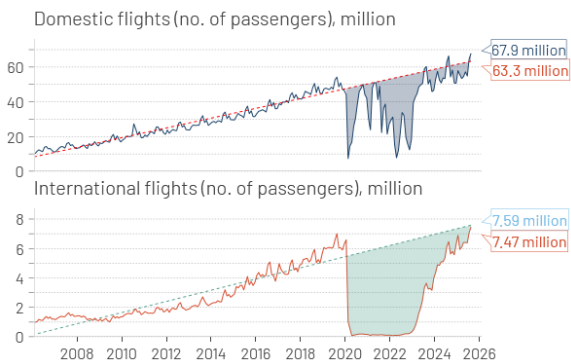
Chart 11: China year-on-year increase in outstanding loans



Source: Macrobond, People's Bank of China (PBoC).

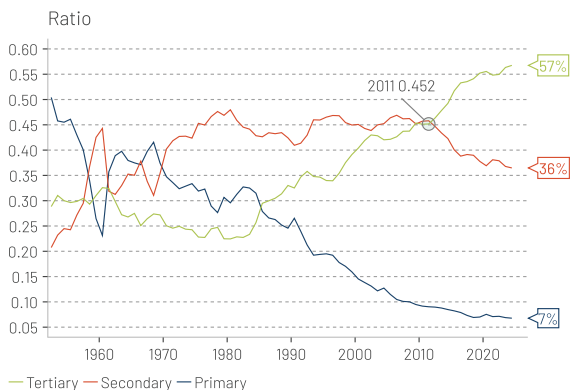
The rebound in Chinese consumption is also evident in the aviation sector, where domestic and international passenger flights have not only recovered post-COVID-19 but have surpassed their long-term growth trends. This resurgence underscores the strength of consumer demand as China transitions further toward a service-driven economy.

Chart 12: Chinese international air traffic getting there



Source: Macrobond, China Civil Aviation Administration.

Chart 13: China’s Real GDP by Sector Contribution

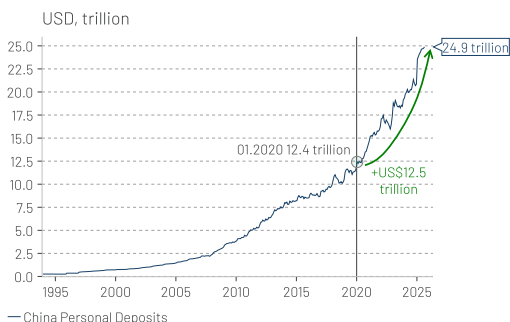


Source: Macrobond, China National Bureau of Statistics (NBS).

Notably, the services sector—largely insulated from US tariffs—has been a key driver of economic activity. Since surpassing manufacturing in 2011, services now account for 57% of China’s real GDP, compared to manufacturing’s 36%. This structural shift highlights China’s evolving economic landscape and its growing reliance on domestic consumption and services to fuel growth, and a way to hedge against the impact of US tariffs on goods and the manufacturing sector.

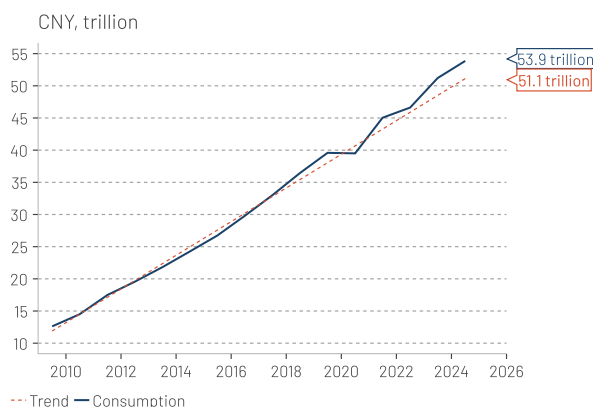
All told, Chinese households are sitting on an impressive 25 trillion dollars in deposits, a significant pool of capital waiting to be deployed. A portion of these savings is already fuelling household spending, with domestic consumption showing stronger-than-expected growth and trending above historical norms. This financial cushion could serve as a powerful driver for sustained economic activity in the months ahead.

Chart 14: China time deposits, personal deposits (savings)



Source: Macrobond, People’s Bank of China (PBoC).

Chart 15: China (household) consumption



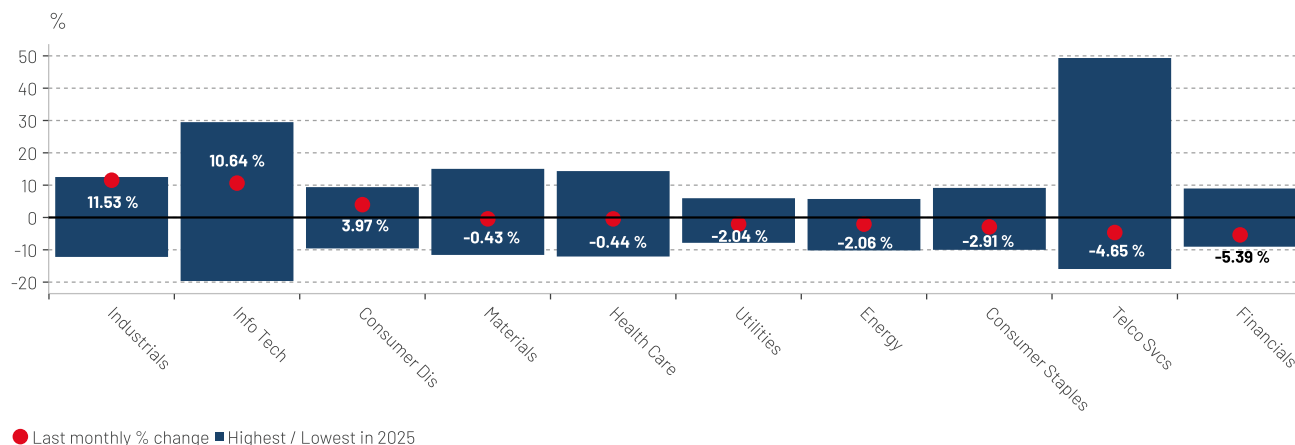
Source: Macrobond, China National Bureau of Statistics (NBS).

Promising Sectors and Areas of Caution

China's equity markets offer growth potential in several key sectors. **Artificial Intelligence (AI) and Technology** (e.g., semiconductors, cloud computing, robotics) are thriving due to government support and innovation. **Clean Energy** (solar, wind, batteries) benefits from China's leadership in the global energy transition. **Healthcare and Biotech** are driven by rising healthcare needs and an aging population. **Consumer sectors** (e.g., fintech, e-commerce, pet economy) are growing with increased domestic consumption and digitalisation. The **Silver Economy** also presents opportunities in industries like elderly care and insurance.

However, some sectors require caution. **Real Estate** is strained by weak demand and deleveraging. **Construction and Infrastructure** face oversupply issues, while **Banks** struggle with low interest rates and muted loan growth. **Exporters** dependent on US markets face geopolitical risks. Investors should carefully balance these opportunities and challenges in China's dynamic market.

Chart 16: China: CSI 300 sectors



Source: Macrobond, China Securities Index Company Limited.

Risks and Rewards for International Investors

Chinese equities offer international investors attractive growth opportunities but come with significant risks that require careful consideration. **Policy and regulatory risks** arise from the Chinese government's active market involvement, which can lead to sudden, unpredictable changes. **Geopolitical risks**, particularly US-China tensions, create uncertainty around tariffs, sanctions, and restrictions. **Corporate governance issues**, especially with state-owned enterprises (SOEs), may prioritise government objectives over profitability, potentially misaligning with investor interests. Additionally, **currency and capital controls** complicate market access, as the RMB is not fully convertible, requiring mechanisms like Stock Connect or Qualified Foreign Institutional Investor (QFII) for participation.

Despite these challenges, Chinese equities remain a compelling opportunity for portfolio diversification and exposure to the growth of the world's second-largest economy, particularly in high-potential sectors like technology, clean energy, and healthcare.

Final Thoughts

China has not suddenly become "investable again"—the truth is, it was never "un-investable" to begin with. The narrative surrounding China's markets often swings between extremes, but the reality lies in its consistent potential for growth, even amid challenges.



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