



CIO continues to view Chinese stocks as a key component in global equity portfolios owing to their unique domestic growth drivers and distinct market dynamics, offering a source of less correlated returns. (UBS)

CIO views Chinese stocks as a key component in global equity portfolios

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Just a few weeks ago, Chinese stocks were trading at nearly a 20% discount compared to emerging market equities, which themselves were valued at an over 45% discount relative to US stocks, all based on a 12-month forward price-earnings ratio.

Historically, such extreme valuations have been prone to reversals, and we are witnessing one right now. Year to date, the China internet proxy KWEB has surged close to 17%, while the MSCI China index has climbed 16%, significantly outperforming other major global markets.

What are the catalysts? China's advancements in artificial intelligence have been widely discussed. For a detailed analysis of what DeepSeek means for China tech, please refer to [A deeper look at DeepSeek](#). Beyond this, fundamentals are improving for core businesses in the internet sector, which we expect to drive MSCI China's earnings growth to high single digits this year.

In addition to the tech narrative, domestic policy shifts and a rapidly evolving global geopolitical landscape are further bolstering sentiment.

Consider President Xi's second private sector symposium on 17 February. The mere presence of tech sector heavyweights, including Jack Ma, signals a pivotal moment in China's regulatory storyline. This gathering is widely seen as a turning

point, potentially marking the end of the prolonged regulatory crackdown that has overshadowed the tech sector for nearly five years.

Geopolitically, the new US administration is adopting a radically different approach to foreign affairs, blurring the lines between traditional allies and adversaries. In a historic development, the US, Russia, and China have aligned in the UN Security Council to end the Russia/Ukraine conflict. Investors, once concerned about China being drawn directly into this conflict with severe economic and financial market implications, may now rest a bit easier and demand a smaller risk premium on Chinese assets.

We continue to view Chinese stocks as a key component in global equity portfolios owing to their unique domestic growth drivers and distinct market dynamics, offering a source of less correlated returns.

We are optimistic about China's internet sector, which we believe can continue to outperform the broader market owing to strategic policy support from Beijing, ongoing macroeconomic stimulus measures, and the sector's improving operational metrics.

Key risks standing in the way of a more bullish view on China include higher US tariffs and the escalation of US investment restrictions, as highlighted in the latest US [presidential memo](#). These include potential curbs on Chinese investments in strategic sectors, constraints on US pension and endowment fund investments in China, and a re-evaluation of the variable interest entity (VIE) structure, among others.

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Original report - [What's behind the resurgence of Chinese stocks?, 26 February 2025.](#)

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