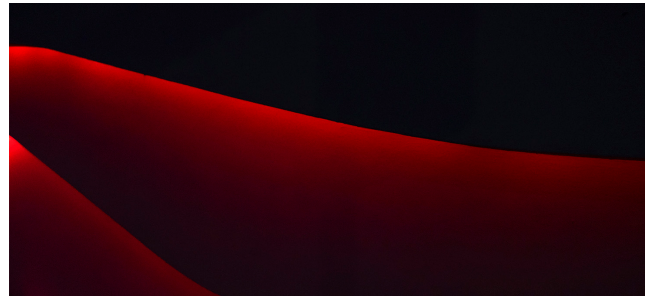


# Seek opportunities in China

## Seek opportunities in China

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- **Why** 1) China's domestic tech innovation is accelerating, with significant progress on AI, semiconductor localization, and cloud computing. 2) Rising domestic liquidity, supportive policy reforms, and underweight global investor positioning create scope for further upside. 3) These trends should also support positive returns for broader Asia ex-Japan, aided by a benign regional macro-outlook and a weaker US dollar.
- **Why now** 1) China's upcoming Five-Year Plan is set to offer a targeted approach to stimulus that we think will benefit our preferred sectors. 2) China's trade surplus reached a record USD 1 trillion for the first time in November, reflecting solid demand for its goods despite rising trade barriers. 3) The Hang Seng Tech Index has experienced four major corrections since 2024, each followed by stronger recoveries. It is now in its fifth, despite significant AI capex, self-sufficiency tailwinds, and strong cloud revenue growth.



We expect China's tech sector to drive outperformance for the Chinese equity market and for the EM index more broadly. Source: Hector Falcon\_Unsplash

Video: [Seek opportunities in China: Rally set to continue in 2026](#)

### China Tech

China's tech sector ramped up innovation in 2025, with notable advances across the AI value chain. New Chinese AI models have shown tech leadership, and supportive policy is reinforcing ecosystem resilience. Valuations have fallen from their recent highs, with the Hang Seng Tech Index experiencing four major corrections since 2024. Each has been followed by a strong recovery, and we anticipate this trend to hold in 2026. We expect strong earnings growth in 2026 to drive China's tech stocks higher, and view China's tech sector as a high-conviction idea within global equities.

### Chinese equities

Beyond technology, the broader Chinese equity outlook has improved. Economic growth may stay muted, but equities should find support from deeper domestic liquidity, robust

earnings, and rising retail flows. Government stimulus has been modest, but clarity on the government's approach should support business spending over the medium term. Valuations have declined from recent highs, and we think the current dip is an opportunity to build positions.

### Asia ex-Japan

Positive returns for China and its tech sector should also support positive returns for Asia ex-Japan equity indices, and we expect double-digit returns by the end of 2026. A benign regional macro outlook and a weaker US dollar should provide additional support. Positive AI capex developments across Asia are a growth tailwind, earnings growth is solid, and the breadth of revisions continues to improve. Regional valuations look appealing, trading at a discount to global peers. Beyond mainland China, we also expect Hong Kong, India and Singapore to deliver good returns as their business and earnings cycles turn.

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### **Emerging markets**

Investing in emerging markets offers not only a diversified way to invest in China but also diversified exposure to global AI and tech innovation beyond the US, with tech-related sectors now accounting for over 40% of the MSCI EM Index. We expect high-single-digit returns for emerging market (EM) equities by the end of 2026, supported by a constructive macro backdrop, Fed easing, and a softer US dollar—all of which should improve financial conditions and attract capital flows.

### Global asset class preferences definitions

The asset class preferences provide high-level guidance to make investment decisions. The preferences reflect the collective judgement of the members of the House View meeting, primarily based on assessments of expected total returns on liquid, commonly known stock indexes, House View scenarios, and analyst convictions over the next 12 months. Note that the tactical asset allocation (TAA) positioning of our different investment strategies may differ from these views due to factors including portfolio construction, concentration, and borrowing constraints.

**Most attractive** – We consider this asset class to be among the most attractive. Investors should seek opportunities to add exposure.

**Attractive** – We consider this asset class to be attractive. Consider opportunities in this asset class.

**Neutral** – We do not expect outsized returns or losses. Hold longer-term exposure.

**Unattractive** – We consider this asset class to be unattractive. Consider alternative opportunities.

**Least attractive** – We consider this asset class to be among the least attractive. Seek more favorable alternative opportunities.

## Appendix

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