



2026 Global Market Outlook

# Minds, machines, and market shifts

China Outlook

# China 2026: A new cycle emerges



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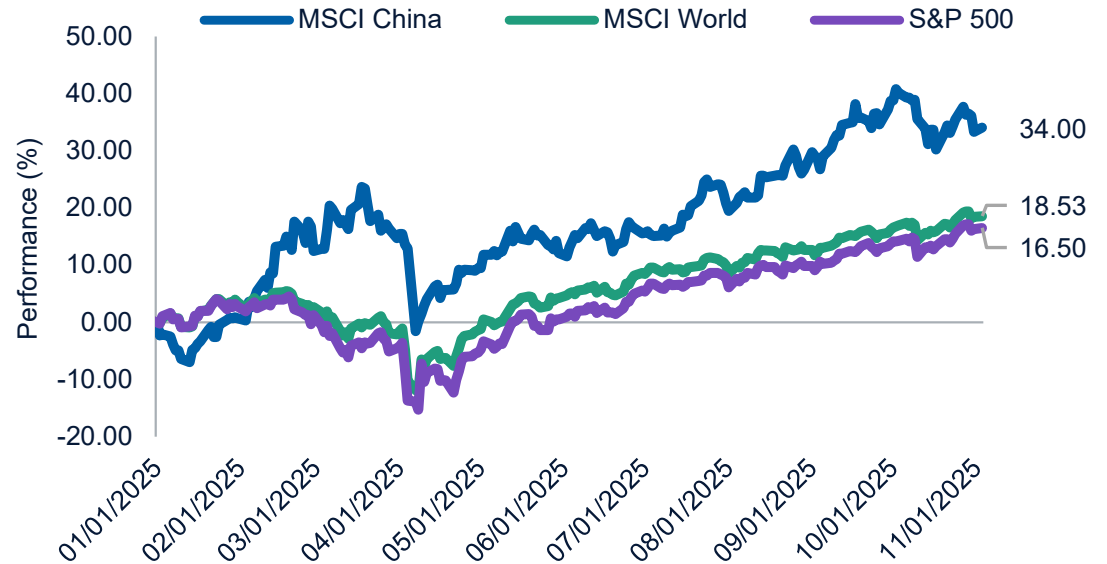
Chinese equities have outperformed the S&P 500 Index and most developed markets on a year-to-date basis, defying all the volatility linked to U.S. tariff headlines. The MSCI China Index has posted over 30% year-to-date gains, supported by policy pivot, emergence of new growth drivers, and better-than-expected geopolitical developments. Performance leadership has been concentrated in technology, industrials, and select consumer names, underscoring growing conviction in domestic growth resilience. Despite external noise, 2025's market behavior highlights a clear message: Fundamentals—not geopolitics—remain the dominant driver of China's equity performance.

## Domestic backdrop—Policy pivot from deleveraging to expansion

The September 2024 policy pivot marked the close of China's property-market deleveraging cycle and the start of a new expansion phase. Over 2025, the impact has become evident: Credit conditions normalized, fiscal spending shifted toward productivity and innovation, and private sector sentiment improved. Monetary settings remain accommodative, with liquidity ample and targeted credit support for small enterprises and strategic industries, establishing a stronger foundation for sustainable growth through 2026.

## Contrary to expectations at the start of the year, China has outperformed the U.S. and the rest of the world in 2025

(Fig. 1) Equity index performance in U.S. dollars from January 1, 2025.



Past performance is not a guarantee or a reliable indicator of future results.

As of November 3, 2025.

Source: Bloomberg Finance L.P.

## External macro environment – Stability after volatility

Globally, conditions have stabilized following the tariff disruptions of early 2025. China's measured policy response and diversified trade links helped cushion the impact. After several rounds of dialogue, tensions cooled, and the Donald Trump-Xi Jinping summit resulted in a further reduction of tariffs and an extension of the trade truce for one year. Furthermore, reciprocal state visits in 2026 should foster a more predictable diplomatic environment. For investors, this shift likely translates to lower external volatility and greater scope for domestic fundamentals to drive equity returns.

## Structural growth drivers

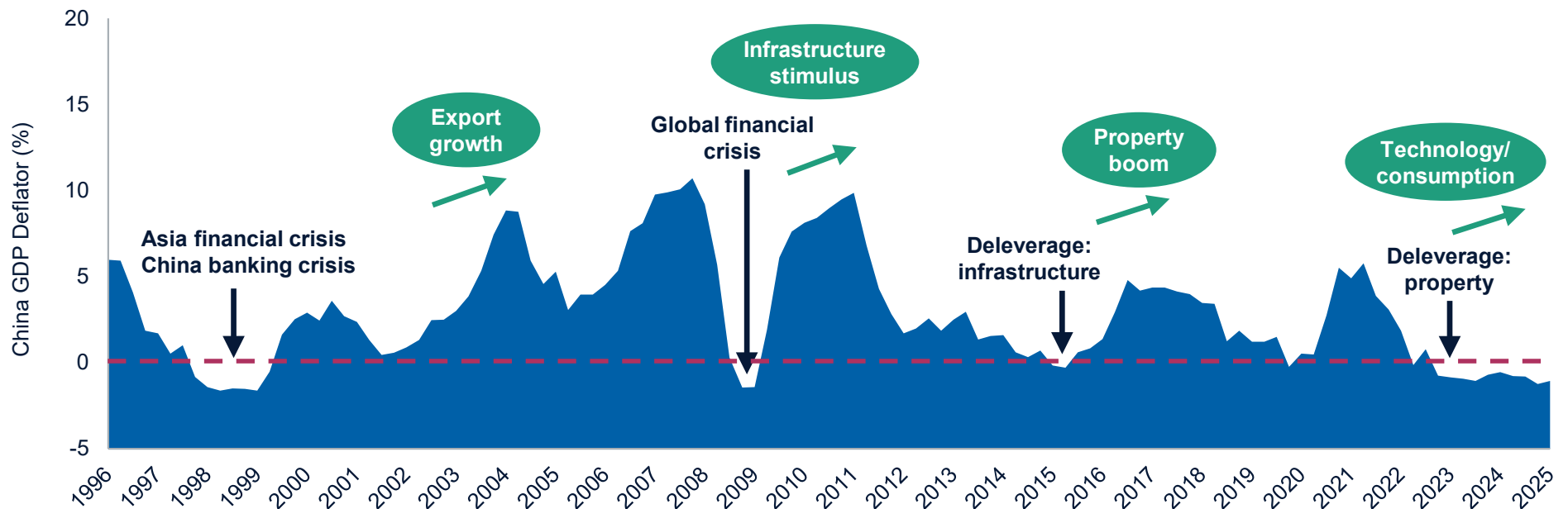
As underpinned in the recently concluded Fourth Plenum meetings, China's next expansion will be powered by innovation and domestic demand. The success of DeepSeek showcased China's growing capabilities in artificial intelligence (AI) despite semiconductor constraints, joining electric vehicles and biotechnology as areas of global competitiveness. Policy alignment around these industries—supported by digital-infrastructure investment and entrepreneurial incentives - should help sustain productivity growth over the medium term.

Simultaneously, consumption continues to broaden. Scalable platforms and leading brands are capturing discretionary spending through technology and user engagement, while traditional industries are achieving higher profitability under the anti-involution framework, which targets excessive competition.

The government's anti-involution agenda has begun to reshape industrial behavior. Capacity discipline and consolidation are improving pricing power in materials, manufacturing, and telecom infrastructure. These adjustments are expected to underpin a healthier profit cycle focused on efficiency and capital discipline.

## New drivers emerge post each cycle

(Fig. 2) China GDP deflator year-on-year % change.



Past performance is not a guarantee or a reliable indicator of future results.

As of September 30, 2025.

Source: Bloomberg Finance L.P.

## How we are positioned to capture opportunities emerging in China

### 1. Consumption and Services

Domestic consumption remains a core pillar of China's structural growth story. Rising household incomes, firmer consumer sentiment, and policy support for urban services are creating a more resilient spending base.

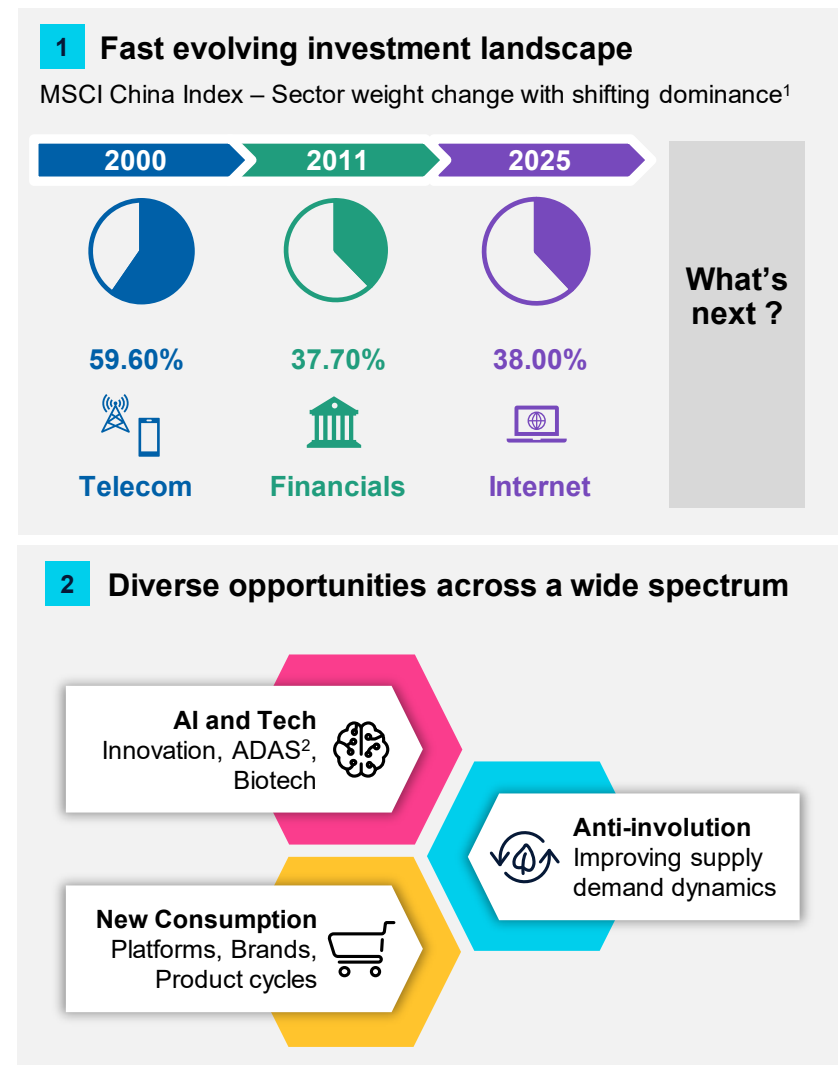
- **Platforms:** Some domestic service platforms have established scalable franchises with durable competitive moats and recurring revenue streams. Their integrated ecosystems and ability help them capture consumer traffic- both online and offline - support them to compound earnings through multiple market cycles. As service consumption deepens and foot traffic normalizes, we believe these platforms remain well placed to deliver steady growth with high visibility.
- **Product Cycles:** Companies with consumer electronics and mobility illustrate the strength of China's innovation-led consumption. As technology increasingly shapes lifestyle and mobility trends, we think that these intellectual property-driven businesses have the potential for future growth. Their capacity to commercialize new designs rapidly and connect with younger demographics positions them for powerful product-cycle expansion in both domestic and export markets.

### 2. Technology and Innovation

Technology remains an important driver of productivity and structural equity performance. China's innovation ecosystem—spanning AI, semiconductors, advanced manufacturing, and clean energy—is entering a phase of accelerated commercial adoption.

- **Artificial Intelligence:** With mainland China and Taiwan at the center of the global AI supply chain, we focus on companies that have demonstrated value-share gains with credible technology migration plans and defensible cost advantages. Beyond software and model development, we see opportunities in “commodity tech” components - such as copper-clad laminates and substrates - where surging AI demand may strain capacity, tightening supply, which may support profitability across hardware ecosystems.
- **Advanced driver-assistance systems (ADAS):** China's ADAS industry is now scaling rapidly, echoing the electric vehicle adoption curve of recent years. As regulatory standards evolve and consumer expectations shift toward safety and automation, domestic suppliers of sensors, controllers, and integration software are gaining global relevance. These firms are likely to play an important role in the future development of China's industrial sector as new technologies are adopted.

## (Fig. 3) Where are we seeing opportunities today?



Sources: T. Rowe Price.

<sup>1</sup> Bloomberg Finance L.P. FactSet. As of 31 August 2025. Financial data and analytics provider FactSet. Copyright 2025 FactSet. All Rights Reserved.

<sup>2</sup> ADAS refers to Advanced Driver Assistance System.

This information is not intended to be investment advice or a recommendation to take any particular investment action.

### 3. Anti-involution

In our view, traditional industries are becoming more attractive as the government's anti-involution campaign aims to restore balance to supply/demand dynamics. The focus on consolidation, capacity discipline, and return on capital is reshaping the competitive landscape across LCD panels, aluminum, copper, and telecom towers. These sectors are generating stronger cash flows, improving payout ratios, and demonstrating pricing resilience after years of margin compression.

While the strength of these businesses is not solely policy-driven, the shift toward rational competition and efficiency has created a healthier, more attractive industrial base. We view these companies as natural complements to growth-oriented holdings, offering potential for cyclical stability, income generation, and exposure to China's ongoing focus on capital efficiency.

Across consumption, technology, and industrial rationalization, we see an equity market evolving toward quality, innovation, and disciplined capital allocation.

This evolution may broaden the range of investment and provide long-term investors both structural growth and genuine diversification benefits as China's stock market matures.

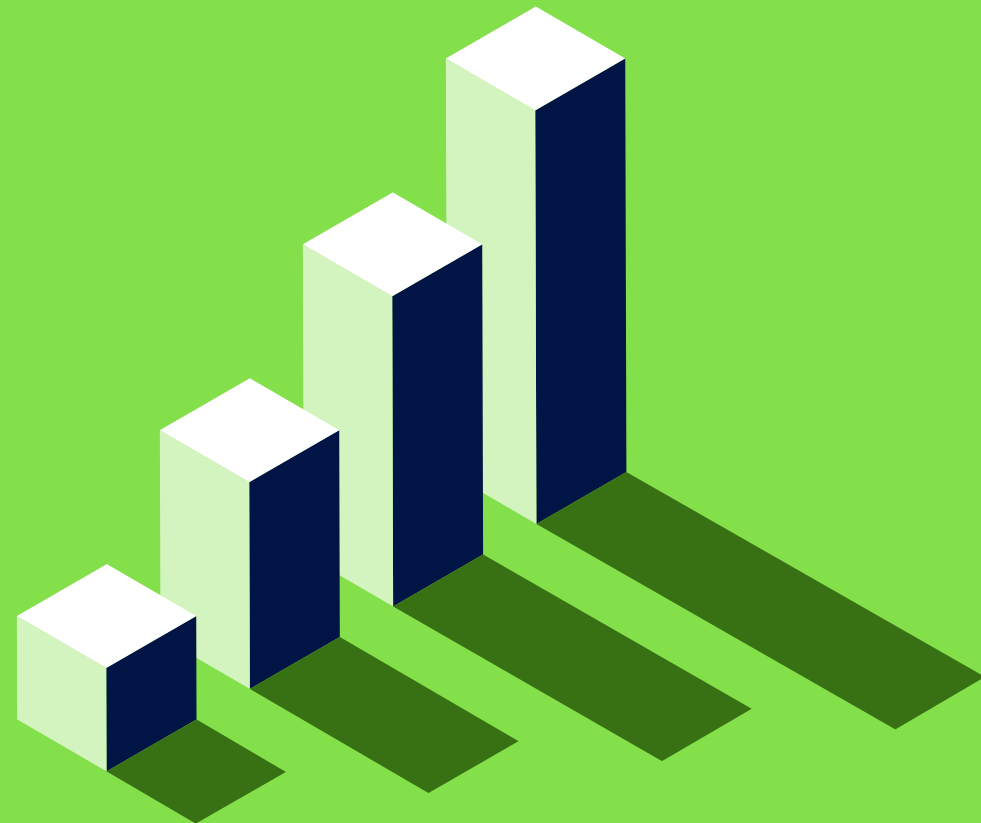
#### Summary

We expect a stable to moderately improving macroeconomic backdrop in 2026. Valuations remain supportive, and, more importantly, we are finding structural growth stories that we believe can outperform. Policy continues to favor productivity and innovation, while corporate balance sheets are healthier and earnings visibility is improving.

We are seeing opportunities emerging across technology, consumption, and rationalizing traditional sectors. As China advances from deleveraging toward disciplined expansion, we remain focused on identifying durable businesses positioned to benefit from this next phase of the country's economic evolution.

#### Key takeaway

Domestic consumption remains a core pillar of China's structural growth story. We expect policy will continue to favour productivity and innovation.



# Appendix

## Investment Risks:

**Active investing** may have higher costs than passive investing and may underperform the broad market or passive peers with similar objectives. Each person's investing situation and circumstances differ. Investors should take all considerations into account before investing.

**International investments** can be riskier than U.S. investments due to the adverse effects of currency exchange rates, differences in market structure and liquidity, as well as specific country, regional, and economic developments. The risks of international investing are heightened for investments in emerging market and frontier market countries. **Emerging and frontier market countries** tend to have economic structures that are less diverse and mature, and political systems that are less stable, than those of developed market countries.

**Commodities** are subject to increased risks such as higher price volatility, geopolitical and other risks. Commodity prices can be subject to extreme volatility and significant price swings.

**TIPS** In periods of no or low inflation, other types of bonds, such as US Treasury Bonds, may perform better than Treasury Inflation Protected Securities (TIPS).

Investing in **technology stocks** entails specific risks, including the potential for wide variations in performance and usually wide price swings, up and down. Technology companies can be affected by, among other things, intense competition, government regulation, earnings disappointments, dependency on patent protection and rapid obsolescence of products and services due to technological innovations or changing consumer preferences.

Because of the cyclical nature of **natural resource companies**, their stock prices and rates of earnings growth may follow an irregular path.

The **value approach** to investing carries the risk that the market will not recognize a security's intrinsic value for a long time or that a stock judged to be undervalued may actually be appropriately priced. **Growth stocks** are subject to the volatility inherent in common stock investing, and their share price may fluctuate more than that of an income-oriented stock.

**Small-cap stocks** have generally been more volatile in price than the large-cap stocks.

**All investments involve risk, including possible loss of principal. Diversification cannot assure a profit or protect against loss in a declining market. Index performance is for illustrative purposes only and is not indicative of any specific investment. Investors cannot invest directly in an index.**

**Fixed-income securities** are subject to credit risk, liquidity risk, call risk, and interest-rate risk. As interest rates rise, bond prices generally fall. Investments in **high-yield bonds** involve greater risk of price volatility, illiquidity, and default than higher-rated debt securities. Investments in **bank loans** may at times become difficult to value and highly illiquid; they are subject to credit risk such as nonpayment of principal or interest, and risks of bankruptcy and insolvency.

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