

# China: Back on the radar

6 August 2025

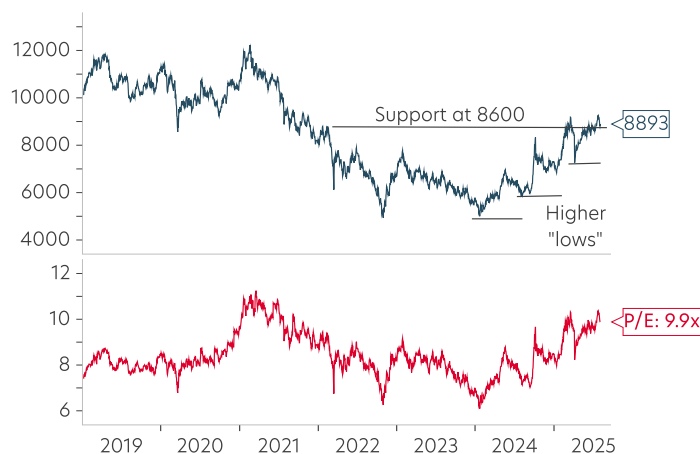
## Overview

- HSCEI has risen ~23% since its lows after Liberation Day, contributed by several factors, key being the de-escalation of US-China trade tensions.
- Against a stabilising macro backdrop, the government has pushed forth anti-involution efforts aimed at sectors facing overcapacity, potentially benefitting large-cap leaders. Direction of policy towards boosting consumption is encouraging, but execution remains key.
- As global positioning in China remains light, upside potential remains if sentiment continues to improve.
- We continue to favour consumer and dividend yielding stocks, supported by structural consumption trends and policy tailwinds. Investors can also consider AI-related names aligned with domestic tech leadership.

## Background

HSCEI has risen ~23% since its lows after Liberation Day, contributed by several factors, key being the de-escalation of US-China trade tensions. Earlier in March, we turned Overweight on Chinese equities among Emerging Asia.

**Figure 1: Positive technicals**



Source: Bloomberg, UOB Private Bank.

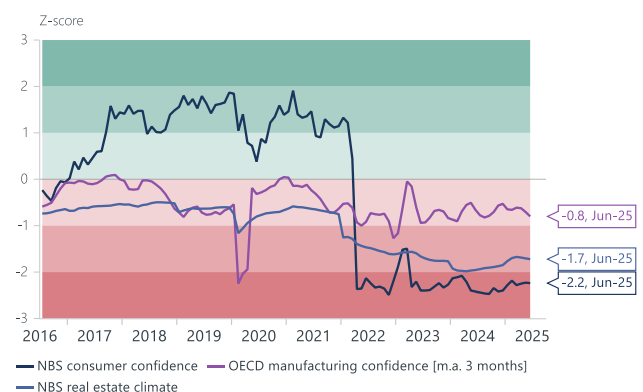
## Easing of US-China trade tensions

Concerns over US-China trade tensions eased meaningfully following the Geneva meeting in May. At the time of writing, the deadline for reciprocal tariffs between the US and China has been extended by 90 days beyond the original date of 12 August. Recent developments— such as the reported resumption of rare earth and AI chip trade, as well as the possibility of an in-person meeting between Presidents Trump and Xi — have presented further upside potential. Furthermore, in light of recently finalised trade deals with Japan and Europe with better-than-feared outcomes, a potential positive US-China agreement could catalyse the next rally in Chinese equities.

## Stabilising growth outlook

Despite domestic pressures as well as the uncertainty surrounding US tariffs, the Chinese economy has outperformed expectations in 1H 2025, expanding by 5.3% and providing a solid foundation to meet the official growth target of “around 5%” in 2025. This is largely due to the frontloading of exports and related industrial production activities. Several segments of retail sales such as appliances have benefitted from government subsidies and replacement programs, contributing to the overall robust activities. With that said, we believe that China will be able to achieve its 5% target, if it continues to implement its fiscal and monetary support on a timely basis. We have raised our 2025 China growth forecast to 4.9% (from 4.6%).

**Figure 2: Chinese economic sentiments**

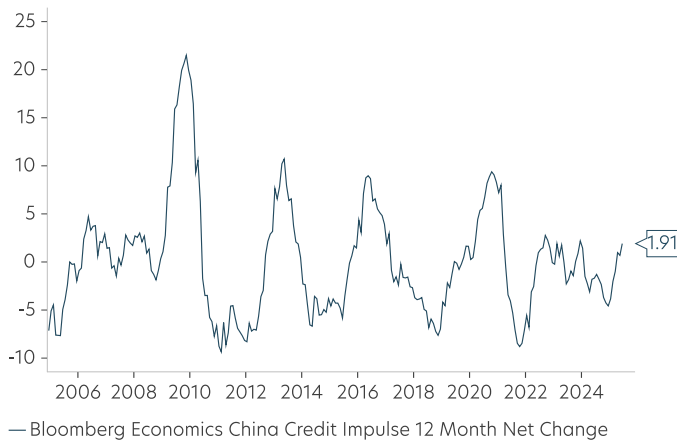


Source: CEMAC, OECD, NBS, UOB Private Bank.

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**Figure 3: Positive Chinese credit impulse**

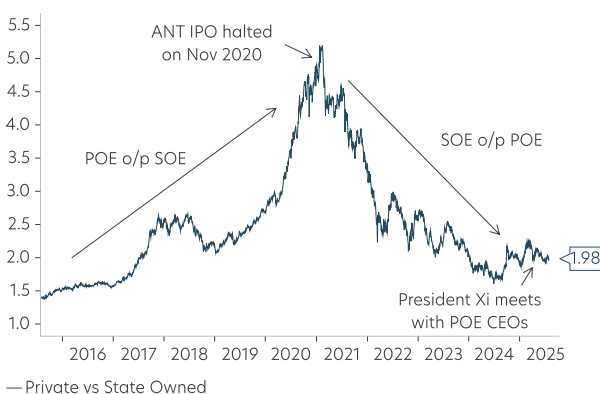


Source: Bloomberg, UOB Private Bank.

## Anti-involution (内卷政策) efforts

“Anti-involution” has emerged as a trending buzzword of late, aimed at tackling overcapacity and intense price wars. It promotes more rational market dynamics and sector restructuring to stabilise prices and enhance profitability. While this theme has been unfolding for some time, evident by the downward pressures observed in the producer price index (PPI) and consumer price index (CPI), the policy framework was highlighted on a high-profile level during the July meeting of the Central Commission for Financial and Economic Affairs (CCFEA), chaired by President Xi. Overcapacity is especially acute in industries such as solar energy, electric vehicles, steel, cement, and coal, among others. This signals a strong policy commitment, and efforts to address this issue are likely to intensify in coming months. From a thematic perspective, industry consolidation supports our preference for established large-cap private enterprise leaders, who are well-positioned to capture incremental market share and enhance profitability.

**Figure 4: Private Enterprises should start o/p SOEs**



Source: Bloomberg, UOB Private Bank.

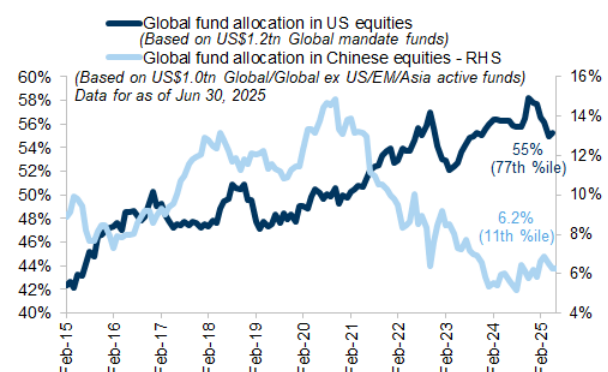
While we acknowledge anti-involution efforts are a key part of China’s supply-side reforms, addressing the demand-side challenges is even more critical to steer the economy out of deflation and revitalise sustainable growth. Therefore, a more sustainable path would involve a strategic pivot toward boosting domestic consumption. While we do not expect a bazooka stimulus, the recently concluded July Politburo meeting conveyed a supportive stance toward capital markets, aiming to restore investor confidence and gradually stimulate domestic consumption.

Additionally, new policy initiatives such as subsidies for childcare and elderly care signal a longer-term commitment to strengthening household spending and boosting structural consumption. While the recent policy direction appears to be moving in the right direction, its effectiveness will ultimately depend on execution – and the implementation of more substantial stimulus measures remains to be seen.

## Light global positioning

Cracks have begun to appear in the US exceptionalism narrative, particularly amid political uncertainty. As global investors have been significantly overweight in US assets, the gradual erosion of US dollar dominance and prospects of easing by the Federal Reserve has prompted many investors to diversify into Rest of the World (RoW). Coupled with the emergence of advanced Chinese AI models like Deepseek, signs of easing domestic regulatory pressures on the private sector, as well as expectations of RMB appreciation against the USD, China is back on foreign investors’ radar once again. Funds allocation to China remains near cycle lows, and there remains meaningful upside potential if sentiment turns more positive.

**Figure 5: Gap remains meaningful for US-China allocation for global mutual funds mandates**



Source: EPFR, Goldman Sachs Global Investment Research

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## What should you do?

Against a stabilising macro backdrop, we reiterate our Overweight instance on Chinese equities, and our preference for Chinese consumer and dividend stocks, as well as AI-related names. We also expect private enterprises to inflect against State owned enterprises as market oriented reforms take root.

One of our high conviction themes surrounds China's Gen Z that is reshaping consumer culture with distinct values and behaviours. Trends like China's blind box culture exemplify this transformation, highlighting a preference for affordability, personal satisfaction, and experiential consumption. This evolution reflects both cultural and economic adaptation, as Gen Z consumers redefine what it means to engage with brands and products in modern China. In this regard, we favour stocks that are well-positioned to this theme to capitalise on the evolving demands of this demographic.

Valuations remain attractive, with the HSCEI trading at 10x forward earnings and 2025 EPS expected to grow 8%, suggesting room for multiple expansion compared to global peers.

Figure 6: Positive earnings revisions



Source: Factset, UOB Private Bank.

Figure 7: HK/China Top stock picks

	Ticker	Name	Risk rating	Rating	Mkt cap USD bn	Last close	Tgt px	Upside	12MF P/E	12MF div yld
Communication Services	941 HK	CHINA MOBILE	High (P4)	Buy	238.2	85.15	95	12%	11.2	6.8
	762 HK	CHINA UNICOM	Very High (P5)	Buy	37.3	9.58	10	4%	11.6	5.8
	700 HK	TENCENT	Very High (P5)	Strong buy	643.4	550.5	650	18%	17.4	1.1
Consumer Discretionary	9988 HK	BABA	Very High (P5)	Buy	279.7	115.2	150	30%	12.5	0.9
	6690 HK	HAIER SMART	Very High (P5)	Buy	31.2	24.34	30	23%	9.4	5.3
	9618 HK	JD.COM	Very High (P5)	Buy	45.4	122.6	145	18%	8.8	2.9
Financials	1299 HK	AIA	High (P4)	Strong buy	96.7	72.25	88	22%	13.1	2.8
	388 HK	HKEX	Very High (P5)	Buy	68.2	422.2	450	7%	34	2.6

Source: Bloomberg, UOB Private Bank (as of 5 August 2025)

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