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How is China's economy performing?

Market Comment, September/October 2025

The good performance posted by Chinese equities in 2025 has come as a surprise to many. On the one hand, it represents a rebound from less favourable previous years; on the other, it also reflects a fundamental improvement – for which there are several reasons. These include, for example, stronger support for the Chinese financial market from domestic institutional investors, economic and market stimulus through interest rate cuts and special factors in terms of export dynamics related to the US tariff hikes. More important, however, are the stabilisation in Chinese private consumption and, above all, the massive transformation of the Chinese economy. China is increasingly directing its enormous resources into sectors with higher value creation and stronger margins, ranging from pharmaceuticals and electric cars to robotics and artificial intelligence.

As the world's second largest economy, China has clearly performed better so far this year than had been anticipated by the market consensus. As a result, both Chinese equities specifically and emerging market equities in general have benefited. During the first half of the year, economic growth in China also outstripped the official target of the Chinese government. GDP growth has primarily been driven by strong private consumption and secondarily by robust export activity.

Private consumption in China has chiefly benefited from retail trade supported by government subsidies, with sales of household goods and cars being particularly strong. These government consumption subsidies have been financed by the issuing of very long-dated Chinese government bonds. Relatively low inflation has helped here, allowing interest rates to remain at historically low levels. No significant decline in consumption is expected for the quarters ahead, although it is unlikely that the retail trade will drive the Chinese economy to the same extent as it has to date. Export activities have also remained strong for the most part so far in 2025. Exports in the first half of the year were supported by front load-

ing, in particular, which refers to the advance orders placed in anticipation of higher US tariffs coming further down the road. China has also exported more to South-east Asian countries and from there, i.e. indirectly, to the US as a means of circumventing tariff increases. This approach is set to become more difficult, however, as the US is now combating such circumvention with special measures.

Although consumption and exports are unlikely to develop as strongly in the future as they did in the opening quarters of 2025, it is also unlikely that they will decline so sharply as to endanger the achievement of the government's economic growth target. If necessary, the government in Beijing could also stimulate the Chinese economy through interest rate cuts and other measures. During the course of 2025, the government has also ordered that Chinese institutional investors, first and foremost insurance companies, increase their holdings in the domestic equity market by 10%. The aim here is to lend support to the local financial market. This is another reason for the strong performance of Chinese equities in global comparison this year.

“The Chinese economy is currently undergoing a successful transformation to become a technological leader.”

Gérard Piasko, Chief Investment Officer

What is little known globally is the enormous transformation currently taking place, in which China is evolving into a leading technological power. The real estate sector, which remains problematic, continues to account for a quarter of the Chinese economy and remains structurally burdened by high levels of debt. For some time now, however, China has been experiencing a government-planned boom in investments in artificial intelligence, the military sector, electric cars and their components, as well as in robots and other technology segments.

This means that many of the enormous resources of the world's second largest economy are increasingly being channelled into sectors with higher value creation and stronger margins, including the pharmaceutical sector. China is now responsible for around the same number of new medical innovations as the US and is the world's biggest online market. The generally growing popularity of Chinese brands in comparison to their Western counterparts within China is helping massively. Two-thirds of global sales of electric cars now come from China, and the country already accounts for 60% of global battery

production. Conclusion: China should not be underestimated.

G rard Piasko

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