

November 2025



**Raymond Ma**  
Chief Investment Officer,  
Mainland China and Hong Kong

China's equity market made a strong comeback in 2025 after years of uncertainty, supported by breakthroughs in technology, structural economic transformation, proactive policy support, strong liquidity, and attractive valuations. Looking ahead to 2026, we remain constructive, as improving fundamentals and long-term growth drivers continue to support a more sustained and structural growth cycle.

### **Externally: Global rate cuts could reignite flows into China**

Externally, the global monetary environment is expected to enter a rate-cut cycle in the coming year, which usually historically trigger capital rotation away from the U.S.-centric markets toward more attractively valued emerging economies like China. Chinese equities, characterized by their scale and improving corporate fundamentals are well-positioned to benefit from this shift. This anticipated rebalancing could offer medium- to long-term support, especially as global investors increasingly seek diversification beyond developed markets.

In 2026, we expect three key trends to shape opportunities in China's equity market.

### **Industrial upgrading: A new growth engine**

In China, we expect the industrial transformation to remain a key theme for equity investors, as China continues to shift from its traditional role as a low-cost exporter to a global leader in high-end manufacturing and innovation. Key sectors, such as electric vehicles (EVs), pharmaceuticals, and automation, are set to drive the next phase of growth, supported by a competitive industrial ecosystem and increasingly cost-efficient technologies.

R&D investment continues to rise, signaling a strong commitment to innovation-led growth. Companies with robust R&D pipelines have the potential to deliver favorable long-term returns as they capitalize on rising demand for advanced products and solutions. The rise of Chinese brands is also reinforcing the value of "Made in China," with EV companies now exporting vehicles built on fully localized supply chains. China's leadership in EV and battery technology positions it at the forefront of the global energy transition. For example, the Chinese brands EV accounted 76%<sup>1</sup> of global EV and plug-in hybrid electric vehicle (PHEV) sales this year. Moreover, China largest EV battery company market share was about 37%<sup>2</sup> in the global market. The leadership in EV and battery technology places China at the forefront of the global energy transition and electrification trend.

Pharmaceutical innovation is another critical area to watch. Chinese firms are expanding beyond oncology into broader therapeutic areas, moving from fast-following to pioneering first-in-class drugs. This evolution marks a significant step in China's journey toward becoming a global innovation powerhouse—one that could unlock new investment opportunities in 2026 and beyond.

### **AI momentum: Building the future**

Looking forward, artificial intelligence is set to be a key growth engine for China. The launch of DeepSeek in early 2025 showcased China's ability to deliver high-performing, cost-efficient large language models, signaling its emergence as a formidable contender in the global AI race. While the U.S. continues to lead in software, China is rapidly narrowing the gap and is well-positioned to drive the next wave of AI transformation.

Looking ahead, China's advantages in data scale, energy efficiency, and infrastructure will be increasingly important. With one of the world's largest internet user bases and relatively low energy costs, China has the foundation to support large-scale AI development and deployment. On the hardware side, we expect continued progress in robotics, drones, and humanoid applications—key components of the broader AI ecosystem.

1. Source: Carscoops, Chinese Brands Now Dominate 76% Of Global EV Sales, February 26, 2025
2. Source: World Economic Forum, Industry leaders on the future of EV supply chains amid US-China tensions, January 21, 2025.

November 2025

China’s deep talent pool, vast data resources, and ability to scale automation efficiently give it a competitive edge in converting AI innovation into real-world productivity gains. As AI adoption accelerates across industries, China is well-positioned to capture long-term value through both innovation and application. This presents a compelling opportunity for investors to tap into China’s long-term potential across AI innovation and application.

### Consumption evolution: Unlocking new growth frontiers

Looking forward, China’s consumption landscape is set to undergo a significant transformation, driven by shifting demographics and evolving consumer preferences. While the national savings rate remains high, it is likely to decline as younger generations embrace more experience-driven and emotionally resonant spending. This demographic is increasingly allocating their budgets toward services and domestic intellectual property (IP), including online gaming, travel, entertainment, and social media.

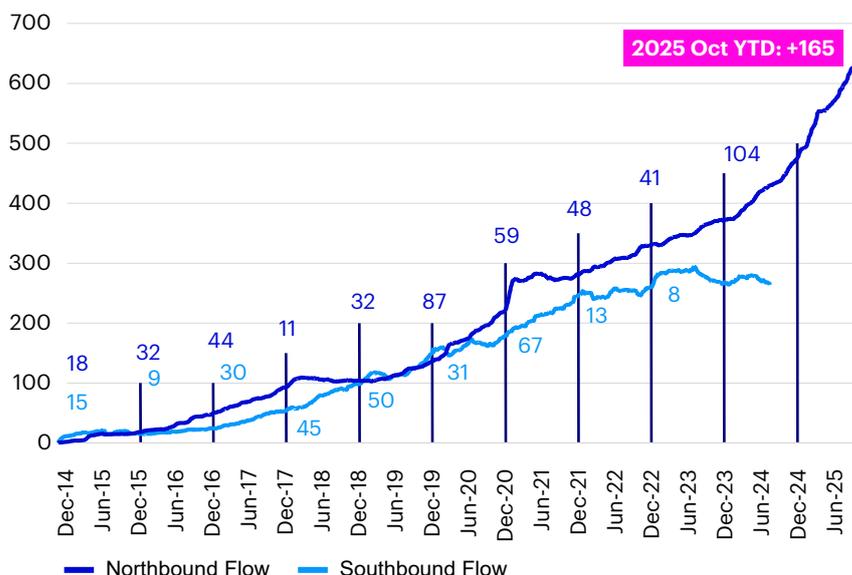
IP-based consumption, often serving as a form of emotional engagement or companionship, is gaining traction. For instance, the surge in popularity of Chinese designer toys reflects younger consumers’ preference for expressive designs and emotional appeal. As this service-oriented and emotionally driven consumption model expands, we anticipate the rise of new billion-dollar companies across these sectors—creating compelling opportunities for investors seeking exposure to China’s next wave of consumer growth.

Beyond these investment themes, China’s equity market outlook remains positive, supported by strengthening fundamentals and favorable market dynamics.

### Valuation, liquidity, and earnings support the case for Chinese equities

Despite the strong rebound in 2025, Chinese equities continue to trade at attractive valuations, with the MSCI China Index still trading at around 40% discount<sup>3</sup> compared to developed markets. Liquidity trends are also encouraging, substantial southbound inflows into the Hong Kong market reflect growing interest from domestic investors in offshore Chinese assets, and we anticipate this momentum to continue in the coming year.

**Chart 1: Cumulative net buying of Southbound/Northbound Connect since inception (US\$bn)**



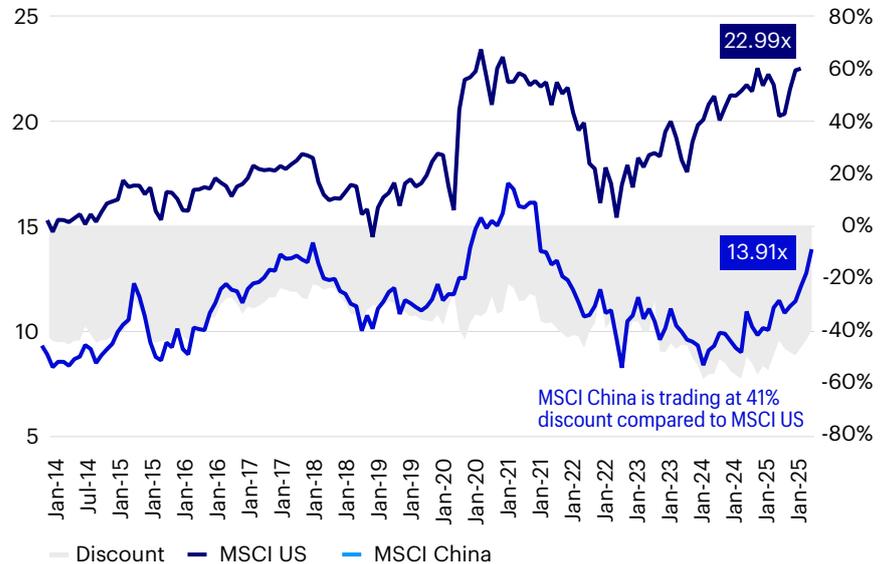
Source: FactSet, HSBC, October 31, 2025.

Note: Northbound data is no longer disclosed from August 16, 2024.

3. Source: Factset, September 2025.

November 2025

**Chart 2: Forward P/E of MSCI China vs MSCI US**



Source: Factset, Invesco, data as of September 2025.

On the fundamentals side, corporate earnings have shown clear signs of recovery. We believe earnings per share (EPS) levels have likely bottomed and are poised to improve further, while return on equity (ROE) and earnings before interest and taxes (EBIT) margins have reversed previous declines. Enhanced operating efficiency and better leverage are driving stronger net margins, reinforcing the case for continued performance and long-term investor confidence.

### Positive shift in risk sentiment

While some volatility may persist due to uneven geopolitical dynamics, particularly in the U.S.-China relationship, recent developments are encouraging. High-level discussions between the two nations have led to pragmatic progress, including agreements to roll back trade barriers in key sectors such as semiconductors and rare earths. Both sides have committed to reviewing these agreements annually, laying a constructive foundation for continued dialogue. We believe this marks a positive step forward and strengthens the fundamental backdrop for Chinese equities.

We maintain a constructive outlook on Chinese equity market, supported by a combination of improving macroeconomic conditions, resilient corporate fundamentals, growing investment trends, and ample market liquidity - all of which reinforce the case for long-term investment in Chinese equities.

November 2025

---

## Investment risks

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested.

When investing in less developed countries, you should be prepared to accept significantly large fluctuations in value.

Investment in certain securities listed in China can involve significant regulatory constraints that may affect liquidity and/or investment performance.

---

## Important information

**This document is for Professional Clients only in Dubai, Jersey, Guernsey, the Isle of Man, Continental Europe (as defined below) and the UK; for Institutional Investors only in the United States; for Professional/Qualified/Sophisticated Investors in Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates; for AFPs and Qualified Investors in Chile; for Qualified Clients/Sophisticated Investors in Israel; for Sophisticated or Professional Investors in Australia; in New Zealand for wholesale investors (as defined in the Financial Markets Conduct Act); for Professional Investors in Hong Kong; for Qualified Institutional Investors in Japan; in Taiwan for Qualified Institutions/Sophisticated Investors; in Singapore for Institutional/Accredited Investors; for Qualified Institutional Investors and/or certain specific institutional investors in Thailand; for certain specific sovereign wealth funds and/or Qualified Domestic Institutional Investors approved by local regulators only in the People's Republic of China; for certain specific institutional investors in Malaysia upon request; for certain specific institutional investors in Brunei; for Qualified Professional Investors in Korea; for certain specific institutional investors in Indonesia; for qualified buyers in Philippines for informational purposes only; in Canada, this document is restricted to i) accredited investors and ii) permitted clients as defined under National Instrument 45-106 and 31-103 respectively. It is not intended for and should not be distributed to or relied upon by the public or retail investors. Please do not redistribute this document.**

Forward-looking statements are not a guarantee of future results. They involve risks, uncertainties, and assumptions. There can be no assurance that actual results will not differ materially from expectations.

This is marketing material and not financial advice. It is not intended as a recommendation to buy or sell any particular asset class, security, or strategy. Regulatory requirements that require impartiality of investment/investment strategy recommendations are therefore not applicable nor are any prohibitions to trade before publication.

By accepting this document, you consent to communicate with us in English, unless you inform us otherwise. Data as at November 2025, unless otherwise stated.

For the distribution of this document, Continental Europe is defined as Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Ireland, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, and Switzerland.

All articles in this publication are written, unless otherwise stated, by Invesco professionals. Views and opinions are based on current market conditions and are subject to change. This publication does not form part of any prospectus. This publication contains general information only and does not take into account individual objectives, taxation position or financial needs. Nor does this constitute a recommendation of the suitability of any investment strategy for a particular investor.

November 2025

This publication is not an invitation to subscribe for shares in a fund nor is it to be construed as an offer to buy or sell any financial instruments. As with all investments, there are associated inherent risks. This publication is by way of information only. This document has been prepared only for those persons to whom Invesco has provided it. It should not be relied upon by anyone else and you may only reproduce, circulate and use this document (or any part of it) with the consent of Invesco. Asset management services are provided by Invesco in accordance with appropriate local legislation and regulations.

This publication is issued:

- in **Hong Kong** by Invesco Hong Kong Limited 景順投資管理有限公司, 45/F, Jardine House, 1 Connaught Place, Central, Hong Kong.
- in **Singapore** by Invesco Asset Management Singapore Ltd, 9 Raffles Place, #18-01 Republic Plaza, Singapore 048619.
- in **Taiwan** by Invesco Taiwan Limited, 22F, No.1, Songzhi Road, Taipei 11047, Taiwan (0800-045-066). **Invesco Taiwan Limited is operated and managed independently.**
- in **Japan** by Invesco Asset Management (Japan) Limited, Roppongi Hills Mori Tower 14F, 6-10-1 Roppongi, Minato-ku, Tokyo 106-6114; Registration Number: The Director- General of Kanto Local Finance Bureau (Kin-sho) 306; Member of the Investment Trusts Association, Japan and the Japan Investment Advisers Association.
- in **Australia** by Invesco Australia Limited (ABN 48 001 693 232), Level 26, 333 Collins Street, Melbourne, Victoria, 3000, Australia which holds an Australian Financial Services Licence number 239916.

This document has been prepared only for those persons to whom Invesco has provided it. It should not be relied upon by anyone else. Information contained in this document may not have been prepared or tailored for an Australian audience and does not constitute an offer of a financial product in Australia. You may only reproduce, circulate, and use this document (or any part of it) with the consent of Invesco.

The information in this document has been prepared without taking into account any investor's investment objectives, financial situation or particular needs. Before acting on the information the investor should consider its appropriateness having regard to their investment objectives, financial situation, and needs.

You should note that this information:

- may contain references to dollar amounts which are not Australian dollars;
- may contain financial information which is not prepared in accordance with Australian law or practices;
- may not address risks associated with investment in foreign currency denominated investments; and
- does not address Australian tax issues.

- in **New Zealand** by Invesco Australia Limited (ABN 48 001 693 232), Level 26, 333 Collins Street, Melbourne, Victoria, 3000, Australia which holds an Australian Financial Services Licence number 239916.

This document is issued only to wholesale investors (as defined in the Financial Markets Conduct Act) in New Zealand to whom disclosure is not required under Part 3 of the Financial Markets Conduct Act. This document has been prepared only for those persons to whom it has been provided by Invesco.

It should not be relied upon by anyone else and must not be distributed to members of the public in New Zealand. Information contained in this document may not have been prepared or tailored for a New Zealand audience. You may only reproduce, circulate and use this document (or any part of it) with the consent of Invesco. This document does not constitute and should not be construed as an offer of, invitation or proposal to make an offer for, recommendation to apply for, an opinion or guidance on Interests to members of the public in New Zealand. Applications or any requests for information from persons who are members of the public in New Zealand will not be accepted.

November 2025

- in the **United States** by Invesco Advisers, Inc., 1331 Spring Street NW, Suite 2500, Atlanta, GA 30309, USA.
- in **Canada** by Invesco Canada Ltd., 16 York Street, Suite 1200, Toronto, Ontario M5J 0E6.
- in **Austria and Germany** by Invesco Management S.A., President Building, 37A Avenue JF Kennedy, L-1855 Luxembourg, regulated by the Commission de Surveillance du Secteur Financier, Luxembourg.
- in **Belgium, Denmark, Finland, France, Greece, Italy, Ireland, Luxembourg, Netherlands, Norway, Portugal, Spain and Sweden** by Invesco Management S.A., President Building, 37A Avenue JF Kennedy, L-1855 Luxembourg, regulated by the Commission de Surveillance du Secteur Financier, Luxembourg.
- in **Dubai, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia** and the **United Arab Emirates** by Invesco Asset Management Limited, Index Tower Level 6 - Unit 616, P.O. Box 506599, Al Mustaqbal Street, DIFC, Dubai, United Arab Emirates. Regulated by the Dubai Financial Services Authority.
- in the **Isle of Man, Jersey, Guernsey** and the **UK** by Invesco Asset Management Limited, Perpetual Park, Perpetual Park Drive, Henley-on-Thames, Oxfordshire, RG9 1HH, United Kingdom. Authorised and regulated by the Financial Conduct Authority.
- in **Switzerland** by Invesco Asset Management (Schweiz) AG, Talacker 34, 8001 Zurich, Switzerland.
- in **Israel** by Invesco Asset Management Limited, Perpetual Park, Perpetual Park Drive, Henley-on-Thames, Oxfordshire RG9 1HH, UK. Authorised and regulated by the Financial Conduct Authority. This document may not be reproduced or used for any other purpose, nor be furnished to any other person other than those to whom copies have been sent. Nothing in this document should be considered investment advice or investment marketing as defined in the Regulation of Investment Advice, Investment Marketing and Portfolio Management Law, 1995 (“the Investment Advice Law”). Investors are encouraged to seek competent investment advice from a locally licensed investment advisor prior to making any investment. Neither Invesco Ltd. nor its subsidiaries are licensed under the Investment Advice Law, nor does it carry the insurance as required of a licensee thereunder.