

May 2026



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Key takeaways

- China's macro backdrop remains resilient led by export growth and continuous policy support.
- The 15th Five-Year Plan and AI progress are reinforcing China's shift toward higher-quality, innovation-led growth.
- Supportive liquidity, improving earnings, and broader market opportunities keep the outlook for China equities constructive.

Looking ahead into the second half of the year, China's macro environment remains relatively resilient amid evolving headlines around the Middle East conflict. Recent data points to stable growth momentum, with GDP expanding by around 5% YoY in Q1 2026¹, supported by strong exports, solid industrial activity and targeted policy easing. Export growth has surprised on the upside, while domestic consumption provides stability. At the same time, we believe advanced manufacturing will increasingly emerge as a new growth driver for the economy. These factors position the economy to better absorb external shocks and support a gradual growth trajectory. Looking ahead, a recovery in the property sector and further improvement in consumption could provide additional upside to the economic outlook. We will continue to monitor developments closely.

The 15th Five Year Plan: Anchoring high quality and innovation led growth

The 15th Five Year Plan (2026–2030) provides a strategic framework to stabilise and strengthen the macro economy as the country transitions toward high quality growth. The Plan emphasises the sustainability and composition of growth rather than headline speed, with GDP growth targeted at approximately 4.5–5% in 2026.²

A key focus is to enhance effectiveness of investment and diversify sources of external demand, while prioritizing technology development amid heightened global uncertainty. At the same time, we believe enhanced macro policy coordination via more proactive fiscal measures and targeted monetary easing should help anchor liquidity conditions and support cyclical recovery, particularly in areas such as infrastructure, advanced manufacturing, and services.

Against this backdrop, China's growth model is increasingly shifting toward higher-quality, innovation-driven growth. Policymakers are prioritising areas such as technology, advanced manufacturing, digitalisation, and the green transition—creating new engines of long-term growth. As these initiatives gain momentum, they have generated clearer opportunities across the supply chain.

1. HSBC, April 2026

2. Morgan Stanley, March 2026

May 2026

China's AI progress as a structural growth catalyst

China's advances in artificial intelligence (AI) and large language models (LLMs) represent an increasingly important structural theme for the equity market. Rapid technological progress in China has narrowed the gap with global leaders, with domestic models demonstrating strong performance in complex reasoning and coding tasks, while excelling particularly in speed, deployment efficiency, and agent based applications. Importantly, this progress has been achieved with significantly lower development and deployment costs, resulting in AI models that are often more cost efficient than their Western counterparts. This combination of improving capability and superior cost efficiency reinforces the view that China is becoming a more central participant in the global AI landscape rather than merely a follower.

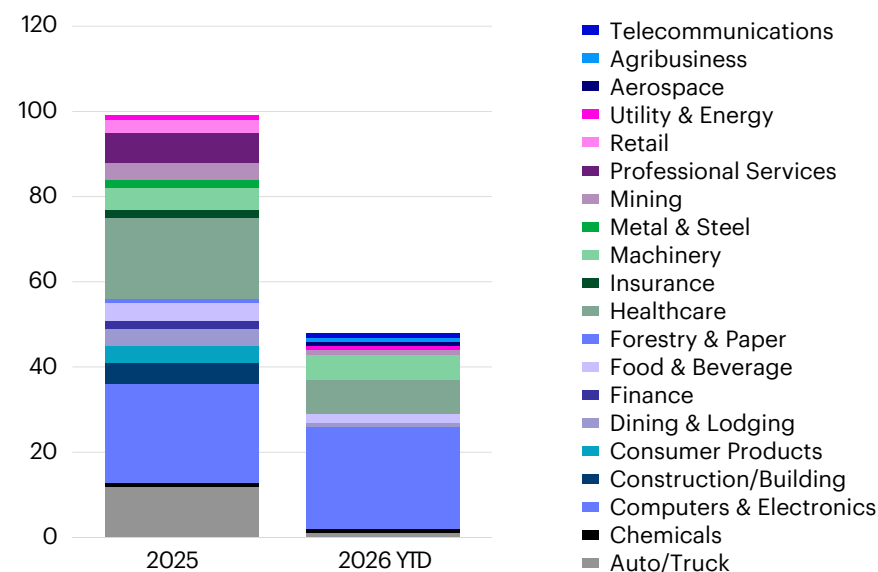
Looking forward, the technological progress is supported by significant and coordinated investment across the ecosystem. China continues to scale up AI-related R&D spending, supported by strong government backing, rising capital expenditure from leading technology firms, and the advantage of a large domestic user base that facilitates rapid development and adoption. Together, these factors may create substantial long-term growth opportunities across the entire AI value chain, spanning upstream infrastructure and hardware, core software and platforms, as well as downstream applications across multiple industries. From an investment perspective, growing global recognition of China's AI ecosystem may translate into broader index representation and increased investor interest, supporting incremental capital flows into companies across both the vertical and horizontal AI supply chain, and potentially expanding the range of investment opportunities linked to China's fast-evolving AI landscape.

Broadening investment opportunities across China's equity markets

China equity markets are also evolving in ways that may improve long-term opportunity sets for equity investors. Historically, many innovation-driven companies, particularly in software, semiconductors, and advanced manufacturing, have primarily listed onshore, while Hong Kong markets have been more concentrated in internet platforms, consumption names, and EV leaders.

This dynamic is beginning to change. An expanding pipeline of high-quality, innovation-led IPOs and A/H dual listings, including companies in advanced semiconductors, robotics, and industrial technology, is gradually enhancing the sector breadth of the Hong Kong market. Over time, this should provide investors with more comprehensive exposure to China's next generation of technology leaders and improve the market's ability to reflect structural growth trends more fully.

Figure 1 - Number of IPOs listed in Hong Kong



Source: HSBC, data as of 18 May 2026.

May 2026

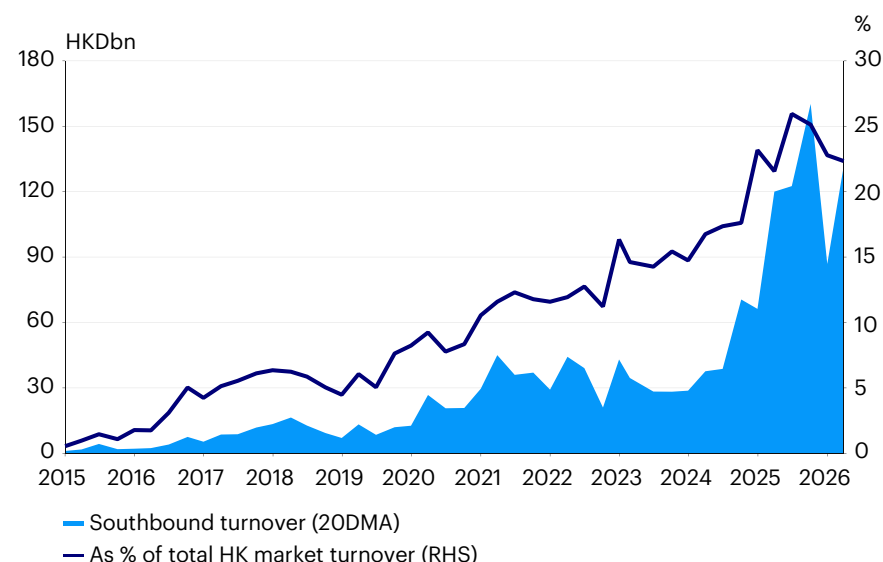
Risks to monitor

Looking ahead to the remainder of the year, we believe external risks remain a key source of uncertainty. The Trump–Xi summit is expected to support near-term stability, and we will continue to monitor how the conversation between the two countries develops. Periods of volatility cannot be ruled out, reinforcing the importance of focusing on structural growth themes and policy-supported sectors over the medium term. In this context, China’s ongoing transition toward innovation driven growth, combined with supportive domestic policies and expanding investment opportunities, may provide a constructive foundation for Chinese equities over the medium term.

A constructive outlook supported by liquidity and earnings recovery

From a market perspective, liquidity conditions are expected to remain supportive going forward. Daily turnover reached record highs of over RMB 3.6 trillion in early 2026.³ This is complemented by robust southbound Stock Connect flows, as inflows reached US\$33 billion in the first 4 months of 2026.⁴ Looking ahead, we believe sustained inflow momentum and broadening participation should further enhance market depth and turnover velocity.

Figure 2 - Southbound Stock Connect market turnover



Source: Wind, HSBC Qianhai Securities

At the same time, valuations in the broader China equity market have been relatively attractive, trading at a meaningful discount relative to US equities, while earnings fundamentals are improving. Consensus expectations point to mid teens earnings growth for the MSCI China Index in 2026⁵, reflecting a recovery in profitability and better earnings visibility.

In conclusion, we believe the outlook for China equities remains constructive, upheld by improving earnings momentum, supportive policy settings, and ample liquidity. Combined with emerging investment opportunities, particularly in innovation and technology, these factors provide a solid foundation for disciplined and selective investment in China equities.

3. Wall Street Journal, January 2026

4. Morgan Stanley, May 2026

5. FactSet, MSCI, CSI, Goldman Sachs Global Investment Research, data as of 25 May 2026

May 2026

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.

Forward-looking statements are based on current expectations and assumptions, and yet actual results may differ materially from those expressed or implied.

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May 2026

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2026 Midyear Investment Outlook - China equities

May 2026

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