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China opportunity in the Year of the Fire Horse

By Fiona Yang, manager of the Invesco Asia Dragon Trust plc

London, 10 February 2026 - The Invesco Asia Dragon trust has a remit to invest across the region, but as we approach Chinese New Year it is worth reflecting on the performance and outlook for China. The Year of the Fire Horse portends to be a period of intense energy, rapid change and great ambition, will China surprise or disappoint?

China's equity market has performed well over the past 12 months. The "DeepSeek moment" acted as a pivotal catalyst for a broad revaluation of the country's AI sector, demonstrating that frontier-level capabilities can be achieved with remarkable cost efficiency. While this has helped lift the market from deeply discounted valuation levels, the rebound has been uneven. Not all sectors or companies have benefited equally, underscoring the two-speed nature of China's broader economic recovery.

Headline government growth targets have been met, largely thanks to strong growth in exports, tech and advanced manufacturing offsetting slower growth, or even contraction, in property, consumption and household income.

Against this backdrop, policymakers in Beijing have become more explicit in emphasising the need to boost domestic consumption. The **15th Five-Year Plan** included the goal of meaningfully increasing household consumption as a share of gross domestic product (GDP) and positioning domestic demand as the primary engine of growth. This message was reinforced at the annual Central Economic Work Conference, where "prioritising domestic demand" and building a "strong domestic market" were set as top policy tasks for the coming year. More recently, we've read reports that the borrowing limits on property developers known as the "three red lines", have been done away with, bringing an apparent end to rules that enforced aggressive deleveraging in China's property market.

Some scepticism is warranted over how successful these moves will be. Surveys of consumer confidence continue to paint a pessimistic picture, and lingering concerns over the property market mean investors have tended to shy away from consumer sectors, with little in the price for a recovery. However, the feeling on the ground is markedly different. We recently visited Shanghai and found the streets to be vibrant, with plenty of people out spending. Consumption habits are evolving, but companies agile enough to adapt are well positioned to benefit. Meanwhile, in Hong Kong the mood has shifted from gloom to hope. Clear policy support from China has reinforced the view that the region will remain an important global financial hub.

While there have been some very strong returns from Chinese stocks over the last year, the valuation of many our holdings still looks attractive. Corporate sentiment is generally cautiously optimistic, suggesting room for positive earnings surprises, and we're still finding new and interesting ideas.

So where are we finding opportunity? We remain invested in core holdings such as Tencent and Alibaba, which we believe will benefit most from China's accelerating AI shift. Their strong cloud infrastructure and rapid integration of advanced AI models have reinforced their roles as the foundational enablers of the country's AI ecosystem. We have been taking profits in several names that have performed well, including ENN Energy, NetEase, Tencent Music, and auto-parts manufacturer Minth. Those proceeds have been redeployed into what we view as attractively valued consumer stocks, such as hotel operator H World and China Resources Beer. We have also been adding to Full Truck Alliance, where recent volatility has created a compelling opportunity to increase exposure to a high-conviction position.

We've also introduced some new holdings. Anhui Conch Cement stands out as a high-quality operator in a structurally challenged sector, with industry-leading market share, lowest production costs and a strong balance sheet. The shares are trading at just 0.6x price-to-book, near historical lows, with an attractive dividend yield and scope for earnings to recover from depressed levels, particularly if China's capacity reduction targets materialise, and sector profitability begins to recover.

New Oriental Education is another example. As a leading provider of educational services, it operates in a sector where structural growth drivers remain intact, supported by policy priorities around quality enhancement and innovation. The company maintains a strong balance sheet, generates solid free cash flow, and offers appealing shareholder returns. Forward EPS revisions have trended positively in recent quarters, and current valuations appear reasonable.

The Year of the Fire Horse may not prove to be a period of intense energy and rapid change, but China remains a market full of opportunity for stock pickers. No longer 'uninvestible' in the eyes of global investors, there are still bargains to be found in unloved areas of the market that are well positioned to benefit from a return in consumer confidence. There is greater policy support, and plans to stimulate domestic consumption, while the government has a much warmer attitude to the private sector than it has had in recent years.

The upturn in Chinese equity market has brought a lot of new companies to market, with the value of initial public offerings (IPOs) last year nearly tripling. Historically, this might have been a concern given how new firms draw flows out of the market, but Chinese listed firms are now returning more capital to shareholders than they are extracting, be that through buybacks or better dividends, a display of better capital allocation that we welcome.

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