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PERSPECTIVES Viewpoint Equity

China: Riding on supportive policies and tech optimism

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Key takeaways

- China A-shares (onshore market) are catching up with H-shares (offshore market) that rallied following the DeepSeek event in early 2025.
- The recent outperformance of A-shares reflects domestic sentiment and policy shifts. Fiscal expansion, adequate liquidity, anti-involution policies, improved global sentiment and rising domestic retail flows are the key drivers.
- We suggest buying on dips to ride the China tech and policy wave, while also enhancing portfolio diversification with exposures to both China A and China H markets.

Chinese equities in focus

The China onshore rally (stocks listed in mainland China) is gaining momentum. The Shanghai Composite Index recently climbed to a 10-year high. The onshore market refers to China A-shares – stocks issued by Chinese companies, denominated in CNY, listed on the Shanghai and Shenzhen Stock Exchanges, and open to foreign investors through the Stock Connect programme.

A-shares are catching up with H-shares (stocks issued by Chinese companies, denominated in HKD, listed on the Hong Kong Stock Exchange) that benefitted from AI-led optimism (Refer Figure 1). The term “offshore market” is often used synonymously with H-shares. The recent outperformance of A-shares reflects domestic sentiment and policy shifts. But the question is whether the rally is sustainable.

In addition to fiscal expansion, supportive measures by the PBoC, and adequate banking system liquidity, other drivers include expectations of corporate profit recovery due to anti-involution policies, improved global sentiment amid peaking tariff rates, and retail flows catching up since July – following a largely institutional rally since September 2024. This Viewpoint examines these fundamental factors in detail.

1. Anti-Involution

China’s anti-involution policy marks a strategic pivot in its economic model – aimed at curbing excessive, zero-sum competition and fostering more sustainable, high-quality growth. Following the July 2025 Politburo meetings, China’s leadership is targeting:

a. Supply-side reforms – rationalising production, reducing subsidies for unprofitable firms, and phasing out weaker players.

b. Market regulation – curbing disorderly pricing and promoting fairer business practices.

c. Boosting domestic demand – encouraging consumption to absorb excess capacity and support profitability.

Earlier reforms focused on traditional industries such as steel, coal, and cement, aiming to reduce inefficiency and pollution. Current measures target not only these sectors but also rapidly growing industries such as solar energy, lithium batteries, EVs, and e-commerce.

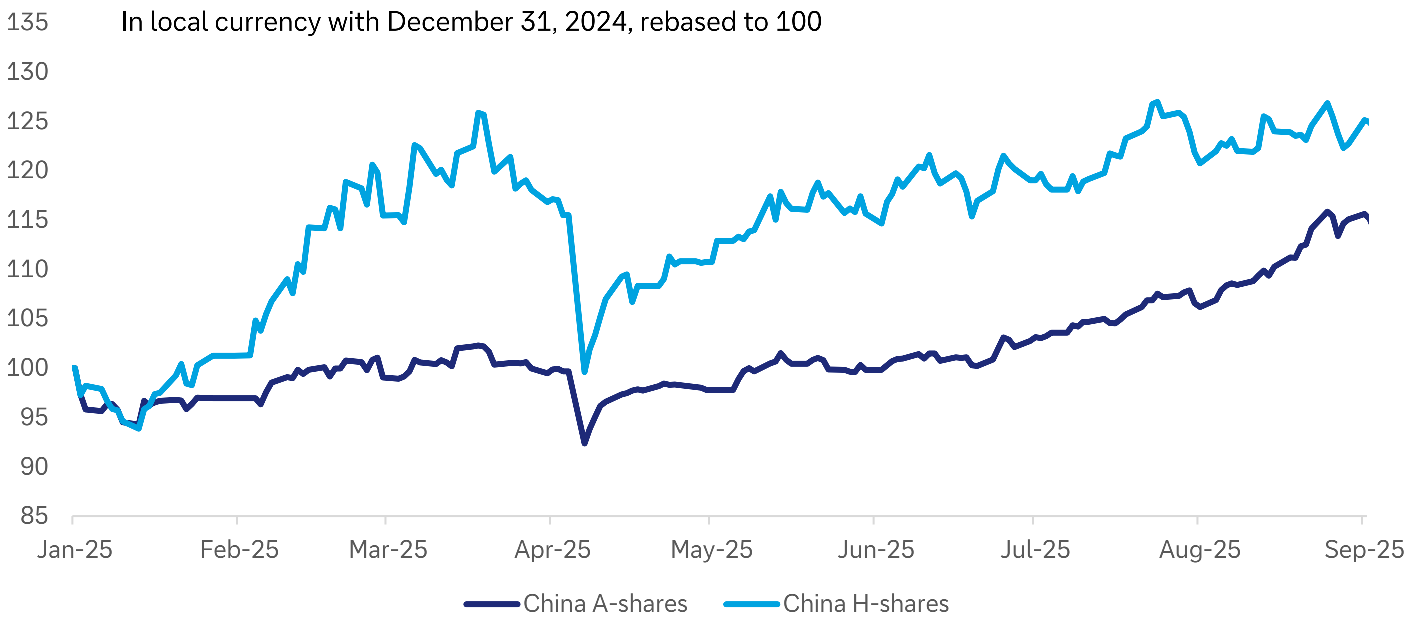
For example, hypercompetition in food delivery and e-commerce led to irrational discounting, fake reviews, and consumer fatigue. The government responded with pricing laws, platform regulation, and anti-monopoly probes – pushing online platforms toward quality growth.

Similarly, in the pharma sector, excess competition in generic drugs prompted centralised procurement reform, innovation incentives, and IP protection – shifting players toward R&D-intensive models and encouraging consolidation.

Prices of materials such as coal, steel, polysilicon and lithium have risen notably since July 1, following anti-involution policies, which has boosted related sector shares (Refer Figure 2).

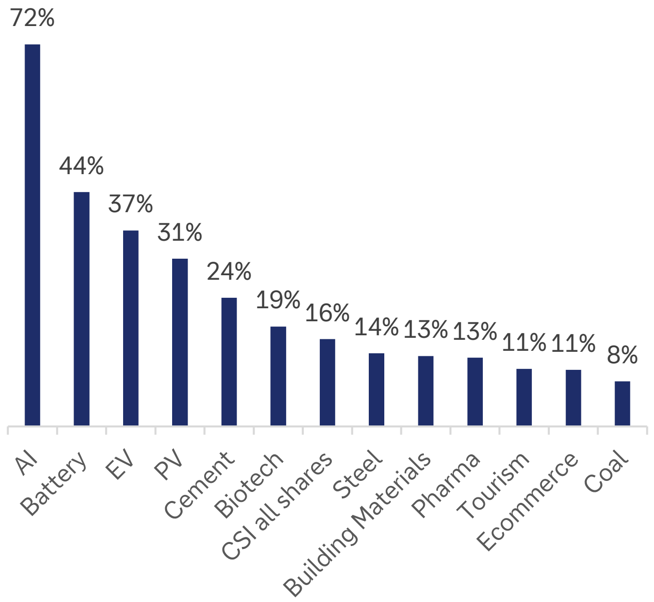
Figure 3 shows some of the sectors with low net profit margins that could benefit from the anti-involution measures.

Figure 1: China A-share vs H-share performance in YTD 2025



Source: LSEG Datastream, Deutsche Bank AG. Data as of September 22, 2025.

Figure 2: Performance of CSI sector indices since July 1, 2025



Source: LSEG Datastream, Deutsche Bank AG. Data as of September 22, 2025.

Figure 3: Sectors with low profit margins

Sectors	LTM FCF/Revenues	LTM Net margin
Renewable Energy Equipment	-11.9%	-5.4%
Commodity Chemicals	-0.2%	5.8%
Steel	2.6%	2.7%
Construction	-1.0%	2.8%
Airlines	10.2%	-0.9%
Automobile Manufacturers	7.1%	3.2%
Electronic Equipment Manufacturers	5.0%	3.2%
Computer Hardware	1.2%	3.5%
Computer Software	-4.1%	2.0%
Real Estate	3.0%	-4.8%

Source: LSEG Datastream, Deutsche Bank AG. Data as of September 22, 2025.

2. Tech-led optimism

With the US blocking the sale of cutting-edge semiconductor chips to China, leading Chinese tech firms are developing home-grown alternatives. AI firms are adapting their models for the new generation of domestically manufactured chips. Going forward, Chinese AI companies will rely more on domestic chips.

However, even the AI sector faces narrowing margins amid hypercompetition. Beijing is now planning to intervene to curb disorderly competition in the AI space. Key areas of interest in the tech sector are AI-related infrastructure, robotics, smart manufacturing, fintech, stablecoins and semiconductors.

3. Corporate earnings

Q2 2025 results were mixed, with the CSI 300 reporting weak earnings in Q2 2025 with a beat/inline/miss ratio of 37%/6%/57%. Three out of eleven sectors posted positive earnings growth including Financials, Consumer Discretionary and Communication Services, while the rest recorded declines. On the other hand, the HSCEI Index (Hang Seng China Enterprises Index) reported strong earnings with a beat/inline/miss ratio of 50%/6%/44%. The outperformance was largely driven by Financials, Consumer Discretionary, Communication Services and Healthcare sectors. Refer Figures 4 and 5.

4. External environment improving

Exports remained resilient despite tariff pressures due to frontloading (Figure 6). While exports to the US dropped sharply after Liberation Day in April, this was offset by higher exports to ASEAN and the EU (Figure 7). The impact of tariffs is expected to be more pronounced in H2 2025.

Tariff risks have likely peaked, as a potential US-China summit on the sidelines of the APEC meeting in South Korea (October 31) could show positive signals.

5. Supportive policies and wealth effect

Recent pro-growth measures include:

a. Interest subsidies to support consumption and service supply.

b. Free pre-school education (starting with K3) to ease childcare burdens.

c. A new Xinjiang–Tibet railway (RMB300–360bn investment over 10 years), following a mega hydropower project announced in July.

d. Expanded social security coverage for low-income workers.

Golden Week (October 1–7) will be a key gauge of domestic sentiment, as will Singles' Day (November 11), the world's largest e-commerce event.

With trade tensions easing, Chinese investors are shifting from deposits and real estate toward equities amid record-high household savings (Figure 8) and low deposit yields. Property sector weakness, an aging population, and inadequate social security could further divert funds into equities.

6. Tourism rebounding

Domestic tourism has recovered to pre-pandemic levels (Figure 9). Households are spending more on services such as tourism, even as overseas travel remains subdued. Authorities have launched discounted personal consumption loans for services, including tourism, and expanded visa-free access for the nationals of dozens of countries – fuelling inbound travel. Southeast Asian bookings have already surpassed pre-pandemic levels.

7. RMB stabilising

The renminbi (RMB) is showing signs of stability and mild appreciation in 2025 after depreciating from 2022 to 2024 due to capital outflows, weak domestic demand, and housing market stress. Authorities continue to tightly manage the RMB to avoid sharp depreciation and global market disruption.

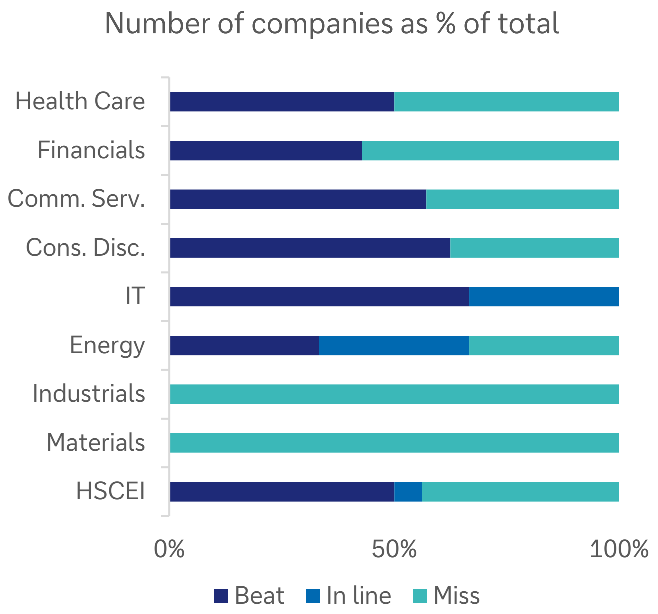
We expect the RMB to remain broadly stable as structural headwinds (deflation, weak consumer confidence) are offset by de-dollarisation, pro-growth policies, and progress in US-China and EU-China trade talks. We expect four additional Fed rate cuts in the next 12 months, which should be supportive of the RMB. The increasing likelihood of Fed rate cuts helps to lower equity risk premium and is favouring EM equity inflows. Within EM, China has seen massive inflows over the last 3 months.

Risks

1. Property market weakness – New home prices (-0.3% MoM, -2.8% YoY), residential property sales (-4.1% YoY), and property investment (-12.0% YoY, Jan-Aug) continue to decline, especially outside Tier 1 cities.

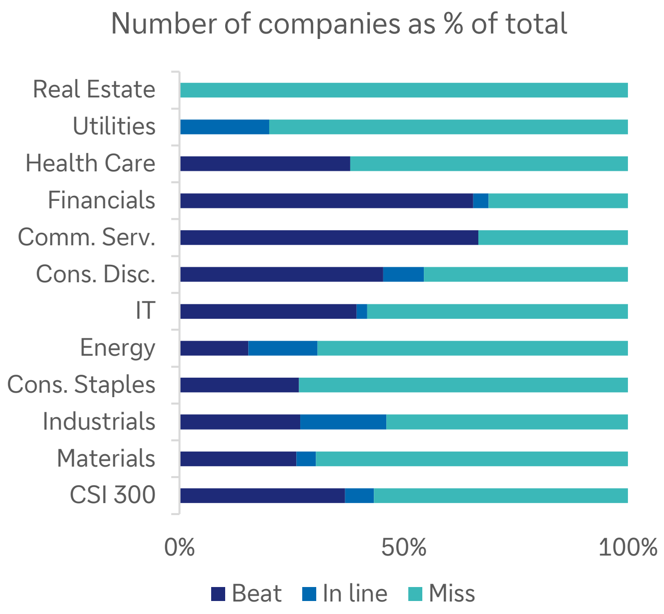
2. Local government debt – Provinces that can build competitive advantages in strategic industries (EVs, pharma, aviation) will be better positioned to expand their tax base sustainably.

Figure 4: HSCEI Q2 25 earnings



Source: Bloomberg Finance L.P., Deutsche Bank A.G. Data as of September 22, 2025

Figure 5: CSI 300 Q2 25 earnings

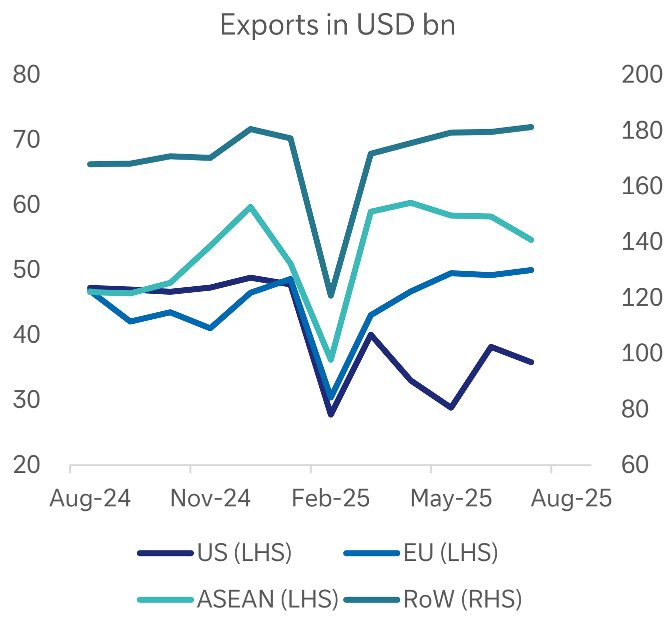


Source: Bloomberg Finance L.P., Deutsche Bank A.G. Data as of September 22, 2025

Figure 6: China exports remain resilient despite tariff headwinds

Source: LSEG Datastream, Deutsche Bank AG. Data as of September 22, 2025.

Figure 7: Higher exports to ASEAN offset the drop in exports to the US



Source: LSEG Datastream, Deutsche Bank AG. Data as of September 22, 2025.

3. Deflationary pressures – PPI remained deeply negative at -3.6% in July despite anti-involution measures. CPI was flat YoY but rose 0.4% MoM, driven by services and industrial consumer goods. Sustained inflation has yet to emerge, indicating a tentative recovery.

Events to watch out for

- Golden Week (October 1-7) data to gauge domestic consumer sentiment – travel, retail, hotel bookings etc.
- Fourth Plenum (2nd half of October) 15th Five Year Plan covering 2026-2030.
- Asia-Pacific Economic Cooperation/APEC Summit (October 31).
- US-China tariff deal (November).
- Singles' Day (November 11) the world's largest ecommerce event to gain insights on China's consumer confidence.
- Central Economic Work Conference/CEWC (December).

Top sectors

- IT (AI capex & tech localization, chip self-sufficiency, export demand for automation tools).
- Communication services (Entertainment and digitalization).
- Consumer Discretionary (Electronics and EV demand driven by trade-in schemes, tourism rebound, pent-up demand from savings).
- Industrial (Smart factories, global reshoring of production).
- Green energy (Supportive government policies, continues to attract domestic and foreign capital).

Valuations

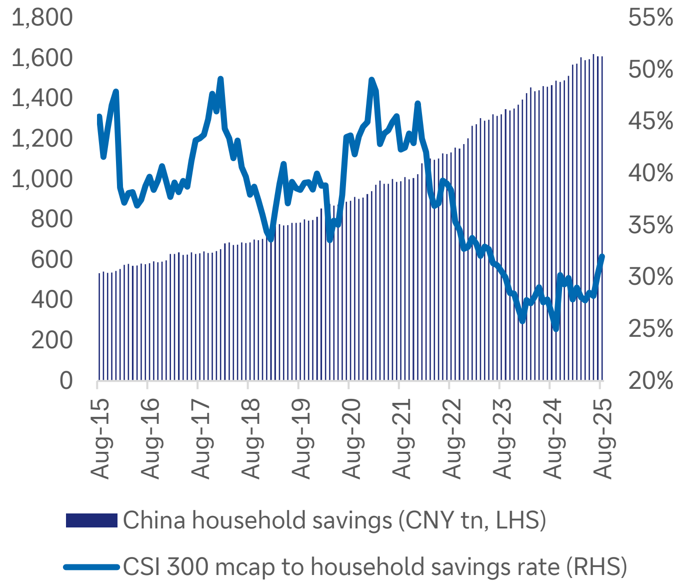
Historically, H-shares have traded at a significant discount to A-shares due to global risk aversion, geopolitical concerns, and tighter liquidity in Hong Kong. However, the rally in H-shares triggered by the DeepSeek event has narrowed the A/H premium.

The offshore market is largely dominated by major internet companies, banks, property firms, utilities, and energy giants, whereas the onshore market is more diversified and better reflects emerging sectors such as AI, factory automation, biotech, and consumer electronics. Refer Figure 10.

In terms of investor base, the offshore market is primarily driven by global institutional investors, with mainland Chinese investors accounting for approximately 25% of daily turnover in Hong Kong. By contrast, domestic retail investors represent around 70% of daily turnover in the onshore market, with foreign participation below 5%.

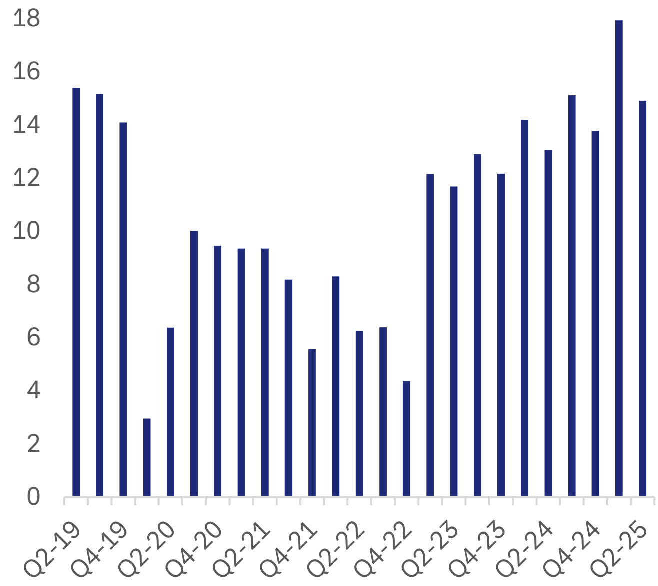
The DeepSeek event also triggered a surge in Southbound flows via the Stock Connect programme, as domestic investors sought exposure to the AI success story. In H1 2025, Southbound flows approached USD100bn – nearly matching the full-year total for 2024.

Figure 8: China household savings rate peaking



Source: LSEG Datastream, Deutsche Bank AG. Data as of September 22, 2025.

Figure 9: Number of domestic tourists in millions



Source: LSEG Datastream, Deutsche Bank AG. Data as of September 22, 2025.

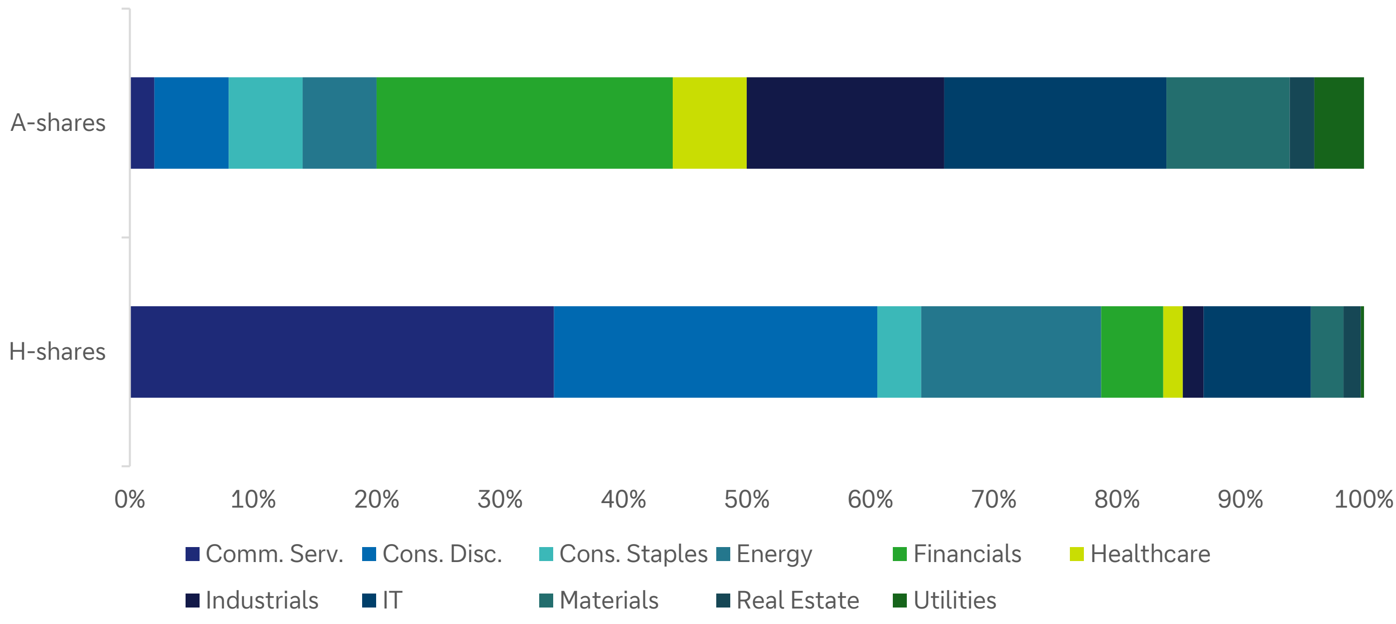
Furthermore, IPO listings in the Hong Kong market have risen significantly following the easing of listing rules in October 2024, while A-share listings have declined due to regulatory tightening. Tech-focused firms and companies aiming to expand overseas amid a subdued domestic economy are increasingly favouring the Hong Kong market for their listings.

While the offshore market is expected to continue performing well – buoyed by tech sector optimism – it could be affected by volatility amid geopolitical uncertainties. Conversely, we anticipate the onshore market will benefit from domestic reforms, improved retail sentiment, and its low correlation with global equity markets.

Recommendation

We suggest buying on dips to ride the China tech and policy wave, while also enhancing portfolio diversification with exposures to both China A and China H markets.

Figure 10: China indices sector breakdown by market cap



Source: LSEG Datastream, Deutsche Bank AG. Data as of September 22, 2025.

Appendix

Glossary

Anti-involution refers to China's 2025 policy to end a cycle of destructive price wars and overcapacity that leads to diminishing returns and hurts profits.

APEC or the Asia-Pacific Economic Cooperation, is a regional economic forum of 21 member economies in the Pacific Rim that promotes free trade, investment, and cooperation. The members include countries such as Australia, China, Japan, and the United States.

ASEAN, or the Association of Southeast Asian Nations, is a regional political and economic union established in 1967 to foster cooperation and stability among its 10 member states in Southeast Asia including Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam.

The **Central Economic Work Conference (CEWC)** takes place annually in People's Republic of China to set economic and strategic priorities.

Chinese A-shares are stocks issued by Chinese companies, denominated in CNY, listed on the Shanghai and Shenzhen Stock Exchanges, and open to foreign investors through the Stock Connect programme. The term “onshore market” is often used synonymously with A-shares.

Chinese H-shares are stocks issued by Chinese companies, denominated in HKD, listed on the Hong Kong Stock Exchange. The term “offshore market” is often used synonymously with H-shares.

CNY is the currency code for the Chinese yuan, also called the **renminbi (RMB)**.

The **CSI 300** Index consists of 300 A-shares traded on the Shanghai and Shenzhen stock markets.

The **"DeepSeek event"** refers to the dramatic impact on global financial markets and the AI industry caused by DeepSeek, a Chinese AI startup, when it launched its advanced open-source AI model (DeepSeek-R1) in January 2025.

FCF/Revenues is equal to free cash flow divided by total revenue, expressed as a percentage. Free cash flow (FCF) is the amount of cash that a company has left after accounting for spending on operations and capital asset maintenance.

HKD is the currency code for the Hong Kong dollar.

The **Hang Seng China Enterprises Index (HSCEI)** is a free-float cap-weighted index comprised of H-Shares, Red-chips and private enterprises (P-chips) listed on the HK exchange. Red chips refer to shares of Chinese companies incorporated outside the mainland (mostly in HK) that trade on the HK exchange and are usually controlled by or affilliated with the Chinese government. P chips refer to shares of Chinese companies incorporated outside the mainland (mostly in HK) that trade on the HK exchange and are owned by private sectors in China.

LTM refers to last twelve months.

MoM refers to month on month.

The **net margin** is equal to net profit (also known as net income) divided by total revenue, expressed as a percentage.

Appendix

Glossary

Politburo is the most important committee of a communist party with the power to decide on policy.

The **People's Bank of China (PBoC)** is the central bank of the People's Republic of China.

USD is the currency code for the US Dollar.

YoY refers to year on year.

Appendix

Historical performance

	22.9.2020 - 22.9.2021	22.9.2021 - 22.9.2022	22.9.2022 - 22.9.2023	22.9.2023 - 22.9.2024	22.9.2024 - 22.9.2025
Shanghai A-shares	10.8%	-14.3%	0.8%	-12.7%	39.9%
Hang Seng China Enterprises/H-shares	-9.8%	-28.3%	1.1%	1.9%	46.8%
CSI 300	4.0%	-19.8%	-3.4%	-14.4%	41.3%
CSI NEV Battery	NA	NA	-29.6%	-34.6%	109.0%
CSI New Energy Vehicles	NA	NA	-32.0%	-31.4%	87.8%
CSI Photovoltaic Industry	NA	NA	-37.3%	-36.0%	38.0%
CSI Steel	NA	NA	-6.5%	-25.0%	46.9%
CSI Cement	NA	NA	-6.3%	-29.5%	52.3%
CSI Coal	NA	NA	-20.8%	-9.4%	3.6%
CSI Ecommerce	NA	NA	5.7%	-33.1%	80.4%
CSI Biotech	NA	NA	-4.2%	-28.7%	49.0%
CSI Pharma	NA	NA	9.9%	-17.7%	40.6%
CSI Building Materials	NA	NA	-7.9%	-38.2%	33.6%
CSI AI	NA	NA	14.0%	-20.2%	166.3%
CSI Tourism	NA	NA	-14.5%	-30.0%	27.3%
CSI All Shares	10.2%	-17.5%	-3.4%	-19.7%	55.0%
USD/CNY	-4.7%	9.5%	3.1%	-3.4%	0.9%

Source: LSEG Datastream, Deutsche Bank AG. Data as of September 22, 2025.

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