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Investing in China

Selectivity in a two-speed economy

Contents

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01

Introduction and summary

China's ongoing economic transformation is creating an increasingly differentiated set of investment opportunities across asset classes. While overall growth is moderating, the economy remains supported by resilient exports, accelerating technological upgrading and a policy framework focused on strategic priorities such as artificial intelligence, advanced manufacturing, semiconductors, energy transition and productivity enhancement. These policies are not only supporting near-term growth but are also reshaping China's long-term investment landscape.

Beneath the headline growth figures, a clear divide has emerged. Export-oriented manufacturing, technology and selected industrial sectors continue to expand at a healthy pace, while the property sector and parts of consumer demand remain subdued. The result is a two-speed economy that is creating increasingly pronounced differences in earnings growth, credit quality, capital flows and investment performance.

For investors, this means that China is increasingly **a market that rewards selectivity**. In foreign exchange, the growing internationalisation of the renminbi and the expansion of the offshore RMB ecosystem are improving market access and broadening the investment universe. In fixed income, diversification benefits, relative-value opportunities and policy-linked investment themes are becoming more important than simple yield enhancement. In equities, the most attractive opportunities are concentrated in areas benefiting from AI investment, industrial upgrading and China's leading position in critical technologies and materials.

Against this backdrop, we maintain a constructive medium- to long-term view on Chinese capital markets, with a preference for selective exposure over broad market allocations. **Our highest-conviction opportunities include AI-related technology, industrials and materials, selected offshore USD investment-grade credit, and thematic investments aligned with China's strategic policy priorities.**

In the following sections we explore the macroeconomic, policy and market trends underpinning these opportunities and explain why China's transition towards a more innovation-driven growth model continues to create compelling investment opportunities across currencies, fixed income and equities.

02

China's two-speed economy

In Q2 2026, real GDP growth slowed to 4.3% YoY from 5.0% in Q1 2026, falling short of the consensus forecast of 4.5%. Nevertheless, first-half growth of 4.7% YoY suggests that the world's second-largest economy remains on a solid growth trajectory, albeit with increasingly divergent trends between the industrial sector and domestic demand.

Particularly relevant from a corporate perspective is that **nominal GDP growth accelerated by 1 ppt to 5.9% YoY in Q2**, exceeding real growth (i.e. at constant prices) and thus supporting corporate revenue and earnings trends as the GDP deflator returned to positive territory for the first time in a long period. While consumer price inflation (CPI) stabilized around 1% YoY in June, producer price inflation (PPI) rose to 4.1% YoY. This reflected higher energy prices and a broader reflation across the industrial sector – in particular benefiting companies in the upstream stages of the value chain, e.g. producers of raw materials and intermediate goods (see Equity section).

Evidence of continuing economic stabilization is also becoming more compelling. Monthly data in June were noticeably stronger than in May. Industrial production accelerated from 4.5% to 5.3% YoY, supported by export-oriented industries and strategically important sectors such as machinery, robotics, automation, and parts of the semiconductor industry. Overall exports increased by 27% YoY, highlighting both resilient external demand and the international competitiveness of Chinese products. The 36% rise in Chinese imports, by contrast, was largely driven by higher purchases of technology and semiconductor components rather than a broad-based recovery in domestic demand.

Private consumption remains, alongside the property sector, the key weakness of the Chinese economy. Although retail sales increased by 1.0% YoY in June, domestic demand overall remains subdued, particularly for durable goods and automobiles. The services sector continues to perform much better, with revenue growth momentum increasing in June to 4.7% YoY from 4.4% YoY in May. By contrast, the property sector – once China's most important growth engine alongside foreign trade – continues to act as a drag on economic growth. Property sales, housing starts, and completions all declined significantly again in June, while property prices, particularly in smaller cities, continued to fall. Although the unemployment rate eased to 5.0% in June, labour market conditions for younger people also remain challenging.

Looking ahead, economic policy is likely to remain targeted, selective, and reactive. The need and willingness to launch a broad-based, proactive stimulus package currently appear limited, especially as achieving the official 2026 growth target of "4.5% to 5.0%" still seems realistic. At its July meeting, the People's Bank of China reaffirmed its "appropriately supportive" policy stance, while placing greater emphasis on the flexible and precise calibration of existing policy tools. Against this backdrop, broad-based monetary easing in the near term appears less likely.

On the fiscal side, Premier Li Qiang recently reiterated the concept of "countercyclical adjustments," potentially signalling a greater willingness to stabilize growth through targeted measures if necessary. Policy priorities are increasingly shifting toward the services sector. In addition to investments in education and skills development, authorities plan to expand healthcare, elderly care, and childcare services. Given their relatively high labour intensity, these sectors could provide more durable support for employment and household incomes than temporary consumer subsidies aimed at boosting demand for durable goods.

Strengthening domestic consumption nevertheless remains a key medium-term objective for Beijing. To this end, the State Council recently adopted a new five-year plan to expand consumer spending. Retail sales are targeted to reach RMB60tn (USD8.9tn) by 2030. Achieving this goal would require average annual growth of around 3.7%, exceeding not only the pace recorded over the past two years but also the growth rate achieved during the first six months of this year. Implementation of the plan may also prove challenging, as the effects of the extensive consumer subsidy programmes introduced in 2024 and 2025 are gradually fading, while new trade-in programmes are being rolled out on a smaller scale.

A sustained recovery in private consumption will require not only an exit from the prolonged low-inflation environment but also a stabilization of the property market. Despite the substantial price corrections of recent years, residential real estate is still estimated to account for more than half of the wealth of many Chinese households. Falling property prices therefore continue to weigh not only on household balance sheets but also on consumer confidence and spending intentions.

Beijing is accelerating the development of strategic industries. This effort should not be viewed as a collection of isolated initiatives but rather as part of the broader framework outlined in the 15th Five-Year Plan released in March this year. Technological and energy self-sufficiency in an environment of intensifying geopolitical polarization, alongside digitalization and the expanded adoption of artificial intelligence, lie at the heart of China's transition toward an innovation-driven growth model. By seeking to raise productivity, Beijing is also addressing one of the country's most significant structural challenges: demographic change. China's working-age population has been shrinking for years, while the share of people aged 65 and above has already exceeded 15% and is projected to rise to around one-quarter of the population by 2035. This trend is a long-term consequence of the one-child policy, which was in place from the 1980s through the mid-2010s to curb rapid population growth.

Key priorities of China's industrial strategy also include strengthening the resilience of the semiconductor value chain, expanding the use of artificial intelligence, robotics, and intelligent machinery, advancing 6G technologies, biotechnology, and renewable energy, and increasing annual R&D spending by at least 7%. In addition, core segments of the digital economy are targeted to contribute more than 12% of GDP by 2030. These objectives are being supported by investments in industrial modernization, digital infrastructure, and computing capacity, a deeper digitalization of the economy, measures to revive the market for IPOs and M&As, and efforts to curb destructive competition in strategically important industries ("anti-involution" measures).

Markets may now also focus on two imminent political meetings, one internal and one external. First, there is the **late-July Politburo meeting**, which should provide important guidance on China's macroeconomic policy for the second half of the year. While broad-based stimulus appears unlikely given resilient exports and a growth target that remains broadly within reach, weaker-than-expected second-quarter growth could prompt policymakers to adopt a somewhat more supportive tone. The focus is likely to remain on accelerating the implementation of already-announced fiscal and credit measures, while preserving the longer-term emphasis on technological upgrading, advanced manufacturing and supply-chain resilience.

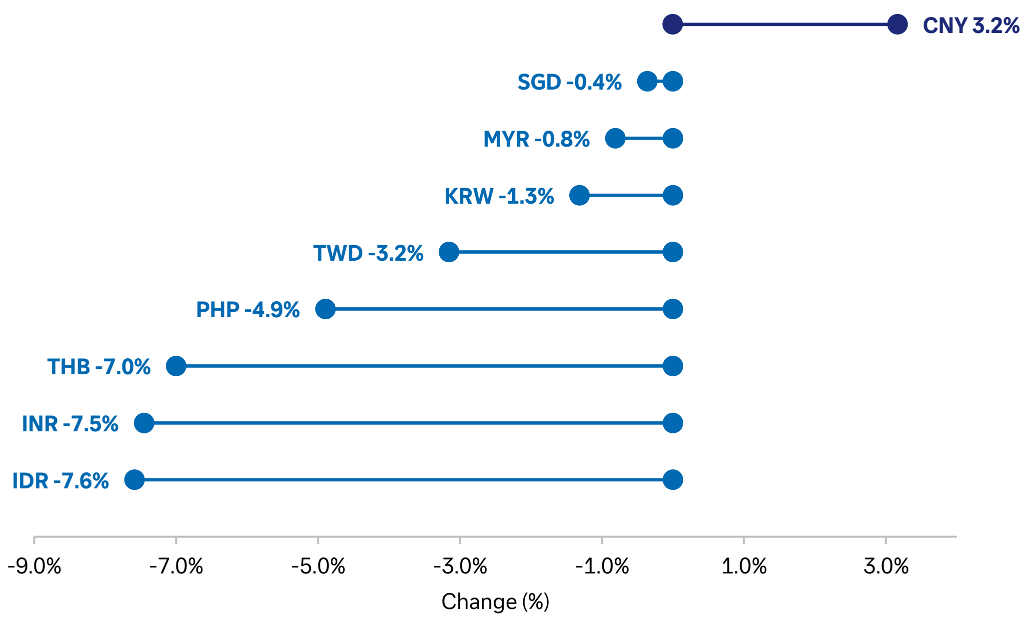
Attention should then shift to the expected **visit of President Xi Jinping to the United States at the end of September**, following the China-US Summit in Beijing earlier this year. While a breakthrough on structural issues such as trade imbalances, technology restrictions or industrial policy appears unlikely, the meeting could prove important in preserving strategic stability and preventing a renewed deterioration in bilateral relations. For markets, the central question will be whether both sides remain committed to a pragmatic economic détente or whether geopolitical and trade frictions re-emerge as the dominant theme heading into 2027. Moreover, the meeting could provide fresh momentum for ongoing negotiations over the bilateral trade regime and help clear the way for an agreement before the **US-China tariff truce expires in November**.

03

Renminbi resilience and internationalisation

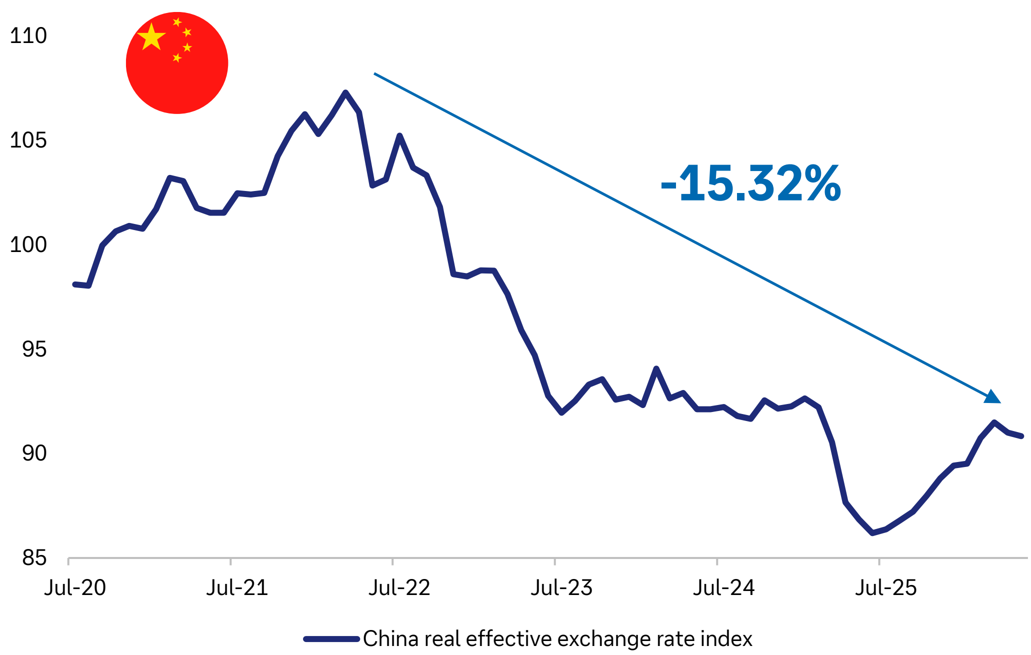
The Chinese renminbi (RMB) has been one of the stronger performers in emerging-market FX, gaining 8% against the USD since 2025 and ranking as the **best-performing EM currency so far in 2026, as of July 9** (Figure 1). The currency has been supported by resilient export-oriented industries and China's policy focus on strategic sectors such as advanced manufacturing, AI-related upgrading, EVs, batteries and critical materials. These sectors continue to bolster external balances despite the drag from China's two-speed economy, where subdued consumption and persistent property-sector stress weigh on domestic demand. Further support comes from the RMB's depreciation on a real trade-weighted basis over the past five years. While the currency has strengthened against the USD recently, its real effective exchange rate (REER) remains around 15% below its level of five years ago, helping to preserve the price competitiveness of Chinese exports in global markets (Figure 2).

Figure 1: CNY has been the best-performing EM currency YTD in 2026



Source: LSEG Datastream, Deutsche Bank AG. Data as of July 27, 2026.

Figure 2: RMB's declining REER supports export competitiveness



Source: LSEG Datastream, Deutsche Bank AG. Data as of July 27, 2026.

For international investors, however, the more important story may be the continued development of the offshore RMB ecosystem (Figure 3). China's trade surplus, which exceeded USD1tn in 2025, generates savings that can be channelled abroad through lending and investment. Since 2022, RMB outflows have exceeded cumulative RMB inflows through the current and capital accounts in almost every quarter, averaging more than RMB400bn per quarter and pointing to a sizeable pool of RMB circulating outside China. This provides a natural foundation for the expansion of offshore RMB markets and the currency's broader use in trade, investment and financing.

Understanding this process requires recognising that the RMB operates through two closely linked markets: onshore CNY and offshore CNH. CNY is traded within mainland China, while CNH is traded outside the mainland, primarily in Hong Kong, and is more sensitive to global investor sentiment, offshore liquidity conditions and cross-border funding demand. This dual-market structure reflects the fact that the RMB is not fully free-floating. While market forces influence the exchange rate, the Chinese authorities retain tools to guide its direction. In practice, the PBoC sets a daily USD/CNY fixing before onshore trading begins, with CNY subsequently trading within an approximately ±2% band around this reference rate. The fixing functions both as a benchmark and a policy signal, helping to anchor market expectations and limit disorderly volatility. Although CNY and CNH can temporarily diverge, trade flows, investment flows and arbitrage generally keep the two markets closely aligned.

As offshore RMB activity expands, market infrastructure and funding conditions are becoming increasingly important. Cross-border payment systems, bond-market access channels and RMB funding markets make it easier for international investors to transact, invest and hedge in RMB. Examples include CIPS (China's Cross-Border International Payments System), which facilitates international RMB payments, Bond Connect, which improves foreign access to Chinese bond markets, and Dim Sum bond markets, which support RMB financing in both onshore and offshore markets. Together, these mechanisms deepen CNH liquidity and broaden the international use of the currency.

Funding conditions provide an additional tailwind. Lower and relatively stable RMB funding costs are attracting more foreign borrowers to RMB-denominated financing, reinforcing CNH liquidity and further strengthening the offshore funding market. These developments are also receiving targeted policy support. On July 7, China unveiled eleven measures aimed at strengthening Hong Kong's role as a leading offshore RMB hub. The package focuses on expanding RMB liquidity and funding access, broadening financing channels and enhancing hedging tools. Key measures include increasing the HKMA's RMB liquidity facility from RMB200bn to RMB500bn, raising the Southbound Bond Connect quota from RMB500bn to RMB800bn and expanding risk-management instruments such as Swap Connect. Together, these initiatives are designed to deepen offshore RMB liquidity, improve market access and strengthen the broader offshore RMB ecosystem.

For investors, the key implication is that the RMB story is increasingly about internationalisation, market access and liquidity rather than a strong directional appreciation trade. Export strength, a still-competitive real exchange rate and the continued development of offshore RMB markets should support underlying demand for the currency and broaden international participation in RMB assets. Together, these factors provide an important structural underpinning for the currency. However, domestic economic constraints and limited scope for large-scale stimulus suggest that further RMB appreciation is likely to be gradual and modest.

Figure 3: RMB Ecosystem: Four Building Blocks

01 Lending & investing	02 Financing	03 Market infrastructure	04 Policy support
RMB outflows have exceeded cumulative current- and capital-account inflows in most quarters since 2022. A larger offshore RMB pool supports wider lending and investment use.	Lower, stable RMB funding costs are attracting foreign borrowers. Dim Sum issuance deepens RMB funding channels.	CIPS strengthens cross-border RMB payments. Bond Connect improves access to Chinese bonds. Dim Sum bonds broaden RMB issuance channels.	HKMA facility expansion improves RMB liquidity and funding access. Higher Southbound Bond Connect quotas and broader collateral use strengthen channels. Swap Connect, offshore RMB rates products and bond futures expand hedging tools.

Result: Larger offshore RMB supply, deeper funding channels, stronger market infrastructure and targeted policy support are reinforcing the RMB ecosystem and broadening global RMB demand.

Source: Deutsche Bank AG. As of July 24, 2026

Figure 4: Onshore CNY and Offshore CNH compared

Feature	Onshore CNY	Offshore CNH
Where it trades	**Within mainland China**	**Outside mainland China, mainly in Hong Kong**
Main drivers	**PBoC daily fixing, with market moves within an approx. ±2% trading band**	**Offshore liquidity, global investor sentiment and cross-border funding demand**
Role in the RMB market	**Anchors domestic exchange-rate expectations and reflects policy guidance**	**Supports RMB internationalisation and offshore market development**

Source: Deutsche Bank AG. As of July 24, 2026

From an FX perspective, the upside appears limited. From current levels of around USD/CNY 6.77 and EUR/CNY 7.71 (July 24), our forecast of USD/CNY at 6.6 by June 2027 implies only modest RMB appreciation against the USD, while our EUR/CNY forecast of 8.05 points to mild depreciation against the euro. This reinforces the view that the offshore RMB story is less about large currency gains and more about expanding liquidity, market access and investment opportunities within the RMB ecosystem.

04

Fixed income: Beyond yield

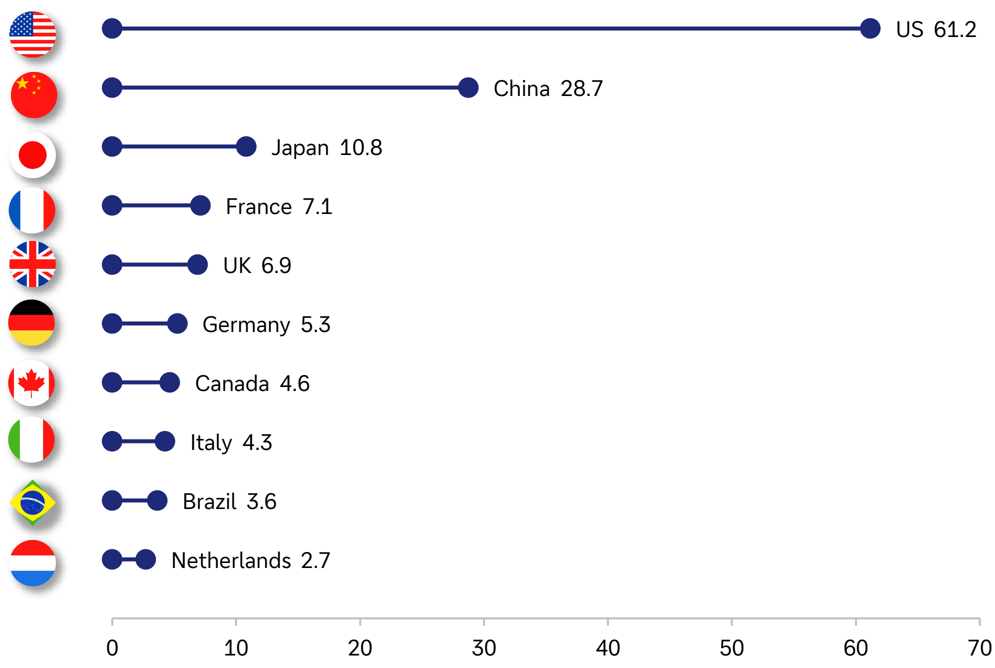
The investment case for China fixed income has shifted from broad yield pickup and benchmark inclusion toward diversification, relative value and selective thematic exposure. China hosts the world's second-largest domestic bond market, worth around RMB190tn (USD28tn), spanning government, policy-bank and corporate bonds (Figure 5). The offshore RMB bond market remains much smaller at around RMB1.6tn (USD240bn), while Chinese issuers also access global investors through a sizeable offshore USD bond market of roughly USD686bn.

Foreign participation remains low relative to market size, leaving room for future structural inflows. Bond Connect data show foreign holdings of around RMB3.2tn as of May 2026, with 842 approved Northbound investors. Despite China's large benchmark weight in global bond indices, foreign ownership therefore remains modest. This under-ownership may reduce vulnerability to global flow swings while creating scope for renewed inflows should confidence in China's macroeconomic outlook and policy environment improve.

China's bond market offers distinct opportunities across onshore RMB, offshore RMB and offshore USD markets. China remains in a low-rate environment, reflecting soft domestic demand and persistent excess capacity. While monetary policy retains an easing bias, already compressed government bond yields limit the scope for further capital appreciation. As a result, government and policy-bank bonds are increasingly valued for diversification, liquidity and exposure to a relatively independent interest-rate cycle rather than for pure carry generation.

Figure 5: China domestic bond market size

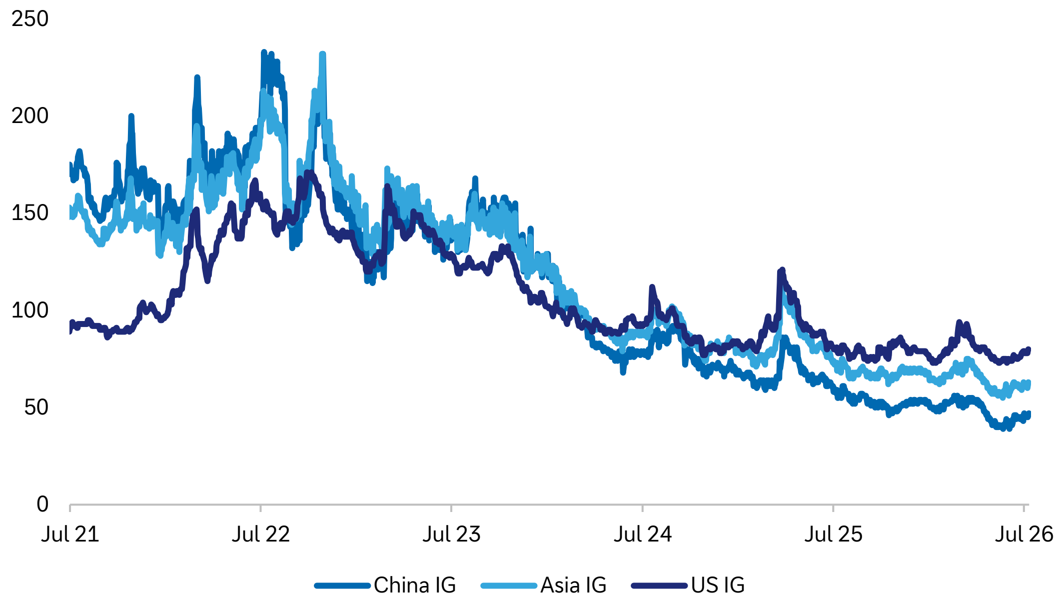
USD (trillion)



Source: Bank for International Settlements, Deutsche Bank AG. Data as of July 3, 2026.

Figure 6: China IG spreads have tightened significantly over the last five years

OAS spreads (bps)



Source: LSEG Datastream, Deutsche Bank AG. Data as of July 24, 2026.

Valuations across China's bond universe have become increasingly differentiated, reinforcing the case for selective exposure rather than broad market allocations. In RMB markets, low government bond yields limit carry, increasing the importance of credit selection, liquidity and security-specific spread opportunities. Offshore USD investment-grade corporate spreads have tightened materially from post-property-crisis wides and now trade inside both Asian and global investment-grade peers (Figure 6). However, select opportunities remain where issuer fundamentals have improved faster than spreads have adjusted.

For international investors, one of the strongest attractions of China fixed income remains diversification. Despite tighter spreads, all-in yields in offshore USD bonds remain attractive relative to many developed-market alternatives. Equally important, China's credit markets are driven by different macroeconomic, policy and sector dynamics than those affecting major developed-market credit markets. This creates diversification benefits that go beyond simple yield comparisons. Investors willing to move beyond benchmark exposure may find attractive opportunities through spread capture, policy-aligned themes and relative-value positioning across offshore RMB and offshore USD markets, while carefully managing credit, liquidity and currency risks.

China high yield remains a selective opportunity set rather than a broad allocation story. The offshore China HY market continues to be affected by weakness in the property sector and elevated refinancing risks. China HY spreads therefore remain elevated relative to global peers (Figure 7). However, opportunities for differentiation remain. While refinancing and credit-quality risks remain elevated, selected stronger issuers and non-property credits may still offer compensation for residual macroeconomic and sector-specific risks, particularly where balance sheets and liquidity profiles have stabilised. Investors should focus on issuer quality, liquidity and refinancing capacity rather than broad HY exposure.

Several bond segments also provide targeted exposure to China's strategic policy priorities. Green bonds provide access to energy transition, grid investment, renewables and low-carbon infrastructure, while sci-tech innovation bonds offer exposure to technology upgrading, advanced manufacturing and innovation. In all three areas, however, investors should pay close attention to issuer quality, use of proceeds, liquidity conditions and alignment with policy objectives.

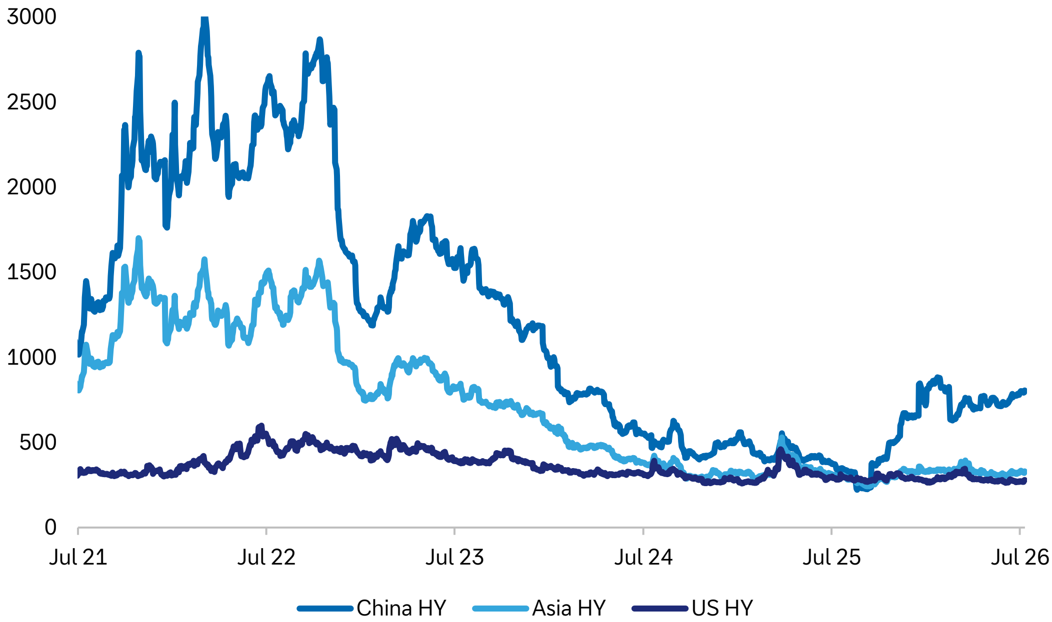
For international investors, the most attractive opportunities currently appear in:

- **selected offshore USD investment-grade credit,**
- **government and policy-bank bonds used for diversification and liquidity, and**
- **thematic segments such as green and sci-tech innovation bonds.**

The common thread across these opportunities is that investors are increasingly rewarded for security selection, thematic positioning and relative-value analysis rather than broad exposure to China's bond market as an asset class. Low foreign ownership, differentiated spread dynamics and exposure to a less synchronised economic cycle continue to make China fixed income a potentially valuable portfolio diversifier despite more limited scope for broad-based yield compression.

Figure 7: China HY spreads remain elevated relative to global peers

OAS spreads (bps)



Source: LSEG Datastream, Deutsche Bank AG. Data as of July 24, 2026.

05

Equities: Selective opportunities

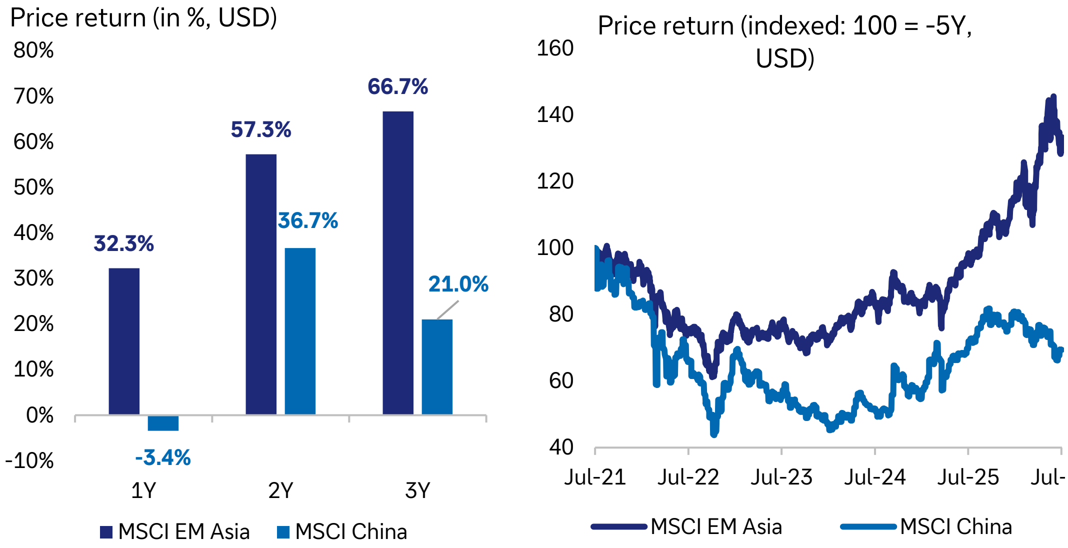
Chinese equities have consistently lagged peers in recent years. Chinese indices have underperformed MSCI EM Asia over recent years and continue to trade below previous highs (Figure 8). This reflects persistent weakness in domestic consumption and property, subdued offshore internet earnings and the high concentration of broad offshore indices in platform companies. **However, while the broader market may become less supportive, we see attractive opportunities in selected sectors, particularly in IT, Industrials and Materials.** These sectors are well positioned to benefit from policy support for AI infrastructure, technological upgrading and advanced manufacturing, supporting comparatively strong earnings growth and visibility.

Understanding China's equity-market structure has become increasingly important as opportunities diverge across investment universes. International investors can access Chinese equities through multiple channels, each offering exposure to different parts of the economy and growth story. A-shares, which represent the largest segment of China's equity market with a market capitalisation of approximately RMB117tn (USD17.2tn), are traded on the Shanghai, Shenzhen and Beijing stock exchanges and provide broad exposure to industrial upgrading, advanced manufacturing and domestic innovation.

Within the A-share universe, the STAR & ChiNext 50 Index is often described as China's answer to Nasdaq 100, offering concentrated exposure to technology, healthcare, automation, batteries and other emerging industries. H-shares, listed in Hong Kong and with a market capitalisation of roughly HKD10tn (USD1.3tn), provide offshore access to mainland Chinese companies, while the broader Hang Seng Index (HSI) also includes Red Chips, P-Chips and Hong Kong companies.

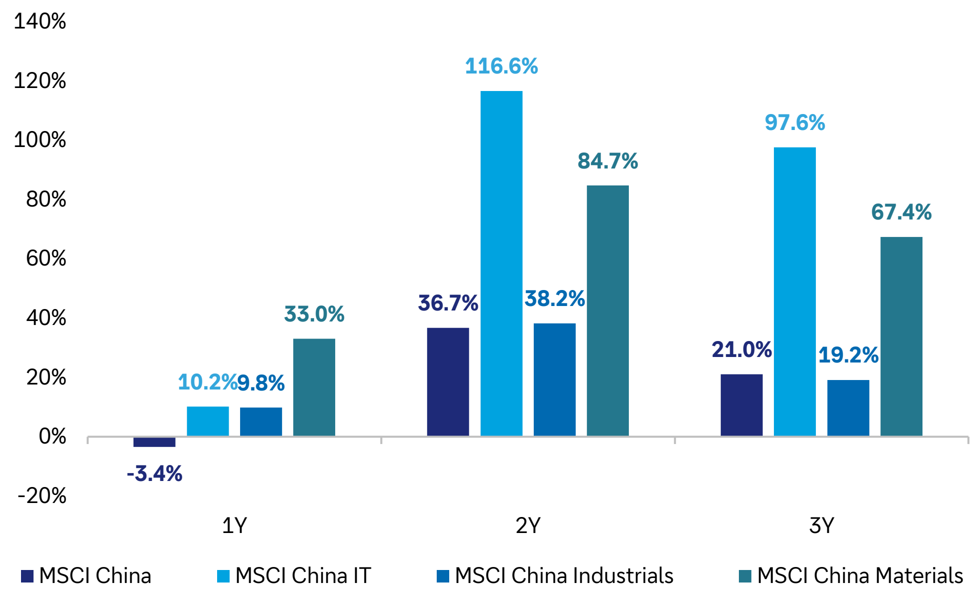
Investors can additionally gain exposure through US-listed ADRs/ADSs, while a smaller number of mainland-listed companies have issued GDRs in Europe, primarily in Switzerland. Together, these market segments provide differentiated access to China's increasingly diverse opportunity set (Figure 10).

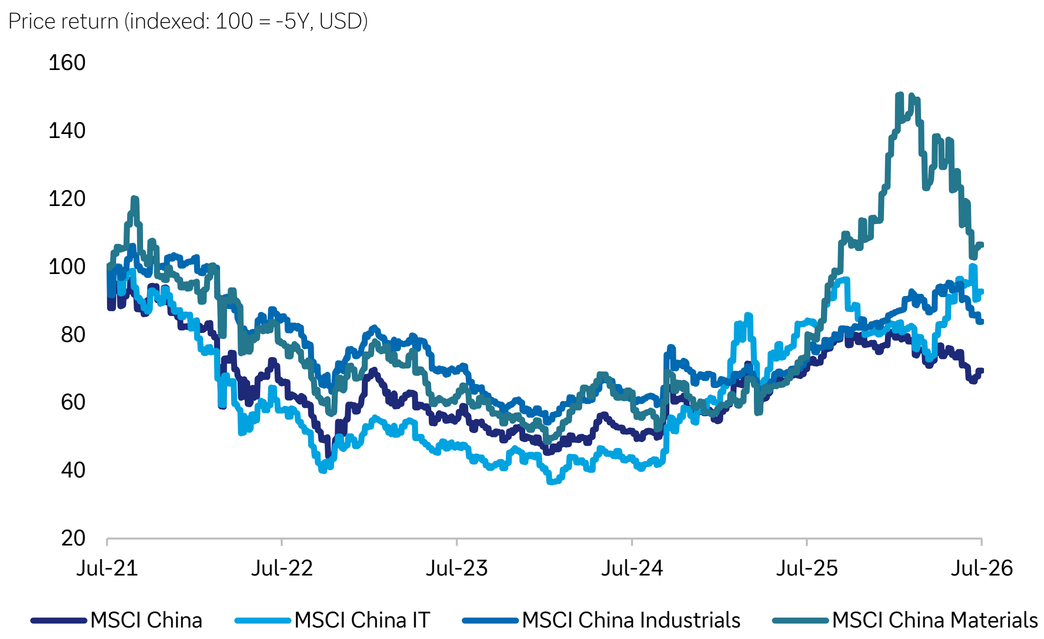
Figure 8: Past price returns of MSCI China and MSCI EM Asia in USD



Source: LSEG Datastream, Deutsche Bank AG. Data as of July 27, 2026.

Figure 9: Past price returns of selected MSCI China sector indices in USD





Source: LSEG Datastream, Deutsche Bank AG. Data as of July 27, 2026.

Figure 10: China's equity market landscape

Index	Access route	Shares	Typical investor exposure
MSCI China All Shares Index	Shanghai, Shenzhen, Hong Kong, and international Stock Exchanges	A-shares, B-shares, H-shares, Red-chips, P-Chips, and eligible foreign listings (ADRs/ADSs, GDRs etc.)	Broad representation of China's investable equity universe across onshore, Hong Kong and international listings.
MSCI China Index	Shanghai, Shenzhen, Hong Kong, and international Stock Exchanges	A-shares, B-shares, H-shares, Red-chips, P-Chips, and eligible foreign listings (ADRs/ADSs, GDRs etc.)	Same broad universe as MSCI China All Shares, but eligible A-shares are included at only 20% of free-float-adjusted market capitalisation.
MSCI China A Onshore Index	Shanghai and Shenzhen Stock Exchanges	Shanghai and Shenzhen listed A-Shares	Large- and Mid-Caps, industrial upgrading, advanced manufacturing, AI infrastructure and domestically listed technology companies.
MSCI China A Index	Shanghai and Shenzhen Stock Exchanges	Shanghai and Shenzhen listed A-Shares	Same broad universe as MSCI China A Onshore but covers only securities that are accessible through Stock Connect. Designed for international investors.
CSI 300	Shanghai and Shenzhen Stock Exchanges	Shanghai and Shenzhen listed A-Shares	Large-Caps, industrial upgrading, advanced manufacturing, AI infrastructure and domestically listed technology companies.
CSI STAR & ChiNext 50 Index	Shanghai (STAR Board) and Shenzhen (ChiNext Board) Stock Exchanges	STAR and ChiNext listed A-Shares	Technology, automation, batteries, healthcare and emerging industries. Often regarded as China's closest equivalent to Nasdaq 100.
BSE 50 Index	Beijing Stock Exchange	Beijing listed A-Shares	Innovative small and medium-sized enterprises, specialized manufacturers and emerging-industry businesses.
HSCEI (Hang Seng China Enterprises Index)	Hong Kong Stock Exchange	H-Shares, Red Chips, and P-Chips	Mainland Chinese companies listed in Hong Kong, including financials, internet platforms and large state-owned enterprises.
Hang Seng Index (HSI)	Hong Kong Stock Exchange	Hong Kong companies, H-Shares, Red Chips, and P-Chips	Broader Hong Kong market including Hong Kong and Mainland Chinese companies. Increasingly influenced by Mainland China.
Nasdaq Golden Dragon China Index	New York Stock Exchange (NYSE) and Nasdaq	US-listed common stocks, ordinary shares, and Chinese ADRs/ADSs	Internet, consumer, platform-economy and technology companies, including many firms not represented in the mainland A-share market. New entrants must be domiciled or incorporated in Mainland China (Exemption for historical constituents).
No widely used dedicated benchmark	Primarily SIX Swiss Exchange. Selected listings in London and Frankfurt	European-listed Chinese GDRs	Selected Chinese industrial, manufacturing and technology companies accessible through European exchanges.

Source: Deutsche Bank AG. Data as of July 24, 2026.

MSCI China All Shares and MSCI China are often the most relevant reference benchmarks for international investors because they span multiple Chinese equity-market segments rather than representing a separate market. The indices combine several investment universes, including H-shares, Red Chips, P-Chips, ADRs and eligible A-shares. Unlike the CSI 300, which focuses on mainland-listed A-shares, or the HSCEI, which tracks major mainland Chinese companies listed in Hong Kong, MSCI China All Shares and MSCI China provide a broader representation of China's investable equity universe from a global investor perspective. MSCI China currently trades at around 11x 12-month forward earnings with expected forward EPS growth of about 15%.

Stock Connect has narrowed access barriers, but A-shares and H-shares remain distinct investment universes. The programme allows international investors to buy eligible A-shares through Northbound trading while mainland investors can access Hong Kong-listed securities through Southbound trading. Although Stock Connect has substantially improved cross-border market access, differences in investor composition, liquidity conditions, valuation frameworks and sector exposure continue to create meaningful performance divergences between the two markets.

Differences in sector composition largely explain the diverging performance of China's major equity benchmarks. The CSI 300, the most widely used benchmark for large-cap A-shares, currently trades at around 15x 12-month forward earnings with expected forward EPS growth of approximately 18%. By contrast, the HSCEI trades at around 10x forward earnings with expected forward EPS growth of roughly 11%. While H-shares remain significantly cheaper, A-shares offer greater exposure to the IT, Industrials, and Materials sectors which benefit from policy support, AI investment and industrial upgrading (Figure 11). Conversely, large internet companies that are represented exclusively through Hong Kong listings, with no mainland A-share counterpart, still account for more than a quarter of the HSCEI. As a result, the index remains more exposed to platform-economy earnings and shifts in sentiment towards offshore technology names.

China's equity opportunity set is increasingly defined by selective earnings growth rather than broad market exposure. As highlighted earlier, China's latest macroeconomic data reinforce the picture of an increasingly bifurcated economy. Export-oriented manufacturing, strategic industries and parts of the technology sector continue to enjoy strong growth momentum, while domestically oriented manufacturers and retailers, as well as property-related sectors, remain subdued. This divergence is increasingly visible in corporate earnings. Analysts' expectations for MSCI China earnings growth in 2026 and 2027 have been revised downwards by -1.7% and -2.0% respectively in the last three months, while expectations for the IT, Industrials and Materials sectors have been revised upwards by +1.0%, +1.0%, and +3.9% for 2026 and +5.0%, +1.4%, and +2.5% for 2027. As earnings growth becomes increasingly concentrated in selected sectors, investors will need to be more discerning in where they allocate capital.

Three structural forces support this concentration of earnings growth:

The AI capex cycle is driving investment in cloud computing, data centres, servers and related infrastructure, benefiting semiconductors, hardware, data infrastructure and capital goods. China's AI data-centre capex is expected to roughly double between 2026 and 2029 to around USD100-150bn.

Policy support is increasingly directed towards semiconductors, AI infrastructure, advanced manufacturing, technology localisation, EVs, batteries, energy security and critical materials.

China's strong international competitiveness in electronics, industrial equipment, EVs, batteries, energy technology and critical materials continues to support export-oriented companies. Exports reached a record high of more than USD400bn in June 2026, led by electronics, machinery and vehicles. Together, these forces help explain why selected sectors continue to deliver robust earnings growth despite sluggish domestic demand.

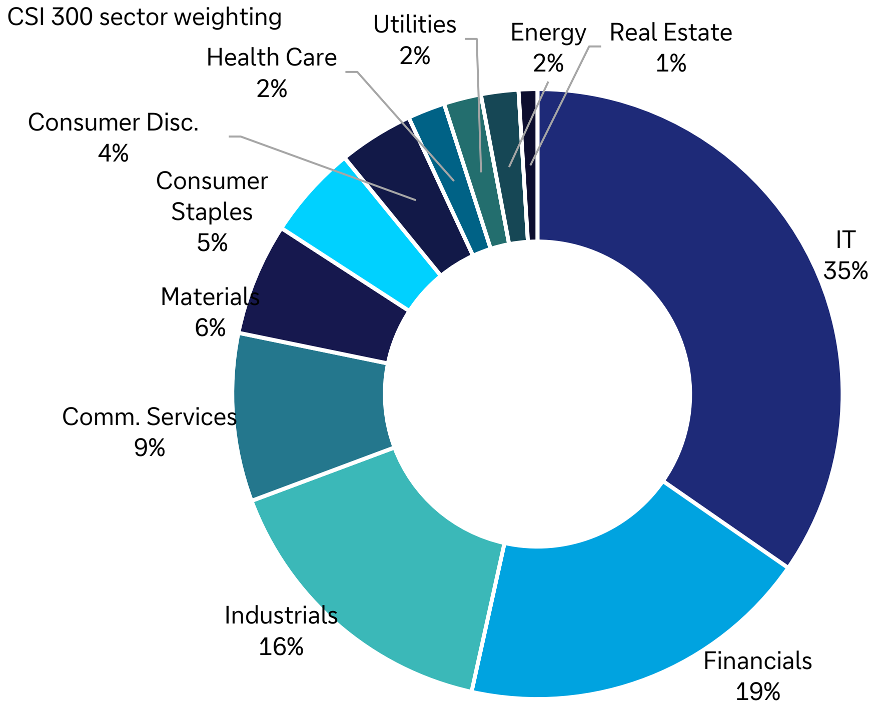
Three key MSCI Chinese indices:

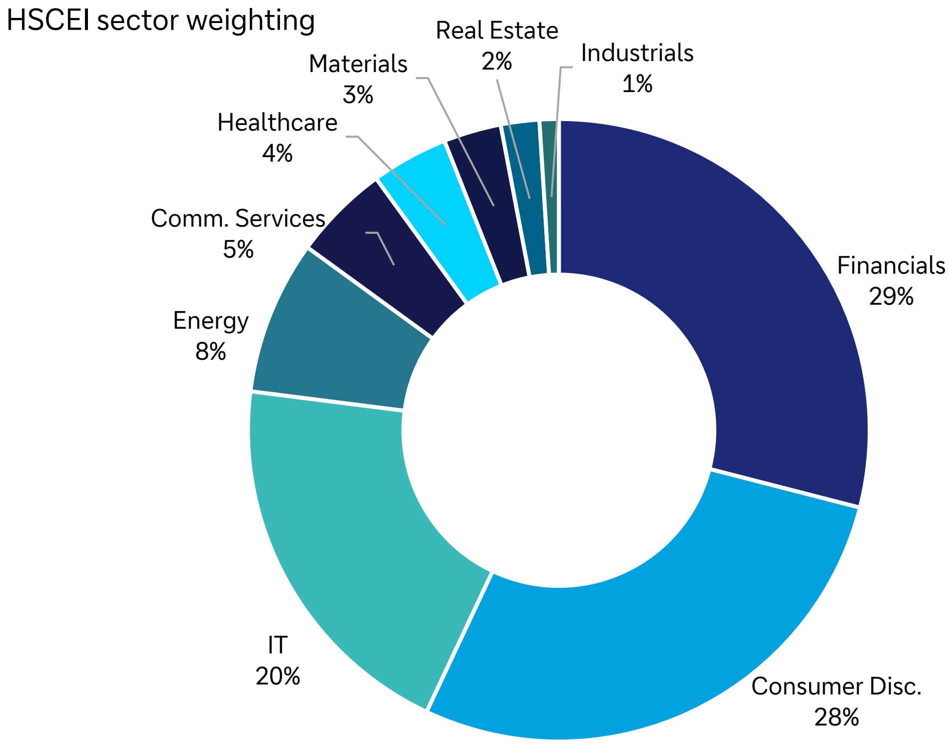
1) **MSCI China IT** offers around 41% NTM earnings growth and trades at roughly 29x NTM P/E (around 30% above its 10-year median). Growth is being driven by AI-related capital expenditure and demand for hardware and infrastructure, while elevated valuations suggest that a significant portion of the AI opportunity is already reflected in prices. Nevertheless, sustained AI investment, localisation and relatively strong earnings visibility across hardware and infrastructure segments may justify part of this valuation premium. Opportunities remain concentrated in AI infrastructure, including semiconductors, hardware, servers and optical components. Optical-module, PCB and OSAT suppliers also derive more than one third of their revenues from overseas markets, providing direct exposure to global AI investment spending. Power semiconductors and control systems used in renewable energy and grid infrastructure offer additional exposure to domestic and global electrification investment. By contrast, software and downstream AI applications offer more limited earnings visibility.

(2) **MSCI China Industrials** offer about 15% NTM earnings growth at roughly 12x NTM P/E (about 31% above their historical average). Earnings growth continues to be supported by manufacturing strength and ongoing industrial upgrading, although the broader macroeconomic backdrop remains uneven. Valuations appear less compelling following recent performance, while earnings momentum remains moderate. However, structural exposure to AI infrastructure, EV supply chains and advanced manufacturing may support more resilient earnings and justify higher valuations in selected sub-sectors than historical averages would suggest. AI-related capex is also driving demand across automation and testing, machinery, thermal management, power infrastructure and production-line equipment. Selectivity therefore remains essential, given the wide dispersion in returns and earnings across sub-sectors. Opportunities are concentrated in AI infrastructure build-out, the EV and battery value chain, and export-oriented manufacturing. Energy technology suppliers – including manufacturers of solar, wind, nuclear and grid equipment – also benefit from domestic investment and, increasingly, external demand. The current investment cycle also appears demand-led, with companies expanding capacity without building excessive inventories. Rising and increasingly profitable overseas sales provide an additional source of earnings support and visibility.

(3) **MSCI China Materials** offer about 29% NTM earnings growth and trade at roughly 9x NTM P/E (about 13% below their 10-year median). Strong earnings revisions are supported not only by robust demand for critical materials but also by improving supply discipline across several upstream industries. Beijing's anti-involution policies are aimed at curbing excessive competition, encouraging industry consolidation and reducing overcapacity, thereby helping to stabilise pricing and support profitability across parts of the materials value chain. Combined with structural demand from EVs, AI infrastructure, energy technologies, and advanced manufacturing, these trends have improved earnings visibility for selected upstream producers.

Figure 11: Sector composition of selected Chinese equity indices





Source: LSEG Datastream, Deutsche Bank AG. Data as of July 27, 2026.

In a nutshell, for international investors, the key challenge is increasingly not whether to invest in Chinese equities, but where within the Chinese market to invest. As outlined above, investment opportunities are now concentrated around a small number of structural themes, all of which continue to benefit from powerful demand drivers, industrial upgrading, supply-chain localisation and supportive policy trends. At the same time, elevated performance dispersion and the strong outperformance of AI-related segments increase the scope for periodic market rotations. Yet any broadening of market leadership is likely to prove temporary unless a sustained recovery in earnings extends profit growth beyond the current set of structural winners. We therefore remain constructive on Chinese equities but favour targeted exposure to these structural themes over broad-based index exposure.

Appendix

Glossary

6G is the sixth generation of wireless communications technology expected to follow 5G, with higher speeds, lower latency and wider machine-to-machine connectivity.

A-shares are shares of mainland companies, listed on either the Shanghai or Shenzhen stock exchanges, with limited trading accessibility to foreign investors.

ADRs/ADSs are American depositary receipts or shares representing foreign-company equity that trades in the United States.

Basis point (bps) is equal to 1/100 percent.

Bond Connect is a market-access programme that allows offshore investors to trade mainland Chinese bonds and supports cross-border bond-market access.

Capex is capital expenditure, the money spent to acquire, upgrade or maintain physical assets and infrastructure.

CIPS is China's Cross-Border Interbank Payment System, used to facilitate cross-border RMB payments and settlement.

CNH is offshore Chinese renminbi traded outside mainland China, mainly in Hong Kong.

CNY is the currency code for the Chinese yuan.

Corporate bonds are debt securities issued by companies to raise capital.

Consumer price index (CPI) measures the price of a basket of products and services based on the typical consumption of a private household.

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

Dim Sum bonds are RMB-denominated bonds issued outside mainland China.

Emerging market (EM) is a country that has some characteristics of a developed market in terms of market efficiency, liquidity and other factors, but does not meet all developed market criteria.

Earnings per share (EPS) are calculated as a company's' net income minus dividends of preferred stock all divided by the total number of shares outstanding.

EUR is the currency code for the euro, the currency of the Eurozone.

EUR/CNY is the exchange rate showing how many Chinese yuan one euro buys.

EVs are electric vehicles powered wholly or partly by electricity.

FX refers to foreign exchange, the market and instruments for exchanging one currency for another.

GDRs are global depositary receipts representing shares in a foreign company and traded on international exchanges.

Gross domestic product (GDP) is the monetary value of all finished goods and services produced within a country's borders in a specific time period.

Government bonds are issued by a government to support government spending, mostly in the country's domestic currency, and are backed by the full faith of the government.

Green bonds are bonds whose proceeds are used to finance environmental or climate-related projects.

Hang Seng China Enterprises Index (HSCEI) includes shares of mainland Chinese companies listed on the Hong Kong market.

Hang Seng Index (HSI) includes the 50 largest companies traded on the Hong Kong stock exchange.

H-shares are shares of mainland companies listed on the Hong Kong stock exchange.

High yield (HY) bonds are higher-yielding bonds with a lower credit rating than investment-grade corporate bonds, Treasury bonds and municipal bonds.

Hong Kong Monetary Authority (HKMA) is a currency board and in effect Hong Kong's central bank.

Investment grade (IG) is a rating by a rating agency such as Standard & Poor's indicating that a bond is seen as having a relatively low risk of default.

IPOs are initial public offerings, the first sale of a company's shares to public investors.

IT refers to information technology, including computing, software, hardware and digital infrastructure.

Mergers and acquisitions (M&A) are two methods of corporate consolidation: an acquisition is the purchase of one firm by another without forming a new company, whereas a merger is the joining of two businesses to create a new business.

Appendix

Glossary

MSCI China All Shares Index spans major Chinese equity-market segments, including A-shares, H-shares, Red Chips, P-Chips and foreign listings.

MSCI EM Asia Index captures large and mid cap representation across Asian emerging markets including China, India, Indonesia, Korea, Malaysia, the Philippines, Taiwan and Thailand.

Northbound/Southbound trading refers to Connect-scheme channels that allow offshore investors to access mainland securities and mainland investors to access offshore or Hong Kong securities.

Option-adjusted spreads (OAS) are the yield premium that needs to be added to the spread over a benchmark yield to account for options that can vary interest or prepayment rates.

P-Chips are Hong Kong-listed companies controlled by mainland Chinese private-sector owners.

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

Policy-bank bonds are debt securities issued by government-backed policy banks to finance policy objectives.

Chinese Politburo has 25 members, who also tend to hold important state positions.

Producer price inflation (PPI) measures the change in prices received by producers for their output.

Ppt refers to percentage point, the arithmetic difference between two percentages.

R&D refers to research and development activities used to create or improve products, processes or technologies.

Real effective exchange rate (REER) is the weighted exchange rate of a currency against a basket of other currencies adjusted for inflation differentials.

Red Chips are Hong Kong-listed companies incorporated outside mainland China but typically controlled by mainland Chinese state-related entities.

RMB is the currency code for the Chinese Renminbi.

Sci-tech innovation bonds are bonds issued to finance technology innovation, advanced manufacturing or strategic science-and-technology projects.

STAR & ChiNext 50 Index is an equity index focused on leading innovation-oriented companies listed on China's STAR Market and ChiNext board.

State Council is the chief administrative authority of the People's Republic of China.

Stock Connect, in a Chinese context, refers to links between mainland stock markets and Hong Kong.

Swap Connect is a market-access programme for trading interest-rate swap products between mainland China and Hong Kong.

USD is the currency code for the US dollar.

Year-over-year (YoY) compares a data point with the same period one year earlier.

Year-to-date (YTD) refers to the period from the start of the current year to the current date.

Appendix

Historical performance

	28.7.2021 - 28.7.2022	28.7.2022 - 28.7.2023	28.7.2023 - 28.7.2024	28.7.2024 - 28.7.2025	28.7.2025 - 28.7.2026
MSCI EM Asia	-20.8%	3.2%	5.1%	18.9%	27.6%
MSCI China All shares	-19.1%	-5.2%	-15.0%	35.9%	-2.9%
MSCI China	-25.0%	-4.0%	-14.7%	45.4%	-9.0%
CSI 300	-14.4%	-11.0%	-15.7%	22.7%	17.0%
Shanghai A shares	-2.4%	-0.2%	-11.8%	24.5%	6.0%
H-shares	-21.9%	-3.9%	-11.7%	52.7%	-8.1%
Hang Seng Index	-19.0%	-3.4%	-14.5%	50.2%	-1.0%
CSI STAR and ChiNext 50 Index	-27.3%	-17.0%	-21.5%	36.8%	76.7%
MSCI China IT	-39.4%	-14.7%	-7.3%	94.2%	0.3%
MSCI China Industrials	-11.9%	-12.0%	-12.4%	24.4%	5.7%
MSCI China Materials	-20.1%	-12.3%	-8.0%	37.2%	26.1%
ICE BofA Asian Dollar IG Corporate China Issuers Index	-9.0%	2.2%	7.0%	6.1%	3.7%
ICE BofA Asian Dollar HY Corporate China Issuers Index	-59.1%	-0.8%	11.6%	10.8%	-0.9%
ICE BofA Asian Dollar IG Corporate Index	-9.2%	1.8%	7.1%	6.0%	3.8%
ICE BofA Asian Dollar HY Corporate Index	-39.0%	8.8%	14.8%	9.6%	5.8%
ICE BofA US IG Corporate Index	-12.6%	-0.7%	6.4%	5.3%	3.5%
ICE BofA US HY Index	-8.4%	4.8%	11.0%	8.9%	4.9%
EUR vs. CNY	-10.5%	14.5%	0.0%	5.7%	-7.3%
USD vs. CNY	4.0%	6.0%	1.4%	-1.0%	-5.7%
USD vs. CNH	4.0%	6.1%	1.5%	-1.1%	-5.7%

Source: Deutsche Bank AG, Bloomberg Finance L.P., LSEG Datastream; Data as of July 28, 2026.

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