

China Markets Update – April 2026

“China+1 In Reverse”

Dear Investor,

China’s market continues to be driven less by domestic recovery and more by an increasingly complex external backdrop. Geopolitical tensions, particularly the escalation in the Middle East, remain key drivers of volatility, heightening concerns over global growth, energy prices, and supply chain fragmentation. Against this backdrop, investor sentiment toward China remains cautious, with persistent doubts surrounding the strength of domestic demand and the effectiveness of policy support.



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Fiscal policy has turned modestly more accommodative, with government spending rising 2.6% year-on-year in the first quarter, while credit conditions continue to be managed carefully to avoid contraction. Domestic consumption is also showing gradual signs of recovery, supported by strong double-digit growth among American luxury houses and improving trends across European luxury brands, which are now reporting high single-digit growth. Property activity has rebounded in Tier 1 cities as well, with Shanghai transactions exceeding 31,000, marking a ten-year high.

More importantly, sustained external pressure is accelerating China’s internal adjustment, particularly in technological self-reliance, industrial upgrading, and tighter control over upstream supply chains. This divergence, where near-term macro uncertainty coexists with long-term structural progress, remains central to understanding China’s investment landscape. It also underscores China’s growing ability to convert cyclical headwinds into durable competitive advantages.

“China+1 In Reverse”

The “China+1” thesis from the first Trump administration is increasingly difficult to reconcile with the reality of trade dynamics today. Total foreign trade reached a historic high of USD 1.73tn in Q1 2026 with trade surplus reaching USD 264.75bn, maintaining the pace of the record surplus of USD 1.19tn in 2025. More importantly, the composition of exports continues to upgrade, with mechanical and electrical goods accounting for 63.4% of total exports, alongside strong growth in EVs (+77.5% YoY) and lithium batteries (+50.4% YoY). This reinforces the central thesis in my previous two letters (*China: Rising Dominance*) that China is not merely retaining scale, but consolidating its position higher up the value chain even as global supply chains attempt to diversify at the margin. This is further illustrated in critical materials where China controls up to 70% of global rare earth mining and over 90% of processing capacity and permanent magnet production, effectively anchoring the most difficult-to-replace segments of the global supply chain. This level of concentration fundamentally alters the “China+1” strategy for most companies. While downstream assembly may migrate, upstream dependencies remain firmly embedded within China’s industrial ecosystem, significantly raising both the cost and timeline of any genuine diversification effort.

The Iran conflict has further accelerated this dynamic by shifting the competitive landscape toward energy resilience. The sharp rise in China’s imports—surging as much as 27.8% YoY in March—reflects both strategic stockpiling and the ability to secure critical inputs amid geopolitical disruption. Critically, China enters this phase with a structurally more secure energy profile relative to other major manufacturing hubs, supported by diversified sourcing, long-term supply arrangements, and significant domestic capacity. As energy volatility disrupts production economics elsewhere, this relative stability enhances China’s attractiveness as a manufacturing base—particularly for energy and resource intensive sectors. Under this context, China’s role in global manufacturing has evolved and is increasingly entrenched at the intersection of scale, supply and energy security, and upstream control.

China Pulse-Check

(see supplement file for further details)

While foreign capital inflows into China's equity market remain subdued, interest from global allocators, particularly those outside the United States, has picked up noticeably this year. This became evident during a recent allocator trip I led into China, where direct engagement with businesses, industry experts, and policymakers consistently highlighted the disconnect between on-the-ground realities and prevailing headline narratives. The key takeaway was clear: in an environment dominated by geopolitical noise, primary research and firsthand insight matter more than ever.

For many allocators, these discussions helped recalibrate perspectives, shifting views away from sentiment-driven caution toward a more informed and fundamentals-based understanding of China's evolving opportunity set. Below are several key highlights from those meetings:

China rapidly becoming a dominant global provider of innovative drugs

China's share of the global innovative drug R&D pipeline now exceeds 33% and has surpassed both the United States and Europe in the number of active clinical trials. The country is also experiencing a major out-licensing boom, with more than USD 60 billion in deals signed during the first quarter alone. Global pharmaceutical companies are increasingly turning to Chinese drug pipelines to address looming patent cliffs within their own portfolios.

World-leading advanced manufacturing capabilities

China has evolved into the core engine of global industrial production, accounting for nearly one-quarter of global output across advanced industries and leading in seven of the ten key sectors, including machinery, electrical equipment, chemicals, basic metals, and transportation systems.

This leadership is reinforced by China's dominance in automation, with the country accounting for more than 50% of global industrial robot installations and overall demand. Robotics and AI are now deeply embedded throughout manufacturing processes. The combination of scale, vertical integration, automation, and industrial breadth places China on a structurally different cost and innovation curve that remains difficult for global competitors to replicate.

The "experience economy" is reshaping consumption growth

Younger generations in China are increasingly shifting away from material ownership toward curated and emotionally engaging experiences spanning travel, dining, wellness, and lifestyle consumption. Purchasing decisions are becoming more identity-driven, with consumers prioritizing authenticity and personalization.

As a result, specialist brands with deep expertise and strong product conviction are increasingly outperforming broader generalist brands that rely primarily on brand recognition.

Chinese businesses are accelerating AI and robotics integration

Local companies are deploying industrial robots at scale while integrating AI throughout operations, from factory optimization to agricultural productivity improvements. This is driving structurally lower operating costs through automation and reduced labour dependency, while data-driven optimization enhances product iteration speed and revenue visibility. The result is an increasingly scalable business model capable of simultaneously lowering costs, expanding margins, and accelerating growth.

Local officials remain highly commercial and pragmatic

During meetings with local officials in both Suzhou and Shenzhen, we observed a highly commercial mindset focused on attracting foreign investment. Officials demonstrated a pragmatic and hands-on approach, actively helping companies navigate regulatory hurdles, accelerate approvals, and reduce policy uncertainty.

This level of engagement highlights a clear alignment at the local-government level: facilitating foreign investment remains a strategic priority, with increasing emphasis placed on speed, clarity, and commercially practical outcomes.

Closing Thoughts: Still the Ugly Duckling

While global markets have delivered strong headline returns—with Korea and the U.S. continuing to outperform—the underlying market structure is becoming increasingly narrow. In the U.S., the top 10 stocks now account for ca. 40% of the S&P 500, with a handful of mega-cap names driving both returns and earnings growth, and as few as three companies contributing ca. 70% of forward growth expectations. Korea exhibits a similar pattern, where index performance remains heavily concentrated in a limited number of national champions.

By contrast, China offers a fundamentally different opportunity set. The market is materially broader with earnings drivers spanning advanced manufacturing, healthcare innovation, consumption upgrading, renewable technology, and A.I. supply chain. More importantly, the recent equity recovery has been notably more broad-based, reflecting dispersion across industries rather than reliance on a narrow leadership cohort. For global allocators, this has clear implications: China provides a structurally differentiated source of alpha, where returns are less dependent on a single theme and sectoral depth creates a richer hunting ground for active managers. China remains the “ugly duckling”—under-owned, under-positioned, and often misunderstood—but increasingly positioned as one of the few markets globally offering both breadth and depth of opportunity at scale.

Best regards,

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