2025 Investment Outlook – China Equities

November 2024

Raymond Ma
Chief Investment Officer,
Mainland China and
Hong Kong

The Chinese government put forward a comprehensive monetary stimulus package in September 2024 aimed at supporting and revitalizing growth. The market reacted positively as the move demonstrates policymakers' commitment to revive the economy which is different to what we saw earlier in 2024.

Looking ahead to 2025, we expect fiscal policy support to continue and foresee the implementation of more targeted fiscal measures. We will monitor key indicators for signs of recovery including retail sales, electricity consumption, export growth, and, importantly, the property sector rebound. Navigating the relationship between policies and economic growth will be crucial for investors as we look ahead.

Fostering confidence in China's domestic growth

China has a large domestic market, and the national savings rate has reached record highs over the past few years. The IMF estimated that China's gross national savings as of March 2024 accounted for over 40% of the country's GDP. [1] The recent policy initiatives announced in September are aimed at restoring consumer confidence and are essential for unlocking subdued consumption spending. We believe the measures, designed to strengthen the stock market, property market, and overall economic growth, will ultimately enhance Chinese investor confidence as well as consumer confidence and job security. Given the recent policy support, we believe that domestic demand will recover in 2025. This will lead to an improvement in spending and investment to create a more resilient economic environment and ensure stable growth going forward. It is worth noting that the timing, breadth and adequacy of how the latest policies are executed will influence this pace of economic recovery, as it usually takes time for policies to filter through to the real economy.

Chinese companies expanding overseas

Many leading Chinese companies are well-positioned to expand overseas. These companies have cost advantages arising from economies of scale in the domestic market. While we identified this trend in earlier years, we expect to see even more activity and expansion abroad in 2025. We believe there are increasing opportunities for Chinese firms to engage in the development of new global supply chains. We expect to see this trend play out particularly among companies in the e-commerce, online gaming, white goods, and industrials sectors. Companies in these sectors can leverage on sustained local demand whilst also capturing a larger share of the global market thus ultimately benefiting their shareholders.

Chinese companies are focusing on increasing shareholder returns

Another key trend we expect to see play out in 2025 is the focus of Chinese companies on enhancing shareholder returns through active share buybacks and improved corporate governance. This trend is likely to not only boost minority interests but also signal a commitment to returning value to shareholders. The market anticipates the dividend per share for Chinese equities to rebound strongly, with growth projected at 16% in 2024, followed by increases of 6% and 8% in 2025 and 2026, respectively. [2] This recovery will be broad-based, with over 35% of companies anticipated to announce higher dividends for 2024. [3] Companies with stronger cash flows are more likely to see dividend growth and engage in share buybacks. We believe that as these practices become more prevalent, they will strengthen investor confidence and attract further investment into China's stock market.

1. China's excess savings are a danger, March 2024.
2. China shareholder returns, CLSA, September 2024.
3. Ibid.

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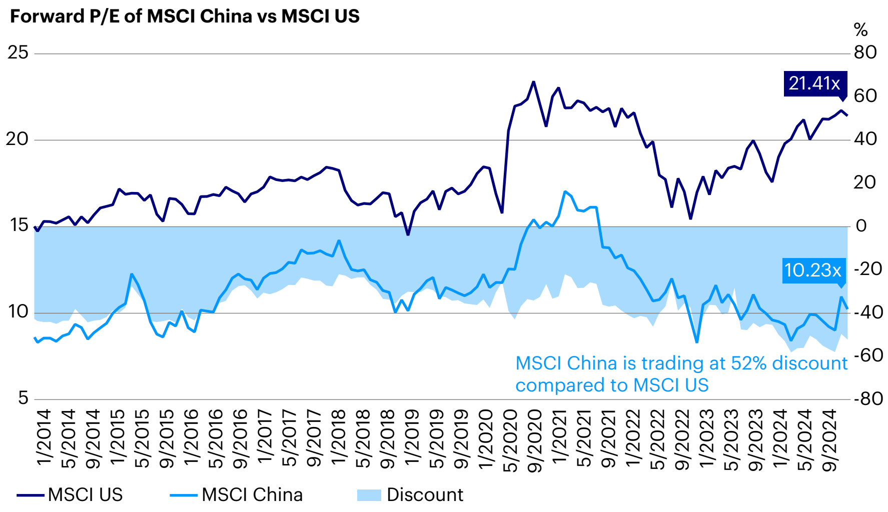
Attractive valuations and earnings upgrades
Chinese equities look attractive from a valuation standpoint, trading at relatively low levels compared to historical averages and other developed markets. As of October, the MSCI China Index traded at around a 52% discount relative to the MSCI US Index. Since market expectations are currently subdued, we believe there is substantial room for growth in 2025 and we are constructive on Chinese equities in the next 12 months. As corporate fundamentals improve, we anticipate a reversal in top-line revenue and a reduction in the margin pressures that have persisted over the past three years. This may lead to potential increase in return on equity and positive earnings revisions, enhancing investor sentiment. This recovery is expected to be supported by the ongoing stimulus measures.

Figure 1 – Chinese equities still trading at a discount to developed markets



Source: FactSet, Invesco, data as of October 2024. **Past performance does not guarantee future results.** An investment cannot be made in an index.

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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.

Important information