

China: From “Un-Investable” to Desirable

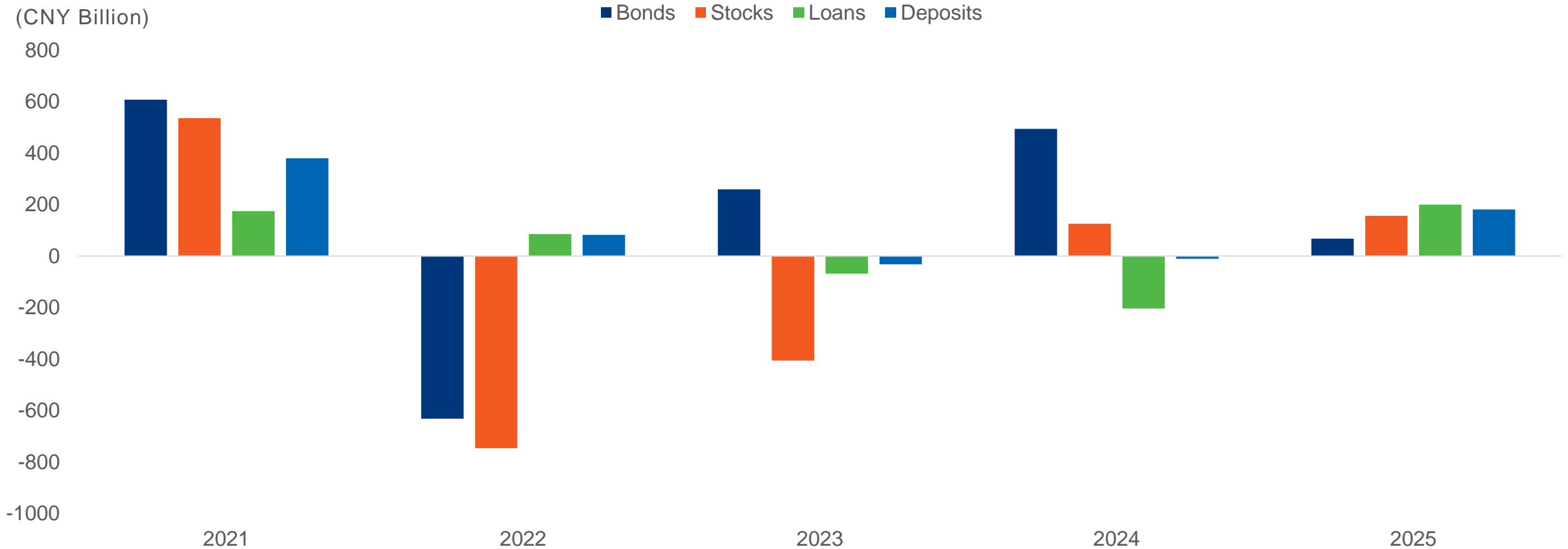
Best Equity Market Doesn't Need a Best Economy

3 October 2025

China – From Un-Investable to Desirable

Policy Confusion in the US Is Supporting Fund Flow to the Rest of the World, Including China

Foreign Holdings of Chinese Assets Expand Across Board
2025 shows net growth in every asset class for first time in 4 years



Source: PBOC, KGI

The HSI Is a Proxy for Foreign Capital Buying China Assets

But It Was Coming From a Very Light Positioning After an Almost 3-Years Bear Market



Source: Bloomberg, KGI

Shanghai A Shares Market as a Proxy of Domestic Confidence

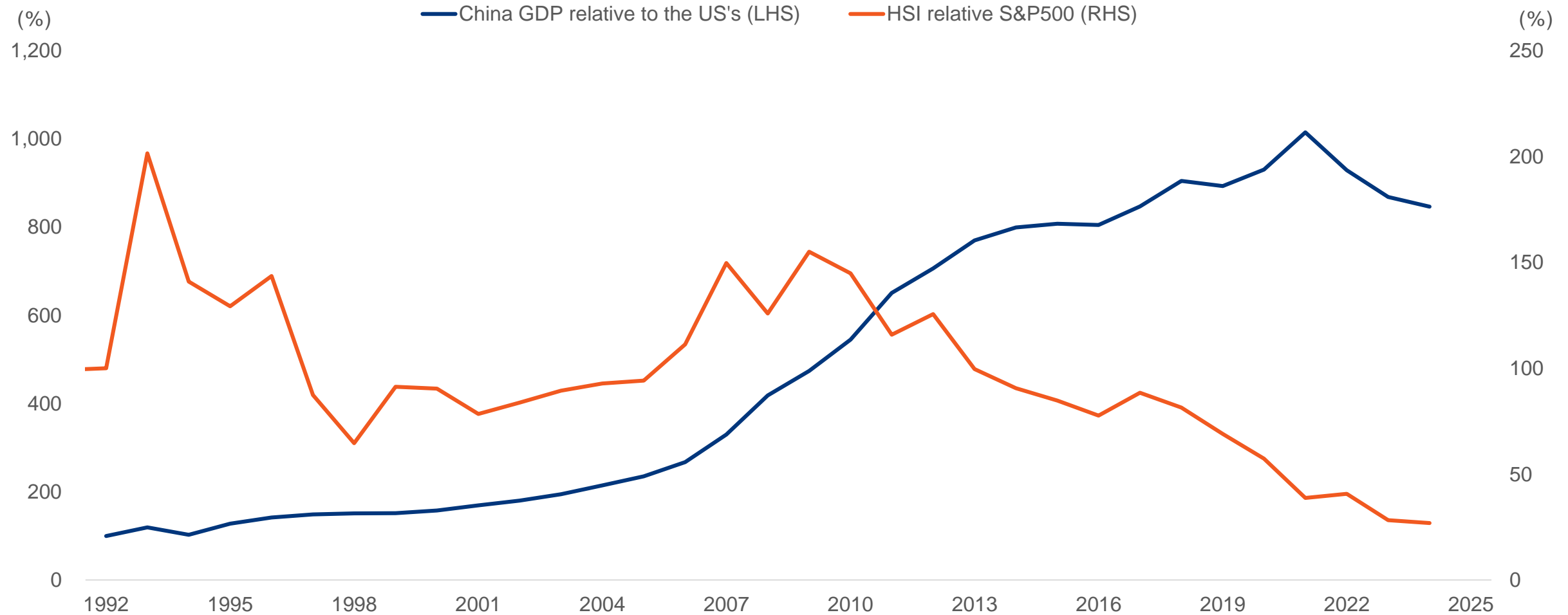
It Is Just the Beginning of the Confidence Returning



Source: Bloomberg, KGI

China GDP Growth Outpaced the US by 8X Over the Last 33 Years

Yet the China Assets Proxy, HSI, Has Underperformed by 60%



Source: Bloomberg, KGI

PER Relative of HSI vs S&P500

It Is the Beginning of a Multi-Year Re-Rating Process

PER Relative of HSI & S&P500



Source: Bloomberg, KGI

Do We Need the Best Economy for the Best Equity Market?

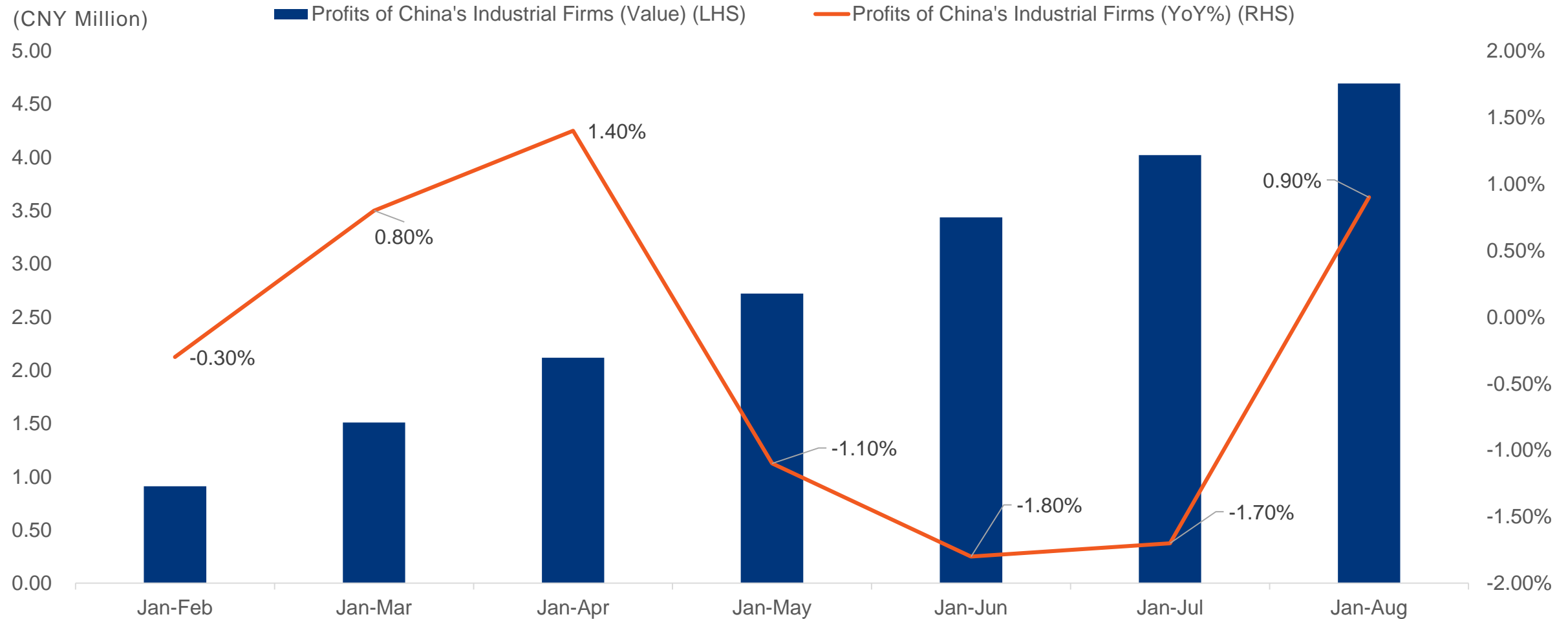
Equity Market Runs Ahead on Policy Expectation Instead

Indicator	Optimal Condition	Reason	China
GDP Growth Cycle	Improving from low levels (early recovery phase)	Signals recovery and rising corporate profits without triggering immediate rate hikes; market anticipates future growth	The consensus forecast for China GDP growth is at 4.5%, below the official target of 5%
CPI Trend	Stable or declining (low to moderate inflation, around 2%)	Avoids central bank tightening; supports borrowing and investment, keeping policy accommodative	Core inflation is running at below 1%
Consumer Confidence Strength	Rising from moderate/low levels	Indicates increasing spending and optimism, driving earnings, but not so high as to fuel inflationary pressures	Retail sales growth is at low single digit level

Source: KGI

Profits at China's Industrial Firms Grew 0.9% From -1.7%

First 8 Months vs the First 7 Months

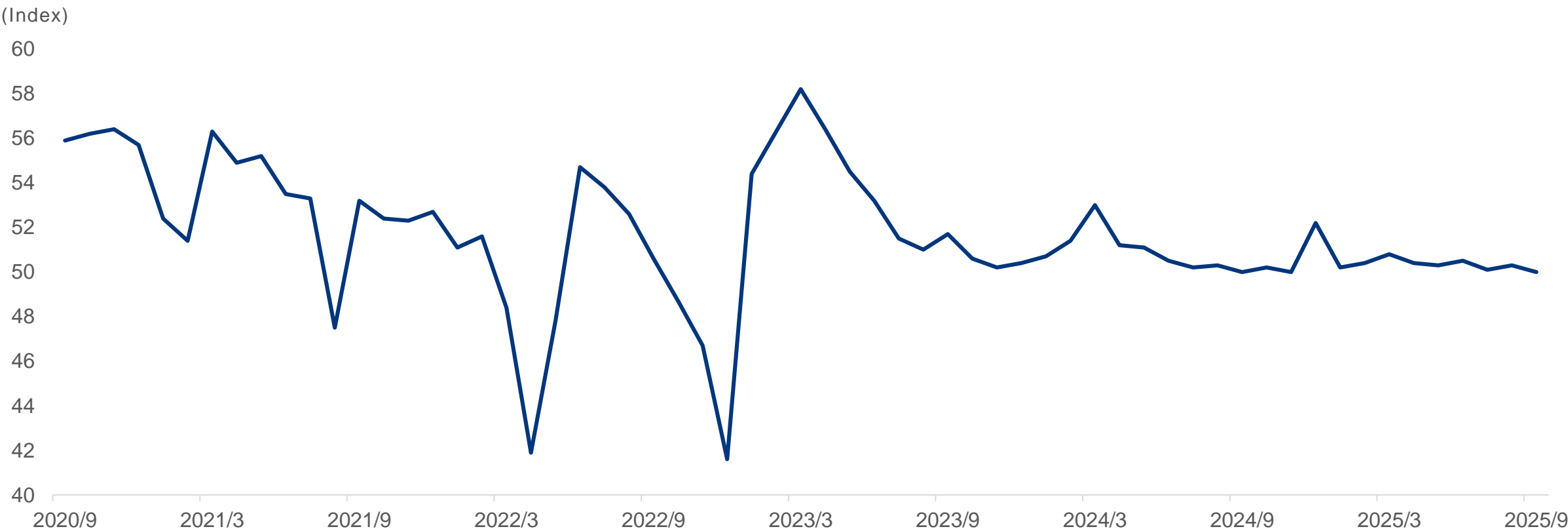


Source: Bloomberg, KGI

China Non-Manufacturing PMI

The Economy Is neither Too Hot nor Too Cold

China Non-Manufacturing PMI



Source: Bloomberg, KGI

Continued China Trade Surplus Supporting the RMB

Trade Surplus Came in at USD 102.33 Billion in August 2025, Surpassing Expectations of USD 99.2 Billion



Source: Bloomberg, KGI

China Industrial Production Remains Soft

Grew by 5.2% YoY in August 2025, Easing From July's 5.7% and Falling Short of Expectations of 5.8%



Source: Bloomberg, KGI

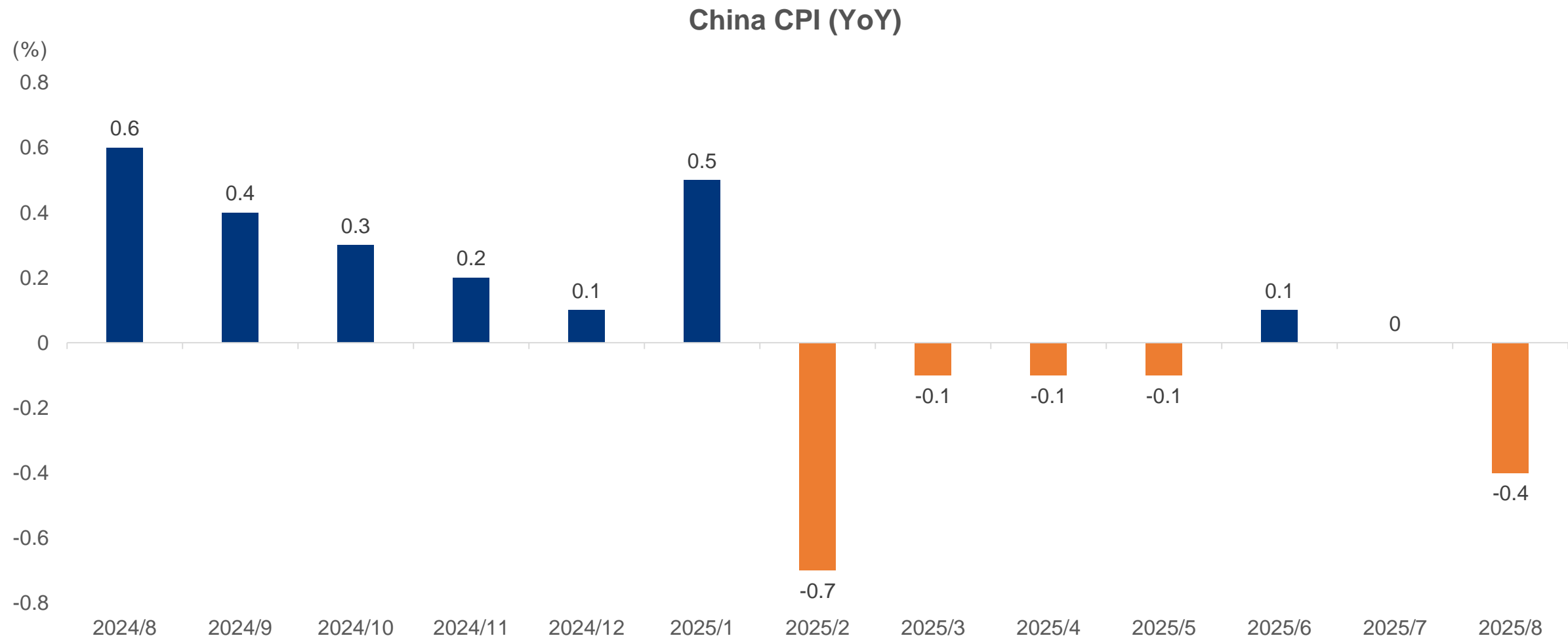
Home Price Is Declining but Narrowing in Steady Pace Since 3Q24



Source: Bloomberg, KGI

China CPI Deflation Continues

Core Inflation, Excludes Food and Energy, Rose 0.9% YoY, an 18-Months High, After a 0.8% Gain in July.



Source: Bloomberg, KGI

10-Year Government Bond Yield Hovers Below 2%

Thanks to the Benign Inflation Environment to Provide Abundant Liquidity

China 10Y Government Bond Yield



Source: Bloomberg, KGI

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