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# Chinese stocks unlikely to see imminent V-shaped recovery

## High-net-worth retail investors driving the rally; foreign capital yet to rush in

China's A-share market has shown strong momentum lately, with the Shanghai Composite Index gaining 8% in August. Kevin You, Portfolio Manager at Allianz Global Investors, pointed out that liquidity—particularly savings from high-net-worth mainland retail investors—has been the primary driver behind the rally. Looking ahead, he believes that gradually rebuilding consumer and investor confidence remains essential. However, he acknowledged that a “U-shaped” or “V-shaped” recovery for Chinese equities is unlikely to materialise within just a few months. On the foreign capital front, Kevin noted that while some Asian institutional investors have started increasing their

exposure, a broad-based inflow of international funds into China has yet to emerge.

**“People ask why the market is rising while the economy in China is just so-so. The main reason is liquidity,” Kevin said.** Most analysts agree that the rally has been driven by mainland retail investors reallocating their bank savings into equities. Kevin added that many of these participants are seasoned, high-net-worth individuals.

These high-net-worth individuals differ from typical retail investors. They possess a certain level of capital and investment expertise, yet remain distinct from institutional players due to their autonomy in making investment decisions.

### European and US Investors Still Watching Beijing's Policy Moves

In addition to retail investors, institutional investors have also contributed to the rally. This includes

newly launched private equity funds that emerged as market sentiment improved, as well as mainland insurance capital. Kevin explained that Beijing had earlier encouraged insurers to increase their allocations to equities. With China's 10-year government bond yields offering only 1.7% to 1.8%, dividend-paying stocks with yields of 2.5% or more have become increasingly attractive for insurance funds.

Since the central government rolled out a series of policy measures in September 2024, foreign interest in Chinese equities has been gradually recovering. “Since late last year, we've received more client inquiries—from Europe and South America, for example,” said Kevin. The overseas investors they've engaged with include sovereign wealth funds and pension funds. However, he admitted that they have not seen a large-scale deployment of capital into China at the moment, except for some insurance funds and family offices within Asia.



**Kelvin You**  
Portfolio Manager

"Investors from Europe and the US tend to be more cautious. They'll likely need more time to assess whether China is genuinely committed to supporting its economy," Kevin added. He suggested that frequent policy shifts in recent years have left foreign investors skeptical of Beijing's stance on economic growth. As a result, future policy efforts should focus on rebuilding public and investor confidence in the economy, the stock and property markets.

### Bullish on Four Key Sectors: IP Toys, AI, Biotech, and Export Winners

The earlier trade tensions have further delayed the return of market confidence, Kevin noted. He believes it may take a year or even longer for a genuine recovery to take shape. Confidence isn't something that

can be rebuilt in just a few months. Given this, a U-shaped or V-shaped recovery in Chinese stocks remains unlikely in the near term. Still, he maintains a positive outlook, expecting that investor confidence will eventually return.

AllianzGI is currently overweight on four key sectors in Chinese equities:

- New consumption themes, such as Intellectual Property (IP)-based toys and the pet economy
- Technology, including AI-related companies, humanoid robotics, and autonomous driving related companies
- Biotech firms focused on drug R&D with cost advantages over overseas peers
- Export-oriented companies that are able to bypass intense domestic competition (or

"involution"), such as selected electric vehicle makers

However, Kevin cautioned that "Anti-involution" is not yet a viable investment theme. Most of the current overcapacity lies with private enterprises, making it harder for the government to lead de-capacity efforts compared to a decade ago, when the issue was concentrated among state-owned enterprises. He also noted that after the announcement of "Anti-involution" policies, stock prices in sectors like raw materials, photovoltaics, and new energy surged by dozens of percentage points within just two to three days. Concerned the rally was too short-lived, the fund he manages has so far refrained from actively participating.

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