China Musings

Global marketing feedback: China is back

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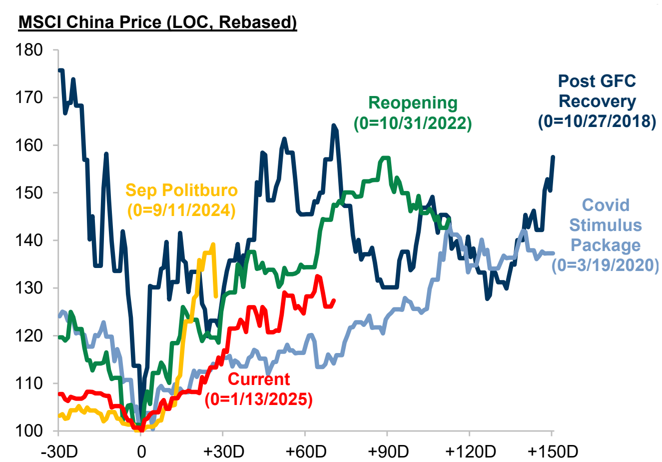
We have held extensive meetings with investors in Asia, the US, and Europe in the past month to discuss views and ideas on Chinese equities. We summarize clients' feedback and FAQs, and our latest market thoughts as follows:

1. **China is back on the radar**, at least in terms of investor interest;
2. We expect **more fundamental upside for Chinese stocks** after ~20% gains ytd, but reiterate our tactical view that the bull run may slow on event risks and profit-taking pressures;
3. Equity investors seem relaxed about **US tariff concerns**, citing various macro, policy, and micro reasons;
4. Most investors agree that the Chinese **AI story is a game changer,** although questions/debates about potential AI benefits have surfaced;
5. Investors welcome **the easing regulatory pressures on the private sector,** and focus on the durability of the easing cycle;
6. **"Green shoots" are emerging** in select pockets of the economy. Policy delivery still holds the key for further gains;
7. **Global funds are motivated to return to China,** but US policy risks remain an overhang;
8. Most frequently asked question: **Stick with H, or shift to A**?
9. Market leadership and concentration: Can Tech extend the outperformance, or **Consumer to take over**?
10. **What are different types of investors doing** in the Chinese stock market?

1. China is back on the radar, at least in terms of investor interest

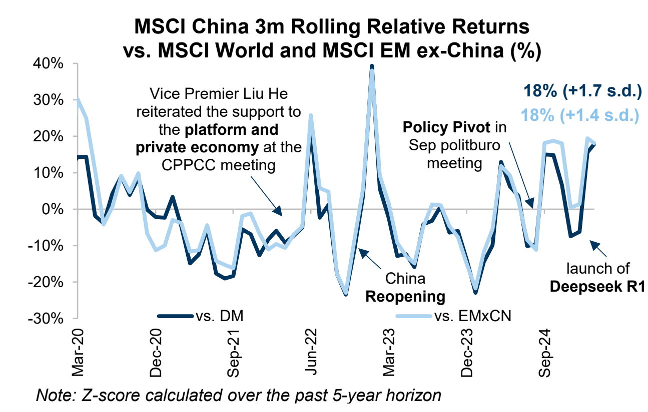
- We have held meetings with a wide spectrum of investors (see Section 10) in mainland China, Hong Kong, Singapore, the US, and Europe post the Lunar New Year holidays. Broadly, **investors' interest and engagement levels in Chinese equities are arguably at the highest** since the market reached its historical peak in early 2021.
- China is back on investors' radar screen for a few reasons: First, the strong ytd gains from Chinese equities have caught many investors by surprise, with MSCI China and Hang Seng Tech having rallied 16% and 23% so far in 2025, **significantly outpacing its DM and EM counterparts** which have returned 1% and 6% ytd. The 3m outperformance of China vs DM and EM (ex-China) equities is at 18%, 98th and 94th percentile respectively in the past 10-year range.
- Second, **the emergence of DeepSeek** has altered the narrative of China technology and the outlook for Chinese stocks, ushering in renewed growth optimism that is driven by bottom-up, innovation-empowered investment thesis (see Section 4).
- Third, **domestic regulatory pressures appear to have eased**, as exemplified by President Xi's recent meeting with business leaders in the private sector. Regulatory uncertainty has been regarded by investors as a key impediment of investing in China (see Section 5).
- Lastly, **global equity mandates are actively <u>looking for alternatives</u> outside of the US stock market** (see Section 7), with China being seen as one of the potential flow recipients given its appeals regarding liquidity, valuations, and diversification benefits.

Exhibit 1: The latest AI-powered rally is one of the most significant in history



Source: MSCI, FactSet, Goldman Sachs Global Investment Research

Exhibit 2: China's recent outperformance over DM and EM ex-China equities trails only the Reopening rally



Source: MSCI, FactSet, Goldman Sachs Global Investment Research

2. More fundamental upside, but possible tactical profit-taking risks

- The strong recent gains have inevitably prompted investor questions about the **sustainability of the uptrend**, considering that the previous two China equity rallies—Reopening in late 2022 and the policy pivot last September—were equally powerful but short-lived.
- Most investors share our view that **the latest recovery should have more staying power fundamentally** than its precedents as consensus EPS at the index level and for Tech has been raised by 1% and 2% in the past 6 weeks respectively, with our proprietary tool AEGIS pointing to more positive revisions in the quarters ahead.
- In our 2025 Outlook launched in November 2024, we set our 12m target for MSCI China at 75, expecting 15% of potential upside at the time of publishing. 5 weeks ago, **we raised the target to 85** (19% higher from current levels) to incorporate the upside optionality from AI, predicated on a 12x fair PE multiple (now@11.5x) and 9% EPS growth for 2025 (consensus@8%). Our CSI300 target remains at 4,700, representing 20% 12m price returns.
- However, we expect the **bull market to slow and profit-taking pressures to build** as the US-China policy and geopolitical calendar turns active once again in the coming weeks, featuring the US investigation report on China's adherence to the US-China Phase One trade deal, and the White House's decisions on reciprocal tariffs, both scheduled to take place in early April.

Exhibit 3: Both fundamental and technical indicators point to further room for the recovery to extend

	Reopening (Oct 2022 - Jan 2023)			Politburo meeting (Sep 2024 - Oct 2024)			Current (Jan 2025 - Now)		
	Start	**Peak**	**Change**	**Start**	**Latest**	**Change**	**Start**	**Latest**	**Change**
Trading Days			**65 d**			**19 d**			**51 d**
MSCI China Local Price	48.1	75.7	**57%**	55.2	76.9	**39%**	61.1	77.8	**27%**
MSCI China 14D RSI	24	84	**60 pt**	37	94	**57 pt**	25	56	**31 pt**
12M Forward P/E (Aggregate)	8.1x	11.9x	**46%**	8.4x	11.6x	**37%**	9.3x	11.6x	**25%**
12M Forward P/E (Median)(2)	12.1x	14.3x	**19%**	11.5x	14.6x	**28%**	13.2x	13.7x	**4%**
FY1/FY2 EPS revision (CNY)	-	-	**(3%)**	-	-	**0%**	-	-	1%
Global Active Funds Allocation	6.4%	9.1%	**2.8 ppt**	5.2%	6.2%	**1.0 ppt**	6.3%	-	**-**
Global Hedge Funds Allocation	7.2%	13.3%	**6.1 ppt**	6.8%	9.8%	**3.0 ppt**	6.5%	9.1%	**2.6 ppt**
Domestic MF Equity Allocation	87.9%	84.6%	**(3) ppt**	85.8%	87.1%	**1 ppt**	86.4%	88.6%	**2 ppt**
US 10Y Treasury Yields(3)	4.1%	3.5%	**(58) bp**	3.7%	4.0%	**38 bp**	4.8%	4.3%	**(45) bp**
China 10Y Govt Bond Yields(3)	2.6%	2.9%	**29 bp**	2.1%	2.2%	**6 bp**	1.6%	1.8%	**20 bp**
China CAI	2.3	7.2	**5 ppt**	5.5	6.6	**1 ppt**	6.4	5.6	**-1 ppt**
China FCI(4)	102.6	102.9	**0.3 pt**	102.6	102.6	**0.0 pt**	102.3	102.3	**0.0 pt**

Note (1): Abbreviation: pt - point; ppt - percentage point; MF - mutual funds; CAI - GS Current Activity Indicator; FCI - GS Financial Condition Index
Note (2): Median stock fP/E based on current MSCI China Index constituents
Note (3): Nominal yields
Note (4): Higher means tighter financial conditions
Note (5): Average calculations don't include current episode

Source: FactSet, MSCI, EPFR, Goldman Sachs Prime Services, Wind, US Department of the Treasury, Goldman Sachs Global Investment Research

Exhibit 4: A very active US-China policy and geopolitical calendar in coming weeks and months

	Date	Events
	4 Feb 2025	US imposed 10pp tariff on imports from China
	21 Feb 2025	President Trump signed the "America First Investment Policy"
	4 Mar 2025	US imposed an additional 10pp tariff on imports from China
	4-11 Mar 2025	2025 national "Two Sessions"
	6 Mar 2025	Press conference with NDRC, MOF, MOFCOM, PBOC, CSRC on economic issues during the "Two Sessions"
	Several days following 11 Mar 2025	*A State Council meeting on concrete policy implementation measures, to echo the "Two Sessions"*
	Mar-Apr 2025	*FY/4Q 2024 financial results season*
	12 Mar 2025	*US may impose tariff on steel and aluminum*
	14 Mar 2025	*US budget resolution deadline 2025*
	23-24 Mar 2025	China Development Forum
Expected	1 Apr 2025	US trade probe on China’s adherence to the Phase One trade deal finishes
	2 Apr 2025	Trump plans to impose 25pp “reciprocal” tariffs on Canada and Mexico starting on April 2.
	2 Apr 2025	US may impose tariff on autos
	4 Apr 2025	*Trump's 75-day extension of the TikTok ban ends*
	16 Apr 2025	*Q1 2025 GDP release*
	Late Apr 2025	*Politburo meeting on economic policies*
	5-6 May 2025	*Global Solutions Summit 2025*
	9 May 2025	Moscow Victory Day
	15-17 Jun 2025	G7 Summit 2025
	6-7 Jul 2025	*17th BRICS Summit*
	15 Jul 2025	*Q2 2025 GDP release*
	End-Jul 2025	*Politburo meeting on economic policies*
	9 Sep 2025	*80th Session of UN General Assembly*

Source: Data compiled by Goldman Sachs Global Investment Research

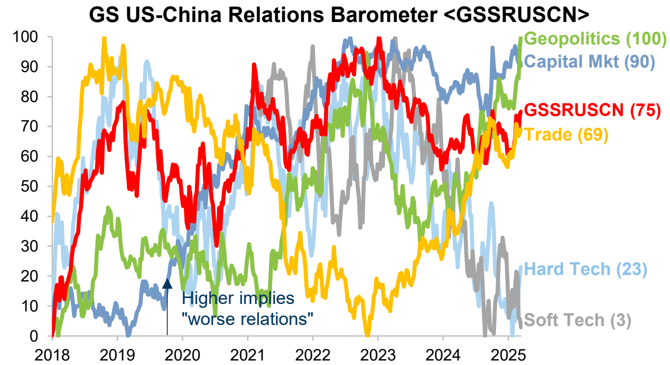
3. Equity investors seem relaxed about US tariff risks

- Many investors are **surprised by the robust stock market performance** notwithstanding the two US tariff announcements in February and March, which have cumulatively increased the effective tariff on Chinese exports by 20pp. In our view, the resiliency could be explained by:

1. China's **measured responses and disproportionate retaliatory actions** to the US tariff impositions;
2. While the 20pp rise in US tariffs may not be the final destination, the increase in magnitude so far is **in-line with our economists' base case** and also buy-side expectations;
3. Some investors believe that **China appears better placed to deal with the external demand headwinds** now compared to the Trade War 1.0 seven year ago thanks to its reduced direct exports to the US and improved product competitiveness;
4. China was the primary target of US tariffs previously but **most US trading partners could see higher tariffs** in Trump's second term. Our US economists recently added a global auto tariff and "reciprocal" tariff to their baseline forecast;
5. **The Rmb exchange rates have been broadly stable** despite the tariff headlines, partly helped by the broad Dollar weakness since mid-January (~5%), and partly due to the PBoC's intervention;
6. **The possibility for the two parties to negotiate** a comprehensive agreement in the months ahead which might potentially lead to tariff rollbacks.

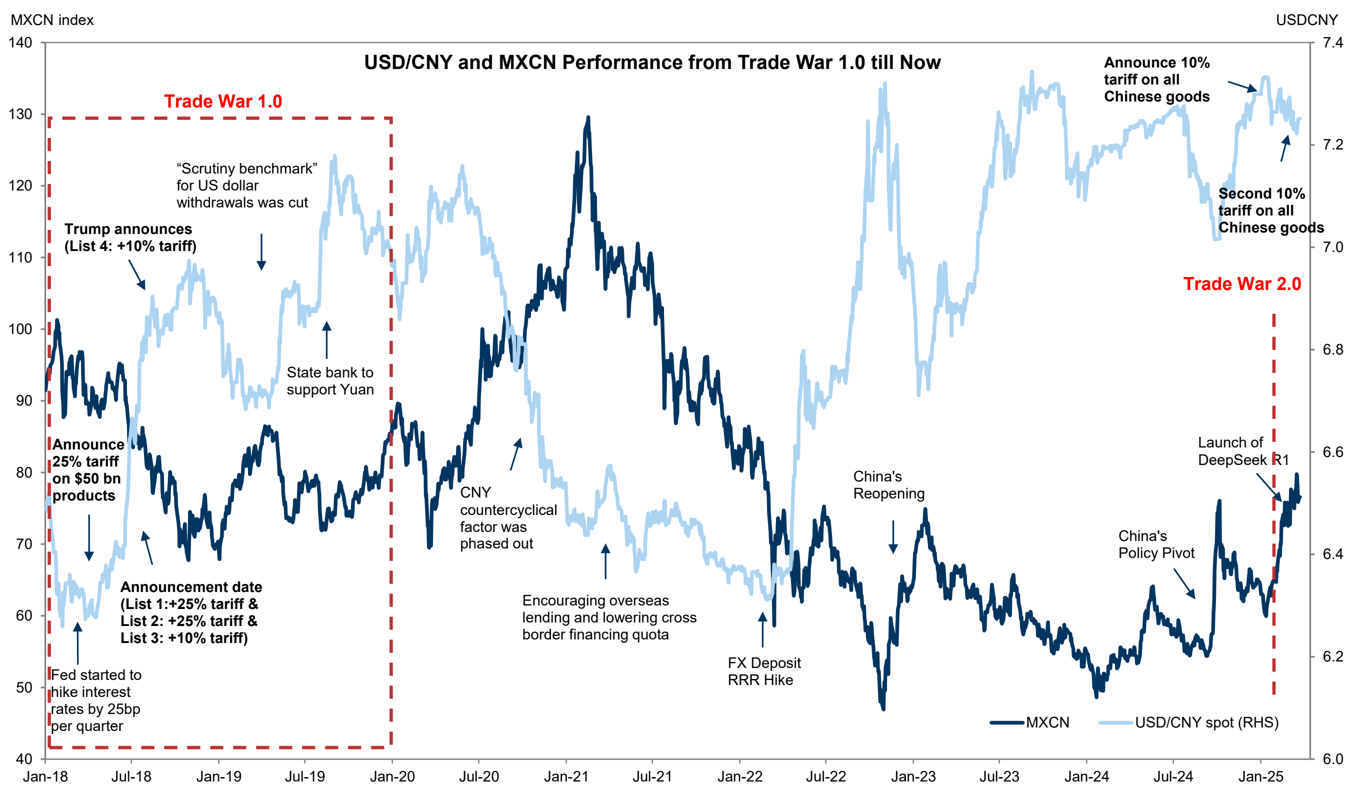
- A 20% increase in effective US tariff rate, and its spillover effects to other macro factors, is already embedded in our base-case earnings, valuations, and index returns forecasts, but the high level of uncertainty regarding the path, profile, and magnitude of the tariff developments leads us to believe that **this risk factor may have been somewhat overlooked** by investors, at least relative to market pricing. Our proprietary US-China Relations Barometer is currently above mid-range, meaningfully below the stretch levels in 2021 and 2023.

Exhibit 5: Our US-China Relations Barometer (GSSRUSCN) at moderately above mid-cycle levels



Source: Goldman Sachs Global Investment Research

Exhibit 6: Both the equity and FX markets are more stable this time around than in 2018-19

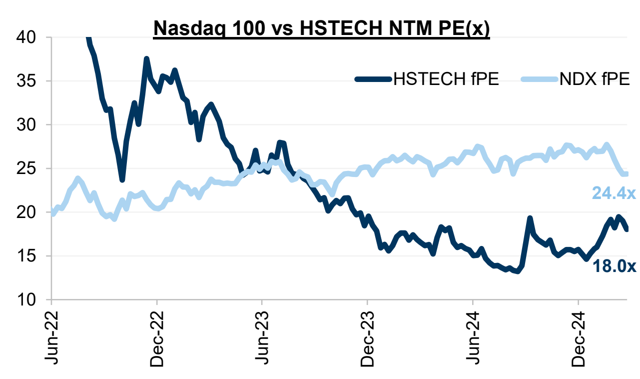


Source: MSCI, FactSet, Haver Analytics, Goldman Sachs Global Investment Research

4. AI changes the game, but questions remain

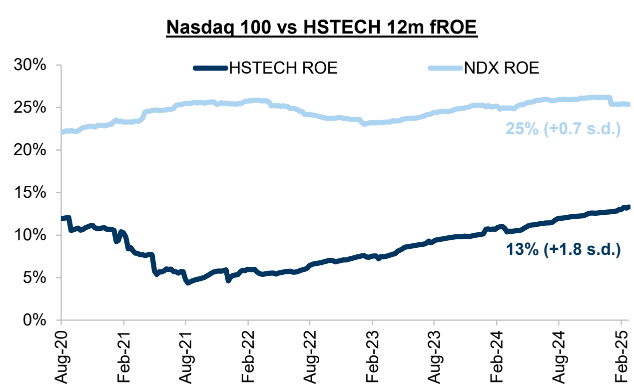
- We encountered broad agreement from investors that the DeepSeek moment is perhaps **a game changer** in terms of its impacts on investors' perception and narrative towards Chinese equities.
- At the macro level, our economists estimate that AI will start raising potential growth in China by 2026 and **provide a 0.2-0.3pp uplift to annual GDP growth** by 2030.
- In the equity market, we estimate that widespread AI adoption could boost Chinese EPS by 2.5% per year over the next decade via lower costs, higher efficiency, and new revenue opportunities, raise the fair/equilibrium valuations for China equity by 15-20%, and potentially usher in **over US$200bn of portfolio inflows**.
- **Equity investors have swiftly embraced the potential AI upside optionality:** average fP/E of the top-10 Chinese Tech companies has re-rated to 23x (-1.3 s.d), and more than US$6tn of market capitalization has been added to our AI-Tech universe since the DeepSeek R1 model was launched on Jan 20, 2025. With the 9% correction in Nasdaq from its recent peak, the valuation discounts of Chinese Tech companies vis-a-vis their US peers, proxied by HSTECH, have shrunk from 44% at the start of the year to 26% at present.
- Investor questions and debates regarding the extent of earnings and profitability boost from AI-related investment, use-case creation and monetization, and its long-term implications on (dis)inflation and the labor market have begun to heat up as the optimism gets better discounted in valuations. While the answers may not be known anytime soon, we believe **earnings upgrades and profit growth will be necessary** to prolong the AI-powered uptrend.

Exhibit 7: Valuation gaps between US and China Tech have narrowed



Source: HSI, FactSet, IBES, Goldman Sachs Global Investment Research

Exhibit 8: The valuation gaps may be justifiable by the differentials in profitability between the two groups

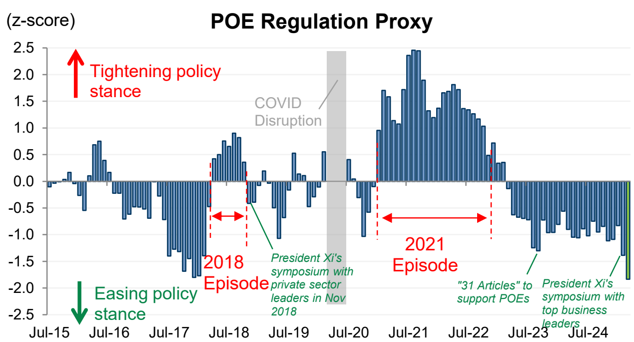


Source: HSI, FactSet, IBES, Goldman Sachs Global Investment Research

5. Regulation risks have moderated, corporate responses in focus

- Investors are encouraged by the meeting between President Xi and private-sector business leaders on February 17, which has conveyed a clear message that the **regulatory pressures towards the private economy have eased**.
- Our POE Regulation Proxy, a measure of the regulatory tightening intensity in select industries that are dominated by private entrepreneurs, also indicates that **the regulatory backdrop is at the most accommodative levels** since 2017.
- This should bode well for listed **POEs to regain the return leadership** vis-a-vis their SOE peers after undergoing a deep de-rating cycle in the past 4 years due to elevated regulation uncertainty.
- Looking ahead, the meeting should be conducive to corporate confidence but its impacts will take time to manifest in hard data: capex spent among listed private companies fell 7% yoy in 1H24, the lowest since 2009, although the budget for **new capex has risen** in the ongoing results season, led by Internet companies on AI related investments.
- Other high frequency indicators, such as EPMI, corporate loans, and company hiring stats were mentioned by investors as proxies to **gauge the recovery path of animal spirits** in the corporate world.

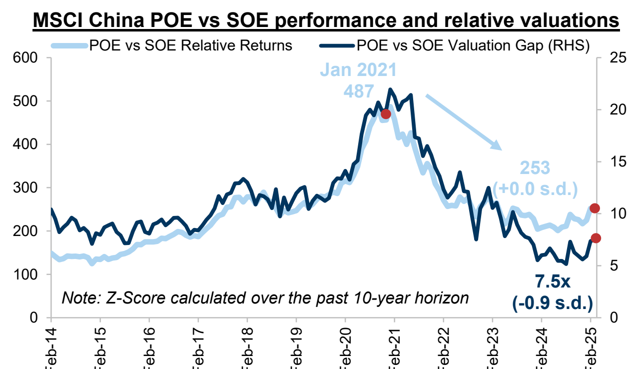
Exhibit 9: Our news search-based Proxy indicates that policy towards POEs has further eased lately, coincided with President Xi's recent meeting with business leaders in the private sector



Note: POE Regulation Proxy reflects the text-mining results of news among POE-heavy sectors. Data points during Mar-Jun 2020 have been removed due to COVID disruptions. The latest bar shows the preliminary reading of Mar 2025

Source: Factiva, MSCI, Goldman Sachs Global Investment Research

Exhibit 10: POEs have trailed SOEs in the past 4 years due to elevated regulation uncertainty

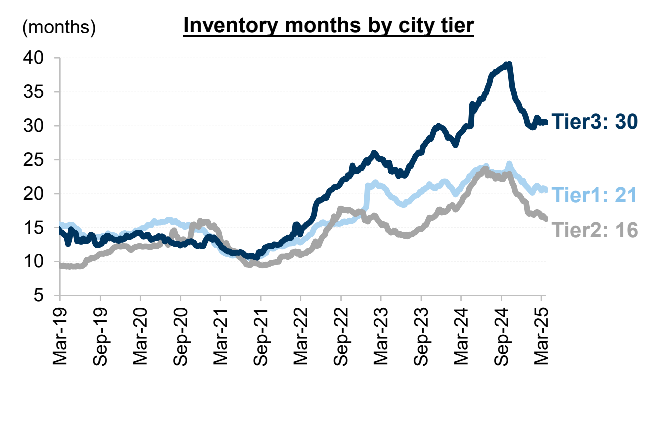


Source: MSCI, FactSet, Goldman Sachs Global Investment Research

6. "Green shoots" are emerging; Policy delivery is necessary to fuel further gains

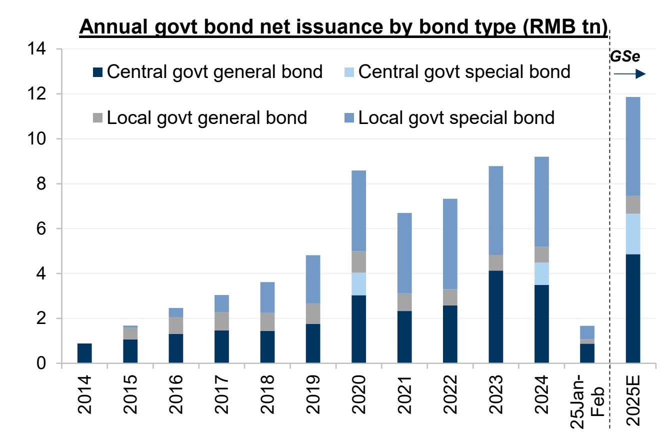
- Aside from the structural growth opportunities in the Tech economy, investors are very focused on **a few "green shoots" in the traditional economy**, which has been grappling with various structural and cyclical headwinds in the past few years.
- First, in the housing market, **transaction volumes (primary and secondary) in higher-tier cities appear to have bottomed out** on falling mortgage rates, rising rental yields, and easing housing policy restrictions, all helping to push inventory months (to sales) back down to historically normalized levels.
- Second, excavator sales, often seen as a yardstick for demand in infrastructure and construction sectors, have surged in the first 2 months of the year, and **demand for construction materials has strengthened** thanks to continuing demand-side policy stimulus, government-led supply rationalization and consolidation, and better fiscal positions for local government amid the ongoing debt resolution initiative.
- Our economists also flag the **upside risks to their 1Q and full-year GDP growth forecast** given the smaller-than-expected growth drags from US tariffs and trade uncertainty, recovering business confidence, and strong credit growth momentum.
- However, investors are far from convinced that the property downturn and the deflationary cycle is over, and that other structural imbalances have been adequately addressed. As such, following the confirmation of a pro-growth policy bias from the Two Sessions meeting, **prudent execution and delivery of policy promises centering on the housing market and consumption is needed** to further stabilize growth expectations and support more equity market gains, in our view.

Exhibit 11: Inventory months (to sales) have improved in higher-tier cities



Source: CREIS, Goldman Sachs Global Investment Research

Exhibit 12: Our economics team expects government bond net issuance to accelerate in coming months, given the large quota planned for this year



Local government refinancing bond issuance for debt resolution is not included.

Source: Wind, CEIC, Goldman Sachs Global Investment Research

7. Global funds are motivated to return to China, but US policy risks remain an overhang

- Hedge funds and Southbound investors have been active in the latest market rally, as shown by the former's rising net and gross exposures to Chinese stocks per GS Prime Brokerage data and the record-breaking inflows to HK for the latter. In the mutual fund world, positioning and flows data also suggest that EM and Asia-focused investors have raised their China allocations in the past few months, although the **participation from the global mandates remains muted**.
- Our conversations with asset managers with a global equity mandate have however shown **strong interests from them to add to China**, with 5,800+ out of the 16,300+ in our database currently have no Chinese stocks in their portfolios. Commonly cited reasons include: a) the elevated policy/trade uncertainty in the US where their equity exposures are close to all-time highs; b) China's proven diversification benefits to global investors, especially in US corrective episodes in recent years; c) lower perceived regulatory risk premium in China; and, d) China's attractive valuations in a global context.
- But, a few overhangs remain, most notably **the risks revolving around policy restrictions of portfolio flows to Chinese assets**, as highlighted in the America First Policy endorsed by President Trump just a month ago. This is particularly relevant to investors who source capital from asset owners that have close affinity with the US government (e.g. US State pension funds).
- For reference, we estimate that pension, endowment, and sovereign wealth funds globally currently have around US$40-50bn direct exposures to Chinese equity based on bottom-up holding data, and **US federal- and local-administered pension funds could have approximately US$50bn of indirect investments in Chinese public equities** via asset managers using global mutual funds' allocation to China equity as a gauge.
- In an extreme scenario where US persons are banned from investing in Chinese public equities, we estimate more than US$800bn of potential liquidation selling would occur, mostly concentrated in the ADR and H-share markets. However, one potential alleviating factor lies with the fact that **Chinese investors also own around US$400bn of US equities**, and hence the net supply of Chinese stocks in a complete capital market decoupling scenario would be less substantial than the headline numbers may suggest.

Exhibit 13: Chinese equities have performed reasonably well in US corrective periods in recent years

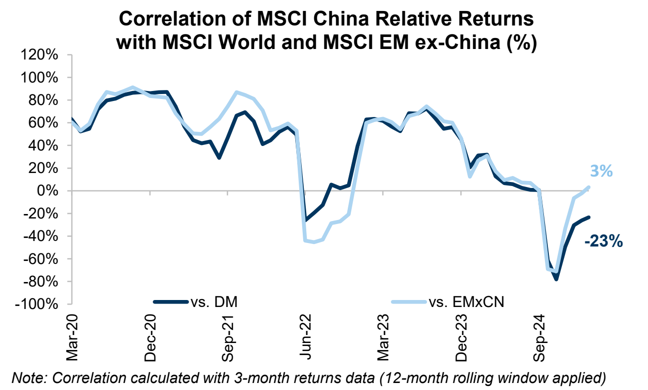
China performance during periods of SPX corrections

Start Date	End Date	SPX Return	MXCN Return	China A	MXCN relative returns vs. SPX	China A relative returns vs. SPX	MXCN downside sensitivity	China A downside sensitivity
18-Feb-97	11-Apr-97	-10%	3%	43%	12%	53%	-0.3	-4.5
7-Oct-97	27-Oct-97	-11%	-28%	12%	-17%	23%	2.6	-1.1
17-Jul-98	8-Oct-98	-19%	-15%	-7%	4%	13%	0.8	0.3
16-Jul-99	15-Oct-99	-12%	-19%	2%	-7%	14%	1.6	-0.1
24-Mar-00	14-Apr-00	-11%	-1%	6%	11%	17%	0.0	-0.5
4-Sep-00	4-Apr-01	-27%	-45%	4%	-17%	31%	1.6	-0.1
21-May-01	21-Sep-01	-26%	-41%	-18%	-14%	8%	1.5	0.7
4-Jan-02	9-Oct-02	-34%	-24%	-5%	10%	29%	0.7	0.1
28-Nov-02	11-Mar-03	-15%	-8%	4%	6%	18%	0.6	-0.2
9-Oct-07	10-Mar-08	-19%	-28%	-22%	-9%	-3%	1.5	1.2
19-May-08	20-Nov-08	-47%	-57%	-51%	-10%	-3%	1.2	1.1
6-Jan-09	9-Mar-09	-28%	-21%	13%	7%	41%	0.8	-0.5
23-Apr-10	5-Jul-10	-16%	-9%	-21%	7%	-5%	0.6	1.3
29-Apr-11	25-Nov-11	-15%	-27%	-20%	-12%	-4%	1.8	1.3
2-Apr-12	1-Jun-12	-10%	-13%	7%	-3%	17%	1.3	-0.7
21-May-15	25-Aug-15	-12%	-31%	-37%	-19%	-25%	2.5	3.0
3-Nov-15	11-Feb-16	-13%	-24%	-14%	-11%	-1%	1.8	1.1
26-Jan-18	8-Feb-18	-10%	-13%	-8%	-3%	2%	1.3	0.8
20-Sep-18	25-Dec-18	-20%	-13%	-9%	7%	11%	0.7	0.4
19-Feb-20	23-Mar-20	-34%	-20%	-13%	14%	21%	0.6	0.4
2-Sep-20	23-Sep-20	-10%	-7%	-4%	2%	6%	0.8	0.4
3-Jan-22	8-Mar-22	-12%	-16%	-14%	-3%	-1%	1.3	1.1
29-Mar-22	16-Jun-22	-21%	-4%	3%	16%	24%	0.2	-0.1
16-Aug-22	12-Oct-22	-17%	-19%	-9%	-2%	7%	1.1	0.6
16-Jul-24	5-Aug-24	-8%	-7%	-4%	1%	4%	0.8	0.5
19-Feb-25	13-Mar-25	-10%	1%	-1%	11%	9%	-0.1	0.1
Average		**-18%**	**-19%**	**-6%**	**-1%**	**12%**	**1.0**	**0.3**
Median		**-15%**	**-18%**	**-6%**	**0%**	**10%**	**1.2**	**0.4**

Note: Recent correction periods (since Covid) when both MXCN and China A outperformed SPX are highlighted in red; bear market periods (SPX Return < -20%) are highlighted in grey.

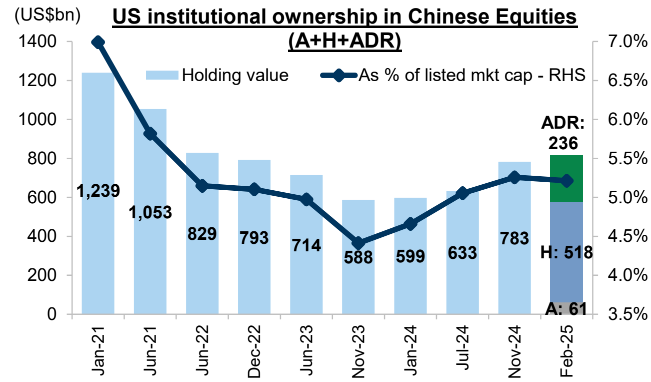
Source: MSCI, FactSet, Bloomberg, Goldman Sachs Global Investment Research

Exhibit 14: China has been trading less in sync with key equity markets globally



Source: MSCI, FactSet, Goldman Sachs Global Investment Research

Exhibit 15: We estimate that US investors currently hold around US$800bn of Chinese equities, mostly in the HK and ADR markets

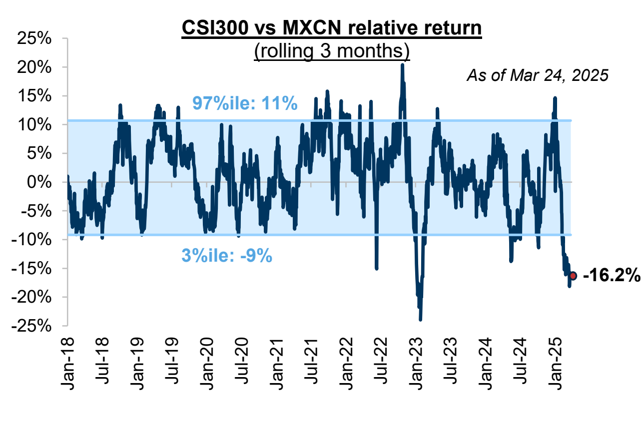


Source: Bloomberg, FactSet, Goldman Sachs Global Investment Research

8. Investor FAQ: Stick with H, or shift to A?

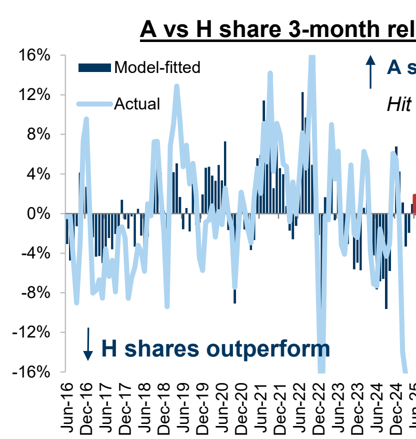
- This is one of the most frequently asked questions from investors, and understandably so given the **16pp outperformance of H shares (MSCI China) over A** shares in the past 3 months, equivalent to 99th percentile and 2.4 sd in the past-10 year H-A relative return range.
- 3 weeks ago, we flagged that the extreme H-share outperformance vis-a-vis the onshore market should result in mean reversion (or closing of the performance gaps) in subsequent months based on empirical evidence. Our A-H rotation model, which incorporates 6 macro, markets, and technical factors that have historically explained the tactical relative returns between the two markets well, also **suggests China A could modestly outperform H shares** in the next 3 months.
- **Absolute-return-focused investors generally are receptive of the tactical shift** to A shares, considering that the AI-powered rally has propelled H shares to more normalized valuations, and the compressed AH premium (lowest since July 2023) implies that the upside optionality regarding improving macro cyclicality, policy delivery, and recovering domestic retail risk appetite is more attractively priced in A shares.
- **Most asset allocators and bottom-up stock pickers nevertheless still maintain a preference for H shares** where large-cap, liquid hyperscalers and software/AI application names are listed, and their tracking errors (i.e. China underweights) are more pronounced.
- From a portfolio construction perspective, we would continue to **build the core holdings around mid-to-late cycle AI beneficiaries in H shares** to express our fundamental optimism on Chinese AI, but would look for alpha and laggard opportunities in select consumer and cyclical industries in A shares.

Exhibit 16: The 3m relative returns of CSI300 relative to MSCI China usually moved within +/-10% range



Source: MSCI, CSI, FactSet, Wind, Goldman Sachs Global Investment Research

Exhibit 17: Our A-H rotation model suggests that A shares are likely to modestly outperform H shares in the next three months



Factor	Favoring
Economic Growth	H
Macro Policy	A**
Regulations & Geopolitics	A
Company Fundamentals	H
Valuations	A***
Liquidity & Sentiment	H*

****, ** and * indicates the top 3 most influential factors*

Source: Bloomberg, FactSet, Goldman Sachs Global Investment Research

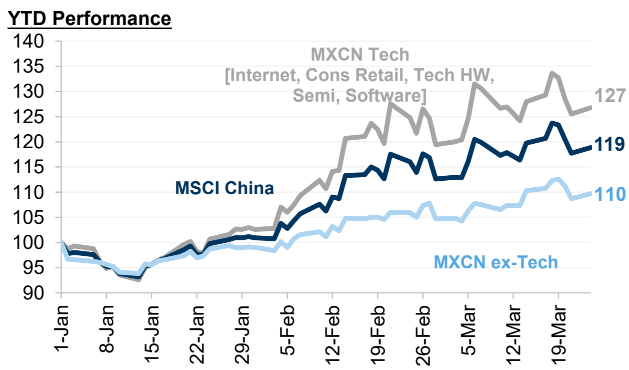
9. Can Tech extend the outperformance, or Consumer to take over?

- Similar to the H-to-A rotation question, **investors are also very focused on the prospect for broadening of return leadership from Tech to non-Tech**. Indeed, MSCI China would have gained merely 7% ytd (as opposed to 18%) if the top-10 largest Internet and AI-exposed tech companies were excluded from the benchmark. This is very different from last September's rally and the Reopening surge where top-10 names accounted for around 45% of index gains.
- Top-down, high index and return concentration isn't uncommon in a historical context for China equity, **with the index weight representation of top-10 stocks reaching as high as 40%** in 2015 and 2018. In the US market, Magnificent Seven added up to 33% of S&P500 index weight just 2 months ago.
- From a bottom-up perspective, the aggregate earnings weight of AI-Tech leaders as a percentage of the entire universe still appears low, and the winners-take-all nature in technology competition both suggest to us that **the potential for prevailing leaders to extend their outperformance** remains in place.
- The necessary conditions for a wholesale Tech to non-Tech rotation, in our view, would entail a broad economic recovery, a stabilization in the nationwide housing market, and clear signs that a reflation path is underway, all of which are more likely to materialize late this year or early next year per GS forecasts. Until then, we'd **continue to prefer thematic alpha over general sector beta in the consumer economy** and the cyclicals universe.

Exhibit 18: China's concentration is still moderately lower than the US

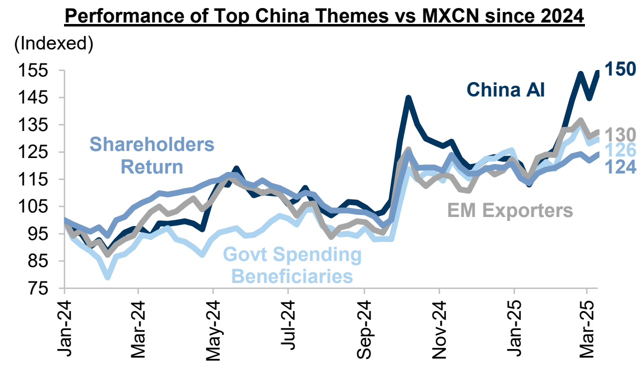
Source: Compustat, FactSet, MSCI, Goldman Sachs Global Investment Research

Exhibit 19: AI/Tech has led the rally in Chinese market ytd



Source: FactSet, MSCI, Goldman Sachs Global Investment Research

Exhibit 20: We favor AI, government spending beneficiaries, EM exporters, and shareholder return themes



Source: FactSet, MSCI, Goldman Sachs Global Investment Research

10. What are different types of investors thinking and doing on their China strategy?

Asset allocators: Within Asia, most investors appear to have accumulated equity exposures to Japan, Korea, and India in the past few years when Chinese equities were experiencing a bear market. Now, they are actively considering to re-engage in the public market although some are still heavily exposed to the Chinese private equity market. Tech (including EVs) and consumer names are the key areas of interest.

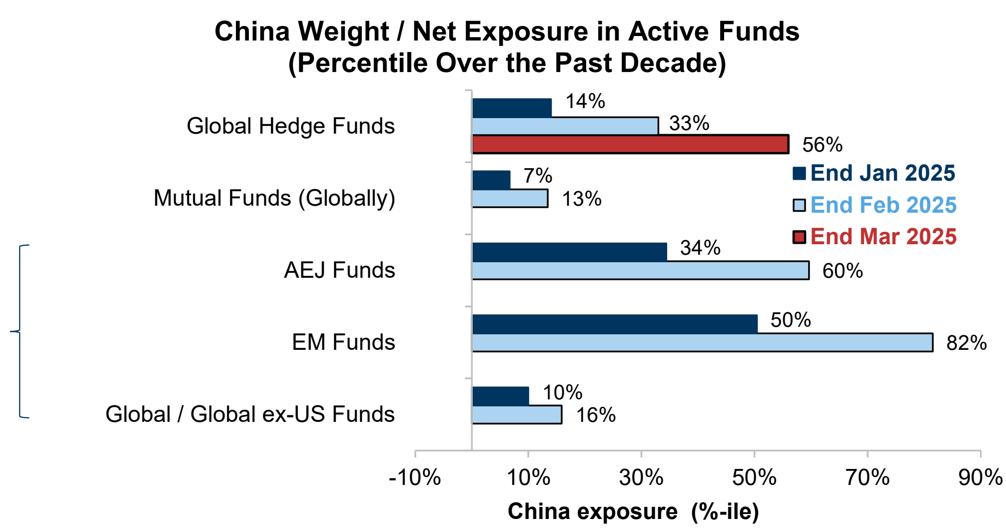
Global hedge funds: On GS PB data, their net buy flows to China have been muted ytd but net and gross exposures have risen (as a % of their global equity risks) due to the de-risking in US equities. Besides Tech in the ADR and HK markets, many are focused on specific AI supply chain (humanoid robotics, low latitude economy), and infra and material cyclicals.

Long-only mandates: Global funds are preoccupied with index heavyweights in the offshore Tech sector and high dividend-paying SOEs in addition to the Europe and Asia defense theme. EM and regional funds are looking into certain perceived policy beneficiaries in the consumer economy, notably those exposed to the consumption trade-in program, childcare subsidy, and local government spending.

Derivatives investors/traders: Interest in profit realization and/or downside protection, especially in offshore Tech, has increased following the strong rally in Hong Kong. Outperformance trades revolving around A-share mid-and-small caps driven by their funding value still resonate with many investors.

Quant funds: Global quant investors remain active in China as the onshore trading regulation clarity improves and structured product flows gradually recover from the dislocation in early 2024. Onshore quant funds have begun to expand overseas for risk diversification, and easier funding and market accessibility.

Exhibit 21: Both global hedge funds and active funds' allocation in Chinese equities rose in Feb and Mar



Note: Hedge fund data is based on GS Prime Services and represents 5-yr %-ile given shorter history; Mutual fund data is based on EPFR as of Dec-end and shows 10-yr %-ile

Source: EPFR, MSCI, Goldman Sachs Prime Services, Goldman Sachs Global Investment Research

Disclosure Appendix

Reg AC

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