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Investor Presentation | Asia Pacific

# China Equity Strategy: How to Position in the Reciprocal Era

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We stay EW on MSCI China within global EM/APxJ framework as China shows structural improvement but yet faces growth challenges from tariff shock



Source: MSCI, FactSet, Datastream, Morgan Stanley Research. Data as of Apr 28, 2025. Past performance is no guarantee of future results.

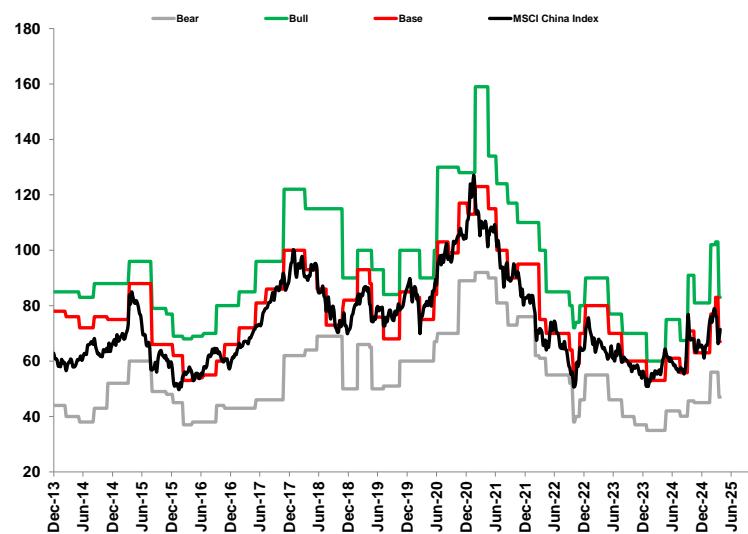
**Asia/EM/China Dec-25 price targets – Limited upside from our base case across the board amid global growth and investment uncertainties persist**

	Index	Current Price	MS Target Price (Dec-2025)	MS Top-Down EPS YoY %		Consensus EPS Forecast YoY %		MS Target Fwd P/E Dec - 2025	Consensus 12m Fwd P/E Current
				Dec-25	Dec-26	Dec-25	Dec-26		
Base Case	TOPIX	2,651	2,600 -2%	185 2%	200 8%	196 9%	214 9%	13.0x	13.4x
	MSCI EM	1,106	1,050 -5%	81 3%	91 12%	89 13%	100 13%	11.5x	12.0x
	MSCI APxJ	576	550 -4%	39 3%	42 8%	42 10%	47 12%	13.0x	13.3x
	Hang Seng	22,008	20,800 -5%	2,127 4%	2,213 4%	2,128 4%	2,297 8%	9.4x	10.1x
	HSCEI	8,068	7,700 -5%	887 4%	923 4%	901 2%	947 5%	8.3x	8.7x
	MSCI China	70	67 -5%	6 5%	6 5%	6.3 9%	7.1 12%	10.5x	10.7x
	CSI300	3,775	3,830 1%	284 6%	308 8%	296 9%	321 8%	12.4x	12.4x
Bull Case	TOPIX	2,651	3,100 17%	200 10%	221 11%	196 9%	214 9%	14.0x	13.4x
	MSCI EM	1,106	1,250 13%	86 9%	96 12%	89 13%	100 13%	13.0x	12.0x
	MSCI APxJ	576	650 13%	42 11%	46 10%	42 10%	47 12%	14.0x	13.3x
	Hang Seng	22,008	25,500 16%	2,180 6%	2,324 7%	2,128 4%	2,297 8%	11.0x	10.1x
	HSCEI	8,068	9,450 17%	909 5%	960 6%	901 2%	947 5%	9.8x	8.7x
	MSCI China	70	83 18%	6.3 7%	6.7 7%	6.3 9%	7.1 12%	12.5x	10.7x
	CSI300	3,775	4,650 23%	293 8%	324 11%	296 9%	321 8%	14.3x	12.4x
Bear Case	TOPIX	2,651	2,100 -21%	170 -6%	175 3%	196 9%	214 9%	12.0x	13.4x
	MSCI EM	1,106	780 -29%	75 -6%	78 5%	89 13%	100 13%	10.0x	11.6x
	MSCI APxJ	576	410 -29%	36 -5%	37 2%	42 10%	47 12%	11.0x	12.9x
	Hang Seng	22,008	14,400 -35%	1,978 -3%	1,959 -1%	2,128 4%	2,297 8%	7.3x	10.1x
	HSCEI	8,068	5,400 -33%	852 0%	840 -1%	901 2%	947 5%	6.4x	8.7x
	MSCI China	70	47 -33%	5.9 2%	5.9 -1%	6.3 9%	7.1 12%	8.0x	10.5x
	CSI300	3,775	2,810 -26%	278 3%	277 0%	296 9%	321 8%	10.2x	12.5x

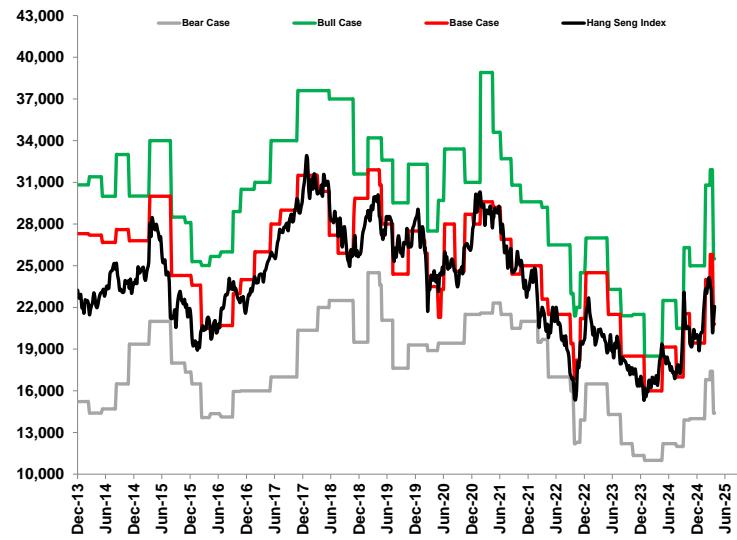
Source: MSCI, IBES, Bloomberg, FactSet, RIMES, Morgan Stanley Research estimates. Data as of Apr 29, 2025.

## Morgan Stanley bull/bear/base case index target history for MSCI China and the Hang Seng Index

MS target price history for MSCI China



MS target price history for Hang Seng



Source: RIMES, FactSet, Morgan Stanley Research forecasts. Weekly price index data as of Apr 23, 2025.

## Assessing Morgan Stanley China framework – Holistic analysis has led to lower price targets with heightened growth and geopolitical challenges

	2018	2020 Post Covid-19	2H 2021	Dec-22	Aug-23	Feb-25	Apr-25
<b>1 Economic/Earnings Estimates</b>	x	✓	Neutral	xx	xx	x ↑	x
<b>2 Valuation</b>	x	✓	x	Neutral	Neutral	✓ ↑	Neutral ↓
<b>3 Liquidity</b>	x	✓	x	✓	x	✓ ↑	✓
<b>4 Policy Cycle</b>	x	✓	x	✓✓	✓	✓	✓
<b>5 USDCNY trend</b>	x	✓	Neutral	✓	x	xx	xx
<b>6 US/China &amp; geopolitical tension</b>	x	Neutral/ Slightly negative	Neutral/ Slightly negative	Neutral/ Slightly negative	Neutral/ Slightly negative	x ↑	xx ↓
<b>7 Regulatory/Policy priority</b>	x	Neutral	x	✓	xx	✓ ↑	✓

 Downgrade   
  Upgrade   
  Downgrade   
  Upgrade   
  Downgrade   
  Upgrade   
  PT cut

Source: Morgan Stanley Research. Tick indicates our view on the factor is improving, while x indicates the factor is deteriorating, and xx indicates a greater level of deterioration.

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**We see several sustainable structural improvements for MSCI China on ROE, investability and earnings revision cycle, along with offsetting forces of tariff and geopolitical uncertainty**

**Positive developments**

- **MSCI China ROE effectively troughed in 2024 and is likely to catch up with MSCI EM's by 2027:**
  - Diligent corporate self-help and active shareholder enhancement activities;
  - Offshore Chinese universe over time becoming less influenced by macro and deflation.
- **MSCI China wrapping up a 13-quarter long earnings estimates cuts, delivering the first in-line result in 4Q24.**
- **A structural valuation regime shift for MSCI China re-rating has taken place (from 8-10x for 12-month forward P/E to 10-12x):**
  - Regulatory shift from rectification to revitalization – private entrepreneur symposium;
  - China demonstrating its capability to persist with technology breakthroughs and remain/lead in AI competition, despite cost and equipment hurdles.

**VS.**

**Tariff & geopolitical uncertainties**

- **Worsening external demand and drag on export growth likely to kick in badly from 2Q given lofty reciprocal tariff between US and China.**
- **Ongoing domestic deflationary pressure.**
- **Relatively measured government stimulus policy.**
- **Potential escalation of non-tariff geopolitical uncertainties:**
  - ADR delisting risk “back on the table”.
  - America First Investment Memo.
  - Other non-tariff hawkish China measures including lofty Chinese ship docking fee at US ports and technology restrictions, etc.

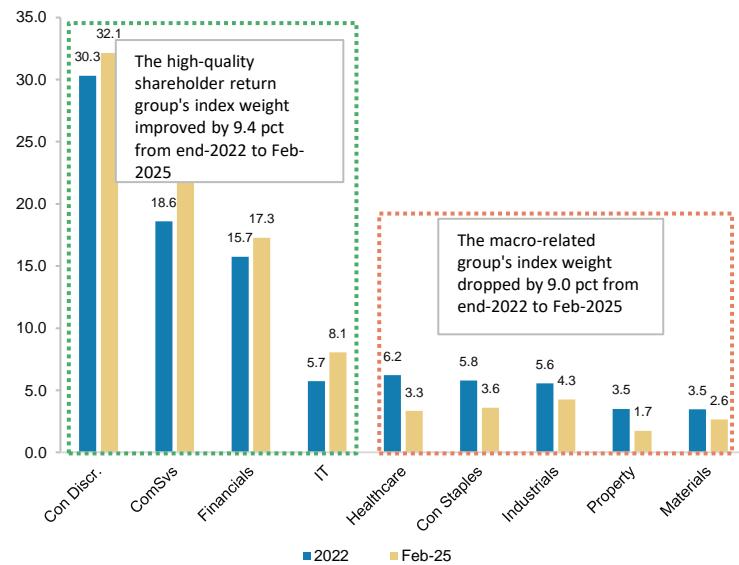
**MSCI China's ROE history – Off the bottomed as of 2H24; further gradual recovery likely with newly emerged AI tech monetization outlook and persistent shareholder return enhancement activities**



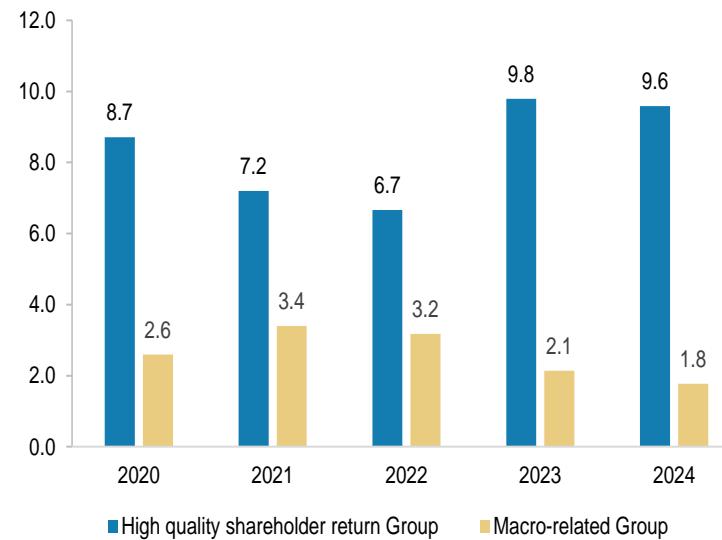
Source: Bloomberg, Morgan Stanley Research. Note: Historical data are weekly as of Apr 25, 2025.

## High-quality Group (Tech-focused and shareholder return enhancement-focused) gradually gain more representation in offshore China equity universe

**MSCI China's index weighting changes for High Quality Group vs. Macro-correlated Group**



**MSCI China Index-weighted ROE by two groups**



Source: Factset, Morgan Stanley Research. Data as of February 17, 2025.

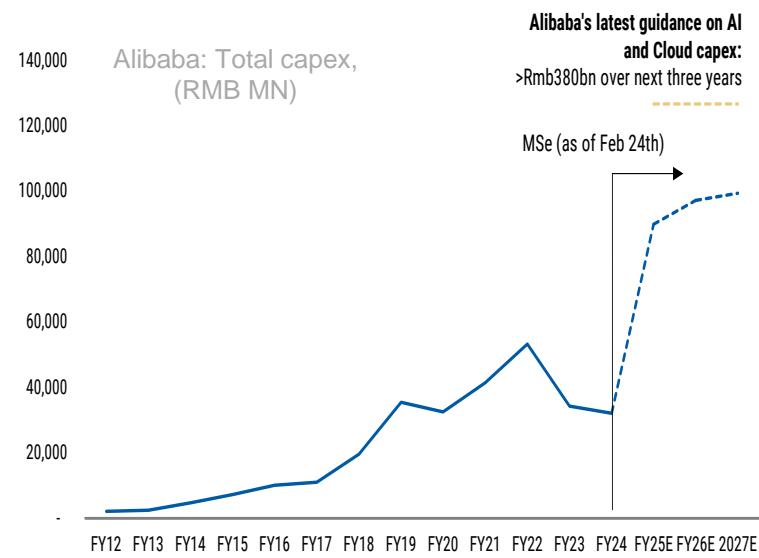
Source: Factset, Morgan Stanley Research.

## Animal spirits are making a partial comeback, reinforcing tech and economic growth as a key priority

### Six “Little Dragons” in Hangzhou rose to prominence



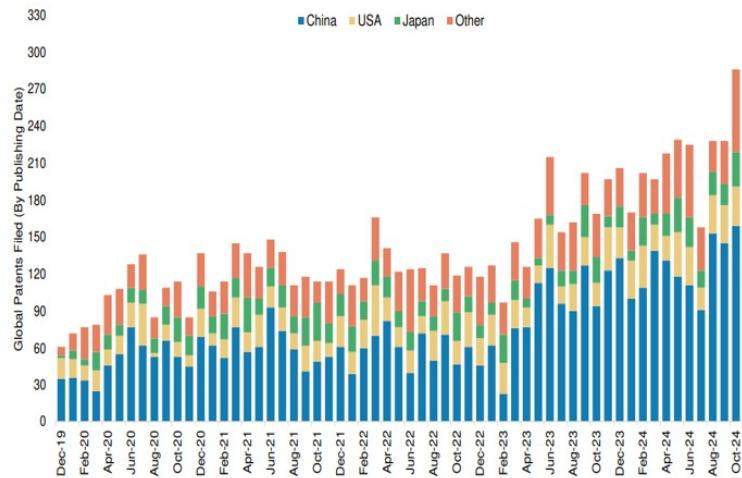
### Alibaba announced an upbeat capex plan on AI



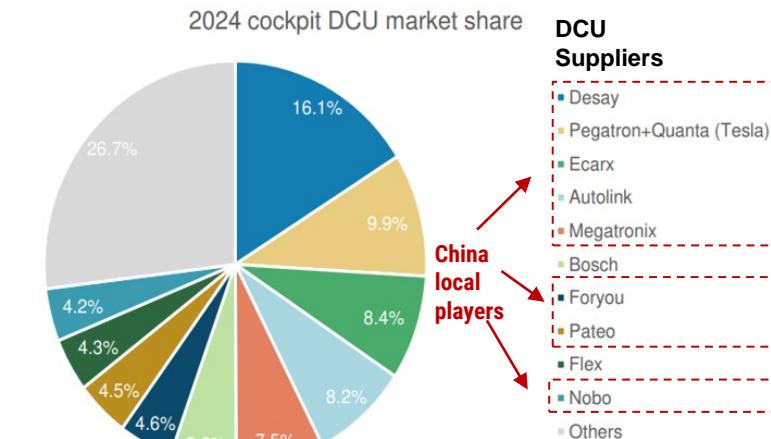
Source: Company announcement, Morgan Stanley Research (E) estimates based on the latest model on Feb 24<sup>th</sup>, 2025. FY=Fiscal Year, e.g., FY26=Apr 25-Mar 26.

## Competitive edge in other emerging tech

**China's share in global patent applications related to "humanoid"\*\* has increased notably since 2023**



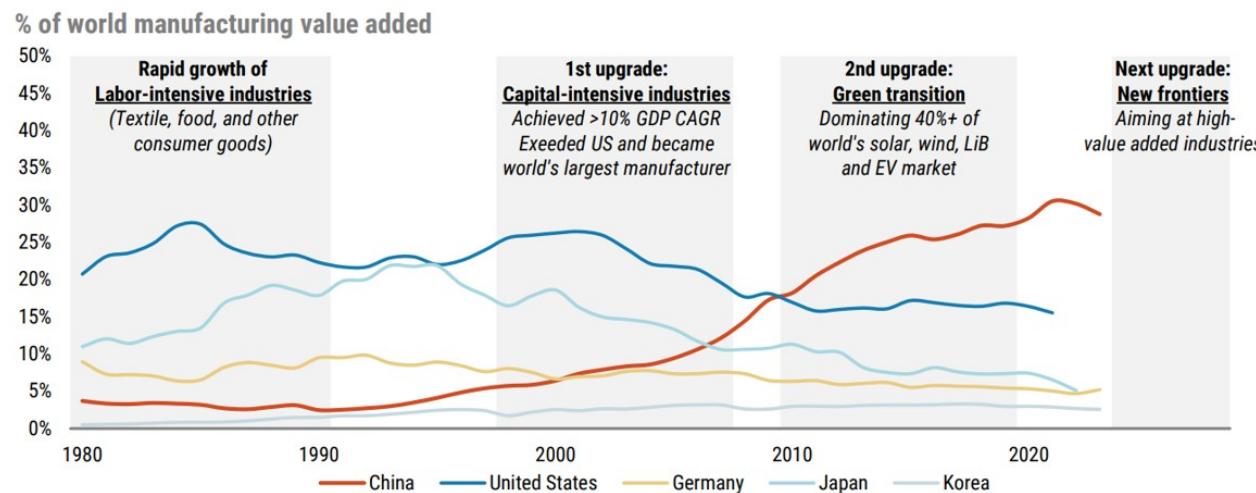
**Auto-driving: Chinese local suppliers dominate domestic C-DCU market**



Source: Google Patents, Gasgoo, Morgan Stanley Research. \*Ordered by publishing date. We included latest data available via Google Patents, which is as of November 2024.  
Note: C-DCU = cockpit domain control units.

**Each industrial upgrade cycle has boosted China's importance within the world economy; to maintain this momentum, further upgrades will be needed**

**Each industrial upgrade cycle has boosted China's importance within the world economy**



China's manufacturing sector has laid the foundations for its next upgrade cycle:

**Economies of Scale**

China has large and integrated supply chain to drive efficiency gains and cost reductions.

**Adaptability**

China is the only economy that covers all traditional and emerging manufacturing sectors.

**Rapid Green Transition**

China has been the key driver of decarbonization globally.

**Swift Adoption of Automation and AI**

Leverage automation and digital technology to facilitate cost reduction and process refinement.

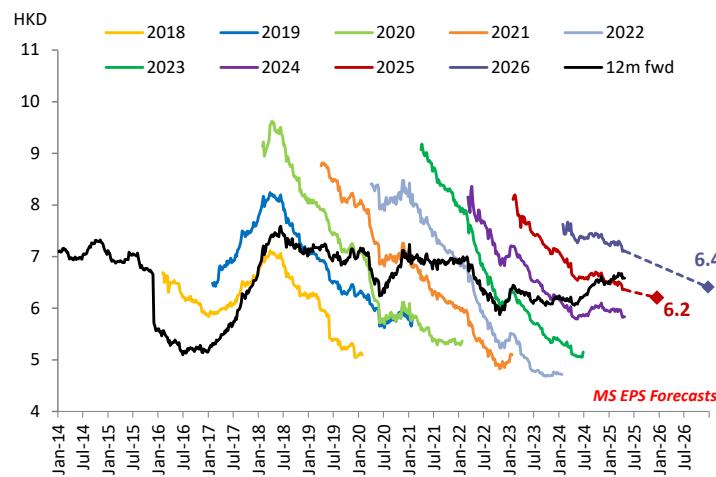
**Large Talent Pool**

China has large talent pool to support broad exploration of different technological routes across various industries.

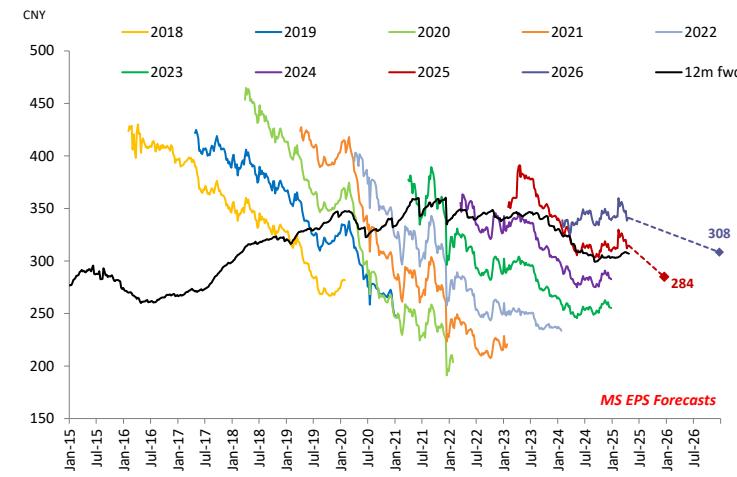
Source: Bureau of Labor Statistics, Morgan Stanley Research.

**Consensus earnings estimates have been on a downward revision path in response to uncertain macro momentum**

**MS EPS base-case forecasts for MSCI China at Dec-25 and Dec-26**



**MS EPS base-case forecasts for CSI 300 at Dec-25 and Dec-26**



Source: IBES, Datastream, Morgan Stanley Research. Weekly data as of Apr 24, 2025.

Source: IBES, Datastream, Morgan Stanley Research. Weekly data as of Apr 24, 2025.

## MSCI China consensus EPS composition by industry group

MSCI China	Consensus EPS Contribution			EPS Growth			EPS Growth Contribution		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Automobiles & Components	0.08	0.15	0.24	NM	86%	59%	1.1%	1.1%	1.2%
Banks	1.55	1.59	1.65	1%	3%	3%	0.2%	0.7%	0.8%
Capital Goods	0.19	0.23	0.25	-13%	16%	10%	-0.5%	0.5%	0.3%
Commercial & Professional Services	0.00	0.00	0.00	-70%	24%	19%	0.0%	0.0%	0.0%
Consumer Durables & Apparel	0.10	0.11	0.12	29%	10%	11%	0.4%	0.2%	0.2%
Consumer Services	0.28	0.32	0.39	52%	12%	21%	1.7%	0.5%	1.0%
Diversified Financials	0.11	0.14	0.15	18%	22%	7%	0.3%	0.4%	0.1%
Energy	0.25	0.24	0.24	-3%	-5%	4%	-0.1%	-0.2%	0.1%
Food & Staples Retailing	0.01	0.01	0.01	-3%	9%	17%	0.0%	0.0%	0.0%
Food Beverage & Tobacco	0.12	0.14	0.15	11%	10%	10%	0.2%	0.2%	0.2%
Health Care Equipment & Services	0.03	0.03	0.04	-24%	9%	10%	-0.2%	0.0%	0.0%
Household & Personal Products	0.01	0.01	0.01	13%	2%	12%	0.0%	0.0%	0.0%
Insurance	0.52	0.47	0.51	87%	-10%	8%	4.1%	-0.8%	0.5%
Materials	0.16	0.19	0.22	16%	23%	14%	0.4%	0.6%	0.4%
Media & Entertainment	0.90	0.98	1.09	33%	9%	12%	3.8%	1.3%	1.6%
Pharmaceuticals, Biotechnology & Life Sciences	0.05	0.07	0.09	-2%	42%	30%	0.0%	0.3%	0.3%
Real Estate	0.06	0.11	0.12	-65%	73%	17%	-2.0%	0.7%	0.3%
Retailing	1.00	1.08	1.25	27%	8%	15%	3.6%	1.3%	2.3%
Semiconductors & Semiconductor Equipment	-0.01	0.02	0.04	NM	NM	70%	-1.4%	0.6%	0.2%
Software & Services	0.00	0.00	0.01	-29%	25%	55%	0.0%	0.0%	0.0%
Technology Hardware & Equipment	0.15	0.19	0.24	33%	30%	25%	0.6%	0.7%	0.7%
Telecommunication Services	0.01	0.02	0.02	11%	18%	35%	0.0%	0.0%	0.1%
Transportation	0.12	0.10	0.10	34%	-12%	-1%	0.5%	-0.2%	0.0%
Utilities	0.14	0.16	0.17	5%	13%	8%	0.1%	0.3%	0.2%
<b>MSCI China</b>	<b>5.8</b>	<b>6.4</b>	<b>7.1</b>	<b>15%</b>	<b>9%</b>	<b>12%</b>	<b>15%</b>	<b>9%</b>	<b>12%</b>

Source: IBES, MSCI, FactSet, Datastream, Morgan Stanley Research. Data as Apr 29, 2025.

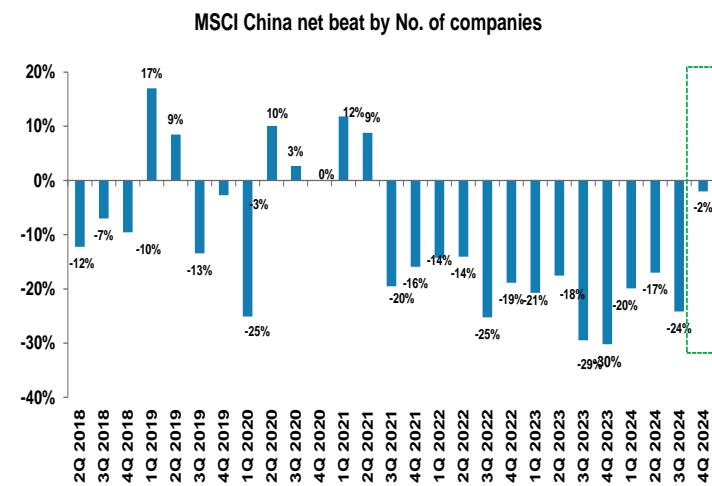
## MS top-down and bottom-up MSCI China EPS forecasts, by industry breakdown

EPS Growth Decomposition	Index weight*	MS EPS Growth	
		2025E	2026E
Consumer Discretionary	27%	14%	14%
Consumer Staples	3%	26%	10%
Information Technology	7%	23%	22%
Health Care	3%	27%	11%
Communication Services	22%	11%	16%
Utilities	2%	4%	13%
Real Estate	2%	42%	12%
Financials	15%	(1%)	2%
Energy	2%	(7%)	5%
Materials	2%	19%	8%
Industrials	2%	(2%)	4%
<hr/>			
MS bottom up forecasts of EPS growth for MSCI China		13%	11%
MS top down forecasts of EPS growth for MSCI China		5%	5%
Consensus EPS growth for MSCI China		9%	12%

Source: FactSet, Datastream, ModelWare, Morgan Stanley Research. Data as of Apr 29, 2025. \*Only index weight of MS research covered stocks that are MSCI China constituents are counted. Hence it may not sum to 100% due to coverage.

**First in-line quarterly earnings result in three and half years, led by Internet, financials, healthcare, and IT**

### MSCI China quarterly earnings surprises by number of companies



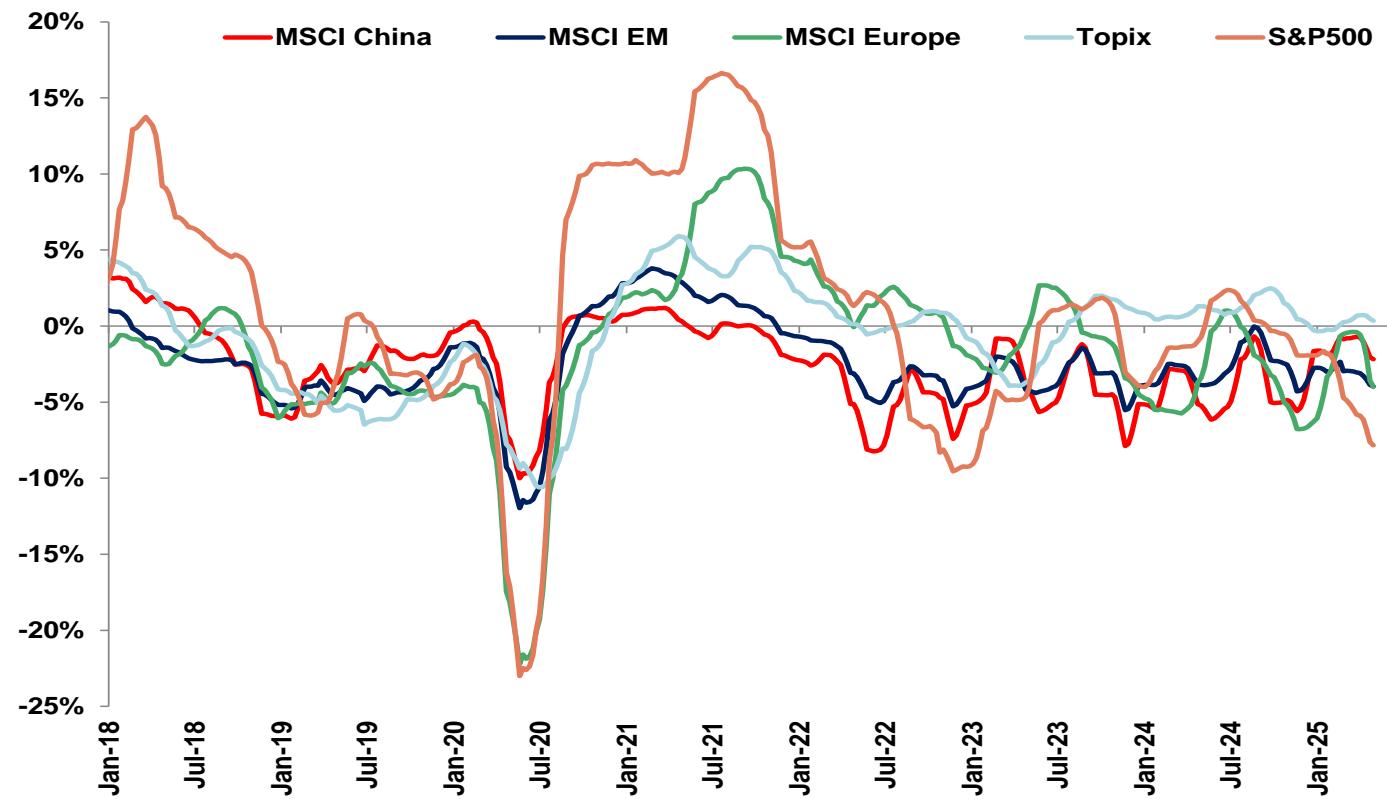
### 4Q24 earnings surprise ratio by sector

Sector	Earnings surprise ratio (by number of companies)	Earnings surprise ratio (Market cap weighted)
Communication Services	42%	3%
Consumer Discretionary	16%	6%
Consumer Staples	-29%	-16%
Energy	-8%	-12%
Financials	27%	5%
Health Care	-3%	15%
Industrials	-19%	-3%
Information Technology	-54%	36%
Materials	12%	1%
Real Estate	-33%	-8%
Utilities	-56%	-21%

Source: MSCI, Bloomberg, RIMES, Factset, Morgan Stanley Research. Data as of Mar 30, 2025.

Source: MSCI, Bloomberg, RIMES, Factset, Morgan Stanley Research.

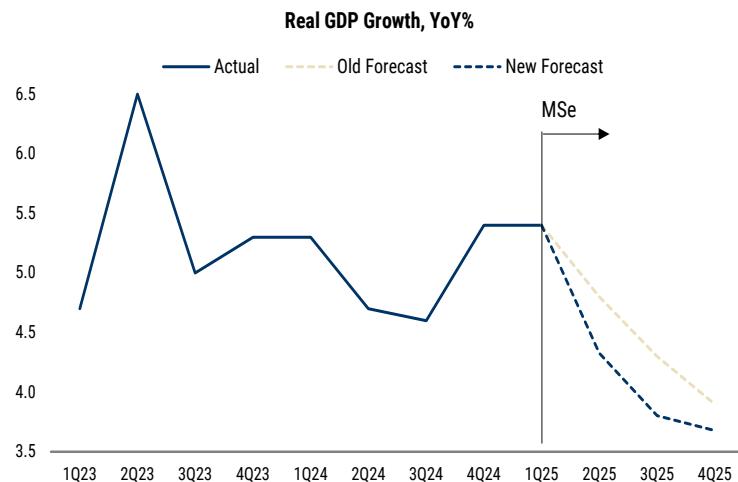
## 12-month Forward ERB (Earnings Revision Breadth, 3MMA) – China trending positive until being disrupted by the tit for tat tariff war



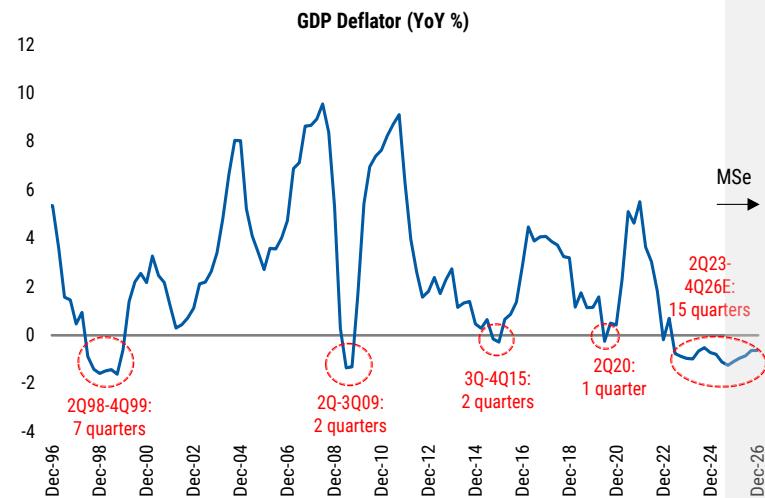
Source: IBES, DataStream, Morgan Stanley Research. Note: Weekly data as of Apr 29, 2025.

## Growth to soften from 2Q onward

### 2Q real GDP tracking at <4.5% YoY



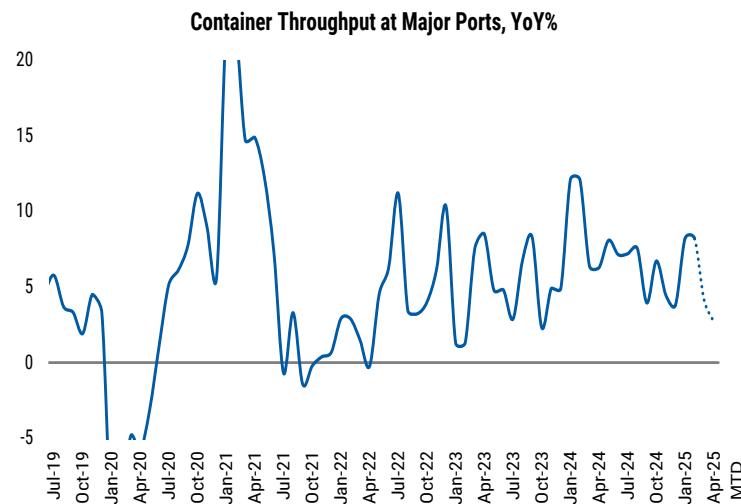
### Deflation pressure remains persistent



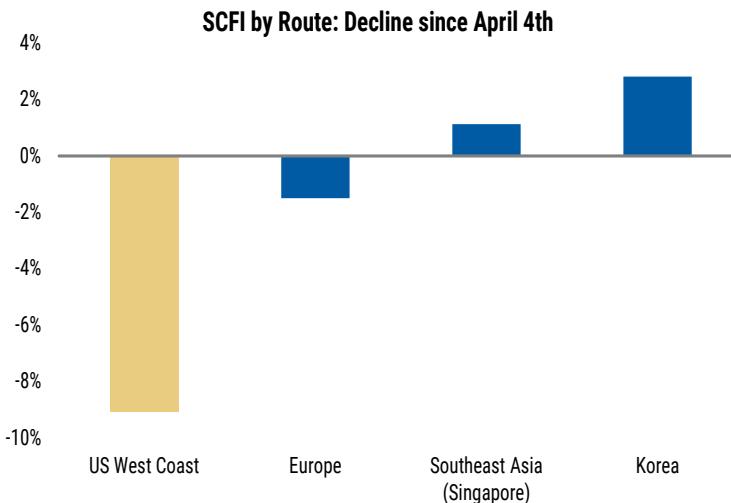
Source: NBS, Morgan Stanley Research estimates.

## Plummeting shipments to the US

Prohibitive tariffs have started to weigh on China's overall container throughput



Sharp decline in shipment cost to the US

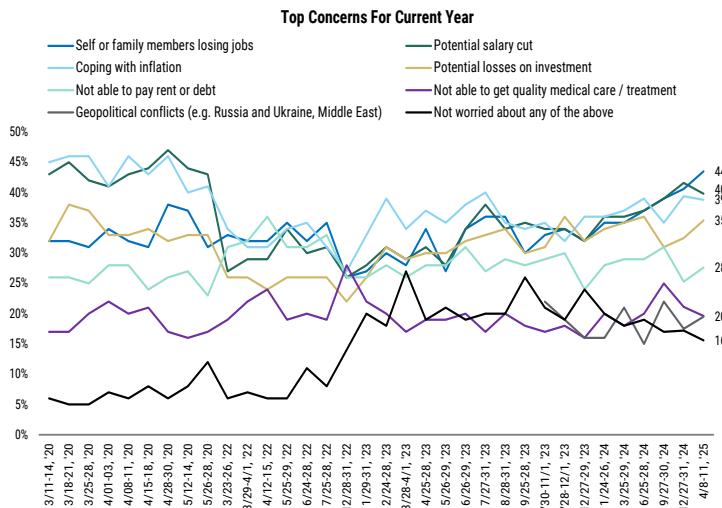


According to logistics data platform, [Vizion](#), ocean container bookings from China to the US fell 64% WoW in the first week of April.

Source: CEIC, Shanghai Shipping Exchange, Morgan Stanley Research.

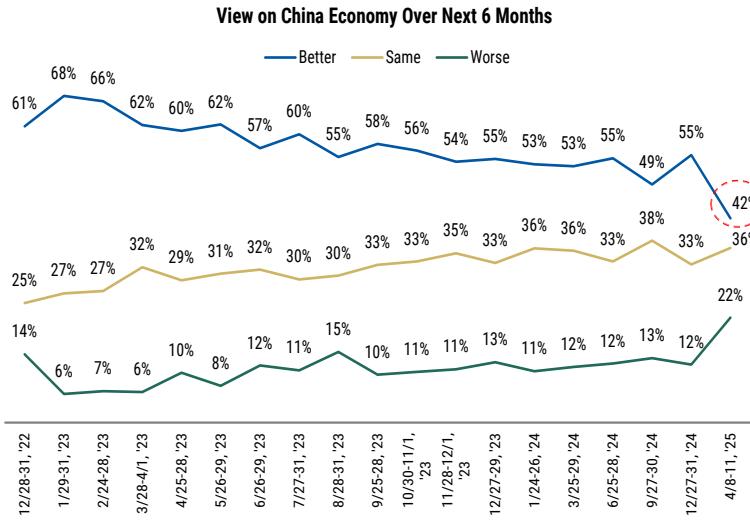
## Weakening household sentiment on consumption

### Increasing household concerns over job and salary amid US tariff hikes



Source: AlphaWise, CMM, CPC, Morgan Stanley Research.

### MS AlphaWise survey shows a sharp drop in consumer confidence



Source: AlphaWise, Morgan Stanley Research. \*Latest survey was conducted during Apr 8-11.

## Announced fiscal package at NPC remains modest and still supply-centric stimulus

### NPC announced a modest Rmb2trn fiscal package...

	Augmented Fiscal Expansion, RMB Bn		
	2024	2025	Net Stimulus/Withdrawal
(+) Budget Deficit	4,060	5,660	1,600
(+) Long-term Special Treasury Bonds	1,000	1,300	300
(+) Local Govt. Special Bonds	3900	4400	500
(-) Fiscal Carryover	2,431	2,056	-376
(-) Land Sales	2,045	2,004	-41
<b>Total</b>			<b>1,984</b>

Only ~1/4 of the Rmb2trn stimulus is related to consumption:

- **Consumer trade-in program:** Rmb300bn (vs. Rmb150bn in 2024)
- **Wage hike for civil servants:** ~Rmb200bn annually
- **Rise in basic pension and medical insurance subsidies:** ~Rmb50-100bn annually

Source: NPC, CEIC, Morgan Stanley Research estimates.

...With a clear tech focus

### Concrete support for tech innovation

1

#### A new tech board for the bond market

To facilitate direct debt financing by tech companies and PEs

2

#### A state startup fund

The fund could reach Rmb1trn in size after incorporating private investment

3

#### Expanded quota on PBoC sci-tech relending facility

From Rmb500bn to Rmb0.8-1trn

4

#### Rise in on-budget tech spending

Reaching Rmb1.2trn, or 8.3%Y (vs. 4.4%Y for overall fiscal spending)

## Politburo: Modest stimulus, new rhythm

### Politburo Summary

#### Policy Stance

- Top leaders pledged to “**coordinate domestic policy and fight the war**”.
- The meeting urged for “**pressing ahead** for the first time with the implementation of existing policies

#### Specific Measures

- Faster issuance of **government bonds**
- **RRR and policy rate cut** at appropriate time
- **Unemployment insurance rebate** to exporters
- **A new relending facility** for service consumption and elderly care
- An **increase in funding support** for, and **widening of scope** of, the consumer trade in program
- The meeting also urged to **prepare for the worse case and develop contingency plans**

#### Housing Market

- Housing stimulus remains cautious. **Decisive housing inventory digestion appears elusive.**

#### Business Environment

- Early signs of pledges regarding **market openness** and **regulatory easing**.

Source: Xinhua, Morgan Stanley Research.

## What to expect for policy stimulus

### Potential policy stimulus in 2025

#### 2Q25 - Policy Front-loading

- Faster issuance and use of government bonds
- Faster implementation of **consumer goods trade-in program**, potentially via broader coverage or more generous subsidies
- PBoC relending to support **service consumption and tech investment**
- **Modest monetary easing**, including a 50bp RRR cut and a 15bp policy rate cut (out of 30bp total expected for FY25)
- **Unemployment insurance rebate** to exporters
- Rollout of **national fertility subsidies** as part of broader structural support

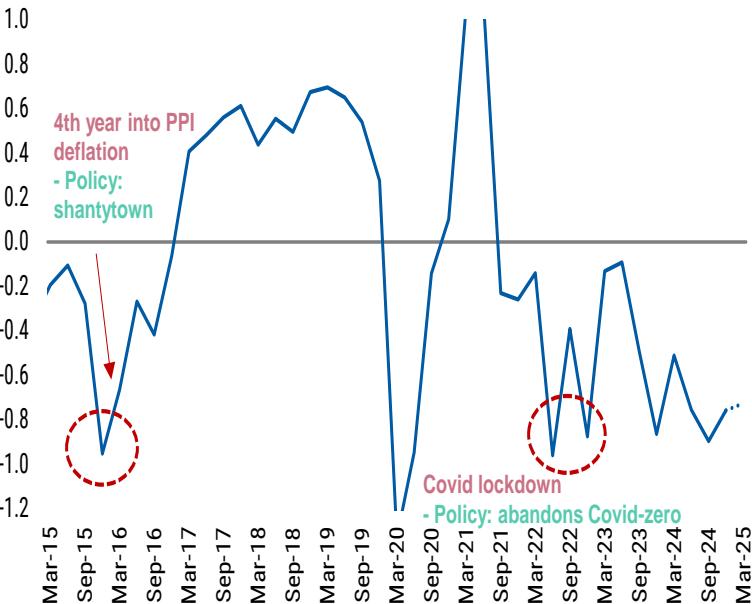
#### 2H25 - A Rmb1-1.5trn Supplementary Fiscal Package

- Enhanced **infrastructure and tech investment support**
- Expanded quotas for **trade-in subsidies** and further support for services consumption
- Potentially more decisive **government purchase of housing inventory**

Source: NBS, Morgan Stanley Research estimates.

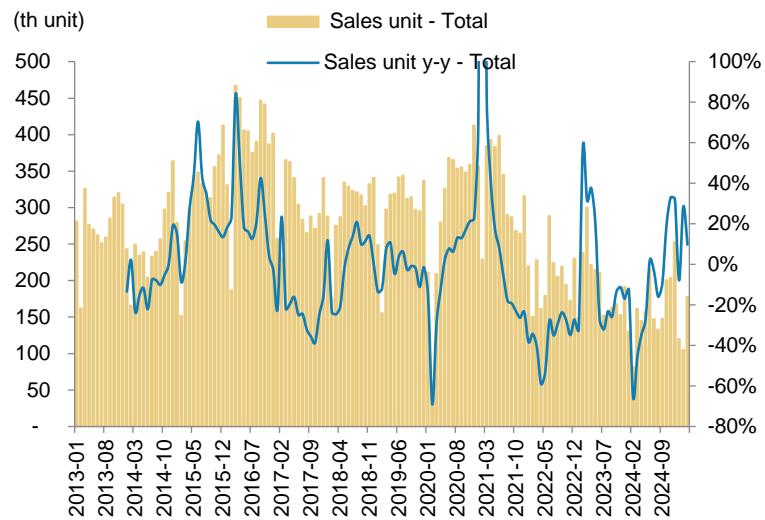
**Incremental stimulus could be brought forward should growth and social dynamics weaken sharply**

China Social Dynamics Indicator (Z-score)

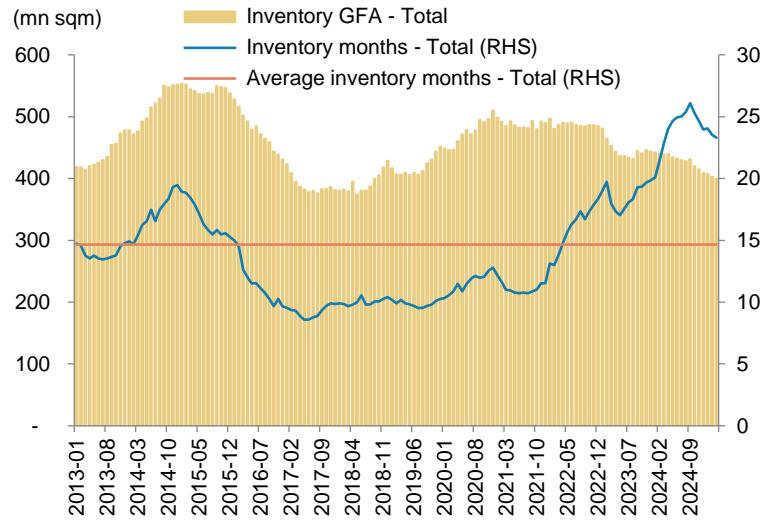


## Property market outlook remains uncertain with relatively high inventory levels

**Monthly primary housing sales**



**Housing inventory among 70 cities**

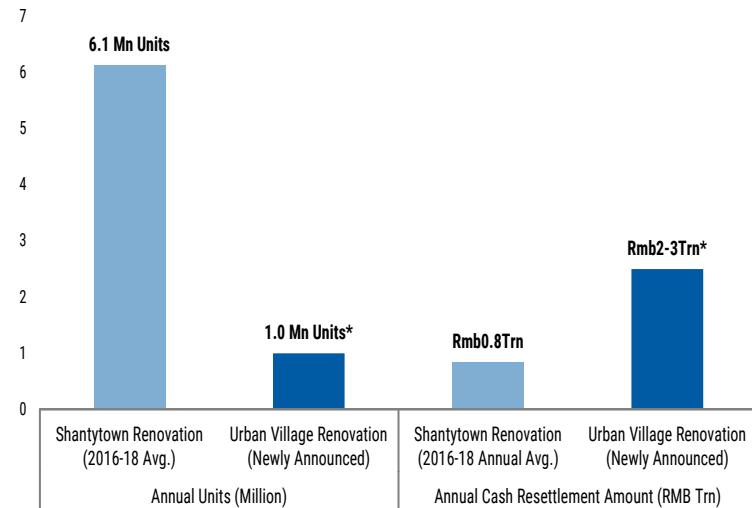


Source: CREIS, Morgan Stanley Research. Note: Monthly data as of end-Mar 2025.

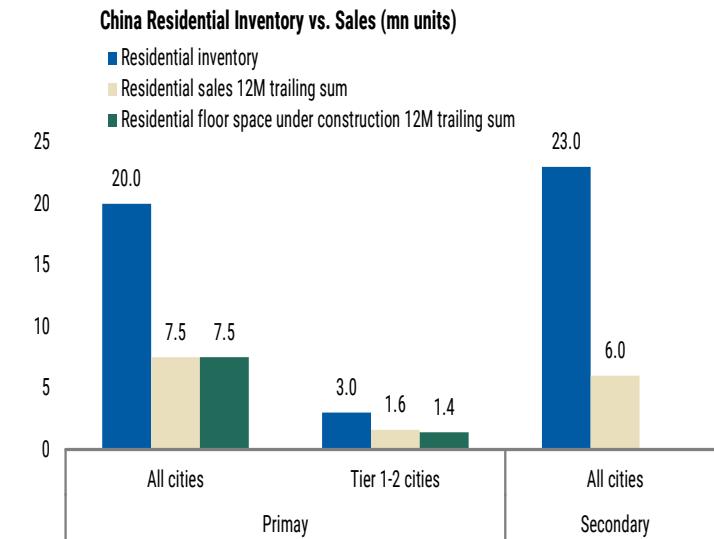
Source: CREIS, Morgan Stanley Research. Note: Monthly data as of end-Mar 2025.

## Housing inventory digestion still underway

**1mn units cash resettlement program for urban village redevelopment is a positive step**

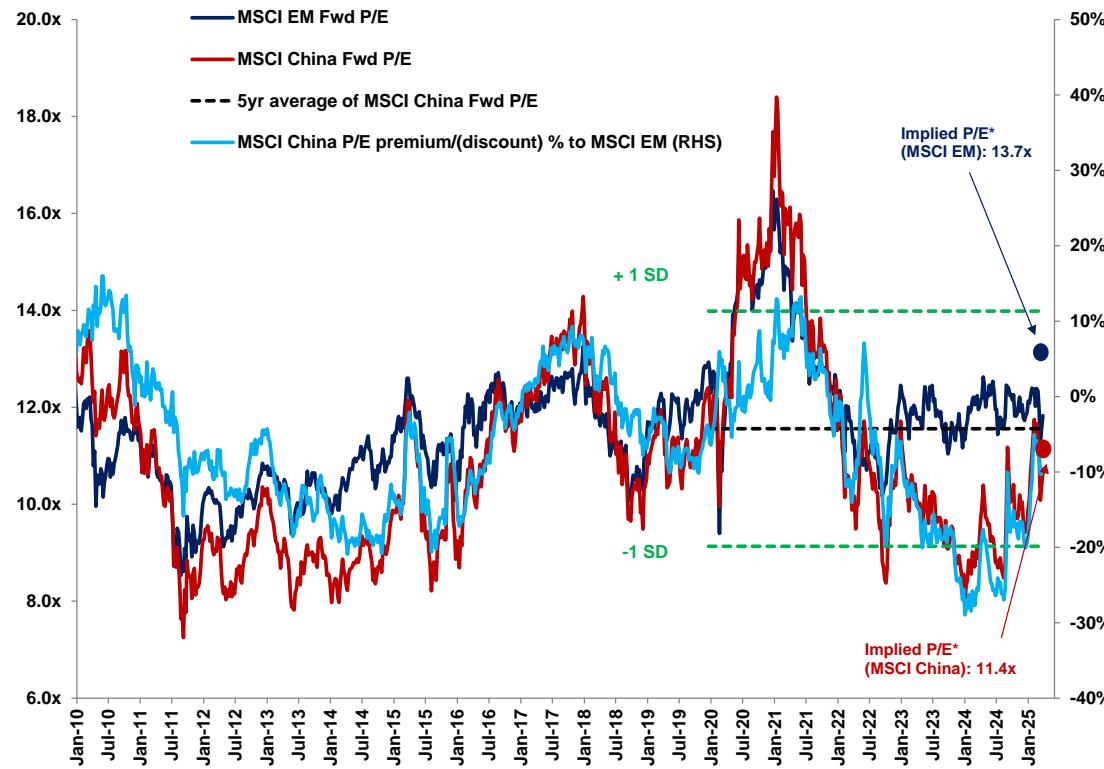


**Unlike tier 1-2 cities, lower-tier cities will face more pressure, given still elevated inventory**



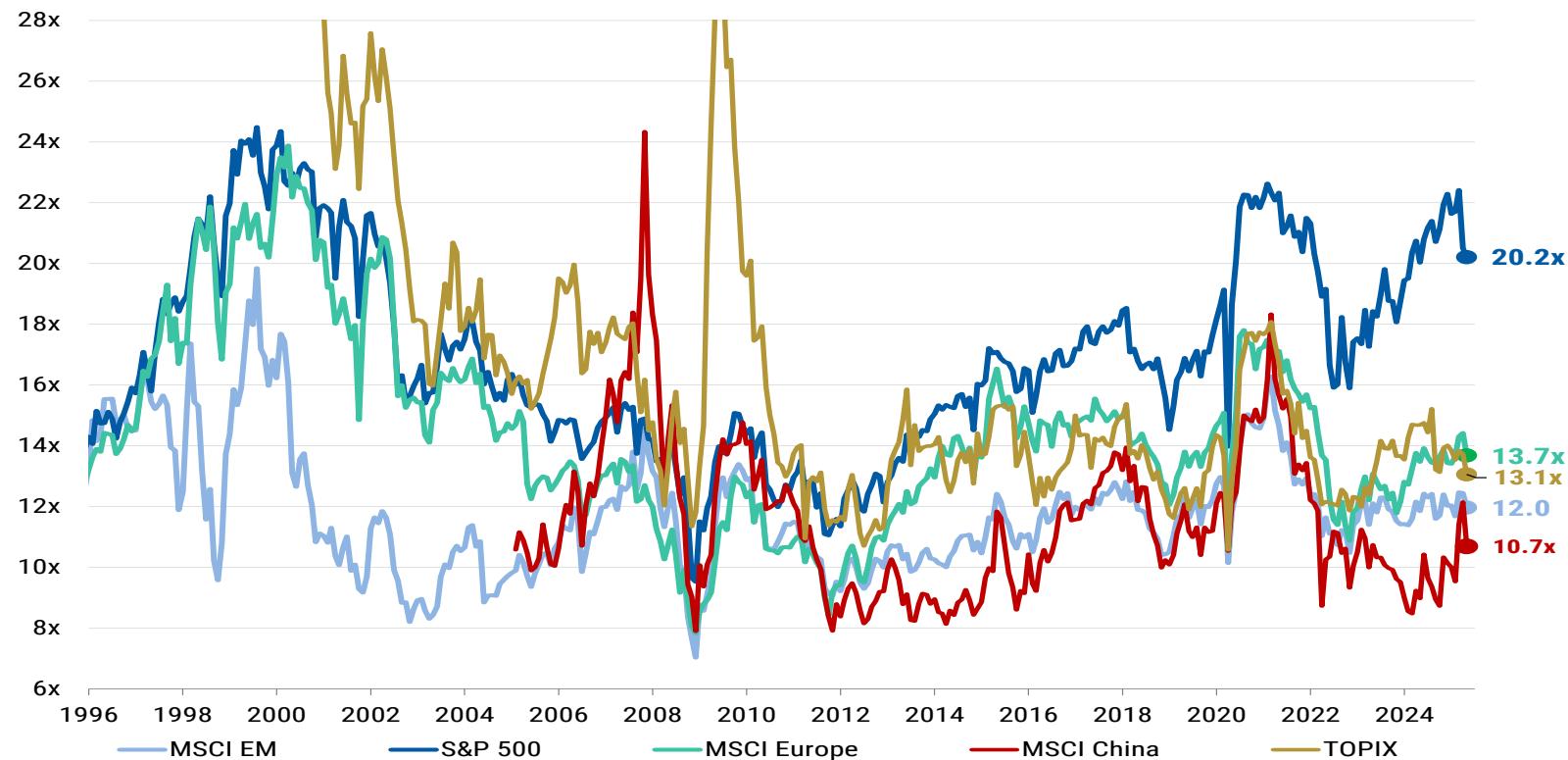
Source: Government websites, CEIC, CREIS, CRIC, Morgan Stanley Research. \*Here we assume the newly announced 1mn unit urban village renovation would be completed within 1 year, with 100% cash settlement.

## MSCI China trades at 10.7x 12-month forward P/E, at 10% discount vs. MSCI EM



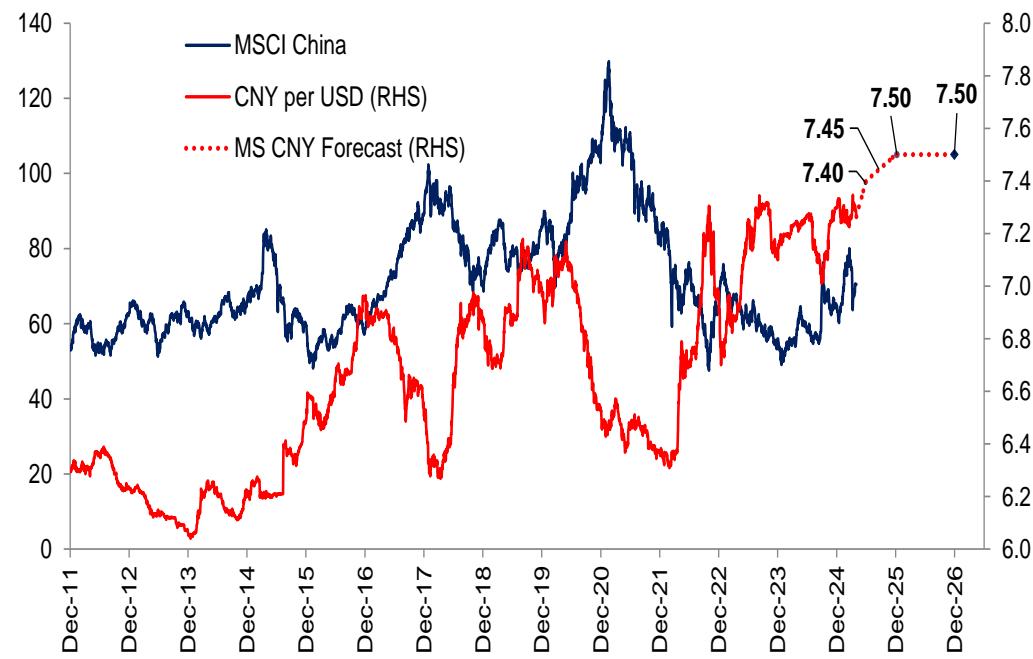
Source: Datastream, MSCI, Morgan Stanley Research. Data as of Apr 29, 2025.

## MSCI China still trades at discounts to other major global equity markets



Source: IBES, MSCI, FactSet, Morgan Stanley Research. Note: Data as of Apr 29, 2025.

## MSCI China vs. USDCNY – Moderate depreciation through the year



Source: CEIC, Morgan Stanley Research. Data as of Apr 30, 2025. MS China Economics team expects USDCNY to reach 7.40, 7.45, 7.50 and 7.50 by end-2Q25, end-3Q25, end-2025 and end-2026.

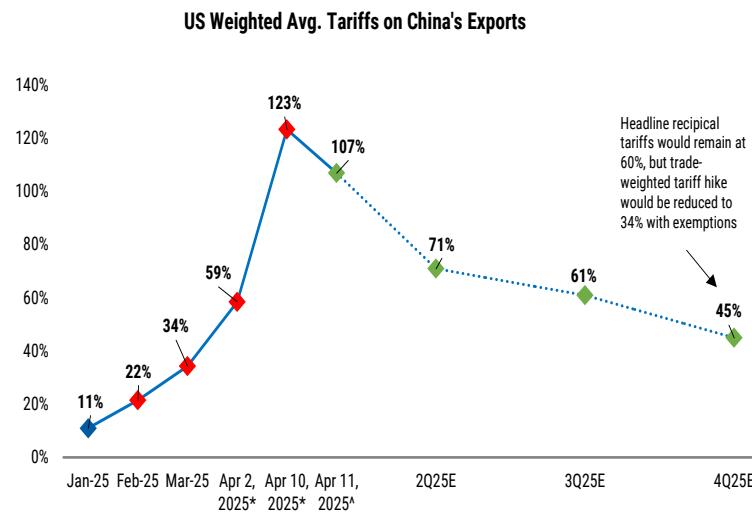
## Long-term outlook for US-China relationship remains in the “Competitive Confrontation” state based on the MS framework of a multipolar world

		High Offense Strategy	
		Constructive Competition	Competitive Confrontation [Current]
Low Defense Strategy			
		<p><b>Offense</b></p> <ul style="list-style-type: none"> <li>- Federal investment in infrastructure and 'new economy,' partly funded by progressive tax reforms</li> <li>- Enacts 'Buy American' and supply-chain security focused legislation and executive orders</li> </ul> <p><b>Defense</b></p> <ul style="list-style-type: none"> <li>- US focuses trade barriers on acute security risks, reducing tariffs in pursuit of trade and cooperative goals</li> </ul>	<p><b>Offense</b></p> <ul style="list-style-type: none"> <li>- Incentives to build out innovation pipeline in foundational science and emerging industries</li> <li>- Federal investment in infrastructure and 'new economy' partly funded by progressive tax reforms</li> </ul> <p><b>Defense</b></p> <ul style="list-style-type: none"> <li>- Continuation and expansion of non-tariff barrier arrangements and policies to protect technology</li> <li>- Enacts 'Buy American' and supply-chain security focused legislation and executive orders</li> </ul>
		<p><b>Passive Re-engagement</b></p> <p><b>Offense</b></p> <ul style="list-style-type: none"> <li>- Congressional gridlock hampers government investment in infrastructure and 'new economy' sectors</li> </ul> <p><b>Defense</b></p> <ul style="list-style-type: none"> <li>- US pursues parallel rollback of tariffs with China in perceived pragmatic self-interest</li> <li>- Administration proves reluctant to incur economic costs of non-tariff barriers without clear end-goal</li> </ul>	<p><b>Fortress America</b></p> <p><b>Offense</b></p> <ul style="list-style-type: none"> <li>- Congressional gridlock hampers government investment in infrastructure and 'new economy' sectors</li> </ul> <p><b>Defense</b></p> <ul style="list-style-type: none"> <li>- Continuation of trade tariffs, with potential increase in frictions with other trade partners</li> <li>- Security and ideological concerns see broader use of non-tariff barriers and export and investment controls</li> </ul>
		Low Offense Strategy	
		High Defense Strategy	

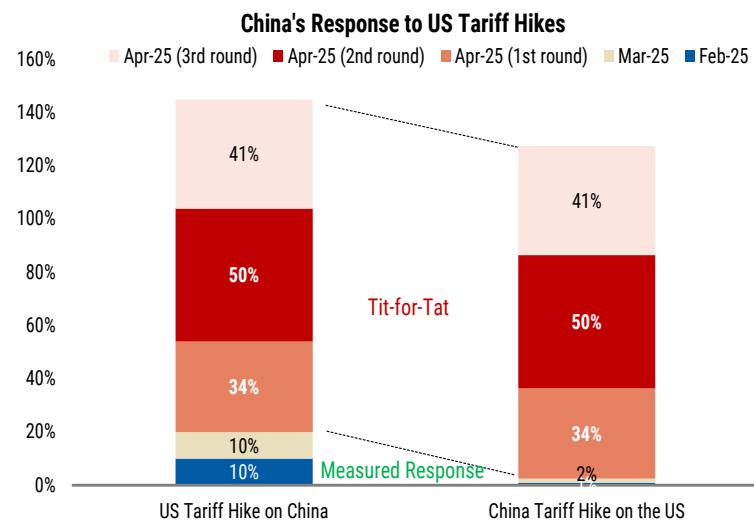
Source: Morgan Stanley Research.

## Possible tariff de-escalation near term

**US and China may initiate trade talks in coming 1-2 months...**



**...to essentially unwind the bulk of tariff escalation after China's tit-for-tat retaliation**

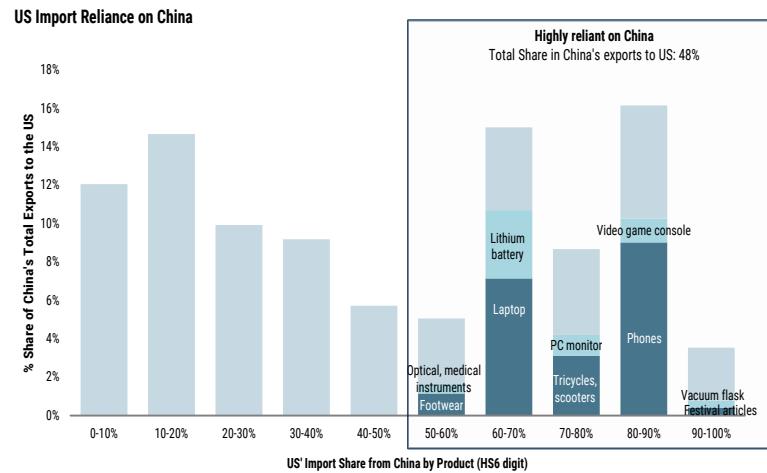


Per [Bloomberg](#), China is mulling suspending the 125% retaliatory tariffs on certain US goods (e.g. medical equipment, some industrial chemicals, plane).

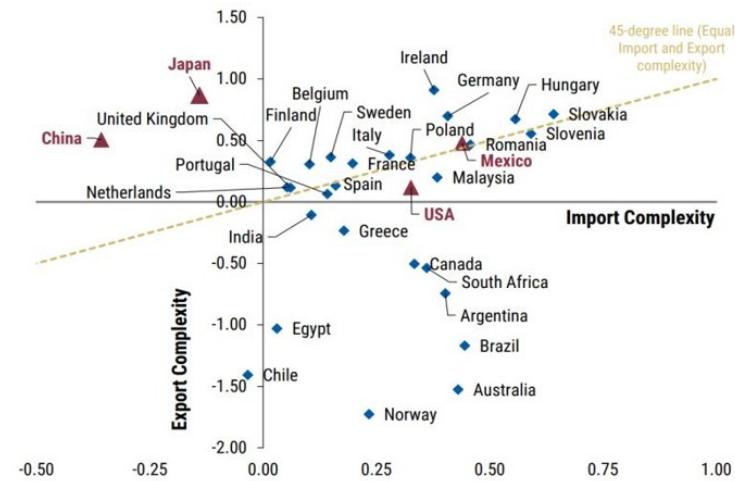
Source: White House, Bloomberg, UN Comtrade, Morgan Stanley Research estimates. \*Tariffs on April 2 and April 10 consider reciprocal tariff exemptions on products like steel & aluminum, auto, copper, pharmaceuticals, semiconductors, lumber articles, certain critical minerals, and energy. Within these, steel, aluminum, and auto are already subject to Feb-Mar sectoral tariff hikes previously. ^Tariff on April 11 further considered exemptions on consumer electronics (40% of these have been exempted on April 2nd).

## No easy substitution for China's exports to the US

**~40% of China's export products to the US have low tariff elasticity**



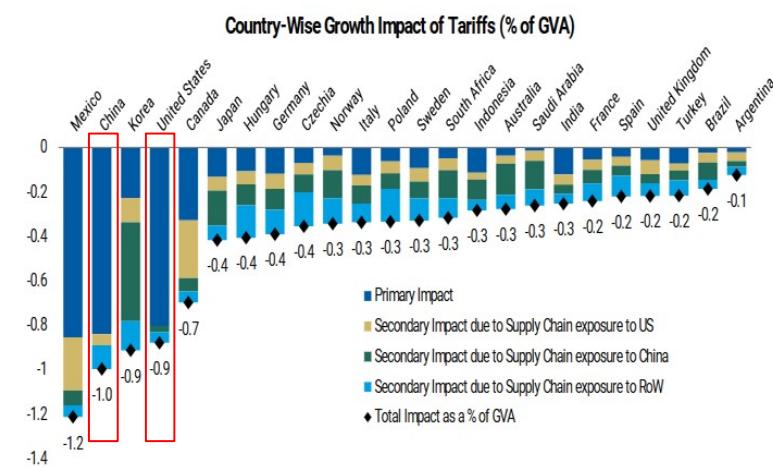
**China is one of few countries with lower complexity in imports, but higher complexity in exports**



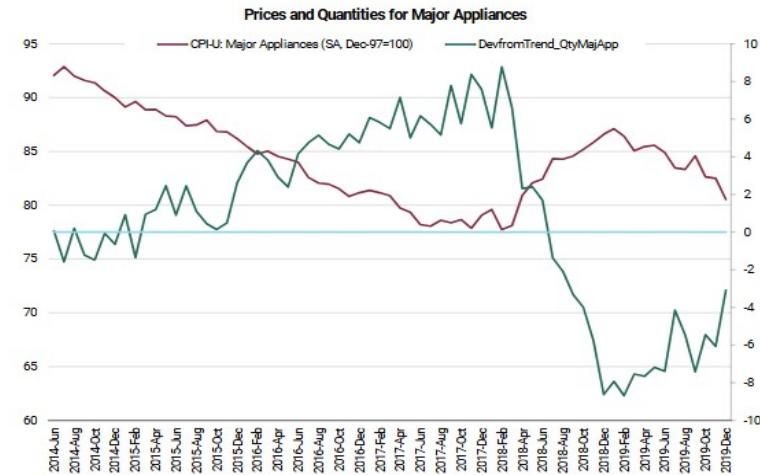
Source: Dataweb, Growth Lab at Harvard University, UN Comtrade, Morgan Stanley Research.

## Tariff pain to the US could be similarly acute to China

### Gauging growth shock from 10% base global tariff and 60% on China



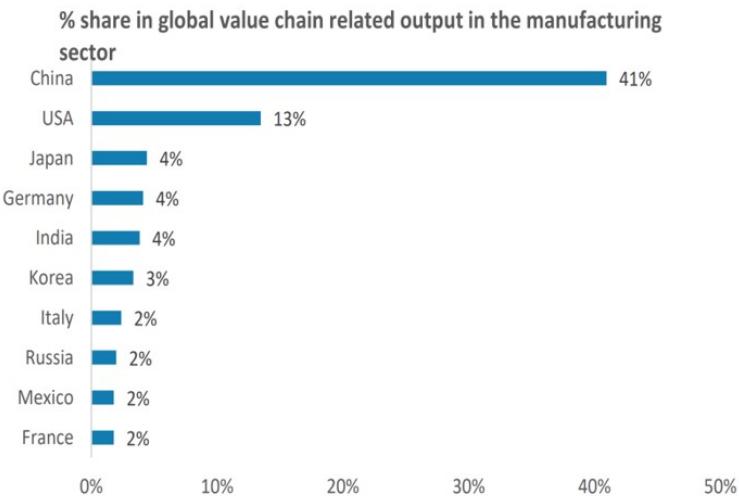
### 2018 experience for the US: Persistently weaker consumer demand for home appliances post tariffs



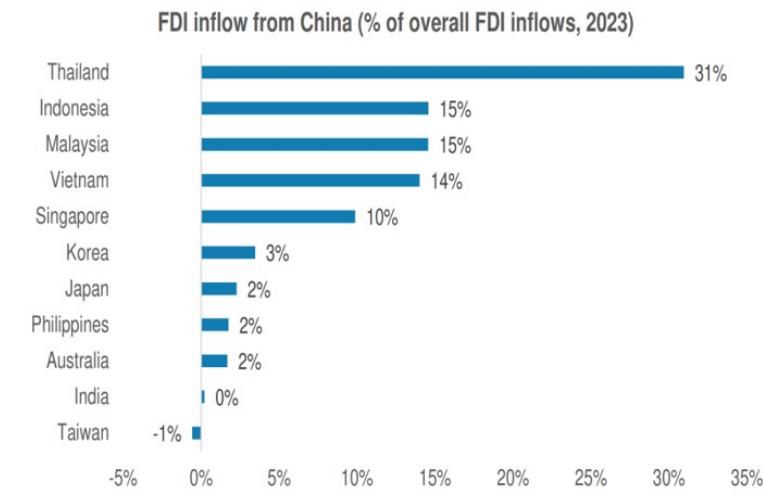
Source: Eurostat, OECD, BEA, BLS, Morgan Stanley Research. For more details, please see: [Global Economic Briefing: Global Tariffs: Call of Duties — Past, Present, and Future \(22 Apr 2025\)](#)

## An impossible ask for Asia's economies to shift away from China

**Tariffing China is a difficult task given deep intra-regional trade and manufacturing ties**



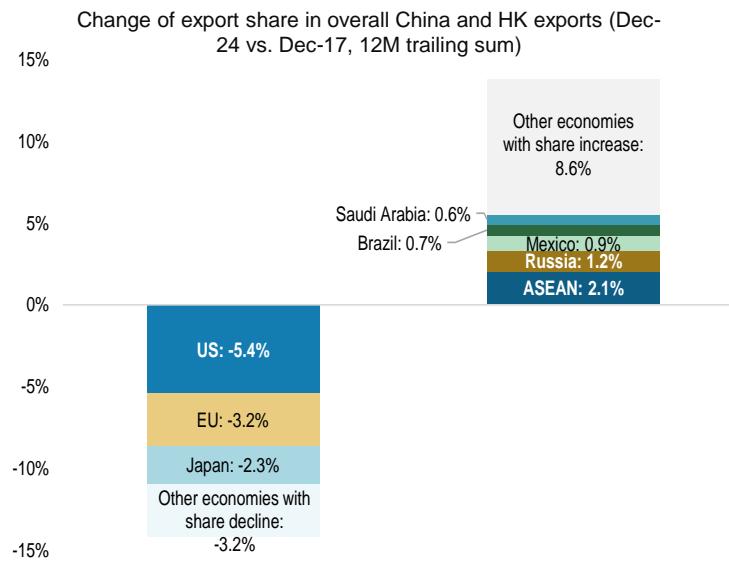
**Limiting investment from China would be more challenging for ASEAN economies**



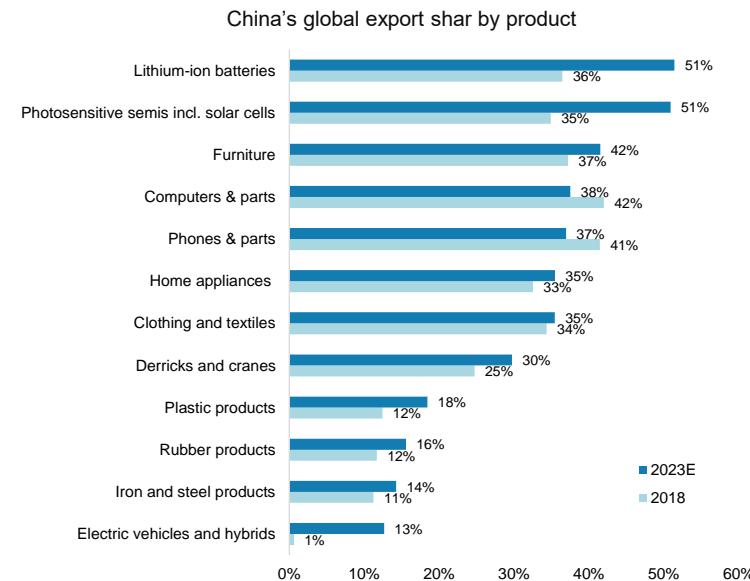
Source: CEIC, WITS, ADB, Haver, Morgan Stanley Research. LHS Note: We used China outward direct investment for FDI inflows from China, and individual economies' BOP FDI inflow data for overall FDI inflows.

## Chinese manufacturers are better prepared this time with supply-chain rewiring

### China has diversified its supply chain with new export destinations



### Exports are supported by rising shipments of green products

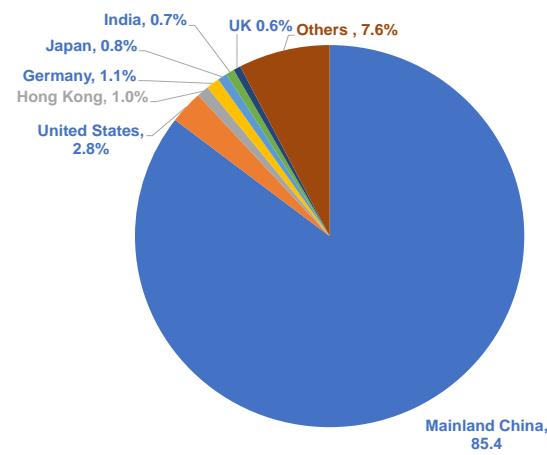


Source: CEIC, IMF, Morgan Stanley Research.

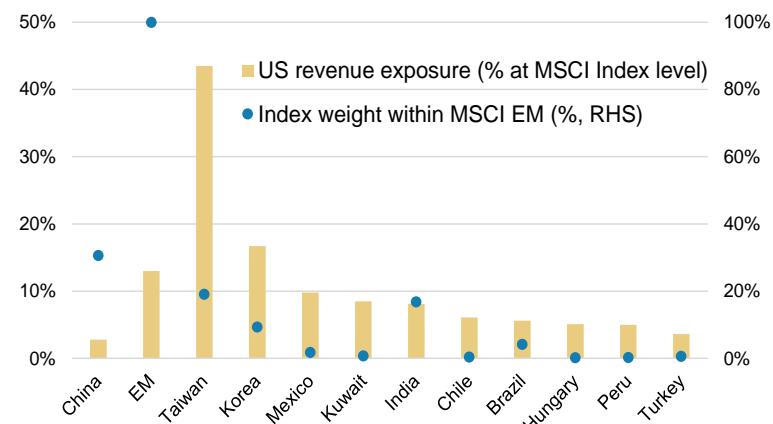
Source: CEIC, IMF, Morgan Stanley Research.

**MSCI China has a limited <3% revenue exposure to the US, the lowest among top 10 largest EM trade partners for the US**

**MSCI China LTM (last 12 months) revenue breakdown by country**



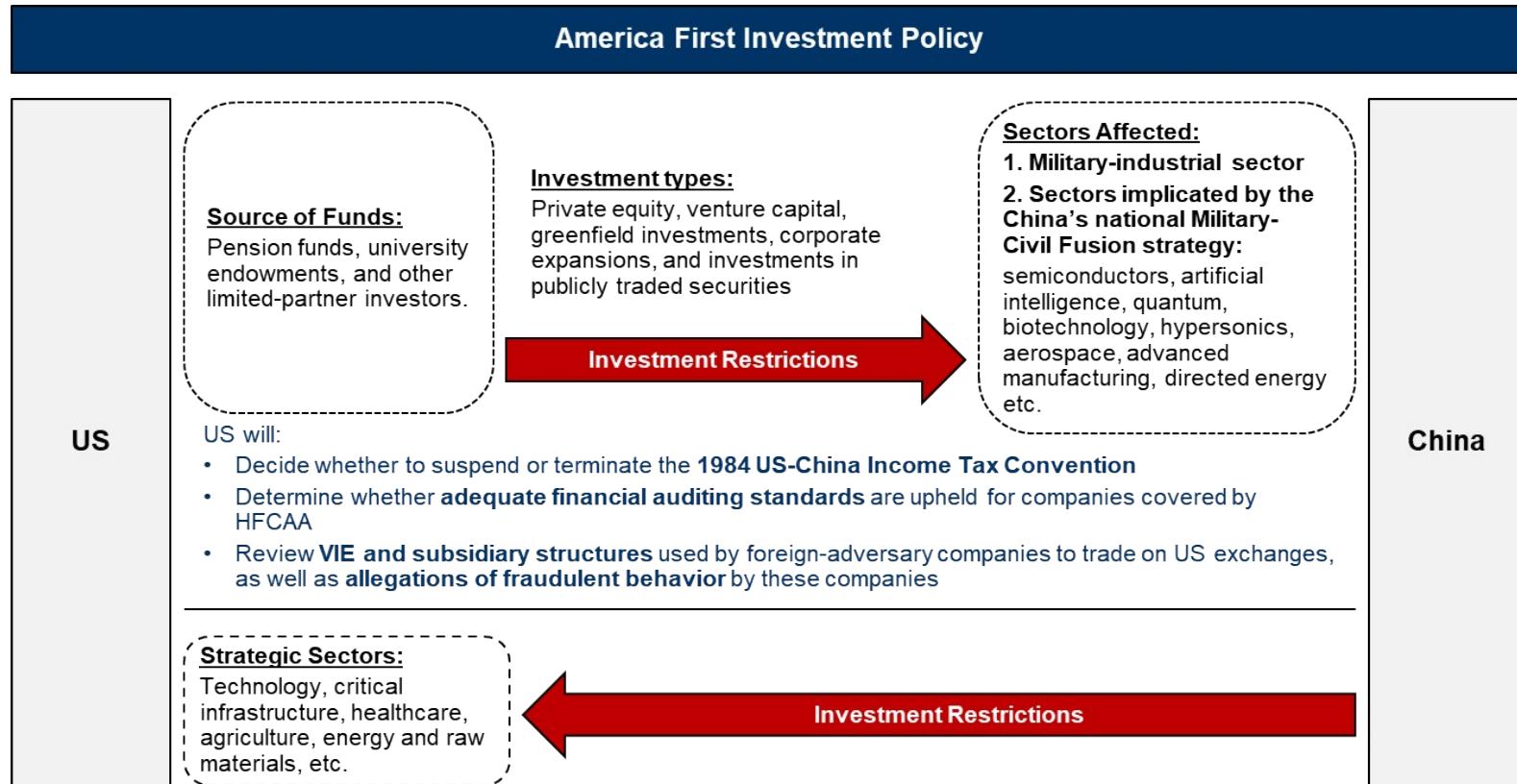
**US revenue exposure & Index weight within MSCI EM for US's 10 largest EM trade partners**



Source: Factset, Morgan Stanley Research; data as of Mar 21, 2025.

Source: Factset, Morgan Stanley Research; data as of Mar 24, 2025.

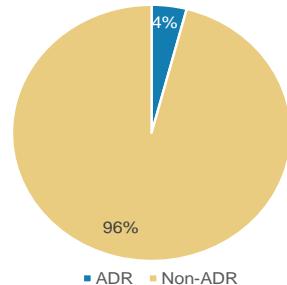
## The US has ramped up investment restrictions on China



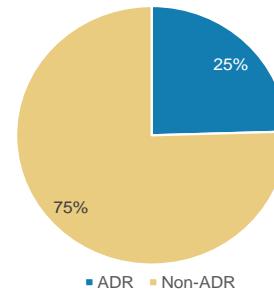
Source: White House, Morgan Stanley Research.

ADRs currently represent 25% of MSCI China by index weight, with over 80% are dual-listed in Hong Kong already

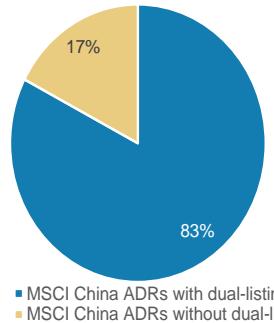
ADR representation in MSCI China by number of companies



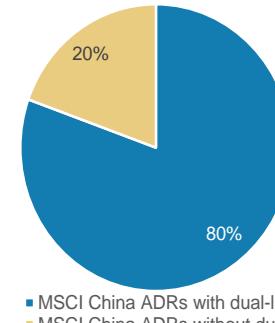
ADR representation in MSCI China by index weight



% of MSCI China ADRs that are dual-listed in Hong Kong (by number of companies)



% of MSCI China ADRs that are dual-listed in Hong Kong (by market cap)



Source: Factset, Morgan Stanley Research. Data as of April 11, 2025.

## Major ADR Names sorted by dual-listing status and market cap – majority is already dual listed in Hong Kong

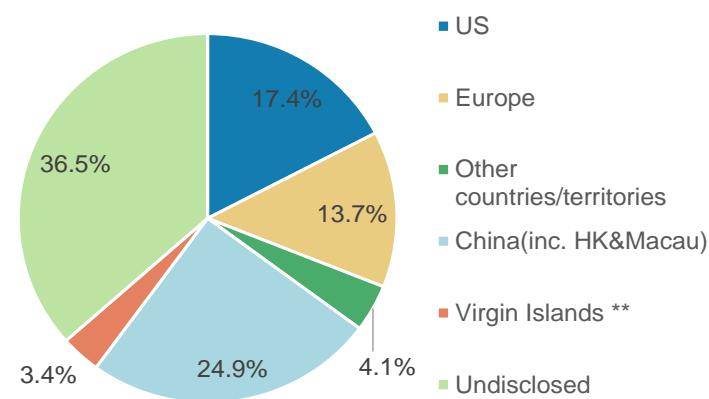
Company	If Dual listed in HK?	Dual listing status	US Ticker	HK Ticker	If included in Southbound?	Market Cap (USD mn)	3MADTV (USD mn)	US Trading volume as % of total trading volume	HK Shares as % of total shares
Alibaba Group Holding Limited Sponsored ADR	Y	Dual Primary	BABA-US	9988-HK	Y	283,873	3,405	63%	69%
BeiGene Ltd Sponsored ADR	Y	Dual Primary	BGNE-US	6160-HK	Y	24,705	117	57%	43%
KE Holdings, Inc. Sponsored ADR Class A	Y	Dual Primary	BEKE-US	2423-HK	Y	24,031	203	76%	54%
Li Auto, Inc. Sponsored ADR Class A	Y	Dual Primary	LI-US	2015-HK	Y	21,573	162	40%	54%
Yum China Holdings, Inc.	Y	Dual Primary	YUMC-US	9987-HK	Y	17,505	142	83%	19%
XPeng, Inc. ADR Sponsored Class A	Y	Dual Primary	XPEV-US	9868-HK	Y	14,514	234	46%	45%
ZTO Express (Cayman), Inc. Sponsored ADR Class A	Y	Dual Primary	ZTO-US	2057-HK	Y	11,231	52	56%	38%
Kanzhun Ltd. Sponsored ADR	Y	Dual Primary	BZ-US	2076-HK	N	5,893	82	100%	62%
Bilibili, Inc. Sponsored ADR Class Z	Y	Dual Primary	BILI-US	9626-HK	Y	5,873	124	49%	54%
MINISO Group Holding Ltd. Sponsored ADR	Y	Dual Primary	MNSO-US	9896-HK	Y	5,506	25	35%	37%
Zai Lab Ltd. Sponsored ADR	Y	Dual Primary	ZLAB-US	9688-HK	Y	3,513	34	61%	90%
Kingsoft Cloud Holdings Ltd. Sponsored ADR	Y	Dual Primary	KC-US	3896-HK	Y	3,415	58	30%	48%
Netease Inc Sponsored ADR	Y	Secondary	NTES-US	9999-HK	N	68,548	154	50%	52%
JD.com, Inc. Sponsored ADR Class A	Y	Secondary	JD-US	9618-HK	N	47,102	561	64%	79%
Trip.com Group Ltd. Sponsored ADR	Y	Secondary	TCOM-US	9961-HK	N	40,422	259	57%	86%
Baidu, Inc. Sponsored ADR Class A	Y	Secondary	BIDU-US	9888-HK	N	24,890	473	75%	81%
H World Group Limited Sponsored ADR	Y	Secondary	HTHT-US	1179-HK	N	10,986	76	88%	53%
Tencent Music Entertainment Group Sponsored ADR Class A	Y	Secondary	TME-US	1698-HK	N	9,708	105	98%	33%
NIO Inc. Sponsored ADR Class A	Y	Secondary	NIO-US	9866-HK	N	8,253	239	87%	53%
New Oriental Education & Technology Group, Inc. Sponsored ADR	Y	Secondary	EDU-US	9901-HK	N	7,993	92	72%	89%
Qifu Technology, Inc Sponsored ADR Class A	Y	Secondary	QFIN-US	3660-HK	N	6,011	75	100%	77%
GDS Holdings Ltd. Sponsored ADR Class A	Y	Secondary	GDS-US	9698-HK	N	4,505	105	73%	68%
Autohome Inc. Sponsored ADR Class A	Y	Secondary	ATHM-US	2518-HK	N	3,475	15	99%	57%
PDD Holdings Inc. Sponsored ADR Class A	N	/	PDD-US	/	N	144,640	1,137	100%	/
Full Truck Alliance Co. Ltd. Sponsored ADR	N	/	YMM-US	/	N	10,774	105	100%	/
Futu Holdings Ltd. Sponsored ADR Class A	N	/	FUTU-US	/	N	8,727	299	100%	/
Legend Biotech Corp. Sponsored ADR	N	/	LEGN-US	/	N	6,323	46	100%	/
Vipshop Holdings Ltd Sponsored ADR	N	/	VIPS-US	/	N	5,997	57	100%	/
ZEEKR Intelligent Technology Holding Limited Sponsored ADR	N	/	ZK-US	/	N	5,531	17	100%	/
TAL Education Group Sponsored ADR Class A	N	/	TAL-US	/	N	4,160	99	100%	/
Atour Lifestyle Holdings Ltd. Sponsored ADR	N	/	ATAT-US	/	N	2,733	35	100%	/

Note: for US trading volume as a percentage of total trading volume, we use three-month average number.

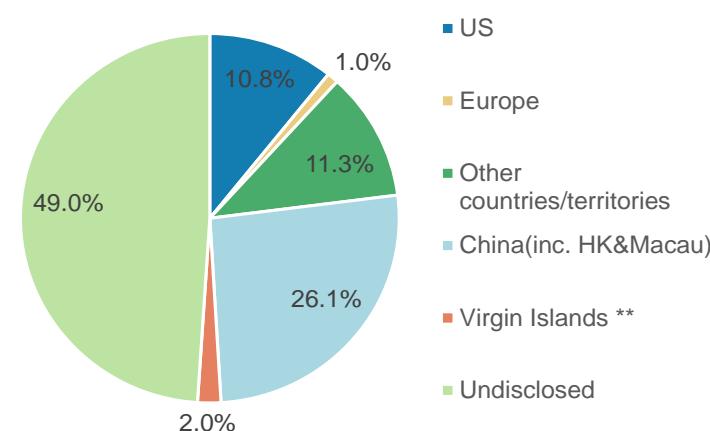
Source: Factset, Morgan Stanley Research. Data as of April 29, 2025.

## US investor representation in total Chinese equity ownership has come down over the years

MSCI China constituent foreign ownership in 2018



MSCI China constituent foreign ownership in 2024

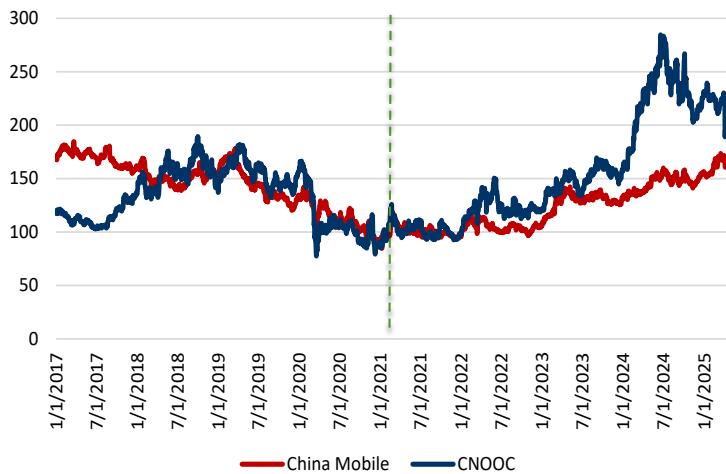


Source: Refinitiv, Factset, Morgan Stanley Research. Data as of end-2018.

Source: Refinitiv, Factset, Morgan Stanley Research. Data as of end-2024.

**Previous events of stocks being banned for US investment or put on an entity had offered buy-the-dip opportunities as long as company fundamentals stayed intact**

**China Mobile and CNOOC stock price from 2017 to now (rebased to 100 on Jan 12, 2021)**



**Tencent and CATL stock price from June 2024 to now (rebased to 100 on Jan 7, 2025)**



Source: Factset, Morgan Stanley Research. Data as of May 2, 2025.

Source: Factset, Morgan Stanley Research. Data as of May 2, 2025.

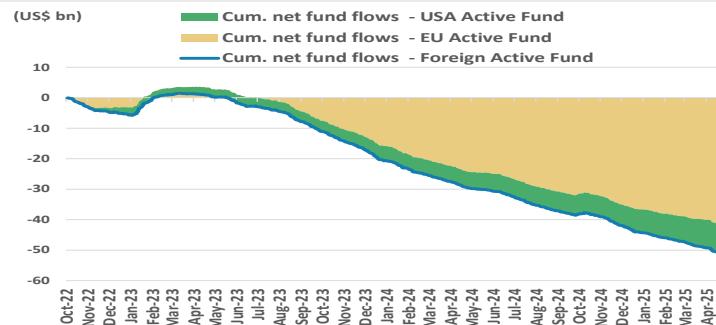
## Active weights of China/HK equities by regional fund category and manager domicile – Long-Only's China position still have room to improve



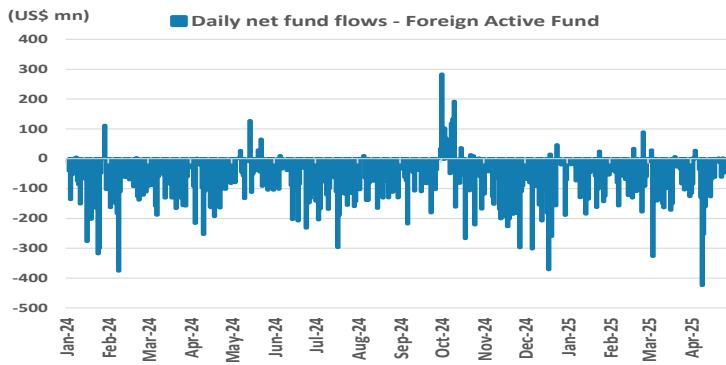
Source: FactSet, MorningStar, EPFR, Morgan Stanley Research; data as of Apr 30, 2025. Notes: fund universe of each category is formed by the largest 30 active mutual funds under MorningStar regional category. Funds under "non-US Managers" are mostly domiciled in Europe. We exclude ESG funds, income funds, and systematic funds. All the covered funds are benchmarking to either MSCI or FTSE standard regional indices of All Country World, Asia ex Japan, or Emerging Markets.

## YTD foreign inflows are mainly from passive funds

### Daily cumulative fund flows - Foreign active funds

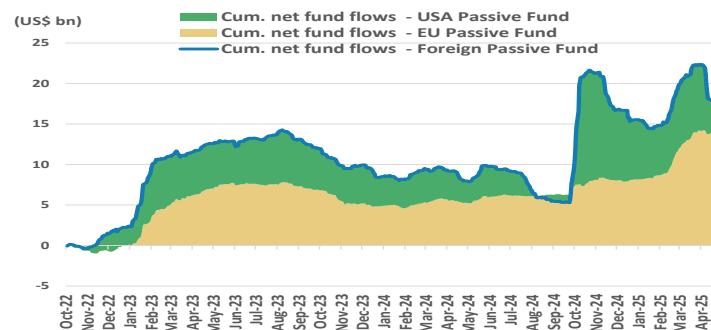


### Daily net fund flows – Foreign active funds

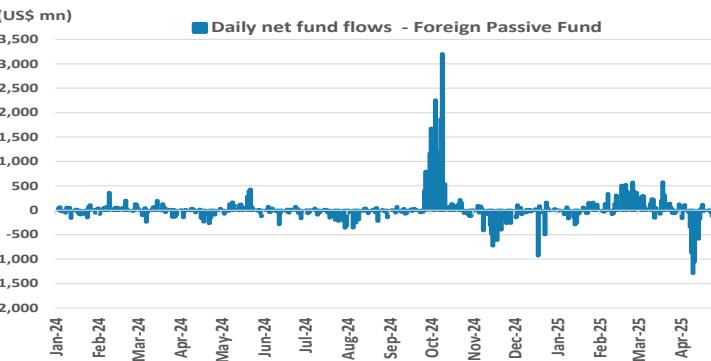


Source: EPFR, Morgan Stanley Research; Data as of Apr 30, 2025.

### Daily cumulative fund flows - Foreign passive funds

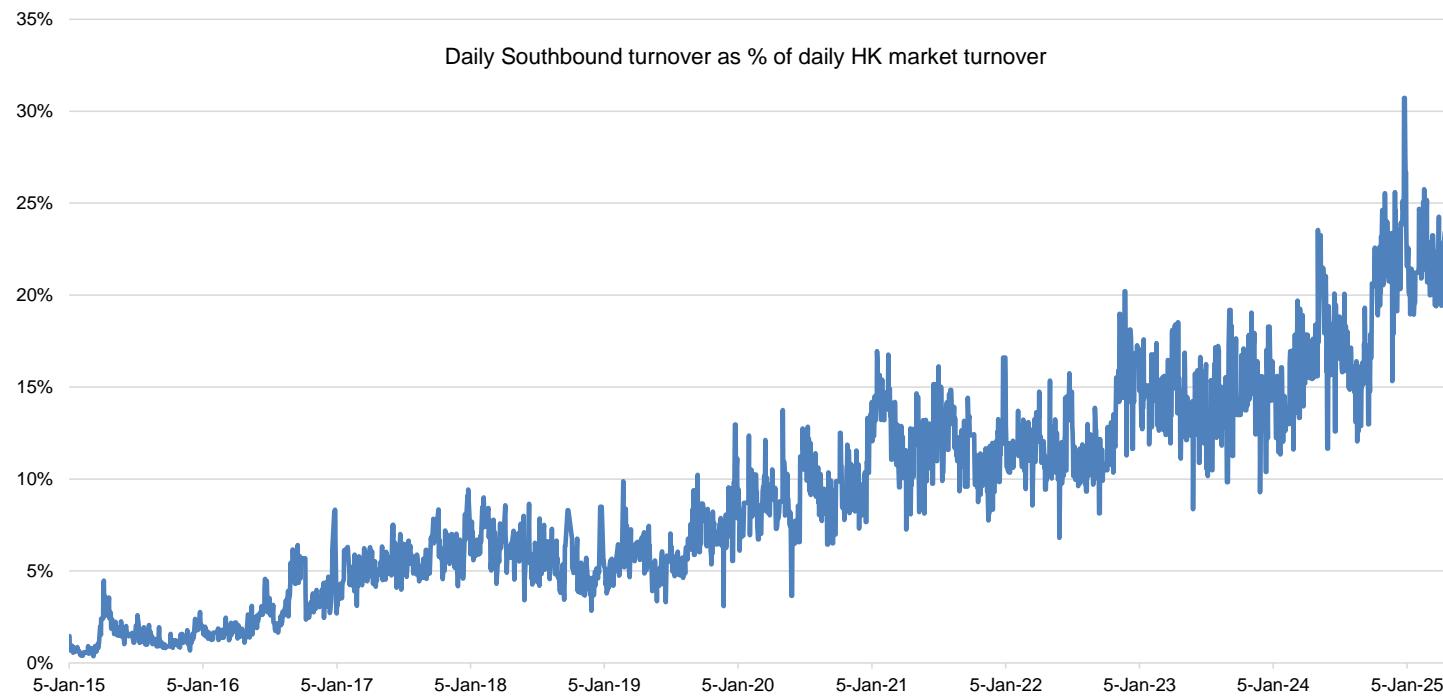


### Daily net fund flows – Foreign passive funds



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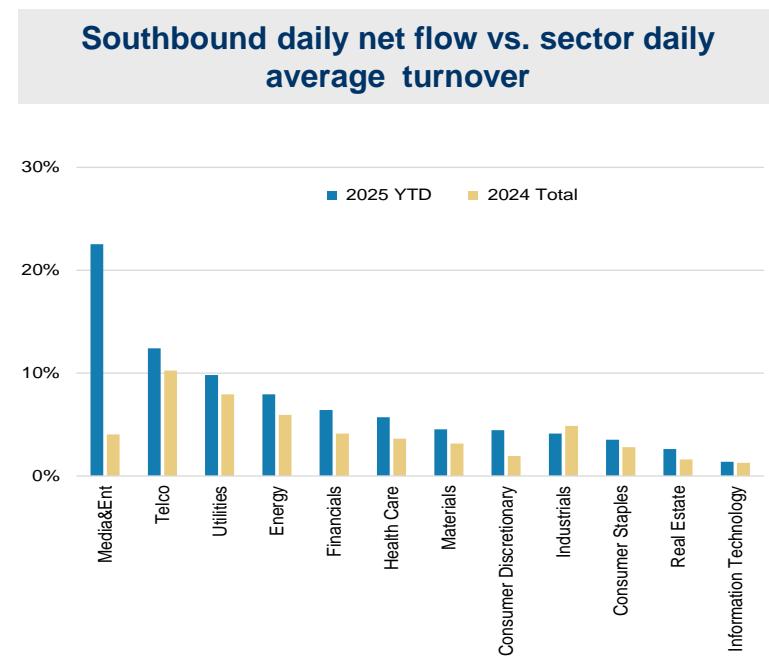
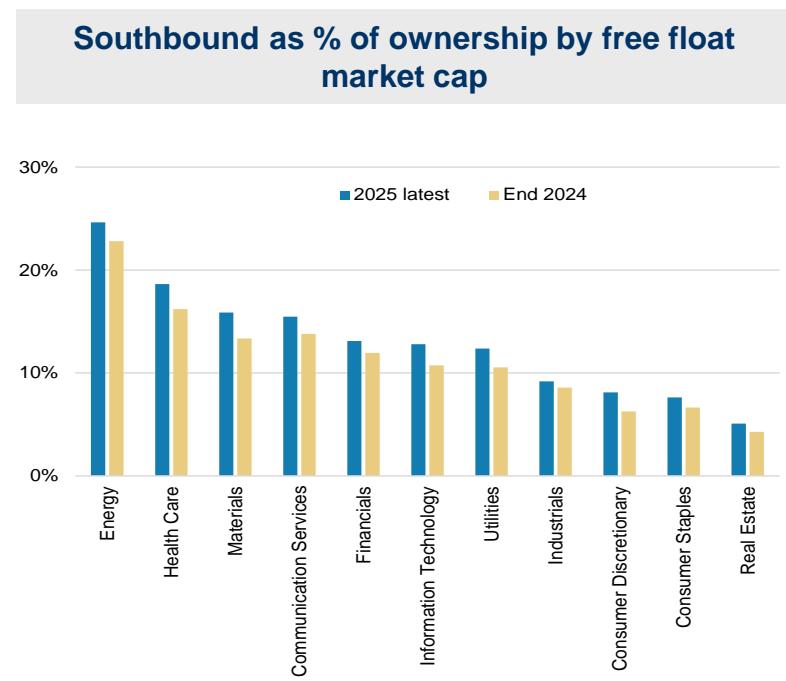
**Southbound flows gradually takes up more pricing power in the Hong Kong market, but far from being dominant (I)**



Source: Wind, HKEX, Morgan Stanley Research; Data as of Apr 30, 2025.

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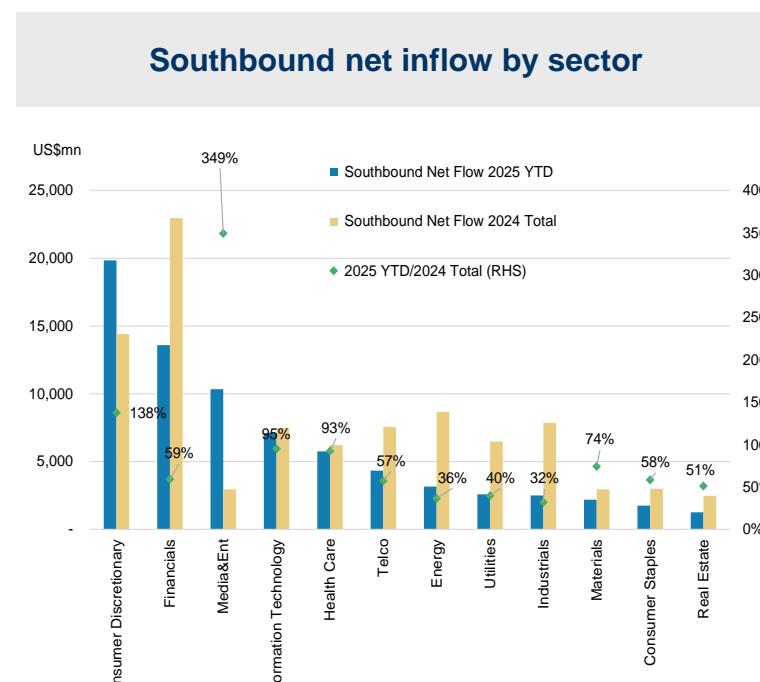
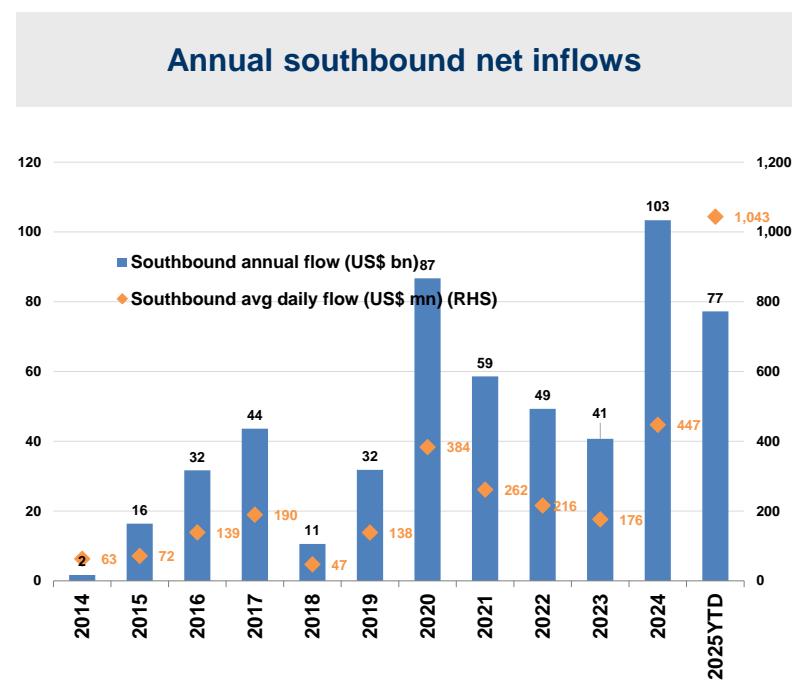
**Southbound flows gradually takes up more pricing power in the Hong Kong market, but far from being dominant (II)**



Source: Wind, FactSet, Morgan Stanley Research. Data as of Apr 29, 2025.

Source: Wind, FactSet, Morgan Stanley Research. Data as of Apr 29, 2025.

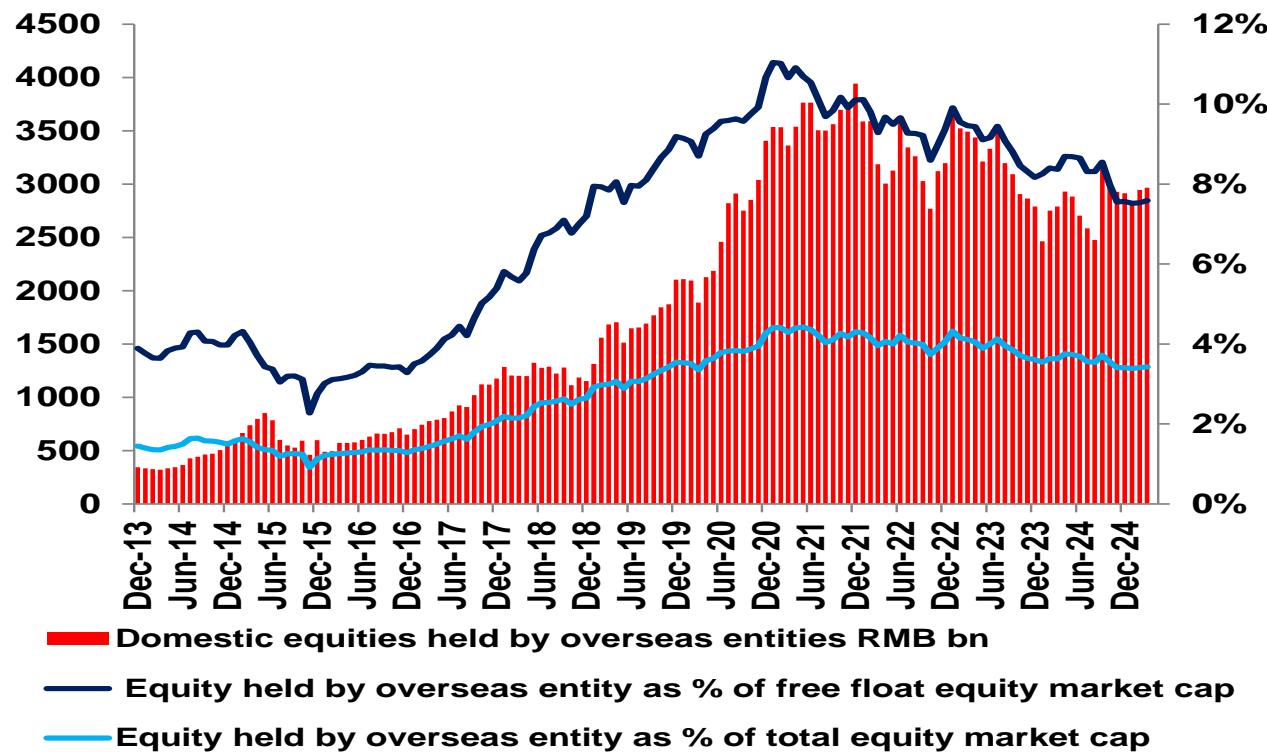
## Southbound momentum has stayed strong with a skew towards Tech, Media and Internet



Source: CEIC, Morgan Stanley Research. Note: Data as of Apr 30, 2025.

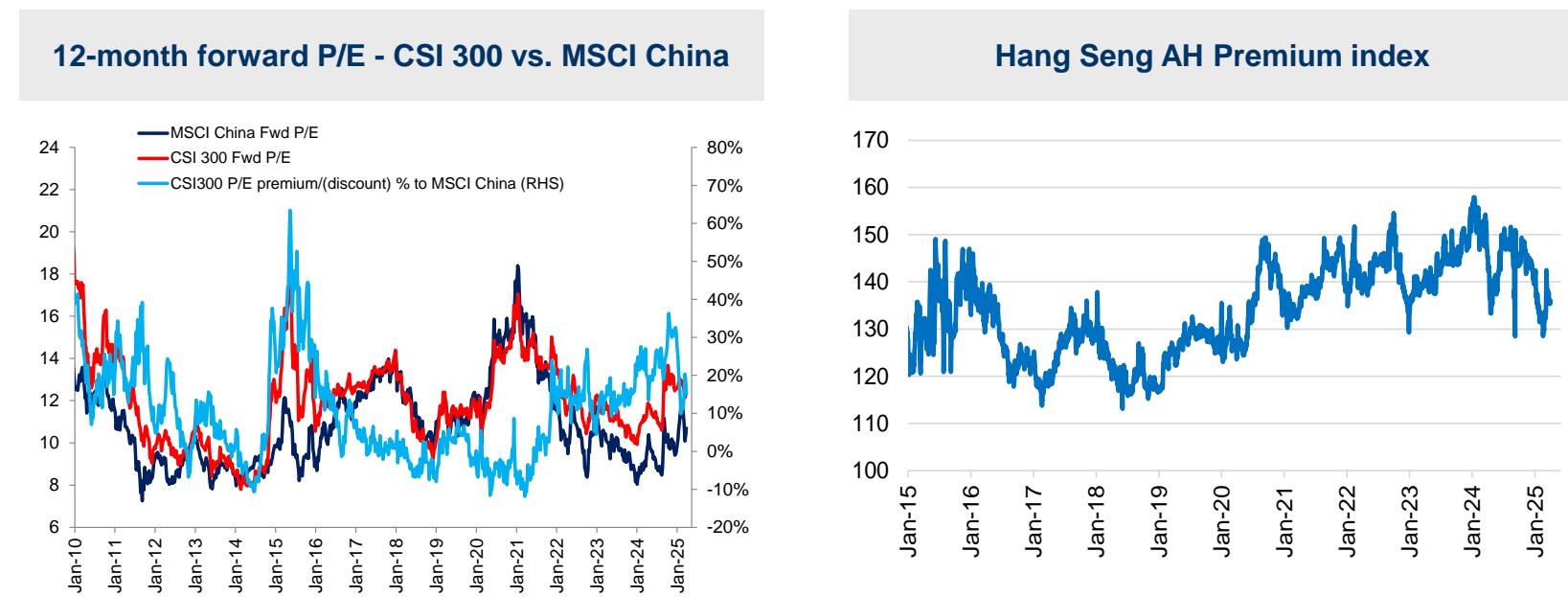
Source: Wind, FactSet, Morgan Stanley Research. Data as of Apr 25, 2025.

## China A-share market foreign ownership as a % of total and free float market cap – Lowest level since 2019



Source: CEIC, Wind, Bloomberg, FactSet, Morgan Stanley Research. Note: Monthly data as of end-Mar 2025.

## CSI 300 trades at 12.4x with ~15% valuation premium to MSCI China



Source: Datastream, Morgan Stanley Research. Data as of Apr 24, 2025.

Source: Factset, Morgan Stanley Research. Data as of May 1, 2025.

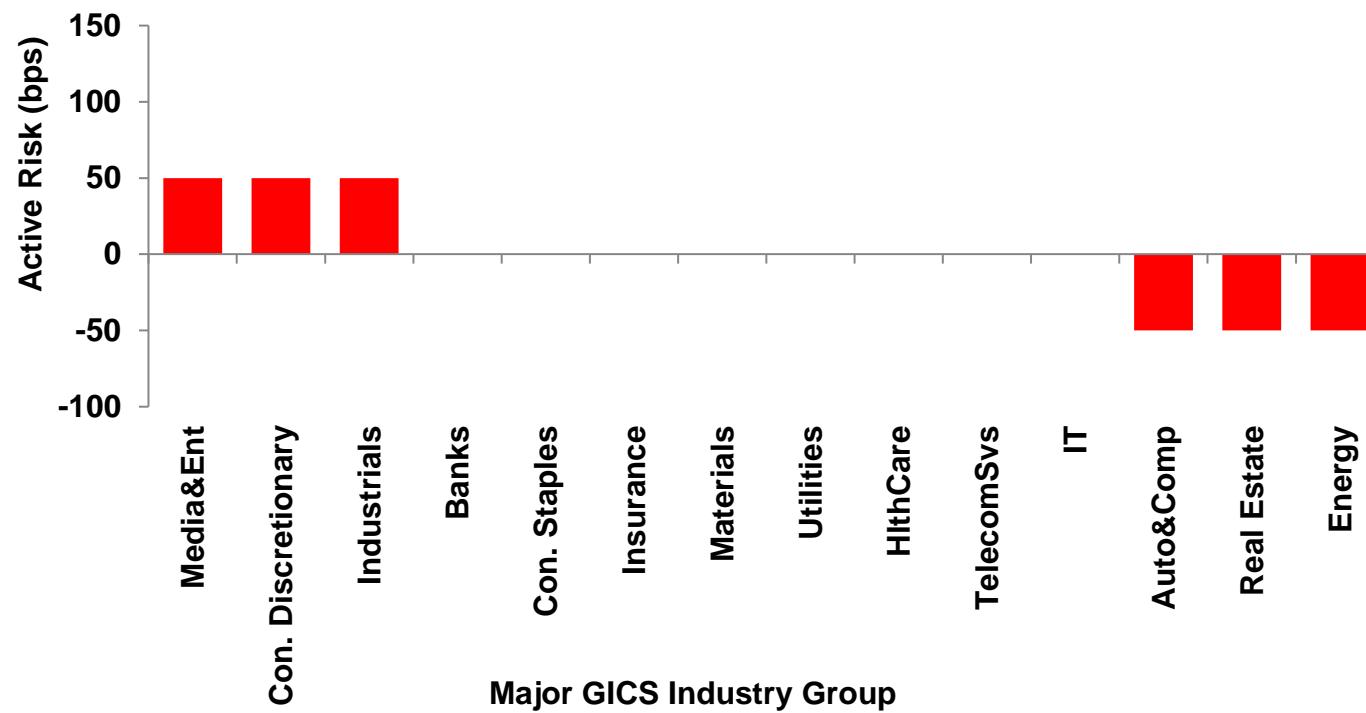
## APxJ/EM Market Allocation – We now recommend EW MSCI China while UW Taiwan, Korea and Indonesia

#	Market (MSCI Indices)	Active Risk (bps) Current	Active Risk (bps) Previous	Overall Score	Weight:	Quantitative Factors (60%)								MS House Macro & Micro View (40%)					
						P/B rel to Benchmark 5yr Z-Score	P/E rel to Benchmark 5yr Z-Score	Dividend Yield rel to Benchmark 5yr Z-Score	Earnings Revision Breadth (3mma)	ROE rel to Benchmark 5yr Z-Score	Net Margin 5yr Z-Score	Asset Turnover 5yr Z-Score	Relative Strength Index	Chaikin Money Flow Indicator	Currency	Macro- Economics	Sovereign & Policy Outlook	MS Equity Strategist View	MS Stock Analyst View
1	India	125	125	69	-0.1	0.3	0.0	-10.2	0.3	0.8	-1.4	59	0.0	-1.7	0.0	1	4.0	2.0	
2	Singapore	100	100	56	-1.4	0.1	0.2	12.6	1.2	0.8	1.3	50	0.0	-0.1	-1.5	1	2.0	1.5	
3	Peru	25	0	56	-0.6	0.8	0.2	-2.6	0.9	0.9	1.8	43	0.0	NA	NA	-1	1.0	0.3	
4	Chile	25	0	43	-0.3	-0.9	-0.7	7.6	-0.8	-0.6	0.4	48	0.0	0.3	1.5	0	2.0	1.7	
5	UAE	75	100	38	-0.2	0.5	1.3	8.0	0.9	-0.6	1.7	63	0.0	NA	NA	1	NA	2.9	
6	Philippines	25	0	33	0.6	1.3	1.6	3.2	1.2	2.2	-1.0	63	0.0	-0.4	-1.1	0	NA	2.5	
7	Qatar	0	0	23	1.7	1.0	1.2	-8.1	-0.6	-1.8	1.8	71	0.0	NA	NA	NA	NA	1.1	
8	Australia	0	-75	22	-0.1	-0.2	-0.9	-4.6	-0.2	-0.5	0.8	64	0.0	0.8	-0.6	1	0.5	0.6	
9	Colombia	0	0	17	0.2	0.2	0.7	14.3	0.1	-0.1	-0.6	57	0.0	-2.1	-0.1	-1	0.5	5.0	
10	Hong Kong	0	0	15	1.2	1.4	1.7	-3.0	0.7	1.1	-0.3	35	0.0	0.0	-0.9	-1	0.9	3.0	
11	Thailand	0	0	14	1.4	1.9	1.1	-2.9	2.1	0.4	0.1	63	0.0	-1.1	-1.7	-1	NA	2.4	
12	Mexico	0	0	12	1.1	0.5	1.1	-5.8	-0.5	-0.2	1.0	59	0.0	0.1	-0.2	0	1.0	0.7	
13	China	0	0	10	0.0	-0.4	0.2	-0.6	-0.3	0.8	-0.6	37	0.0	-0.8	0.4	-1	0.1	4.9	
14	Poland	0	0	8	-1.2	-0.6	1.2	8.0	-0.1	0.5	-0.4	55	0.0	0.2	0.3	0	NA	0.5	
15	South Africa	0	50	7	-0.2	-1.1	-0.6	-8.3	-1.1	-0.8	-0.7	50	0.0	1.5	0.1	-1	1.0	1.3	
16	Greece	0	0	3	0.1	0.7	0.3	6.9	0.4	1.0	-0.4	56	0.0	-0.1	NA	0	NA	-0.9	
17	Hungary	0	0	3	-0.5	-0.1	1.1	8.1	0.2	0.4	0.0	60	0.0	-1.0	0.2	-1	NA	2.0	
18	Malaysia	0	0	2	1.4	1.2	0.9	-4.8	0.4	-0.6	0.8	64	0.0	-1.0	-0.8	0	NA	-0.4	
19	Egypt	0	0	1	0.1	1.3	0.8	-2.8	1.1	0.5	2.2	72	0.0	NA	NA	0	NA	0.0	
20	Turkey	0	25	0	0.6	-2.2	0.0	-10.9	-1.4	-1.7	1.1	69	0.0	-2.0	1.4	-1	NA	-0.1	
21	Brazil	0	0	-1	1.0	-0.7	0.0	-11.4	-1.2	-0.9	-0.6	48	0.0	-1.6	-0.2	-1	0.5	0.7	
22	Czech Rep.	-25	0	-3	-0.9	-1.4	-0.5	8.3	-0.7	-1.2	1.1	80	0.0	0.1	-0.3	0	NA	-1.8	
23	Korea	-50	-50	-6	2.1	1.9	0.8	-5.3	1.1	1.0	-1.3	69	0.0	-0.2	-0.4	0	-1.0	-1.0	
24	Taiwan	-100	-100	-15	-0.4	-0.3	-0.9	-8.0	-0.2	0.5	-0.6	41	0.0	-0.1	-1.8	-1	-1.0	2.5	
25	Indonesia	-75	-75	-16	1.6	0.9	1.8	-17.3	-0.5	1.6	-1.3	62	0.0	-0.3	0.2	-1	-1.5	1.8	
26	New Zealand	-50	-50	-28	-1.5	-2.3	-0.7	-21.2	-2.1	-2.2	-1.1	83	0.0	0.1	NA	1	NA	0.0	
27	Saudi Arabia	-75	-50	-30	0.1	0.8	0.7	-1.2	0.6	-0.6	0.1	74	0.0	NA	NA	0	NA	-1.2	

Source: RIMES, FactSet, Morgan Stanley Research. Note: We use earnings yield and book yield to account for relative valuations P/B and P/E, and therefore a higher yield Z-score indicates cheaper valuations.

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**MS China top-down sector allocation – We favor a balanced approach between structural tech/growth opportunities and quality defensiveness while waiting for better clarity on tariff**



Source: Morgan Stanley Research.

## Direct AI beneficiary plays within MS Greater China coverage

Ticker	Company name	Analyst	Analyst Rating	GICS sector	Last Price (US\$)	Upside to target price	Avg daily t/o (US\$ mn)	Mkt cap. (US\$ bn)	Stage of AI supply chain	Beneficiary rationale
0700.HK	Tencent Holdings Ltd.	Yu, Gary	OW	Communication Services	61.5	32%	1,412.7	576.1	Enabler	Leading AI enabler with both 2C (WeChat) and 2B (cloud and SaaS) application adoptions potential
BIDU.O	Baidu Inc	Yu, Gary	EW	Communication Services	87.9	14%	376.0	30.5	Enabler	Early mover with all-in AI strategy
1357.HK	Meitu Inc	Lin, Lydia	OW	Communication Services	0.7	10%	30.8	3.3	Adopter	B2C software provider in photo editing area, can add value via integrating AI capability and monetize
BABA.N	Alibaba Group Holding	Yu, Gary	OW	Consumer Discretionary	120.5	49%	257.0	280.9	Enabler	Largest hyperscaler in China with highly ranked open-sourced LLM Benefit from replacement demand once there is new attractive AI App on smartphone
1810.HK	Xiaomi Corp	Meng, Andy	OW	Information Technology	6.4	-10%	708.4	162.8	Adopter	Cloud/AI data center infrastructure manufacturing, including server and networking equipment assembly business
601138.SS	Foxconn Industrial Internet Co. Ltd.	Shih, Sharon	OW	Information Technology	2.5	34%	423.3	46.6	Infrastructure	A key partner for China cloud customers for AI data center hardware, also benefit from increased application at the edge being a key PC and Smartphone supplier
0992.HK	Lenovo	Kao, Howard	OW	Information Technology	1.2	11%	98.5	13.9	Enabler	A key downstream assembly partner for China cloud segment, benefiting from higher demand of AI servers as application proliferates
000977.SZ	Inspur Electronic Information	Kao, Howard	EW	Information Technology	7.0	-2%	466.7	10.2	Enabler	CCL maker, who will benefit from high speed/high frequency CCL used in AI data center infrastructure (servers and networking switches)
600183.SS	Shengyi Technology Co Ltd.	Kao, Howard	EW	Information Technology	3.3	-9%	96.1	7.6	Enabler	Multi-layer PCB maker who will see ASP/Margin tailwind from higher mix of AI data center related PCBs
GDS.O	GDS Holdings Ltd	Liu, Yang	OW	Information Technology	25.8	51%	40.5	4.9	Infrastructure	Data center providers with big resource pipeline in tier one market to host future AI inference demand
301308.SZ	Shenzhen Longsys Electronics Co Ltd	Liu, Duan	OW	Information Technology	10.7	28%	86.3	4.4	Enabler	Edge AI triggered smartphone replacement cycle could accelerate the NAND cycle recovery in 2H25, potentially drive up both ASP and volume shipment for Longsys
688018.SS	Espressif Systems	Yen, Daniel	OW	Information Technology	30.0	33%	74.6	3.4	Enabler	Enabling connectivity in the edge, and riding on rising edge AI opportunities
VNET.O	VNET Group Inc	Tang, Tom	OW	Information Technology	6.3	59%	19.2	1.8	Infrastructure	Data center providers hosting DeepSeek, and a big beneficiary of hyperscalers' strong training demand in remote sites
TUYA.N	Tuya Inc.	Liu, Yang	OW	Information Technology	2.3	82%	0.7	1.4	Adopter	Global leading IoT cloud and module providers for home appliances, can benefit if edge AI application emerges

Source: Morgan Stanley Research, Data as of Apr 30, 2025.

## Morgan Stanley China/HK Focus List

Company Name	Ticker	Rating	Market	GICS Sector	Mkt Cap (US\$bn)	Date Added	Returns Since Added	Last Perf.	Price (US \$)	Upside to Target Price		MS P/E		MS P/Book		MS ROE Yld		MS P/Sales		Analyst
										2024E		2024E	2025E	2024E	2024E	2024E	2024E			
Alibaba Group Holding	BABA.N	OW	China	Consumer Discretionary	280.9	24-Feb-25	-13.2%	62.9%	120.5	49.3%	16.5x	13.0x	2.0x	12.1%	-	2.1x	Yu, Gary			
China Resources Power	0836.HK	OW	China	Utilities	11.6	10-Apr-25	5.3%	1.7%	2.4	20.1%	6.5x	6.7x	1.0x	15.3%	6.2%	0.9x	Li, Albert			
China Resources Sanjiu Medical & Pharma	000999.SZ	OW	China	Health Care	7.2	18-Aug-24	-2.8%	-6.9%	5.7	50.8%	15.2x	12.7x	2.6x	17.0%	3.5%	2.0x	Tam, Laurence			
China Yangtze Power Co.	600900.SS	OW	China	Utilities	92.3	24-Aug-23	40.5%	18.0%	✓	4.1	16.0%	22.3x	20.1x	3.4x	15.2%	2.8%	8.0x	Hou, Eva		
Contemporary Amperex Technology Co. Ltd.	300750.SZ	OW	China	Industrials	139.7	10-Mar-24	52.3%	16.7%	✓	31.8	62.0%	24.1x	17.2x	4.1x	17.1%	2.6%	2.8x	Lu, Jack		
Espressif Systems	688018.SS	OW	China	Information Technology	3.4	24-Feb-25	-5.2%	188.1%	✓	30.0	33.0%	73.0x	55.2x	11.4x	15.6%	0.8%	12.3x	Yen, Daniel		
HK Exchanges & Clearing	0388.HK	OW	Hong Kong	Financials	55.6	24-Feb-25	0.2%	41.1%	✓	43.9	32.0%	33.2x	30.9x	7.9x	23.9%	2.7%	19.3x	Xu, Richard		
HKT Trust and HKT Ltd.	6823.HK	OW	Hong Kong	Communication Services	10.8	24-Mar-21	36.5%	39.9%	✓	1.4	4.2%	16.5x	15.6x	2.2x	13.2%	7.1%	2.4x	Tang, Tom		
Kweichow Moutai Company Ltd.	600519.SS	OW	China	Consumer Staples	267.3	10-Apr-25	1.0%	-6.2%	212.8	17.0%	22.6x	20.7x	8.4x	37.0%	3.3%	11.4x	Lou, Lillian			
NARI Technology	600406.SS	OW	China	Industrials	24.5	13-Jun-19	127.3%	-3.6%	✓	3.0	22.8%	22.7x	19.4x	3.5x	15.5%	2.4%	3.2x	Hou, Eva		
PetroChina	0857.HK	OW	China	Energy	194.1	16-Apr-24	-14.1%	-12.5%	0.8	47.3%	6.2x	7.7x	0.7x	10.9%	8.4%	0.5x	Lu, Jack			
Pop Mart International Group	9992.HK	OW	China	Consumer Discretionary	33.6	16-Apr-24	552.5%	481.6%	✓	25.0	5.3%	75.1x	37.9x	23.0x	30.6%	0.2%	18.8x	Wei, Dustin		
Tencent Holdings Ltd.	0700.HK	OW	China	Communication Services	576.1	27-May-24	27.3%	39.8%	✓	61.5	32.0%	21.8x	19.2x	4.3x	19.5%	0.7%	6.4x	Yu, Gary		
Zijin Mining Group	2899.HK	OW	China	Materials	62.6	14-Nov-22	77.4%	0.8%	✓	2.2	37.8%	13.3x	10.4x	3.0x	22.9%	1.9%	1.5x	Zhang, Rachel		
ZTO Express	ZTO.N	OW	China	Industrials	14.6	8-Mar-23	-20.3%	-7.2%	18.5	45.7%	11.2x	11.4x	1.7x	15.5%	0.0%	2.4x	Fan, Qianlei			
<b>Total Return</b>					<b>Since Inception</b>					<b>12 Months</b>										
					<b>Absolute</b>			<b>Relative</b>			<b>Absolute</b>		<b>Relative</b>							
China Focus List (US\$)					63.4%			31.1%			23.5%		-2.9%							

Source: OW = Overweight. ModelWare, RIMES, Factset, Morgan Stanley Research. Note: Data as of May 1, 2025. This assumes the Focus List constitutes an equal-weighted portfolio, rebalanced whenever positions are added or subtracted. Results shown represent total absolute return (including dividends) and exclude brokerage commissions. These figures are not audited. Past performance is no guarantee of future results. (X) indicates stock has outperformed MSCI China Index since inclusion in the Focus List.

## Morgan Stanley China A-share thematic stock list

Company Name	Ticker	Rating	Market	GICS Sector	Mkt Cap (US\$b)	Date Added	Total US\$ Returns Since Added	12M Total Return Perf.	Last Price (US \$)	Upside to Target Price	MS		MS Div.		MS		Analyst	
											2024E	2025E	P/E	P/Book	ROE	Yld	P/Sales	
China Resources Sanjiu Medical & Pharma	000999.SZ	OW	China	Health Care	7.2	17-Oct-24	-7.5%	-6.9%	5.7	50.8%	15.2x	12.7x	2.6x	17.0%	3.5%	2.0x	Tam, Laurence	
China Yangtze Power Co.	600900.SS	OW	China	Utilities	92.3	24-Aug-23	40.5%	18.0%	✓	4.1	16.0%	22.3x	20.1x	3.4x	15.2%	2.8%	8.0x	Hou, Eva
Contemporary Amperex Technology Co. Ltd.	300750.SZ	OW	China	Industrials	139.7	10-Mar-24	52.3%	16.7%	✓	31.8	62.0%	24.1x	17.2x	4.1x	17.1%	2.6%	2.8x	Lu, Jack
Espressif Systems	688018.SS	OW	China	Information Technology	3.4	24-Feb-25	-5.2%	188.1%	✓	30.0	33.0%	73.0x	55.2x	11.4x	15.6%	0.8%	12.3x	Yen, Daniel
Hongfa Technology Co Ltd	600885.SS	OW	China	Industrials	4.7	16-Apr-24	24.0%	16.3%	4.5	27.9%	21.4x	18.3x	3.6x	16.9%	2.0%	2.4x	Zhong, Sheng	
NARI Technology	600406.SS	OW	China	Industrials	24.5	13-Jun-19	127.3%	-3.6%	✓	3.0	22.8%	22.7x	19.4x	3.5x	15.5%	2.4%	3.2x	Hou, Eva
Ningbo Tuopu Group Co Ltd	601689.SS	OW	China	Consumer Discretionary	11.8	24-Feb-25	-26.9%	21.3%	7.2	37.8%	28.7x	24.9x	4.5x	15.8%	1.0%	3.2x	Wang, Shelley	
PetroChina	601857.SS	OW	China	Energy	194.1	16-Aug-24	-10.0%	-18.4%	1.1	42.7%	8.9x	11.1x	1.0x	10.9%	5.9%	0.5x	Lu, Jack	
Spring Airlines	601021.SS	OW	China	Industrials	7.2	27-May-24	-6.1%	-4.5%	7.4	28.2%	23.3x	20.2x	3.0x	13.1%	1.3%	2.6x	Fan, Qianlei	
Zijin Mining Group	601899.SS	OW	China	Materials	62.6	28-Nov-22	87.9%	0.7%	✓	2.4	37.5%	14.5x	11.4x	3.3x	22.9%	1.7%	1.5x	Zhang, Rachel

Total Return	Since Inception		12 Months	
	Absolute	Relative	Absolute	Relative
China A-Share Thematic Focus List (US\$)	110.6%	82.4%	1.1%	-6.1%

Source: MSCI, RIMES, Morgan Stanley Research. Note: Data as May 1, 2025. This assumes the group of selected stocks constitutes an equal-weighted portfolio, rebalanced whenever positions are added or subtracted. Results shown represent total absolute returns (including dividends) and exclude brokerage commissions. These figures are not audited. Past performance is no guarantee of future results. (X) indicates stock has outperformed Shanghai Composite Index since inclusion in the Focus List.

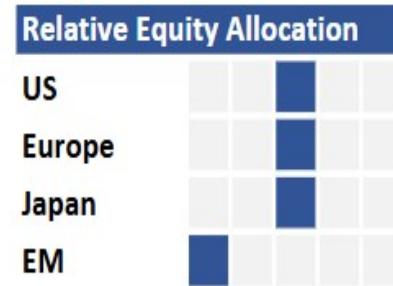
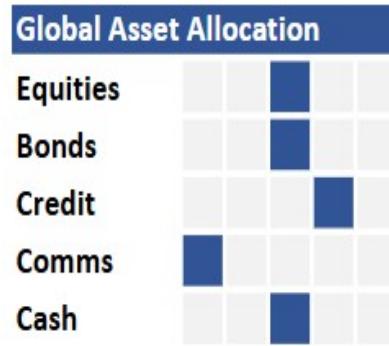
## Appendix – Morgan Stanley global real GDP growth forecasts

Real GDP %Y	Annual											
	2025E				2026E				2023	2024	2025E	2026E
	1QE	2QE	3QE	4QE	1QE	2QE	3QE	4QE				
<b>Global %Y</b>	<b>3.4</b>	<b>2.8</b>	<b>2.4</b>	<b>2.2</b>	<b>2.4</b>	<b>2.5</b>	<b>2.6</b>	<b>2.7</b>	<b>3.4</b>	<b>3.3</b>	<b>2.7</b>	<b>2.5</b>
<b>Global ex US %Y</b>	<b>3.6</b>	<b>3.1</b>	<b>2.7</b>	<b>2.6</b>	<b>2.8</b>	<b>2.9</b>	<b>3.1</b>	<b>3.2</b>	<b>3.5</b>	<b>3.4</b>	<b>3.0</b>	<b>3.0</b>
<b>G10 %Y</b>	<b>1.7</b>	<b>1.4</b>	<b>1.1</b>	<b>0.7</b>	<b>0.7</b>	<b>0.6</b>	<b>0.7</b>	<b>0.8</b>	<b>1.7</b>	<b>1.7</b>	<b>1.2</b>	<b>0.7</b>
US	2.2	1.8	1.2	0.6	0.6	0.4	0.4	0.5	2.9	2.8	1.4	0.5
Euro Area	1.0	1.0	0.7	0.6	0.6	0.7	0.9	1.1	0.5	0.8	0.8	0.8
Japan	1.9	1.1	1.0	0.4	0.4	0.3	0.4	0.5	1.5	0.1	1.1	0.4
UK	1.1	0.8	0.8	0.7	0.8	1.0	1.3	1.5	0.4	1.1	0.8	1.2
<b>EM %Y</b>	<b>4.7</b>	<b>3.9</b>	<b>3.5</b>	<b>3.4</b>	<b>3.6</b>	<b>3.8</b>	<b>4.0</b>	<b>4.1</b>	<b>4.8</b>	<b>4.5</b>	<b>3.8</b>	<b>3.9</b>
<b>EM ex China %Y</b>	<b>4.1</b>	<b>3.6</b>	<b>3.3</b>	<b>3.2</b>	<b>3.6</b>	<b>3.7</b>	<b>3.8</b>	<b>4.1</b>	<b>4.4</b>	<b>4.2</b>	<b>3.6</b>	<b>3.8</b>
<b>AXJ %Y</b>	<b>5.3</b>	<b>4.5</b>	<b>4.0</b>	<b>3.9</b>	<b>4.1</b>	<b>4.3</b>	<b>4.5</b>	<b>4.5</b>	<b>5.6</b>	<b>5.2</b>	<b>4.3</b>	<b>4.3</b>
China	5.4	4.3	3.8	3.7	3.7	4.0	4.3	4.1	5.4	5.0	4.2	4.0
India	6.7	6.2	6.0	5.7	6.3	6.2	6.4	6.4	8.9	6.7	6.1	6.3
Hong Kong	3.0	2.1	1.8	1.2	-0.1	1.3	2.6	3.5	3.3	2.5	2.0	1.9
Korea	1.1	1.6	0.7	0.6	1.4	1.2	1.0	1.8	1.4	2.0	1.0	1.4
Taiwan	3.7	1.6	1.9	1.6	2.2	2.5	0.9	2.4	1.2	4.6	2.2	2.0
Singapore	3.8	1.2	-1.5	0.0	0.8	1.0	1.2	1.2	1.8	4.4	0.9	1.1
Indonesia	5.0	4.8	4.5	4.5	4.7	4.8	4.8	5.0	5.0	5.0	4.7	4.8
Malaysia	4.0	3.5	3.0	3.0	3.2	3.5	3.7	3.7	3.6	5.1	3.4	3.5
Thailand	2.2	1.8	1.0	1.0	1.3	1.4	1.5	1.7	2.0	2.6	1.5	1.5
Philippines	5.0	5.0	4.4	4.3	4.8	4.8	5.0	5.0	5.6	5.7	4.7	4.9

Source: IMF, Morgan Stanley Research forecasts. Data as of Arp 25, 2025

## Appendix – Morgan Stanley cross-asset allocation and key forecasts

Index (Local Ccy)	04/25/2025	MS Dec 2025 Price Target	Current P/E	MS Dec 2025 P/E Target	MS Top Down EPS YoY%	
					2025e	2026e
S&P 500	5,525	6,500	20.0x	21.5x	257	281
					+6%	+9%
MSCI Europe	2,078	2,150	13.8x	14.1x	146	152
					+5%	+4.3%
Topix	2,628	2,600	12.9x	13.0x	185	200
					+2%	+8%
MSCI EM	1,097	1,050	11.9x	11.5x	81	91
					+3%	+12%



Source: Morgan Stanley Research.

## Appendix – Morgan Stanley CPI and policy rate forecasts

	Headline Inflation (%)Y				2025E				2026E				Annual			
	1QE	2QE	3QE	4QE	1QE	2QE	3QE	4QE	2023	2024	2025E	2026E	2023	2024	2025E	2026E
													Global	G10	EM	AXJ
US	2.7	2.5	3.4	3.5	3.2	3.5	2.8	2.6	4.1	3.0	3.0	3.0	3.8	2.7	2.2	2.1
Euro Area	2.3	2.2	2.0	1.9	1.6	1.7	1.8	1.8	5.5	2.4	2.1	1.7	2.7	2.7	2.7	2.3
Japan	3.8	3.3	2.8	2.0	1.3	1.3	1.4	1.6	3.2	2.7	3.0	1.4	3.2	3.2	3.0	2.0
UK	2.9	3.4	3.5	2.9	2.2	1.9	1.9	1.8	7.4	2.5	3.2	2.0	2.5	2.5	3.2	2.0
China	0.0	0.1	-0.2	0.4	0.4	0.2	0.1	0.2	0.2	0.2	0.1	0.2	0.1	0.1	0.2	0.2
India	3.9	3.8	3.8	3.6	4.7	4.6	4.1	3.6	5.7	4.9	3.8	4.2	3.0	2.7	2.4	2.1
Hong Kong	1.6	1.8	0.9	1.2	1.0	1.1	1.1	1.3	2.1	1.9	1.4	1.2	1.7	1.7	1.8	1.6
Korea	1.9	2.1	1.8	1.7	1.9	1.8	1.7	1.7	3.6	2.3	1.9	1.8	2.3	2.3	1.9	1.8
Taiwan	2.2	2.0	1.9	1.6	1.6	1.5	1.5	1.8	2.5	2.3	1.9	1.6	2.5	2.5	1.9	1.6
Singapore	1.0	0.9	0.8	1.0	1.0	1.0	1.1	1.1	4.9	2.4	0.9	1.1	4.9	4.9	0.9	1.1
Indonesia	0.6	2.0	2.2	2.4	2.2	2.1	2.5	2.5	3.7	2.3	1.8	2.3	2.3	2.3	1.8	2.3
Policy Rates		Current		2025E				2026E								
US	4.375	4.375	4.375	4.375	4.375	4.375	4.375	4.125	3.625	3.125	2.625	4.125	3.625	3.125	2.625	
Euro Area^	2.50	2.50	2.00	1.75	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Japan	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
UK	4.50	4.50	4.00	3.50	3.25	3.00	2.75	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25
Canada	2.75	2.75	2.75	2.50	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.00	2.25	2.25	2.25	2.00
Norway	4.50	4.50	4.25	4.00	3.75	3.50	3.25	3.00	3.25	3.00	3.00	3.00	3.50	3.25	3.00	3.00
Sweden	2.25	2.25	2.00	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
Australia	4.10	4.10	3.85	3.35	3.35	3.35	3.35	3.10	2.85	2.85	2.85	2.85	3.10	2.85	2.85	2.85
China*	1.50	1.50	1.35	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20
India	6.00	6.25	5.75	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Hong Kong	4.75	4.75	4.75	4.75	4.75	4.50	4.50	4.00	3.50	3.50	3.00	3.00	3.50	3.50	3.00	3.00
S. Korea	2.75	2.75	2.50	2.25	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Taiwan	2.00	2.00	2.00	2.00	1.88	1.75	1.75	1.63	1.50	1.50	1.38	1.38	1.50	1.50	1.38	1.38
Indonesia	5.75	5.75	5.25	5.00	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75
Malaysia	3.00	3.00	2.75	2.50	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25
Thailand	2.00	2.00	1.50	1.25	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Philippines	5.50	5.75	5.25	5.00	4.50	4.25	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00

Source: Haver Analytics, national central banks, Morgan Stanley Research forecasts. Note: \*ECB Deposit Facility rate; \*\*Uncollateralized Overnight Call Rate Upper Limit; ^7-day reverse repo rate.

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## Appendix – Morgan Stanley FX forecasts

FX	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26	FX	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26
EUR/USD	1.08	1.08	1.08	1.08	1.08	1.08	1.08	USD/SGD	1.38	1.38	1.385	1.362	1.339	1.316	1.293
USD/JPY	152	147	141	140	138	137	136	USD/TWD	33.5	33.5	33.6	32.9	32.1	31.4	30.6
GBP/USD	1.3	1.3	1.3	1.29	1.29	1.28	1.28	USD/THB	34.6	34.7	34.8	34.1	33.4	32.6	31.9
EUR/CHF	0.93	0.94	0.95	0.95	0.95	0.95	0.95	USD/BRL	5.7	5.9	6	6.1	6.1	6.2	6.3
EUR/SEK	11.2	11.2	11.2	11	10.9	10.7	10.5	USD/MXN	20.5	20.3	20.2	20.6	20.6	21.5	20.5
EUR/NOK	11.6	11.6	11.6	11.4	11.2	11	10.8	USD/ARS	1112.9	1146.6	1403.6	1446.2	1446.2	1490	1535
USD/CAD	1.42	1.42	1.42	1.4	1.37	1.35	1.33	USD/CLP	960	990	930	925	925	920	915
AUD/USD	0.67	0.67	0.67	0.68	0.7	0.71	0.73	USD/COP	4400	4450	4500	4600	4600	4750	4700
NZD/USD	0.59	0.59	0.59	0.61	0.62	0.64	0.65	USD/ZAR	18.4	18.1	18	18	17.9	17.7	17.6
USD/CNY	7.35	7.45	7.5	7.5	7.5	7.5	7.5	USD/TRY	38	39.5	41	42	42	43	44
USD/HKD	7.81	7.8	7.78	7.8	7.79	7.78	7.76	USD/ILS	3.5	3.5	3.4	3.4	3.5	3.6	3.7
USD/IDR	16600	16650	16650	16236	15722	15208	14694	EUR/PLN	4.15	4.14	4.12	4.12	4.22	4.32	4.43
USD/INR	89	89	89.1	87.7	86.5	85.2	83.9	EUR/CZK	24.9	24.8	24.7	24.7	25.3	25.9	26.5
USD/KRW	1480	1480	1485	1428	1366	1304	1243	EUR/HUF	390	400	405	405	404	403	402
USD/MYR	4.56	4.56	4.57	4.41	4.26	4.1	3.94	DXY	104	104	103	103	103	103	102
USD/PHP	59	59	59	58.3	57.5	56.8	56	Broad USD (Fed)	127	127	127	126	125	125	124

Source: Morgan Stanley Research forecasts.

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Underweight/Sell	603	16%	76	9%	13%	229	13%
Total	3,774		828			1717	

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