China Macro 2026: Challenging the "New Engine" Narrative

Executive Summary: The 4.52% Baseline

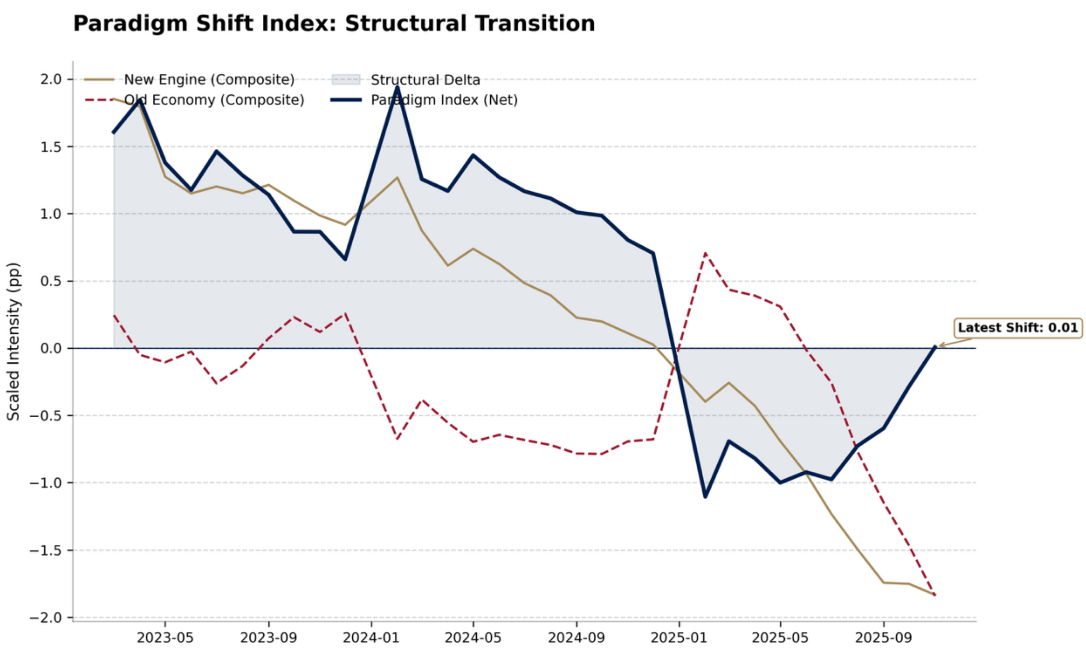
The consensus narrative (GS) relies on a seamless transition from legacy "Old Economy" property to high-tech "New Engines." Our proprietary quantitative engine suggests this transition is **priced for perfection**. We project a baseline GDP of **4.52%**, with risks skewed to the downside.

The core of our variant perception lies in **Transmission Decay**: the fiscal and credit impulses of 2025 are not reaching the real economy with the same multiplier effects as previous cycles.

1. Macro Regime: From Permanent Alpha to Cyclical Fatigue

Consensus View: High-tech manufacturing is a structural, non-cyclical growth floor. **Our View:** The "New Engine" is undergoing a cyclical correction as "anti-involution" policies curb overcapacity.

Figure 1



Analyst Interpretation: Observe the **Paradigm Shift Index (Blue Line)** in **Figure 1**. While the delta between New and Old Economy capex reached a historic peak in 2024, the momentum is now rolling over. This indicates that high-tech manufacturing is not a "magic bullet" but is becoming subject to the same cyclical demand constraints as the rest of the economy. The regime shift is real, but it is **not uniform**.

2. Transmission Check: The Clogged "Fiscal Fuse"

Consensus View: A 12-month lag ensures the 2025 fiscal push will floor 2026 growth. **Our View:** The lead-lag relationship has become **state-dependent**. Multipliers are compressing as local government balance sheets remain constrained.

Figure 2

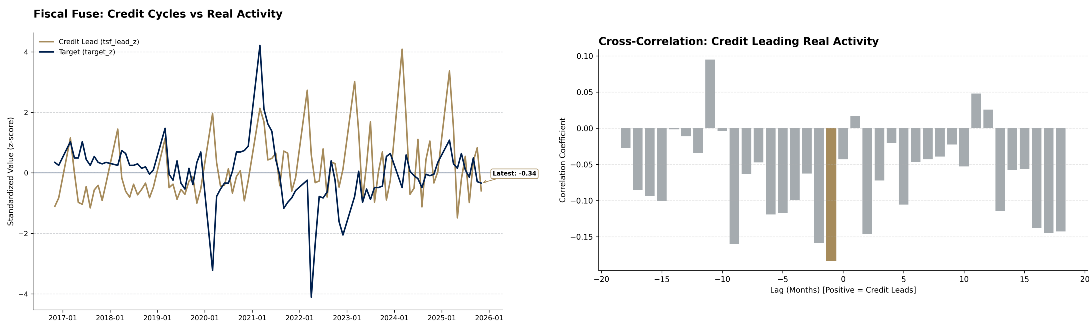


Figure 2 provides the "Causal Machine" view. Note the **Lead-Lag Correlation** on the right. In a healthy cycle, we expect a sharp, persistent peak at the 12-month mark. Instead, we see a **diffuse, decaying correlation**. This "clogged" transmission suggests that credit injection is being diverted into debt servicing rather than high-multiplier investment. We are betting against a timely "Policy Work" rebound.

3. Property: Stabilization at a Zero-Floor

Consensus View: Property is bottoming out and will stop being a drag. **Our View:** We see a "Stabilization without a Cycle." The floor is being established, but the wealth effect remains deeply negative.

Figure 3

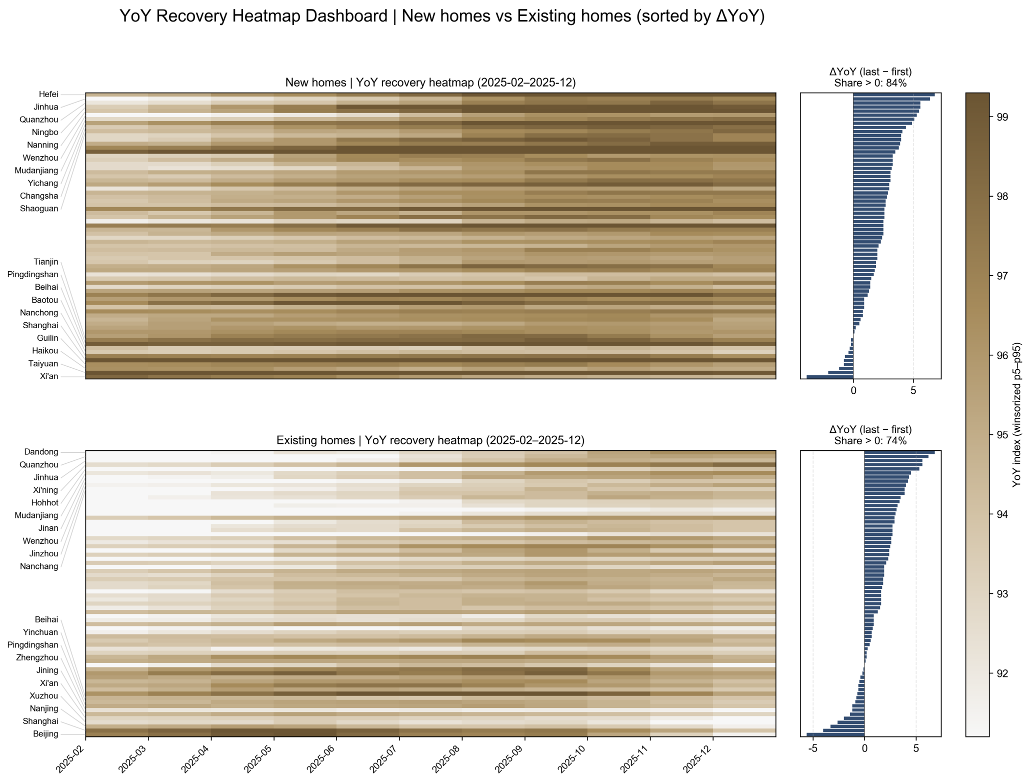
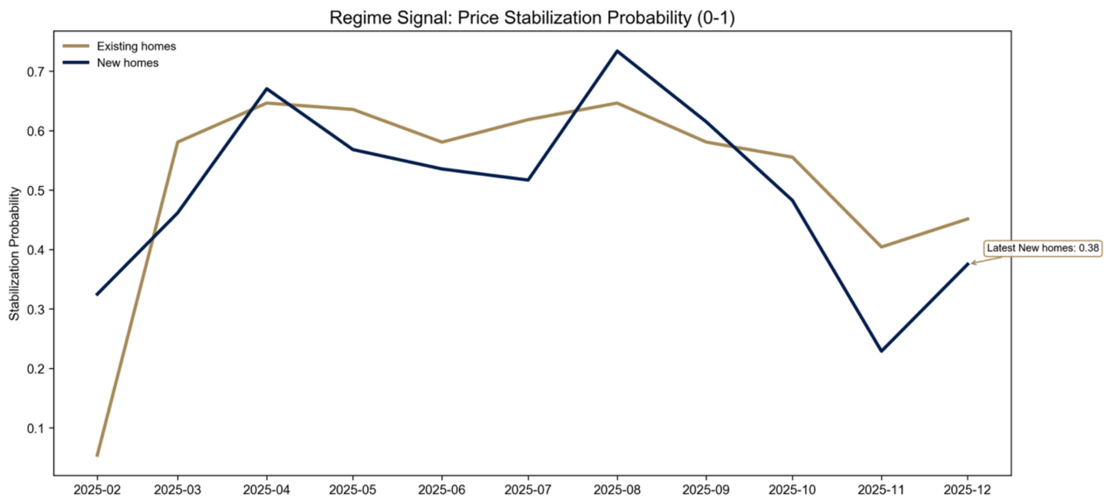


Figure 4



Analyst Interpretation: Figure 3 shows that the recovery is highly idiosyncratic, concentrated in Tier-1 base effects. **Figure 4 (Stabilization Probability)** is critical: it shows that while the risk of a "free-fall" has diminished, the probability of a system-wide re-acceleration is rolling over. Property has transitioned from a "Drag" to a "Deadweight."

4. External Sector: Reallocation, Not Expansion

Consensus View: Strong EM demand will offset US tariff headwinds. **Our View:** Trade data shows **rerouting/mix effects** rather than genuine new demand.

Figure 4

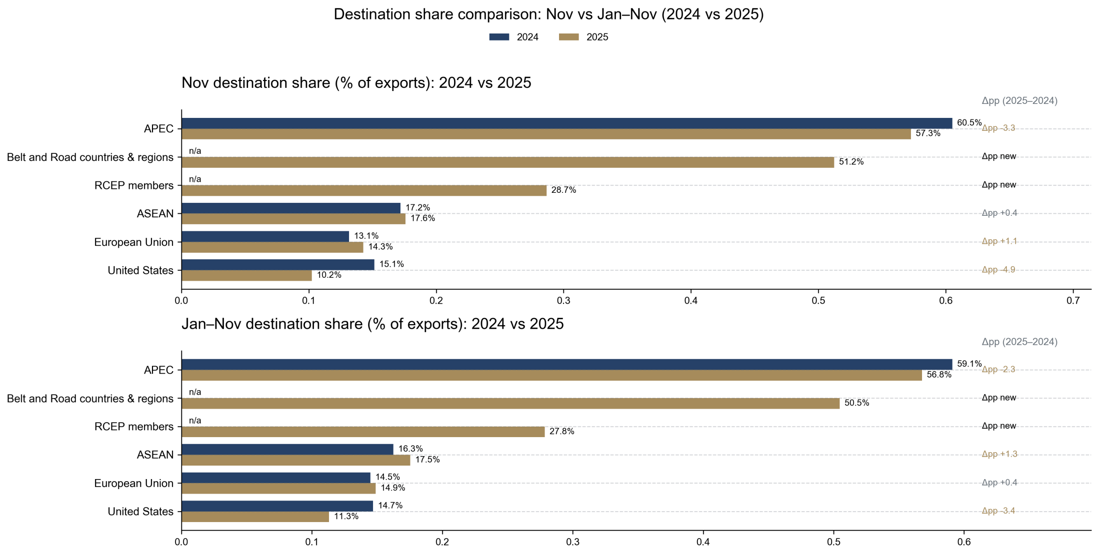


Figure 6

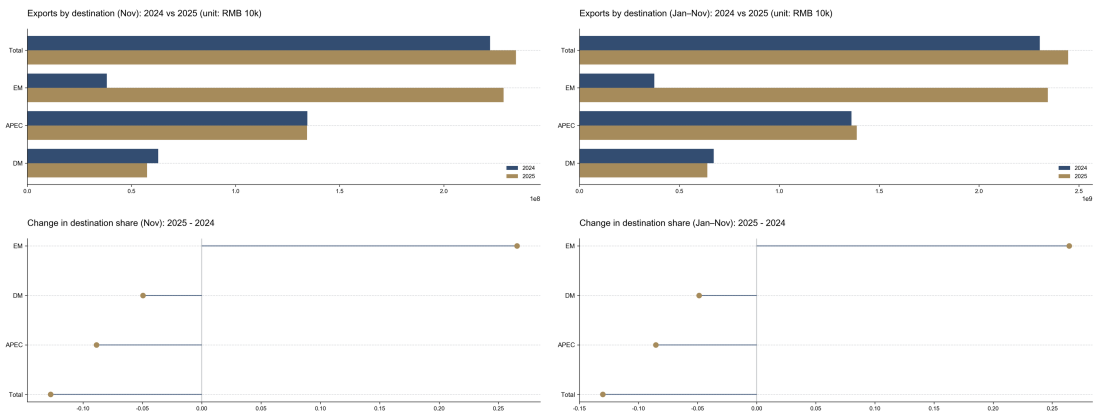
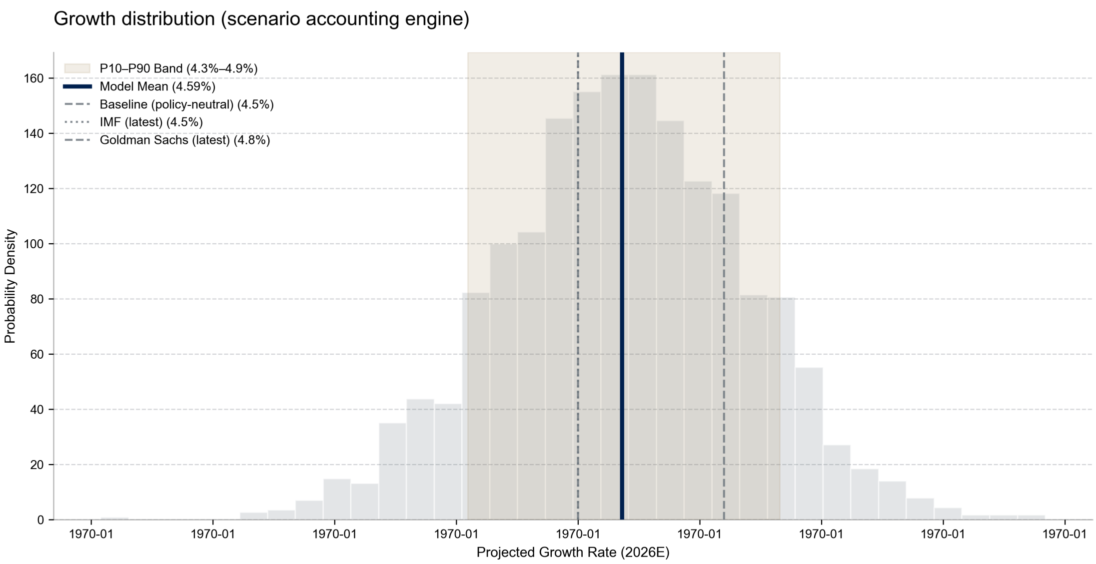


Figure 5 highlights the sharp drop in US shares offset by APEC/ASEAN gains. However, **Figure 6** reveals the discrepancy: share gains are not moving one-for-one with value growth. This is the hallmark of "Rerouting"—Chinese goods are reaching the US via ASEAN/EM, which leaves them vulnerable to secondary trade enforcement.

5. Risk Accounting: The P90 Tail Trap

Consensus View: 4.8% is a solid baseline. **Our View:** 4.8% is a tail event. Our mean expectation is 4.52%.

Figure 7



Analyst Interpretation: This is the most important chart for risk management. We have modeled 2,000 Monte Carlo paths. The GS 4.8% target sits at the **90th percentile (P90)** of our distribution. To hit the consensus target, China requires an "optimal" outcome in both property stabilization and trade resilience. **Our Baseline (4.50%)** is the only defensible object for portfolio positioning.

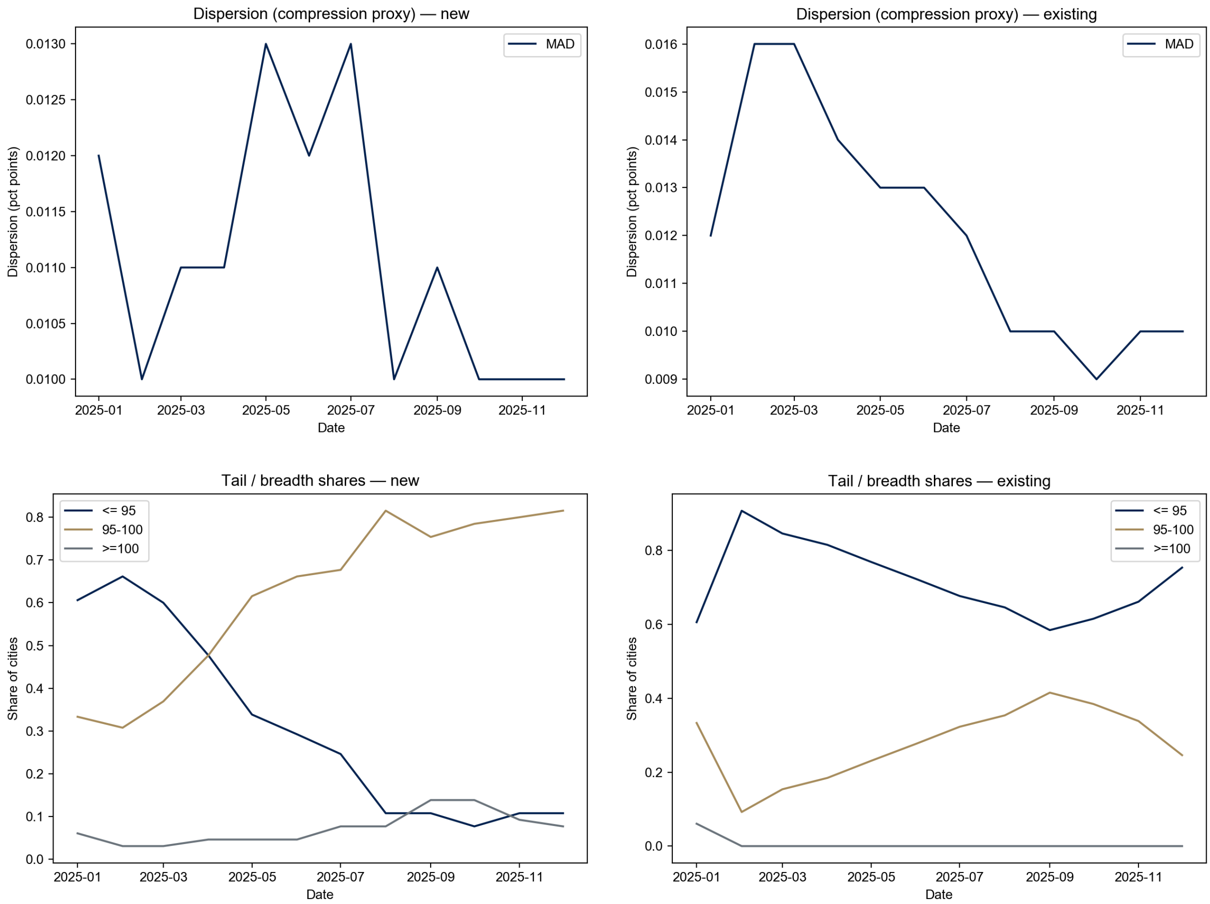
Strategic Asset Allocation & Trade Ideas

Based on the 28bp gap between our baseline and consensus:

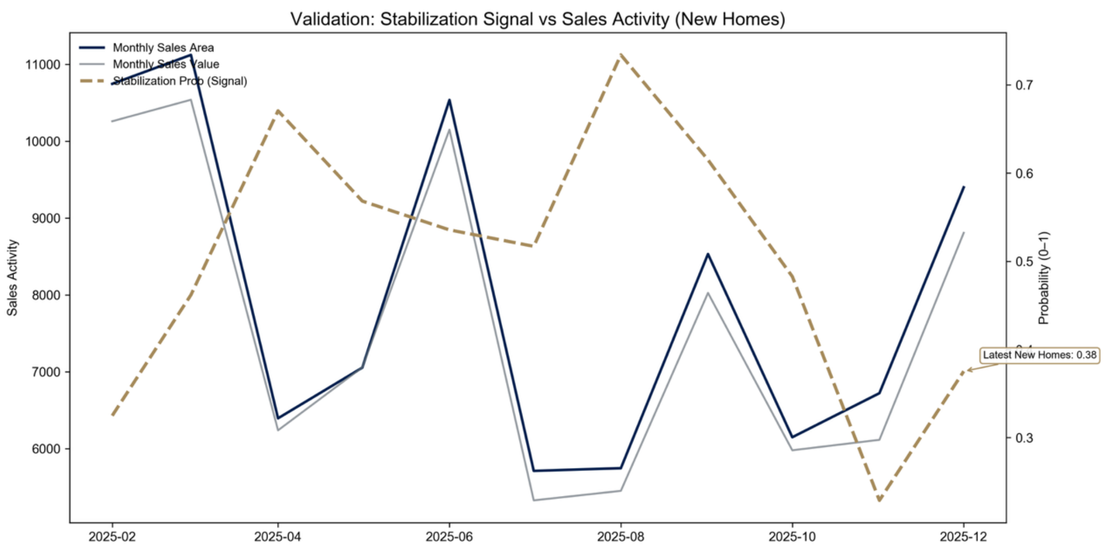
1. **Rates (Long 10Y CGB):** If transmission is clogged and growth prints <4.6%, the PBOC will be forced to cut rates more aggressively than the market expects. We favor receiving the 5Y LPR Swap.
2. **FX (Sticky USD/CNY):** GS forecasts 6.85; we see a floor at 7.00. The reallocation of exports (Figure 4-5) reduces net trade's GDP contribution, removing the primary catalyst for CNY appreciation.
3. **Equity (Deflation-Sensitive):** Avoid broad High-Tech Beta. The Paradigm Shift (Figure 1) suggests the "easy money" in the capex cycle has been made. We prefer segment leaders in Services Consumption with genuine pricing power.

Bottom Line: We remain positioned for a "Policy-Dependent" stabilization that fails to meet the lofty expectations of the sell-side consensus.

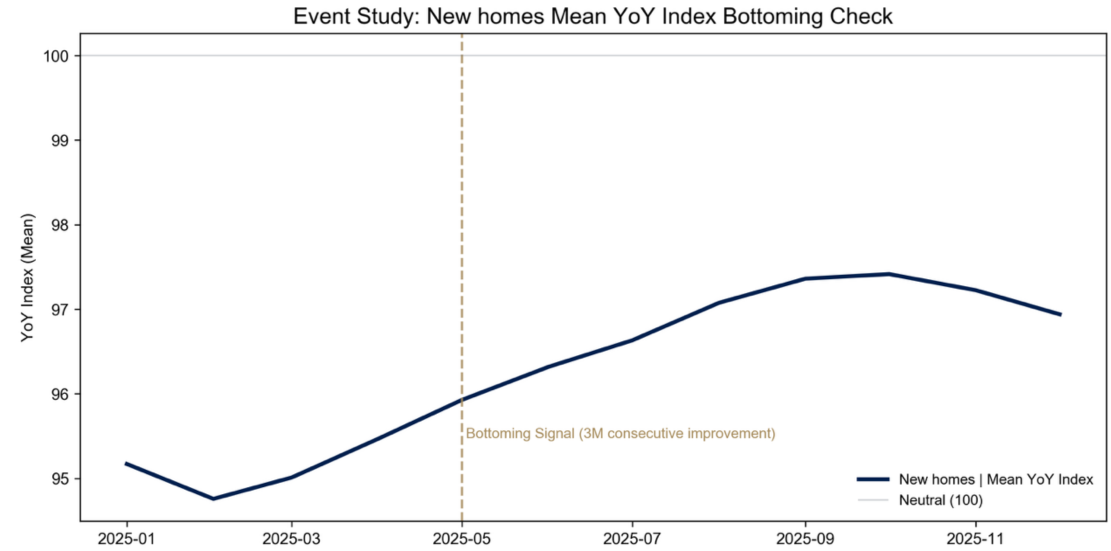
Appendix



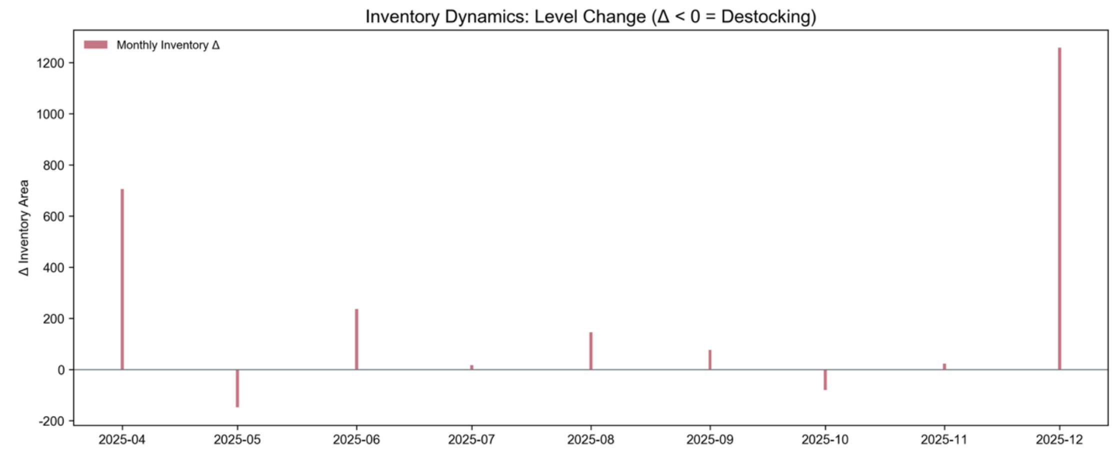
Property divergence: dispersion and tail shares (new vs existing).



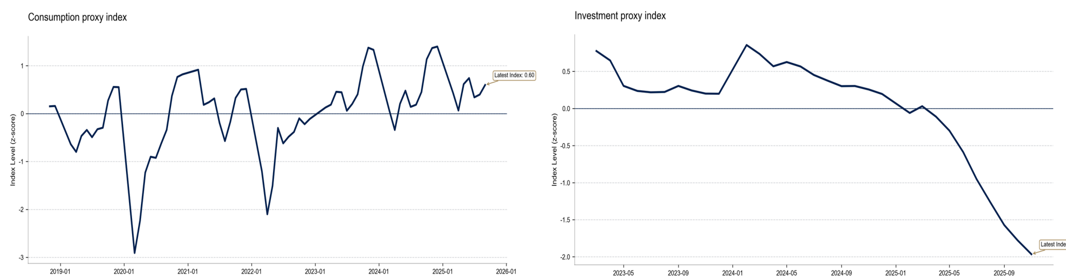
Property Stabilization Signal vs Sales Activity (New)



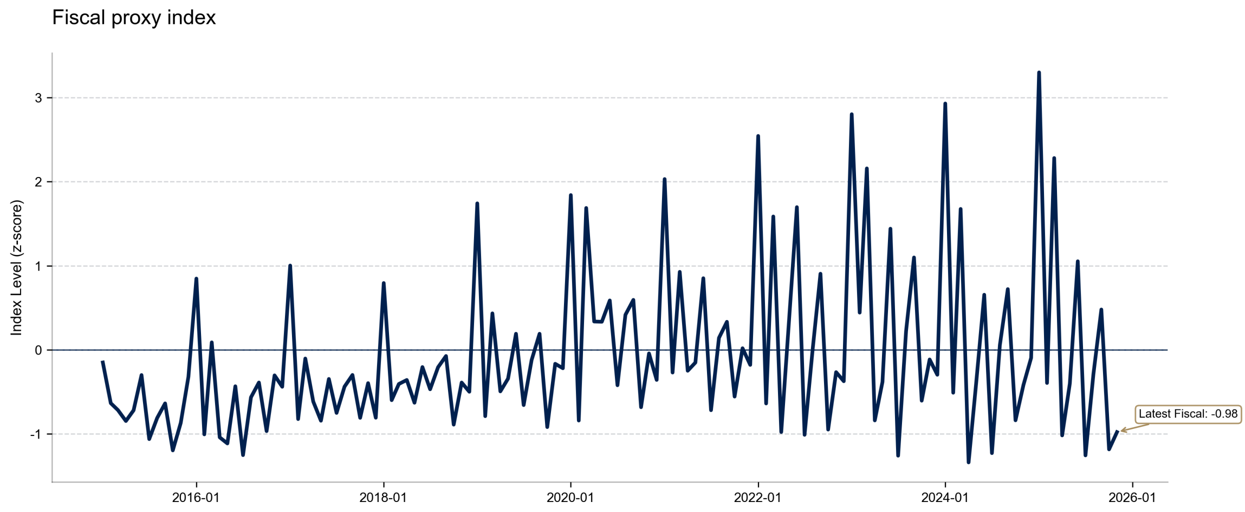
Property Bottoming Signal: New Homes



Property Inventory Stock: Level Change



Domestic demand: consumption vs investment indices.



Domestic fiscal index.