

2026 Outlook Series: Greater China Equities



Greater China equity markets registered a strong equity rally in 2025 to date, driven by technology breakthroughs, demand for localisation, go-global demand, and upward earnings growth revisions. We reiterate a positive view on Greater China equity markets going into 2026 as we believe Mainland and Taiwan are well-positioned to drive high-quality growth to the next level.

Driving the next leg of innovation

Summary:

1. We reiterate a positive view on Greater China equity markets going into 2026, supported by attractive valuations and resilient fund flows.
2. We believe there are various investment opportunities for Mainland, notably in technology, industrials, renewable energy, healthcare, and new/niche/experienced consumption.
3. For the Taiwan region, we expect further corporate earnings expansion in 2026, with structural growth opportunities in foundries, outsourced semiconductor assembly and test (OSAT) supply chain, thermal cooling solutions and power supply solutions.

From a top-down macro perspective, we see five key drivers supporting China/Hong Kong equity markets in 2026:

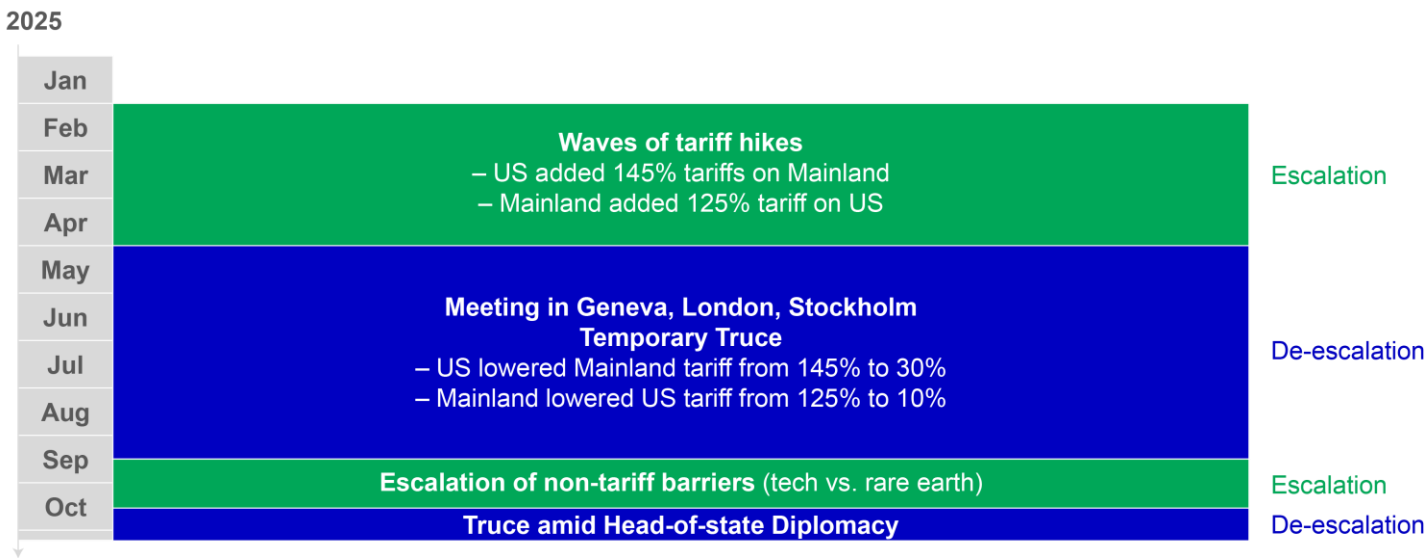
1. Economic stabilisation
2. Supportive fund flows for the China/Hong Kong equity markets
3. The Mainland's 15th Five-Year Plan
4. Moderating deflationary pressures
5. Green shoots in the Hong Kong property market

1. Stabilising economy

Tariffs and geopolitical issues between Mainland and the US have stabilised, which is favourable for Greater China equity markets. Specifically, the US agreed to reduce fentanyl-related tariffs on Mainland from 20% to 10% effective 10 November 2025, while the Chinese government agreed to buy US soybean agricultural products¹. Also, both countries agreed to a pause on additional reciprocal tariffs (i.e., delayed for one year) and shipping industry trade investigations. This improved outcome has reinforced our previous view (note) that more dialogue between the two countries can drive better results. The relative tariff difference versus other non-China economies has also narrowed.

¹ The White House, 1 November 2025

Illustration 1: Key tariff news between Mainland and US in 2025



Source: MS research, November 2025

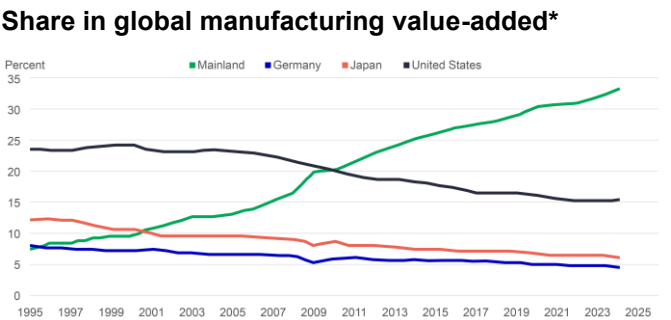
Despite a potentially slower headline export number, Mainland’s higher-value-added exports are growing (“go-global”).

Mainland’s export story has evolved and is going from strength to strength. Nowadays, Chinese exporters allocate more to emerging markets and gain global market share in high-end manufacturing sectors, export “services”, intellectual property (IP), travel, consumer services, and biotech in contract research & development (R&D) to the world. For example, Mainland’s trade with Belt and Road countries now accounts for 47% of the total trade, up from 32% in 2005².

We believe that Mainland’s go-global trend is sustainable and unlikely to be diverted from its overall growth trajectory, even with tariff noise, because Chinese manufacturers have strong value propositions and possess relative cost advantages that beat global players.

Furthermore, Mainland has strategically increased its overseas direct investment (ODI) over recent years, particularly within Belt & Road (B&R) Initiative countries.

Illustration 2: Mainland: the world’s largest manufacturer continues to extend its lead



*USD, 2015 prices. Extrapolated with real manufacturing Gross Value Added for 2023, monthly manufacturing production for 2024.

Source: GS Investment Research, Haver Analytics, October 2025

² Source: GS Global Investment Research, October 2025

Illustration 3: Mainland has moved up the value-added curve, shifting from exporting toys and textiles towards more advanced technology products

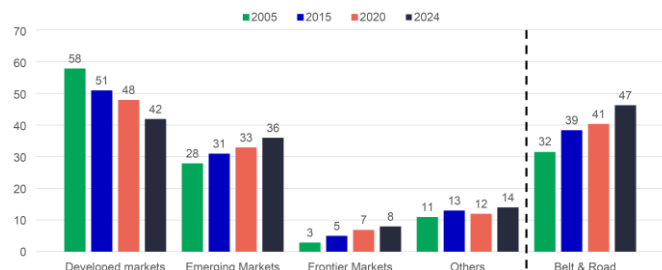
China as % global exports



Source: Comtrade, GS Global Investment Research, October 2025

Illustration 4: The Destination of Chinese exports has shifted from Developed Markets (DM) to Belt & Road and Emerging Markets (EM) over the past two decades

Mainland Trades Value by Region (% of Total Trades)



Note: Historical B&R values calculated with current participating member economies; DM, EM, and Frontier Markets (FM) calculated with corresponding MSCI Index member economies; Subject to data availability; Others = Total – DM – EM – FM, and B&R has overlaps with others.

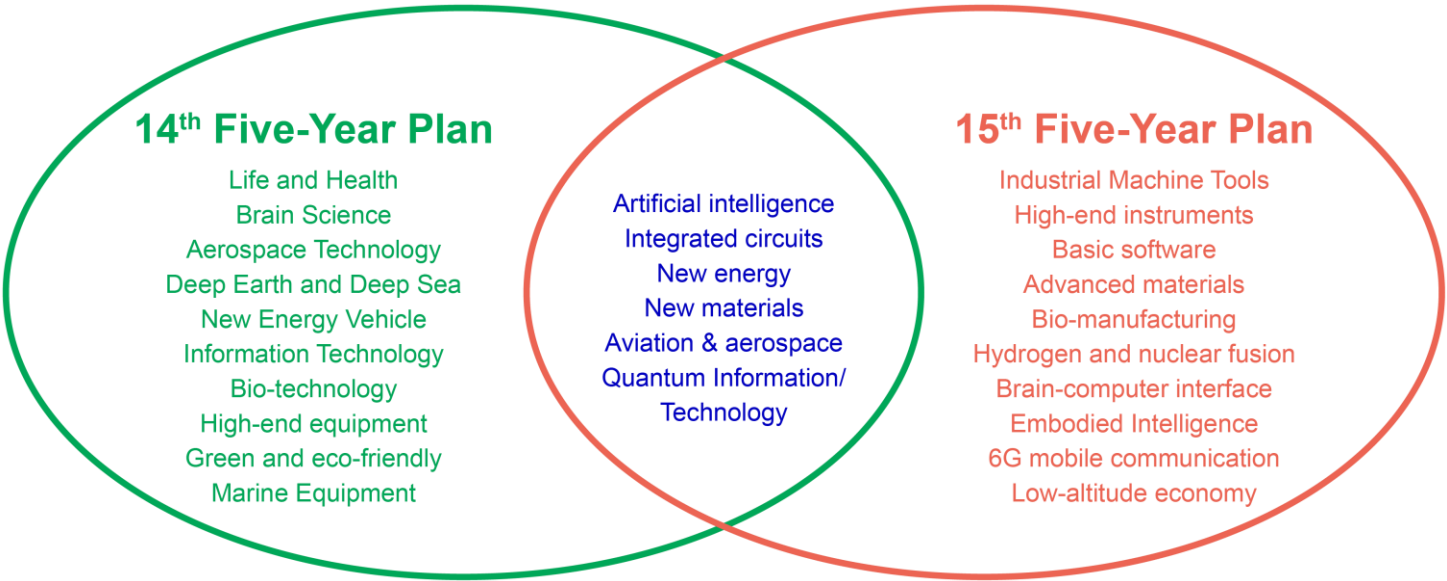
Source: GS Global Investment Research, October 2025

Furthermore, Mainland's go-global companies have actively built out their overseas production plants in the last few years. With tariff headwinds subsiding, we expect their investments to materialise in 2026.

- Supportive fund flows into Greater China equity markets:** A lower rate environment may drive more fund flows to emerging markets, i.e., this is positive for the Greater China equity market. As highlighted in our previous note, we believe a potentially weak US dollar (USD) may drive more fund flows to Greater China equity markets.
- Mainland's 15th Five-Year Plan** lays out a clear policy and strategic direction over the next five years, which should drive the next period of growth. To highlight, Mainland's strive for technology innovation is *not limited to AI* but also includes quantum computing, healthcare/bio-manufacturing, hydrogen and nuclear fusion, new materials, new energy, brain computer interface, and aerospace, etc.)³. Mainland has made big strides in localisation in semiconductors and biotech over the last five years.

³ Xinhua News, 26 October 2025

Illustration 5: Mainland’s 14th and 15th Five-Year Plans – major industries highlighted



Source: Wind, Goldman Sachs Global Investment Research, November 2025

4. Moderating deflationary pressure

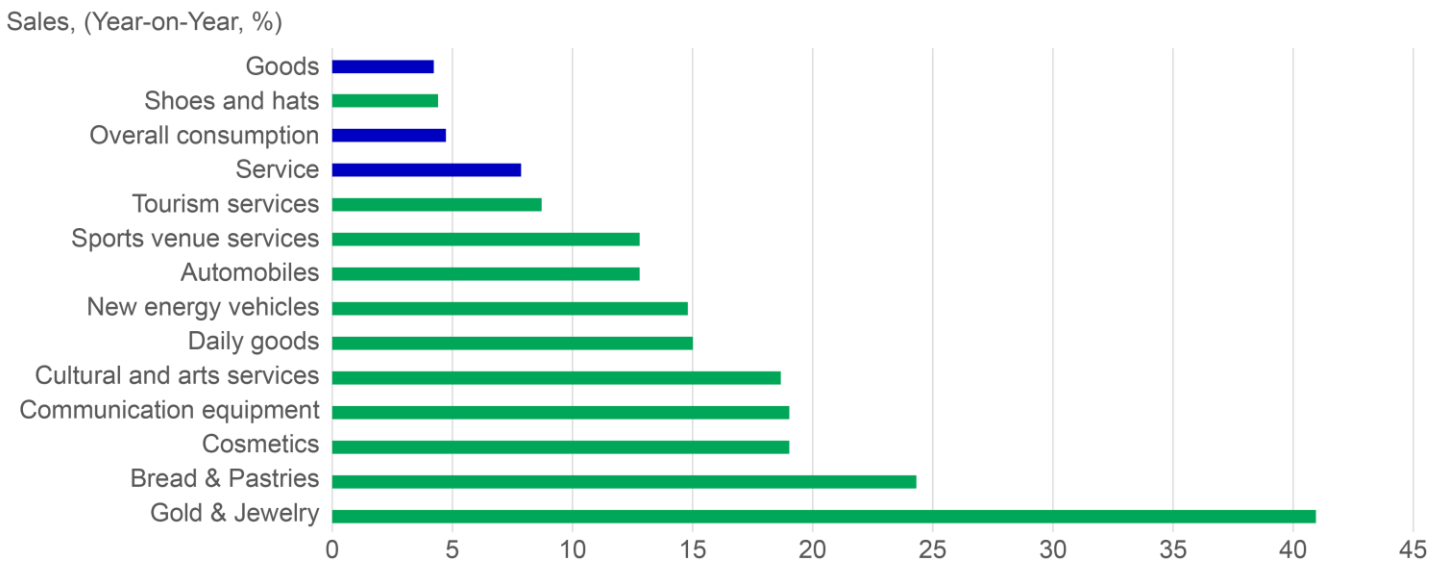
Mainland’s core consumer price index (CPI) has improved moderately over the year-to-date (YTD) due to the holiday effect. Service consumption and trade-in-policies have positively fuelled CPI growth, and we expect CPI to trend higher should domestic demand improve further.

Illustration 6: Mainland’s headline CPI and core CPI



Source: Bloomberg, December 2025

Illustration 7: Service consumption benefited from policy support during the National Day Golden Week 2025



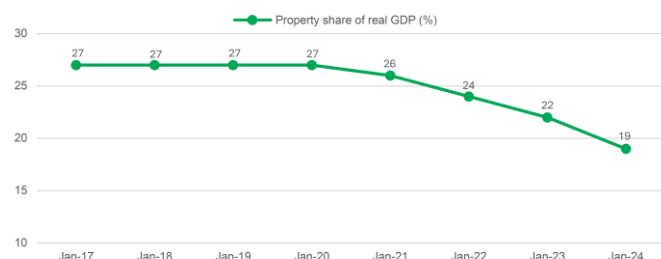
Source: HSBC research, October 2025

On the other hand, we believe Mainland's producer price index (PPI) may turn positive, fuelled by Mainland's anti-involution efforts. Mainland's PPI has been trending negative for a few years due to weaker-than-expected domestic demand and industry overcapacity. Mainland's anti-involution policies, which strive to improve the supply-and-demand balance in overly competitive or overcapacity industries, may drive improved corporate profitability over the medium to long term.

5. Green shoots in the Hong Kong property market

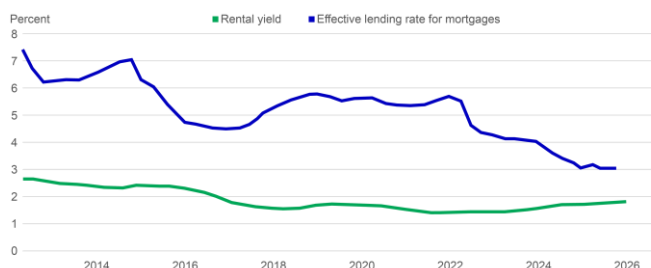
Despite weakness in Mainland's property market, Mainland property's impact on gross domestic product (GDP) growth has reduced over the last few years, e.g., from 26% in 2021 to 19% in 2024⁴. We expect the bottoming process to continue. Recently, property sales have improved despite continually falling property prices. On the policy front, Mainland recent mortgage cut is positive, which should aid Mainland's property sector overall.

Illustration 8: Mainland: Property share of real GDP (%) (2017-2024) has dropped from 26% in 2021 to 19% in 2024



Source: GS research, November 2025

Illustration 9: Mainland's lending for mortgage and rental yield



Source: GS research, November 2025

Elsewhere, the **Hong Kong property sector** shows signs of recovery, driven by three factors: (1) expectation of the US Federal Reserve's rate cut into 2025 (now with positive carry), (2) improving transaction volumes, and (3) modest price recovery. 2025 YTD housing prices have grown by 2% and overall transaction volume has improved by 21%, recovering almost back to 2019 levels⁵. We favour companies with strong buyback ability and supportive dividend yields.

Illustration 10: Hong Kong: housing prices have regained momentum



Source: Centaline home price index, as of 7 December 2025

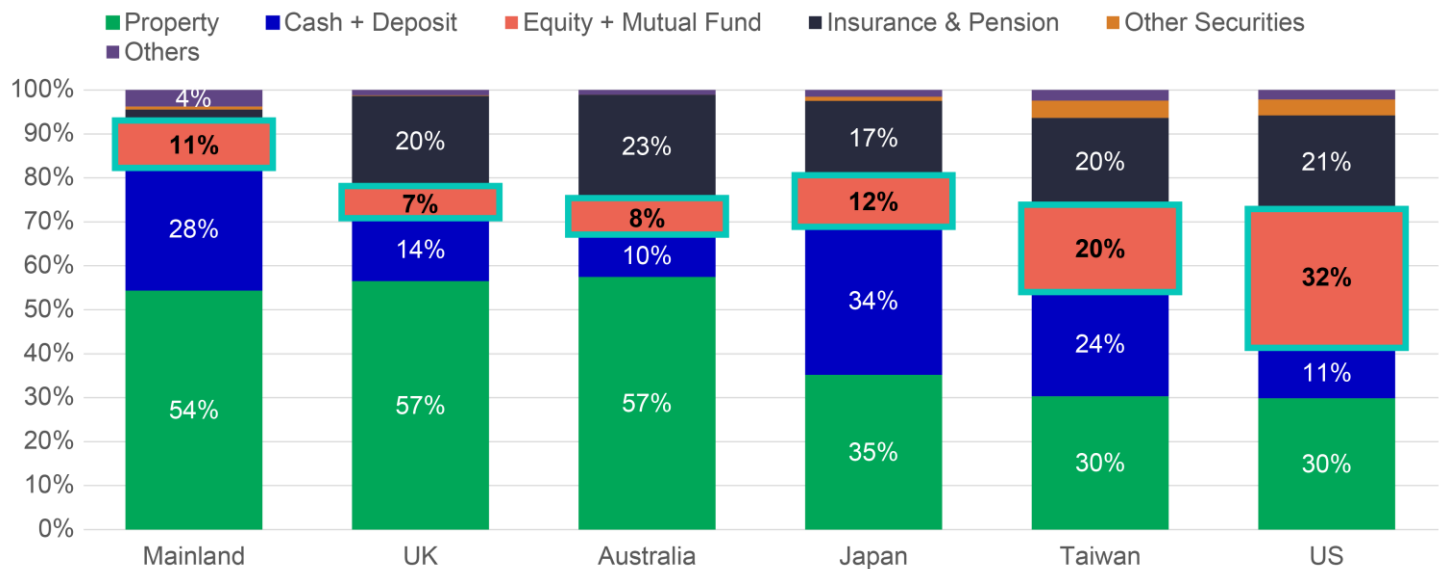
Summary of our views on China/Hong Kong Equity markets

Overall, we reiterate a positive stance on both the China H-share and China A-share markets going into 2026. On relative valuation, the China A-share market may have more upside vs. China H-shares, given the valuation premium difference between H-shares and A-shares. In the medium to long term, we see migration of Mainland's household assets into equity markets, as evident by the 2025 move. Comparing Mainland to developed markets, equities remain an under-owned asset class among Mainland's composition of total household assets (see Illustration 11).

⁴ Source: GS research, November 2025

⁵ Source: HSBC Global Research, Centaline home price index, November 2025

Illustration 11: Composition of household total assets



Source: GS research, November 2025. Data as of 30 June, 2025.

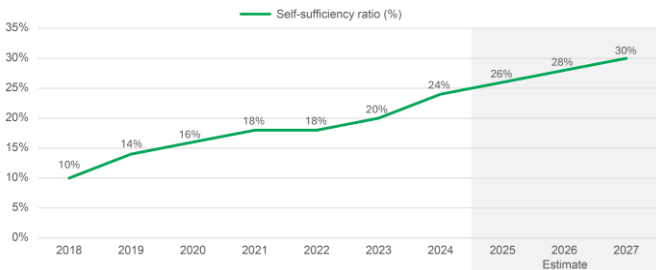
Bright spots for China/HK equities

1. Mainland Technology

We expect the Mainland’s technology innovation to continue to accelerate in 2026 across many areas.

First of all, China’s semiconductor localisation has accelerated in recent years, growing from 16% in 2020 to an estimated 26% by 2025⁶. We expect the same trend to continue in 2026 (see Illustration 12), driven by increased demand from local customers (e.g., foundries and memory companies due to capacity constraints) and improved technical capabilities (i.e., moving to advanced nodes).

Illustration 12: Mainland’s semiconductor self-sufficiency ratio

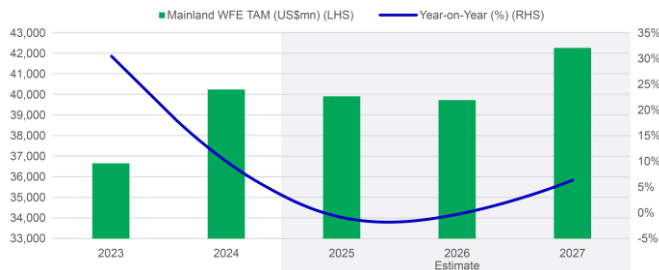


Source: Morgan Stanley Research, October 2025

We believe Mainland semiconductor equipment players are strategically positioned, driven by (1) market-share gains, (2) capacity needs from local

artificial intelligence (AI) graphics processing units (GPUs), high bandwidth memory (HBM), inspection tools, and (3) a stronger-than-expected memory cycle. Additional capital expenditure (capex) in 2026 can be derived from (1) demand for memory, (2) lithography tools (which remains the main bottleneck in Mainland’s advanced nodes as it still relies on imported deep ultraviolet (DUV).

Illustration 13: Total addressable market (TAM) of Mainland’s wafer fabrication equipment (WFE)



Source: Company data, MS research, October 2025

⁶ Source: Morgan Stanley Research, October 2025

2. Mainland Industrials - Advanced manufacturing

On the other hand, we believe advanced manufacturing will play an important role over the next five years. As highlighted in Mainland’s 15th Five-Year Plan, Mainland is striving to build a modern industrial system anchored in advanced manufacturing. Also, Mainland aims to advance digitalisation.

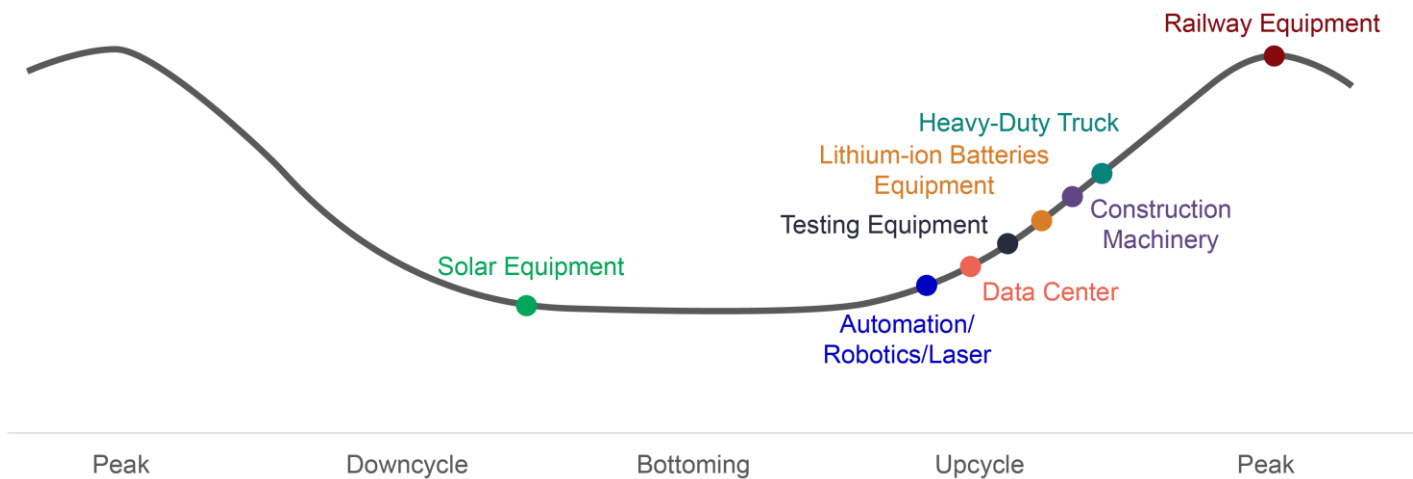
Currently, Mainland industrials are in an upcycle. Also, the Mainland’s industrial components have elevated localisation rates and that are poised to increase as the Mainland is a leader in manufacturing sophisticated components, benefiting the local ecosystem.

Going into 2026, we see growth opportunities in three areas: (1) AI-enabled intelligent manufacturing and equipment, (2) advanced equipment localisation, and (3) go global trend.

We favour (1) automation and robotics companies, (2) construction machinery companies (which benefit from cyclical demand recovery), and (3) lithium battery equipment companies.

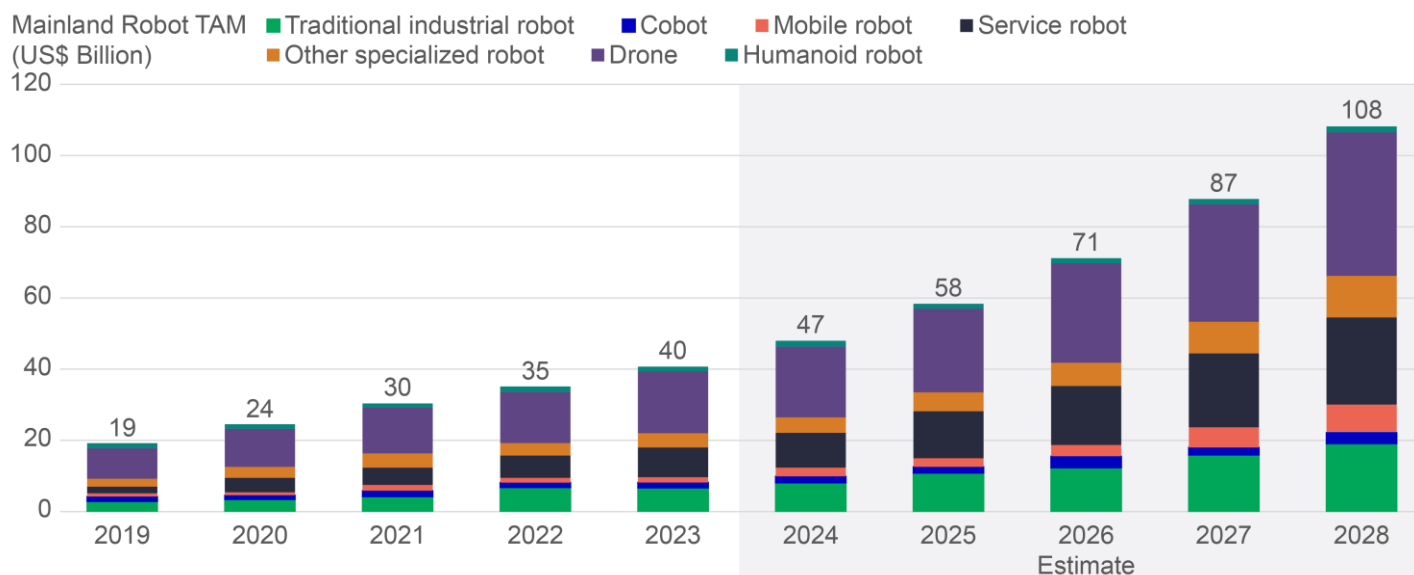
For Mainland’s robotic market, total addressable market (TAM) for Mainland’s robot market is expected to grow from USD 58 billion in 2025 to USD 108 billion in 2028.

Illustration 14: Mainland Industrials: Where are we in the cycle?



Source: MS research, November 2025

Illustration 15: Mainland Robot total addressable market (TAM)



Source: MS research, November 2025

3. Mainland's renewable energy supply chain

In the Mainland's 15th Five-Year Plan, Mainland strives to “actively and steadily advance and achieve peak carbon dioxide by 2030”. We believe the renewable energy supply chain stands to benefit from this structural growth opportunity. Furthermore, power equipment, battery equipment, and energy storage systems (ESS) are clear beneficiaries.

The latest changes in Mainland's renewable energy policies provide incentives for businesses to invest in ESS.

In September 2025, China set an ESS deployment goal of 180 Gigawatt (GW) cumulative capacity by 2027, implying annual power capacity of around 35GW in 2025-2027, versus 43.7GW in 2024⁷.

China should enter a longer-duration era of ESS deployment under the renewable market trading scheme. We believe China's ESS target may secure high capex for ESS deployment over the next three years.

Chinese companies dominate the battery equipment industry and are among the top five lithium-ion battery (LiB) equipment manufacturers globally with a concentration ratio 5 (CR5) of

approximately 40%. Domestic equipment makers play a pivotal role in the global LiB market, as technological advancements (from liquid to solid state) drive potential adoption over the next few years.

4. Mainland Healthcare

With a better funding environment and more potential rate cuts going into 2026, Mainland's biotech funding environment should improve, which will enable Chinese healthcare companies to pursue more R&D projects. We remain positive on China biotech companies with strong R&D abilities while riding upon out-licensing trends as well as contract sales organisations (CXO) with R&D outsourcing capabilities.

5. Mainland's new/niche consumption

For Mainland consumption, we expect “K-shaped recovery” (either low-end or high-end) and favour (1) low-end consumption, (2) high-end consumption, and (3) experienced consumption.

- **Low-end consumption:** We believe consumer companies in this segment (e.g., niche food & beverage (F&B) companies) need to gain

⁷ Mainland's National Development and Reform Commission and National Energy Administration “Special action plan for large-scale construction of new energy storage (2025-2027)”, 12 September 2025.

market shares by competing with channel players while achieving economies of scale.

- **High-end consumption:** We believe consumer companies in this segment (e.g., domestic luxury) will continue to do well.
- **Experienced consumption:** We continue to believe service-oriented consumption, such as online music, concerts, and IP companies, should continue to do well.

For example, global IP collectibles have become a mainstream market (i.e., a USD 100 billion+ market) that has outgrown most consumer discretionary categories. The industry experienced a strong sales of around 8% compound annual growth (CAGR) during 2019-2024 and is forecast to grow at around 6% CAGR for 2024-2027.

Character- and entertainment-driven collectibles, ranging from toys, trading cards, apparel and lifestyle products, are gaining consumer wallet share. By region, China and Asia Pacific are emerging as key growth engines. Globally, North America is the focus area for Asian companies, which account for almost 50% of the global character IP licensing market.

2026 Taiwan equity market outlook

Taiwan: Aiming to be a global AI hub

Taiwan's economy in 2025 registered a strong print of around 7%, boosted by the solid export of AI-related technology products, offset by moderating domestic demand. The announcement of semiconductor tariffs in Q3 2025 removed an overhang from the Taiwan technology sector, as companies with investments in the US (or intending to invest) are exempted from semiconductor tariffs.

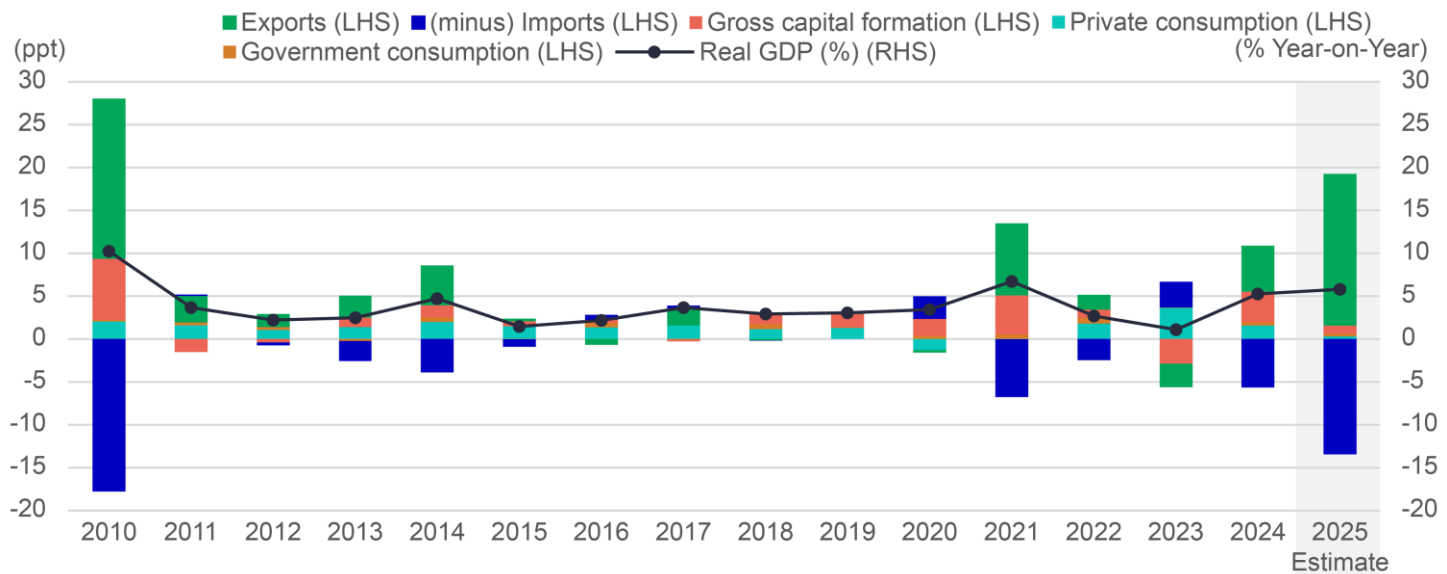
While Taiwan is subjected to a 20% reciprocal tariff, exempted goods accounted for over 80% of Taiwan's exports to the US in May 2025, leaving an effective tariff rate increase of below 5%.

Overall, we expect moderating domestic inflation and the export-driven growth trajectory to continue going into 2026. Over the longer term, Taiwan aims to generate more than NT\$15 trillion (USD 480 billion) in output value in the sector, create 500,000 AI-related jobs, and establish three world-class AI laboratories by 2040, positioning Taiwan as a key node for global AI innovation⁸.

On earnings, we expect further corporate earnings expansion in 2026, driven by both earnings growth and multiple expansions.

⁸ Taiwan region's government website, 20 November 2025.

Illustration 16: Taiwan region: Breakdown of GDP Growth (2010-2025)



Source: HSBC Global research, CEIC, September 2025

What are the bright spots for Taiwan equities?

1. Foundries: advanced nodes take all

Taiwan’s foundry companies are going from strength to strength, driven by (1) solid AI infrastructure plans from US cloud service providers (CSPs), (2) demand for AI GPUs and AI application-specific integrated circuits (ASICs), as well as (3) the new-product cycle.

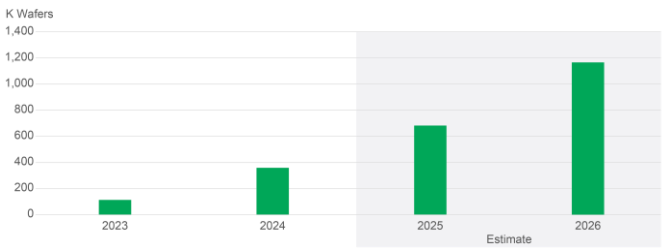
The competitive dynamics among hyperscalers have created a head-to-head race in AI capability, with the major five US companies committing over USD 13 billion in capex for 2025 (+59% year on year).

Furthermore, data centres are now the key driver of the semiconductor industry, growing its revenue from 10% of semiconductor ex-memory revenue in 2020 to 37% now (versus mobile declining from 26% to 17% during the same period).

Going into 2026, Taiwan foundry players should continue to benefit from solid demand for Chip-on-Wafer-on-Substrate (CoWoS)⁹ for AI GPU and AI ASIC products.

⁹ CoWoS stands for Chip-on-Wafer-on-Substrate, an advanced semiconductor packaging technology, which enables multiple chips—such as CPUs, GPUs, and High Bandwidth Memory (HBM) to be

Illustration 17: Global CoWoS capacity demand by key customers (2023-2026)

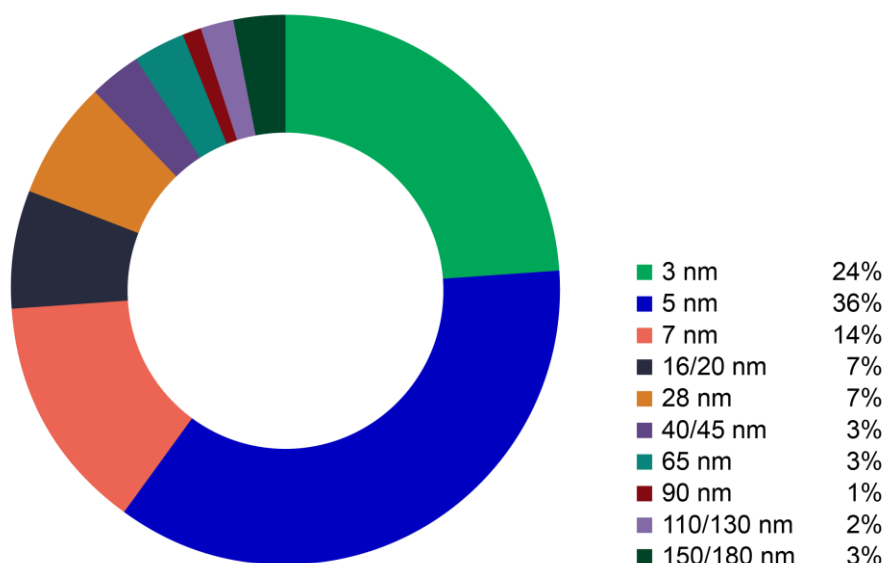


Source: MS research, 29 October, 2025

Also, Taiwan’s foundries are leading in terms of advanced nodes (i.e., advanced nodes take all). We favour companies with advanced node capacities and strong R&D capabilities.

mounted side-by-side on a silicon interposer, which is then attached to a substrate.

Illustration 18: Leading foundry's revenue breakdown by nodes



Source: HSBC Global Research, July 2025. "nm" stands for nanometres.

2. OSAT supply chain

Taiwan's OSAT supply chain is highly integrated with foundry players, which helps increase efficiencies and effectiveness within Taiwan's semiconductor ecosystem. We believe that Taiwan's OSAT supply chain should see further earnings growth in 2026 on the back of positive earnings revisions. Chipsets become more complicated, and the chipset testing time is lengthened. We favour testing-related materials companies as they are benefiting from a solid order backlog going into 2026.

Taiwan's semiconductor ecosystem, including major semiconductor material/equipment suppliers, IP vendors, ASIC integrated circuit (IC) designers, OSAT partners, and fabless/integrated device manufacturers (IDMs), benefit from these structural growth trends.

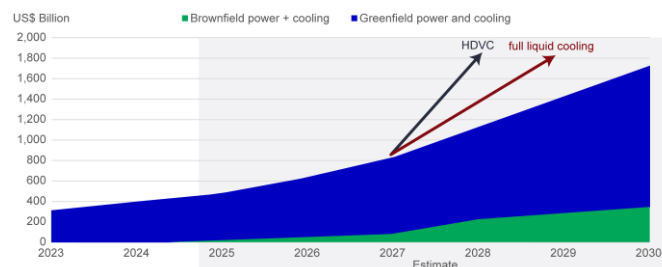
3. Thermal cooling solutions

Global data centre capacity is projected to grow rapidly and reach 250,000 megawatts (MW) by 2030, with the US remaining the largest market, followed by China, Europe, and other regions. AI demand is a major driver that fuels deployment for both greenfield (new) and brownfield (upgrade) projects.

The rise in data centre build also creates opportunities for various cooling solutions, e.g., white-space power and cooling and liquid cooling.

We favour thermal and liquid-cooling solution companies in the supply chain (including air-assisted and liquid-to-liquid systems) to achieve lower power usage effectiveness (PUE) and support high-density AI workloads.

Illustration 19: Global data centre power and cooling infrastructure is expected to grow at a 30% CAGR from 2026-30



Source: MS research, September 2025. HDVC stands for high-voltage direct current

As data centre infrastructure becomes more sophisticated with higher rack density, US cloud service providers and original design manufacturers (ODMs) need to purchase new cooling solutions for data centres to support growth. For example, a liquid-to-liquid cooling architecture allows coolants to circulate from a cooling tower through a loop that interfaces directly with the GPU/central processing unit (CPU) cold plates within the server. The infrastructure connects grey-space cooling systems to white-space computation hardware to enable

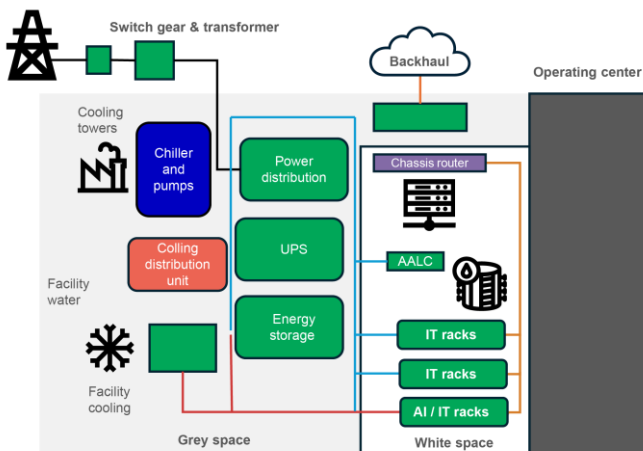
thermal transfer. Furthermore, there are different liquid cooling options, including:

- (1) liquid-cooled rear-door heat exchangers
- (2) single phase or two-phase (evaporative) direct-to-chip liquid cooling (i.e., allow coolant to circulate within the rack directly to the chip). Direct-to-chip liquid cooling effectively removes 70-75% of the heat generated by the rack equipment, and the remainder of the heat (20-25%) is removed by air cooling.
- (3) single-phase or two-phase (evaporative) immersion cooling (i.e., rack submerged in the coolant liquid)

Some of the common equipment required for data centre cooling includes cold plates, coolant distribution units (CDU), air-assisted liquid-cooling systems, and liquid-to-liquid CDUs.

We favour thermal cooling leaders in Taiwan with comprehensive product offerings.

Illustration 20: Data centre infrastructure



Source: Manulife Investment Management, MS research, September 2025

4. Power consumption

Furthermore, a higher requirement for power consumption is required as data centres migrate to more sophisticated power architecture. For example, implementing an 800 high-voltage direct current (HVDC) power system will significantly reduce power losses versus traditional AC-to-DC transitions and voltage step-down, as well as improve power conversion efficiencies. Product offerings in power supply and management solutions include uninterruptible power supplies (UPS), power supply units (PSU) in racks, battery back-up units (BBUs), and DC converter modules.

We favour leaders in server power supply products with strong technological capabilities and integrated power management offerings.

Conclusion

From a macro perspective, we believe that the Mainland's economy has multiple avenues to grow, driven by the 15th Five-Year Plan. We reiterate a positive view on Greater China equity markets going into 2026, supported by attractive valuations and resilient fund flows.

With tariff noises subsiding, we believe there are various investment opportunities for Mainland, notably in (1) technology, (2) industrials, (3) renewable energy, (4) healthcare, and (5) new/niche/experienced consumption.

For the Taiwan region, we continue to see solid emerging structural growth opportunities in (1) foundries, (2) OSAT supply chain, (3) thermal cooling solutions and (4) power supply solutions.

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