Manulife Investment Management

2026 Mid-year outlook: Greater China Equities

15 July 2026

Greater China equity markets showed divergent trends in the first half of 2026, with China A-shares and the Taiwan Taiex index registering strong gains driven by resilient technology exports amid global demand for artificial intelligence (AI). Meanwhile, the MSCI China market pulled back, weighed by commerce subsidies amid fierce competition in food delivery and rising AI capital expenditure, which we believe have already been priced in. In this mid-year Outlook, we highlight five positive drivers for China and Hong Kong equities in the second half of the year. Furthermore, the team explains why it believes the Taiwan region's technology sector should continue to enjoy positive growth.

Summary:

- The Chinese Mainland's economy should continue to recover on the back of strong export growth driven by advanced manufacturing product upgrades, domestic technology breakthrough and increased government and corporate investment in the Chinese Mainland's AI and technology ecosystem

- The anti-involution effort, as well as improving commodity prices, is expected to drive better corporate earnings in the second half of 2026 and reflationary hopes. We anticipate that the positive earnings trend in China A-share market to continue over the next 12 to 18 months, driven by economic recovery.

- For Taiwan region, new platform specifications undergo comprehensive upgrades, the embedded value of components should rise in tandem, benefiting the Taiwan region's technology supply chain.

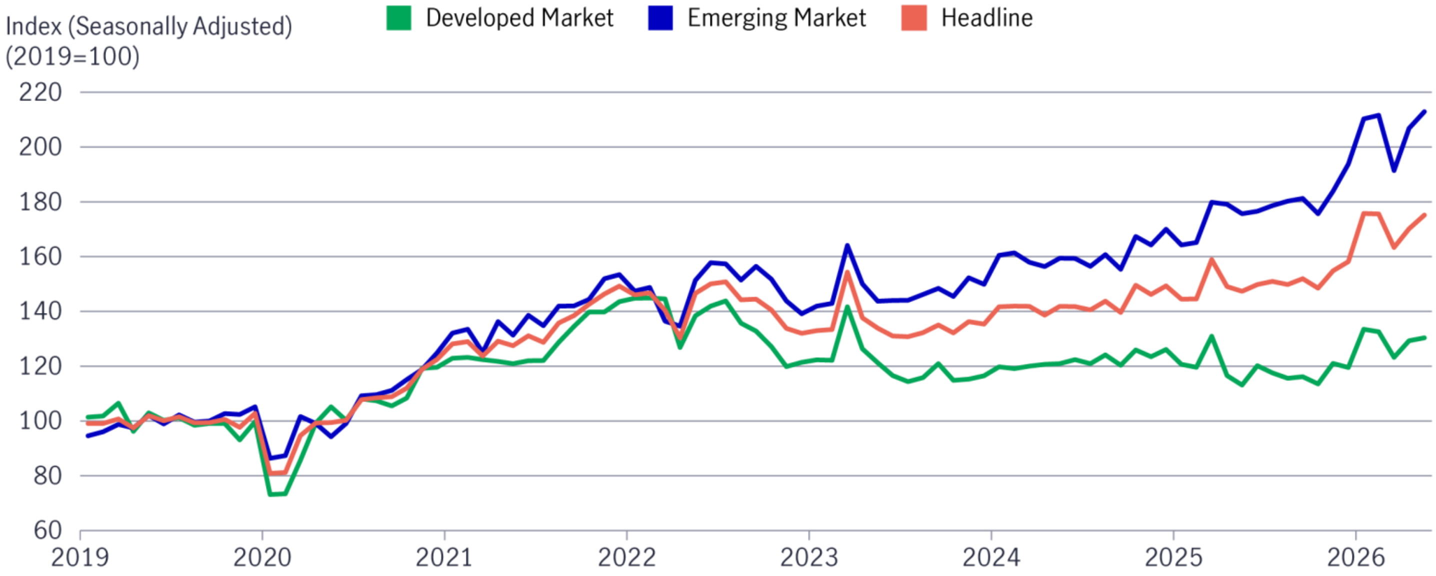
China and Hong Kong Equities Market Outlook

We are focusing on five drivers that are expected to underpin market momentum in the second half of 2026.

(1) The Chinese Mainland's pro-growth stance on technology and industrial upgrades

Over the year to date, the Chinese Mainland's economy has continued to recover, driven by strong export growth from upgrades in advanced manufacturing products. Furthermore, the rising contribution of renewables in the Chinese Mainland's power generation mix helps reduce vulnerability to external oil shocks. We also see the strength of the Chinese Mainland's manufacturing ecosystem, with industrial companies receiving stronger export orders.

Chinese Mainland exports by destination

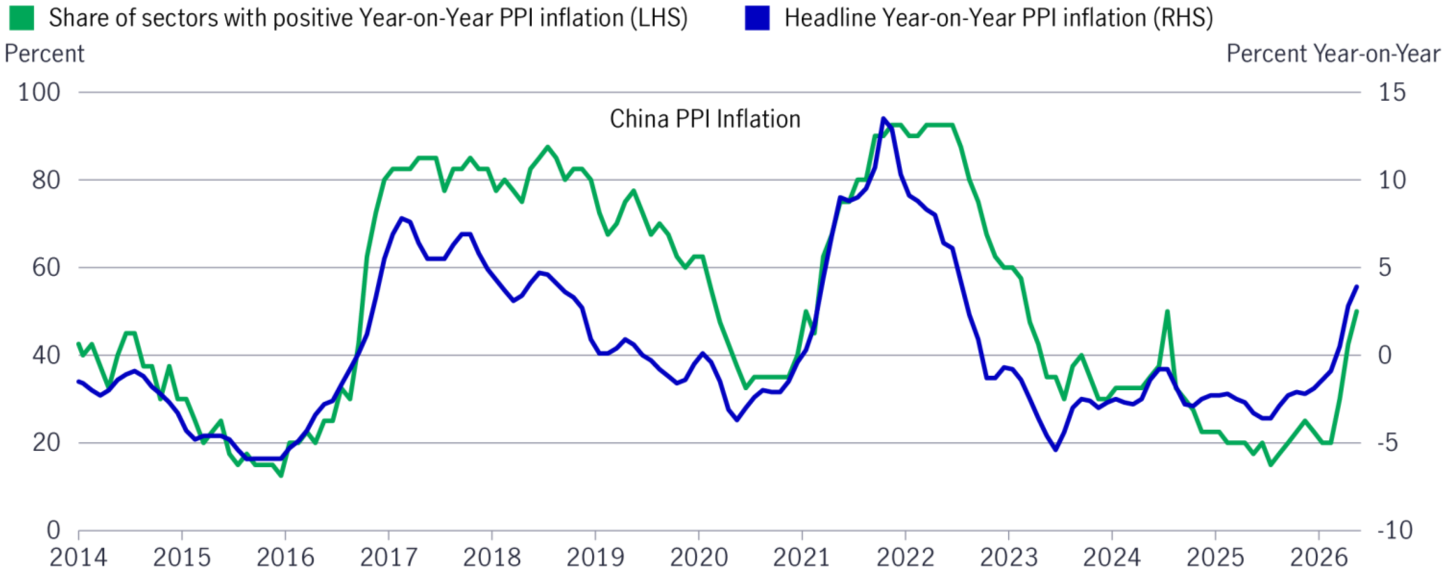


Source: GS Research, June 2026

(2) The Chinese Mainland's producer price index (PPI) turns positive, reversing the negative trends since 2022.

The Chinese Mainland's PPI turned positive in March 2026, reversing the negative trend seen since 2022. The positive trajectory of PPI is being driven by the Chinese Mainland's anti-involution effort announced in mid-2025 and by improving commodity prices, which may, in turn, drive better corporate earnings in the second half of 2026 and reflationary hopes.

The Chinese Mainland Producer Price Index



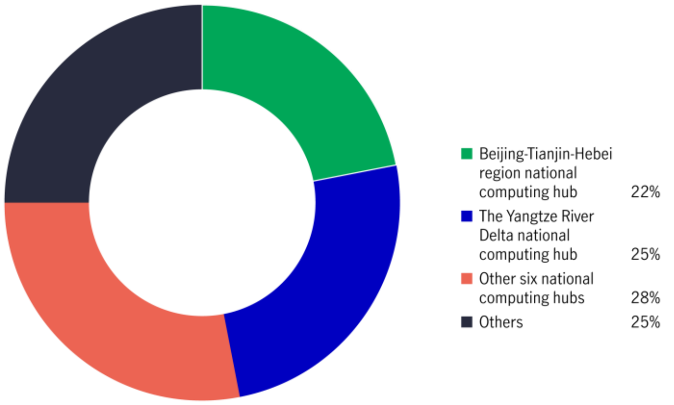
Source: GS Research, June 2026

(3) Increased government and corporate investment in the Chinese Mainland's AI and technology ecosystem

There is no shortage of homegrown inventions, ranging from the Chinese Mainland's AI model companies to hardware, with accelerating AI adoption trends across industries this year. The application of physical AI (e.g., humanoid robotics) is evident throughout the Chinese Mainland, benefiting the entire supply chain.

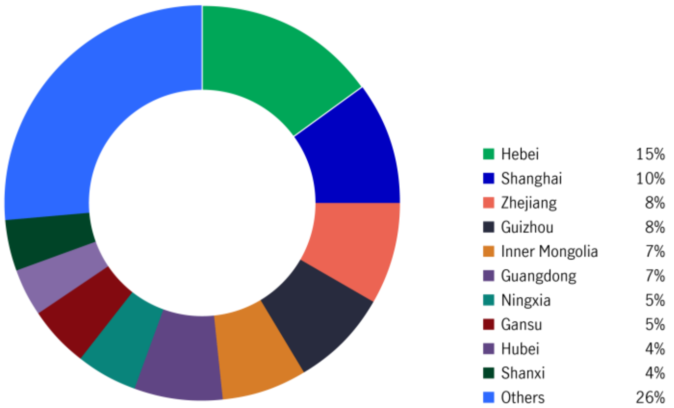
In terms of AI infrastructure, the Chinese Mainland's National Development and Reform Commission (NDRC) is reportedly investing USD 295 billion (RMB 2 trillion) in data centres nationwide over the next five years to advance its AI ambitions. The construction of data infrastructure will benefit the Chinese Mainland's AI supply chain, including network equipment, power and grid equipment, optical equipment, and thermal cooling.

Share of national computing power



Source: China Academy of Information and Communication Technology, HSBC Global Investment Research

Share of national AI computing power



Source: China Academy of Information and Communication Technology

The Chinese Mainland's AI model landscape is intensely competitive, with the top four players accounting for nearly RMB 400 billion in combined capital expenditure. AI models are improving rapidly relative to global peers as they compete heavily on model iterations, infrastructure, and ecosystem capabilities, with performance improving. At the same time, the Chinese Mainland's AI model companies are gaining overseas revenue share, as AI tokens are relatively cheaper than those of global players with comparative advantages. The open-source nature of AI models also enables companies to accelerate global adoption by reducing costs and improving accessibility.

Regarding the Chinese Mainland's semiconductor industry, the government has provided numerous incentives for companies to use local equipment to develop a domestic semiconductor ecosystem further. In addition to integrated circuit industry investment funds – Phases 1 and 2: USD 47 billion and Phase 3: USD 47 billion – the Chinese Mainland has also provided subsidies, e.g., up to 50% power subsidies for data centres using local AI chips, and tax deductibility for research and development expenses. These supportive measures enable local firms to focus on developing the next generation of devices.

We continue to favour AI model players, domestic semiconductor production equipment players, and AI component supply chains, which have a significant competitive edge over peers in both the A-share and H-share markets.

(4) A beneficiary of the global energy transition

The Chinese Mainland stands to benefit from domestic demand driven by the 15th Five-Year Plan, as well as from demand in the global grid equipment replacement cycle. The Chinese Mainland released the details of its official five-year energy plan in June 2026. The plan reiterates the target of peak coal consumption by 2030. In terms of total new builds for nuclear and pumped hydro (versus the previous five-year plan), it targets a fourfold increase to 48 gigawatts (GW) and a threefold increase to 100 GW, respectively, during the period. Furthermore, renewables should account for 50% of total capacity and 30% of total output by 2030, implying new builds of more than 300GW per year.

On the other hand, Chinese Mainland equipment players benefit from the global grid network upgrade. Grid networks in the US and Europe are decades old. Demand from AI and data centres, as well as from renewable energy, continues to drive global grid upgrade demand. We favour Chinese Mainland equipment players in the supply chain with competitive products, strong domestic market share, and/or go-global capabilities.

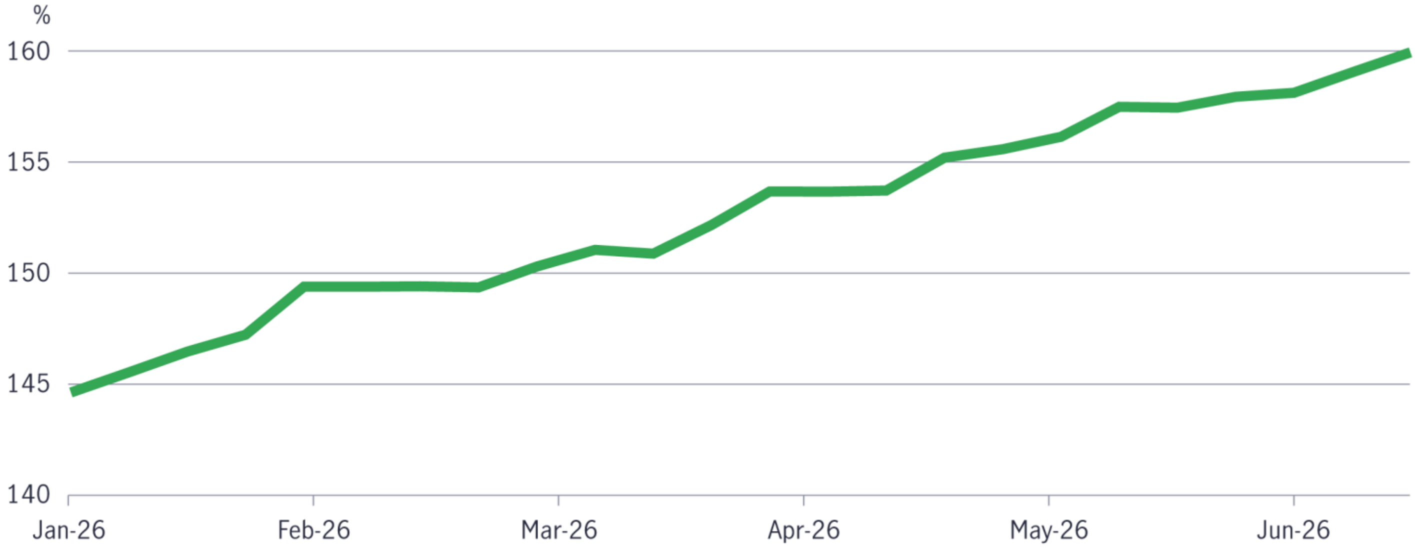
(5) Potential improvement in China's offshore and A-share earnings growth in the second half of 2026

Over the year to date, the offshore China equity market (e.g. MSCI China) has been supported by (1) upward earnings revisions in sectors such as materials, health care and financials, (2) an active Hong Kong initial public offering (IPO) market with foreign investor participation and (3) steady southbound inflows (USD 40 billion).

So far in 2026, the Hong Kong property market has improved notably, with property prices rebounding by 10% year to date and transactions improving in both primary and secondary markets (as correctly predicted in our 2026 Greater China equity outlook).

Furthermore, the Chinese Mainland property market has also seen notable improvement in Tier-1 cities. Property sales in May 2026 rose by 11% month-on-month, and prices continue to hold up well in Tier-1 cities. Improvement in cyclical sectors is encouraging for the Chinese Mainland and Hong Kong economies.

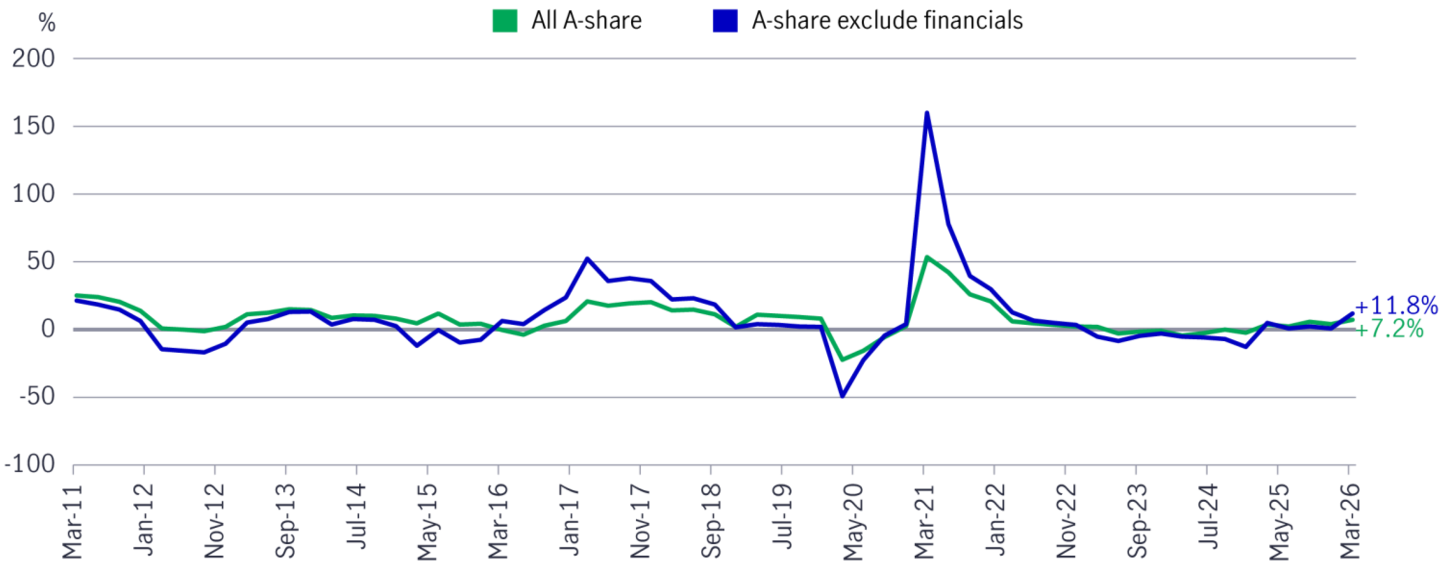
Centaline Hong Kong property index + 10% year-to-date



Source: Centaline Hong Kong property index, data as of 21 June 2026

For the China A-share market, we reiterate our positive view for the second half of 2026. Growth has turned positive this year, after earnings weaknesses over the past three years. We anticipate a positive earnings trend to continue over the next 12 to 18 months, driven by economic recovery and a steady industrial upcycle. We see many interesting opportunities, ranging from the AI component supply chain and semiconductors to industrial and power equipment materials.

All A-share earnings growth (quarterly, year-on-year)



Source: UBS research, June 2026

In conclusion, we believe (1) resilient go-global strength, (2) domestic technology breakthroughs, (3) industrial upgrades, and (4) ongoing upward earnings growth revisions will continue to propel the Chinese Mainland and Hong Kong economies in the second half of 2026.

The Taiwan Region Market Outlook

The Taiwan equity market has delivered strong gains in the first half of 2026, driven by continued strength in the technology and semiconductor sectors, where robust demand for AI-related applications and high-performance computing has supported earnings visibility.

On the macroeconomic front, the Taiwan region has benefited from resilient export data and stabilising global demand, with strong export growth (+51.7% year on year) in May 2026.

Going into the second half of 2026, we believe there are additional positive drivers for the Taiwan region's technology sector. With new platform specifications undergoing comprehensive upgrades, the embedded value of components should rise in tandem.

Major US hyperscale cloud service providers (CSPs) have further increased capital expenditure for AI data centres and related equipment. For 2026, capital expenditure growth has been revised upward from 33% to 64% year-on-year. We continue to favour advanced node foundry and outsourced semiconductor assembly and test (OSAT) supply chains, as wafer consumption increases and chipsets become more complex.

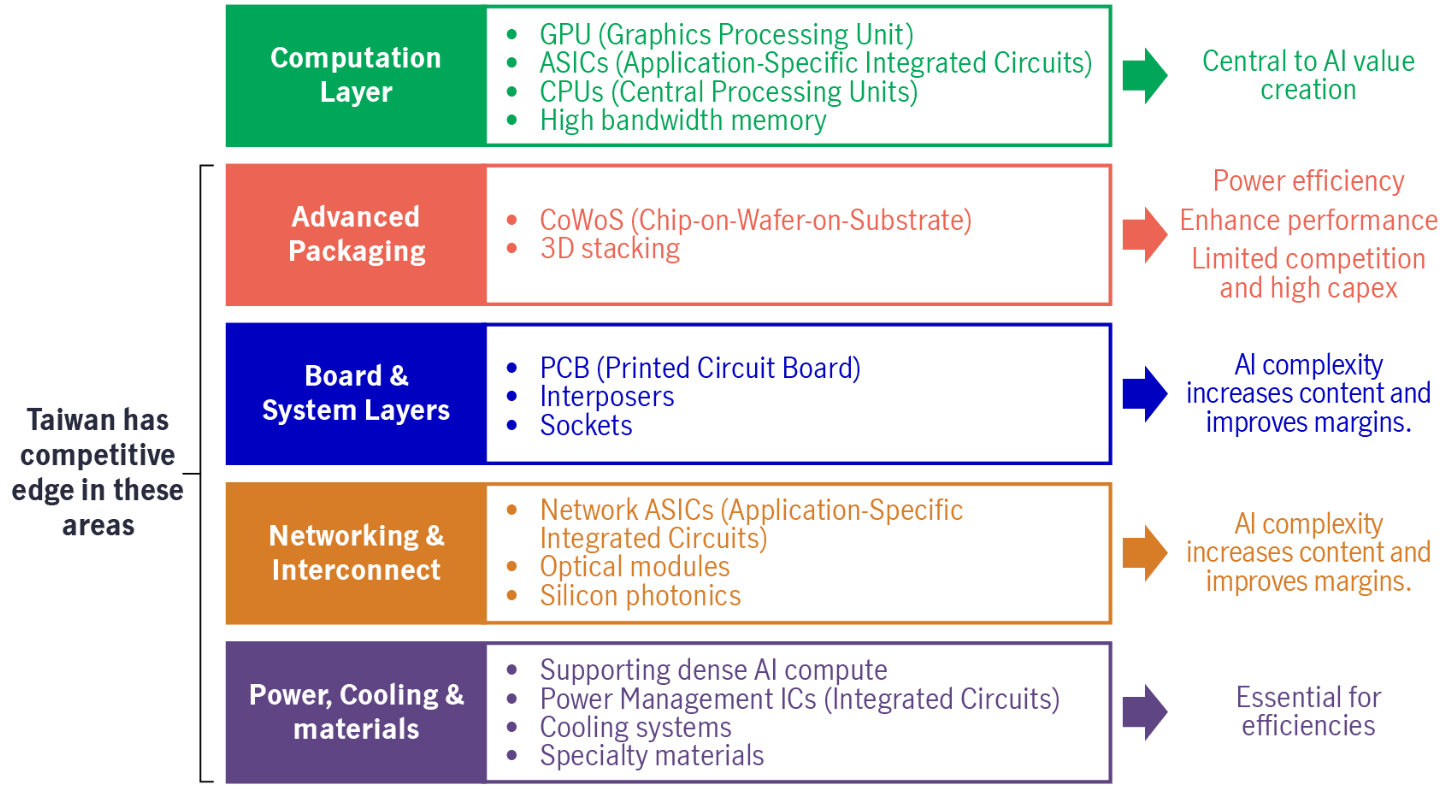
The new generation of AI server racks should drive higher penetration of co-packaged optics (CPO) switches.

Furthermore, higher power consumption is required for data centres to migrate to more sophisticated power architectures. For example, implementing an 800 high-voltage direct current (HVDC) power system will significantly reduce power losses compared with traditional AC-to-DC transitions and voltage stepdown, as well as improve power conversion efficiency.

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

Going into the second half of 2026, we remain constructive on: (1) the advanced node foundry and OSAT supply chain, (2) copper clad laminates on the back of the upgrade cycle, (3) CPO-related plays and (4) power solution providers (e.g. with HVDC cabinets).

The Taiwan region offers the deepest yet most diversified exposure to the physical AI stack globally



Source: Manulife Investment Management, June 2026

Disclaimer

Investing involves risks, including the potential loss of principal. Financial markets are volatile and can fluctuate significantly in response to company, industry, political, regulatory, market, or economic developments. These risks are magnified for investments made in emerging markets. Currency risk is the risk that fluctuations in exchange rates may adversely affect the value of a portfolio's investments.

The information provided does not take into account the suitability, investment objectives, financial situation, or particular needs of any specific person. You should consider the suitability of any type of investment for your circumstances and, if necessary, seek professional advice.

This material is intended for the exclusive use of recipients in jurisdictions who are allowed to receive the material under their applicable law. The opinions expressed are those of the author(s) and are subject to change without notice. Our investment teams may hold different views and make different investment decisions. These opinions may not necessarily reflect the views of Manulife Investment Management or its affiliates. The information and/or analysis contained in this material has been compiled or arrived at from sources believed to be reliable, but Manulife Investment Management does not make any representation as to their accuracy, correctness, usefulness, or completeness and does not accept liability for any loss arising from the use of the information and/or analysis contained. The information in this material may contain projections or other forward-looking statements regarding future events, targets, management discipline, or other expectations, and is only current as of the date indicated. The information in this document, including statements concerning financial market trends, are based on current market conditions, which will fluctuate and may be superseded by subsequent market events or for other reasons. Manulife Investment Management disclaims any responsibility to update such information.

Neither Manulife Investment Management or its affiliates, nor any of their directors, officers or employees shall assume any liability or responsibility for any direct or indirect loss or damage or any other consequence of any person acting or not acting in reliance on the information contained here. All overviews and commentary are intended to be general in nature and for current interest. While helpful, these overviews are no substitute for professional tax, investment or legal advice. Clients should seek professional advice for their particular situation. Neither Manulife, Manulife Investment Management, nor any of their affiliates or representatives is providing tax, investment or legal advice. This material was prepared solely for informational purposes, does not constitute a recommendation, professional advice, an offer or an invitation by or on behalf of Manulife Investment Management to any person to buy or sell any security or adopt any investment strategy, and is no indication of trading intent in any fund or account managed by Manulife Investment Management. No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment. Diversification or asset allocation does not guarantee a profit or protect against the risk of loss in any market. Unless otherwise specified, all data is sourced from Manulife Investment Management. Past performance does not guarantee future results.

Manulife Investment Management
Manulife Investment Management is the global wealth and asset management segment of Manulife Financial Corporation. We draw on more than a century of financial stewardship to partner with clients across our institutional, retail, and retirement businesses globally. Our specialist approach to money management includes the highly differentiated strategies of our fixed-income, specialized equity, multi-asset solutions, and private markets teams—along with access to specialized, unaffiliated asset managers from around the world through our multimanager model.

This material has not been reviewed by, is not registered with any securities or other regulatory authority, and may, where appropriate, be distributed by the following Manulife entities in their respective jurisdictions. Additional information about Manulife Investment Management may be found at manulifeim.com/institutional

Australia: Manulife Investment Management Timberland and Agriculture (Australasia) Pty Ltd, Manulife Investment Management Timberland and Agriculture Inc, Manulife Investment Management (Hong Kong) Limited. **Canada:** Manulife Investment Management Limited, Manulife Investment Management Distributors Inc., Manulife Investment Management (North America) Limited, Manulife Investment Management Private Markets (Canada) Corp. **Chinese Mainland:** Manulife Overseas Investment Fund Management (Shanghai) Limited Company. **European Economic Area:** Manulife Investment Management (Ireland) Ltd. which is authorised and regulated by the Central Bank of Ireland **Hong Kong:** Manulife Investment Management (Hong Kong) Limited. **Indonesia:** PT Manulife Aset Manajemen Indonesia. **Japan:** Manulife Investment Management (Japan) Limited. **Malaysia:** Manulife Investment Management (M) Berhad 200801033087 (834424-U) **Philippines:** Manulife Investment Management and Trust Corporation. **Singapore:** Manulife Investment Management (Singapore) Pte. Ltd. (Company Registration No. 200709952G) **South Korea:** Manulife Investment Management (Hong Kong) Limited. **Switzerland:** Manulife IM (Switzerland) LLC. **Taiwan:** Manulife Investment Management (Taiwan) Co. Ltd. **United Kingdom:** Manulife Investment Management (Europe) Ltd. which is authorised and regulated by the Financial Conduct Authority. **Vietnam:** Manulife Investment Fund Management (Vietnam) Company Limited.