

Market Views: What do China's Two Sessions mean for investors?

Stanley Le

10 hours ago

Beijing's 2025 Two Sessions unveiled a 5% GDP growth target amid economic headwinds, emphasising technological transformation, private sector revival and environmental commitments as asset managers weigh investment implications.



China's 2025 Two Sessions signalled a strong commitment to economic stability, setting a GDP growth target of approximately 5% to navigate global uncertainties.

Key initiatives included upgrading industrial productivity through technological innovation, with a particular focus on high-tech sectors and increased investment in research and development.

Recognising the vital role of the private sector, the government aims to rebuild relationships with private

enterprises by offering greater support and fostering a more business-friendly environment to stimulate entrepreneurship and market sentiment.

The Two Sessions also reaffirmed China's dedication to climate action, with a focus on reducing energy intensity as part of broader sustainability objectives. This commitment reflects a drive to balance industrial advancement with environmental protection.

AsianInvestor surveyed asset managers to weigh the implications of the sessions for institutional investors.

The following responses have been edited for clarity and brevity.

Vis Nayar, CIO

Eastspring Investments

We believe that the recent National People's Congress signals an important policy shift towards stimulus that will support China's markets.



Vis Nayar

Chinese equity markets appear to be focusing on the improving fundamentals across multiple sectors while an attractive entry point may be emerging for China government bonds.

Our assertion is that this has ushered in an important policy shift towards stimulus that will support China's markets.

We expect that Beijing will spend whatever it takes to keep GDP growth above 4.5% in all but the worst-case scenario of the US raising its tariff rates on China to 50% - 60%.

With this backdrop we see the equity markets are shifting their focus from 'stimulus hopes' to the improving fundamentals across several sectors and this may create more investment opportunities for active managers like Eastspring.

Jenny Zeng, CIO APAC Fixed Income

Allianz Global Investors



Jenny Zeng

While the GDP target is set at 'about 5%', the drivers of growth this year may differ, with domestic investment and fiscal spending playing a bigger role as net exports moderate, partly due to unpredictable trade policies.

We also see early signs of stabilisation in the real estate market, evidenced by strong YTD transaction volumes in the secondary market and a drop in new construction starts, which have reached a 20-year low in 2024.

Nonetheless, monetary policy will have to do most of the heavy lifting, as fiscal expansion is constrained by structural economic issues.

It is encouraging to see that the two sessions prioritised boosting household consumption and reiterated the importance of private-owned enterprises (POEs).

While it sends a positive signal, revitalising consumption and capex from POEs requires boosting the economy and enhancing the confidence in its future trajectory.

Direct measures like consumption vouchers or handouts are unlikely to be effective; instead, a

coordinated approach of monetary and fiscal policy is needed to boost aggregate demand and bolster household expectations about their future incomes, as well as POEs' expectations about corporate profitability and shareholder returns.

In terms of investment, the pickup in Chinese government bond yields YTD presents good re-entry opportunities, as we believe interest rate will remain lower for longer as China navigates the deflationary downcycle. We continue to like certain China credits with excessive tail risk priced in.

Elliot Hentov, head of macro policy research

State Street Global Advisors

This is a classic story of glass half full or half empty.

On the positive, China's government has now affirmed an ambitious growth target and thus implies continued monetary and fiscal stimulus over the course of the year.



Elliot Hentov

In particular, the 1.9% increase in the broader budget deficit represents the biggest fiscal increase since the end of Covid. I would also note the change in tone regarding the private sector, intended to shore up business sentiment and encourage investment.

On the negative, most of the measures are still only geared for the short-term. Global investors are also looking for longer-term signals, e.g. a prolonged fiscal boost or durable support for higher consumption. These measures are all the steps investors wish to see, but not certain if this will be a passing short-term trend only.

The investment implications are therefore clearly bullish in the short term, especially for Chinese equities. If recent policy measures get re-affirmed over the course of 2025, this view could extend longer.

For bonds, though, it would be even more critical to build evidence of a pro-longed reflation in the Chinese economy. The enacted measures fall more in a stabilising category. Hence, rates may move sideways this year, before returning to their downward trajectory.

Jie Lu, head of investments China

Robeco



Jie Lu

Following China's Two Sessions, institutional investors can expect a supportive policy environment aimed at re-igniting growth. The government has set a 5% GDP growth target and confirmed easier fiscal and monetary policies, with the fiscal deficit projected to

increase by approximately 2 percentage points of GDP, driven by special long-term treasury bonds and local government special bonds.

The focus on boosting domestic consumption is clear, with measures such as goods trade-in policies, equipment renewal subsidies, and incentives for couples to have children. This emphasis on consumption recovery presents long-term opportunities related to consumer goods, healthcare, and education.

Trade tensions with the US remain a challenge, with a transactional approach leaving room for negotiation

while China reacts with a tit-for-tat strategy.

The tech sector has regained investor confidence, particularly after the release of the DeepSeek Large Language Model, highlighting China's capability to innovate despite sanctions. This has positively impacted China's AI-related stocks and spurred a rally in the overall tech sector.

The policy direction from the Two Sessions sets a constructive tone for Chinese equities. Institutional investors can find opportunities focusing on consumption recovery, technology self-sufficiency, and industrial upgrade, with bottom-up stock picking being key.

William Fong, head of Hong Kong China equities

Barings

While the policy emphases and targets conveyed during the National People's Congress (NPC) meetings were broadly in-line with market expectations, we noticed more positive market reaction this time compared with previous NPC meetings despite the "lack of surprises".



William Fong

The meetings Q&A sessions highlighted central government's support to private enterprises, high-tech manufacturing/AI development and equity markets, which are welcomed by foreign investors.

This also echoed with the symposium held by President Xi with leading tech business entrepreneurs in the private sector a few weeks ago.

The focus on domestic consumption boost and employment stabilisation, albeit a well-expected outcome, should also help to lift market sentiment, while the scope, magnitude, and speed of the policy implementation would be next to watch.

In our view, another key positive message delivered from the Two Sessions was that support to the equity market as well as stabilisation of the property market was brought to the front of the policy statement, implying that risk control and tightening policy measures to various sectors of the economy may come to an end, and that future policies would be more coordinated to avoid disruptions in the equity and property markets.

Ivy Ng, APAC CIO

DWS



Ivy Ng

There are notably more supportive measures for consumption and the AI/tech sectors, while the approach to the housing market maintains a steady tone—focused on preventing further declines and achieving stabilisation.

On the consumption front, a combination of trade-in subsidies, urban-rural basic pension enhancements, and improvements to basic healthcare will provide stronger support than last year.

In the tech sector, efforts are centred on advancing science and technology and improving the efficiency of the national innovation system.

To offset the economic impact of trade and tariff pressures, China is relying on a combination of fiscal

policy support, structural reforms, real estate sector stabilisation, private sector initiatives, and the widespread, rapid adoption of AI across businesses and services.

The recent private enterprise symposium in China, attended by President Xi Jinping, carries substantial importance as it underscores the importance of technological innovation and reaffirms a change in Beijing's policy direction.

The event brought together leaders from diverse tech sectors such as AI, semiconductors, and new energy, spotlighting China's focus on fostering innovation. It also signalled a revival of the nation's entrepreneurial spirit by bolstering private sector confidence, with Xi explicitly moving away from the "common prosperity" framework, declaring that "business shall get rich first and then promote common prosperity."

Additionally, Xi pledged to protect private companies on equal footing with state-owned firms in market competition, instructing local authorities to refrain from undermining the private sector through excessive law enforcement.

Overall, the symposium's key messages were clear: ignite innovation, lift sentiment, ensure a level playing field for private enterprises, and safeguard their lawful rights.

Steve Alain Lawrence, CIO

Balfour Capital Group

China's approach to quantitative easing has evolved, incorporating lessons from the US TARP program in 2008 while tailoring solutions to its domestic landscape.

The focus on public investments, corporate bonds, and high-quality credit instruments presents institutional investors with significant opportunities.



Steve Alain Lawrence

While the effectiveness of these measures hinges on the quality of capital allocation, they have the potential to reinvigorate China's financial markets and enhance investor confidence.

China continues to strengthen its leadership in EVs, semiconductors, and consumer markets, signalling a strong commitment to industrial and technological advancement.

From a valuation standpoint, Chinese equities remain attractively priced, making the market an appealing investment opportunity for long-term growth.

Diplomatic and economic ties between China and the US are entering a pivotal phase. With a potential visit from Trump in April and Xi Jinping's openness to negotiations, the stage is set for a recalibration of relations.

Both economies are deeply interdependent—China's manufacturing prowess and the U.S.'s focus in AI, EVs, and Energy make collaboration mutually beneficial.

Chaoping Zhu, global market strategist

JP Morgan Asset Management

In line with expectations, the Chinese government announced an annual growth target of 5% at the NPC annual session, signalling its commitment to stable growth.



Chaoping Zhu

Fiscal stimulus is anticipated to play a crucial role in stabilising the economy, with the budget deficit ratio increased by 1 percentage point to 4% of nominal GDP, marking the highest level since 2010.

In addition, a higher government bond quota has been set with the issuance of CNY 4.4 trillion in special local government bonds. The government also emphasised policies to support domestic consumption and technological innovation, which should enhance the prospects for sustainable growth.

However, challenges such as deflationary risks and intensified trade tensions persist, potentially leading to market volatility and policy adjustments. Therefore, active management and diversification are essential.

The recent rally in Chinese A-share and Hong Kong markets was primarily driven by improved expectations in the technology sector. Following this brief and sharp rally, investors may need to focus on corporate fundamentals and stock selection for sustainable returns.

We remain constructive on technology companies with solid corporate fundamentals and strong growth potential driven by technological advances. Leaders in AI, internet platforms, EV and autonomous driving, robotics, and consumer electronics may benefit from inflows.

On the other hand, managing volatility in portfolio construction remains important during this volatile period. The recent underperformance of Chinese

high-dividend stocks may also indicate improved dividend yields for investors seeking stable income.

Nicholas Yeo, head of China equities

Aberdeen Investments

While the 5% target appeared relatively ambitious in the light of uncertainties surrounding US trade policy, it could well be a signal from the policymakers that they are prepared to implement more proactive, and effective, policies to boost growth.



Nicholas Yeo

Importantly, to achieve the growth target, the authorities raised the deficit ratio to 4% - a historic high, from 3%, adding Rmb1.6tn to the deficit. Quotas for bond issuance also rose.

This should be positive for sentiment on the property front as there is more dry powder for de-stocking. Still, policymakers could expand financing for the program later in the year, as they did in 2024.

There was also a separate CNY 500 billion Special National Bond to be used for bank recapitalisation, which would strengthen the capital buffers of major banks.

Our financial conditions index continues to signal accommodative financial conditions, which have remained loose ever since the policy pivot last year. We think all effects from the pivot are unlikely to have flowed through given the normal lags, which suggests that the looser conditions post the Two Sessions would have incremental impact on the economy, supporting growth.

We also find the messaging on technology innovation encouraging, a strong signal to support both innovation and the private sector, reinforcing the tone set by President Xi Jinping during his recent roundtable meeting with prominent tech leaders.

With valuations of the internet sector cheap relative to US counterparts, alongside the support of the authorities to boost the nation's AI capabilities, we think this remain a very attractive opportunity for investors.

Wee Khoon Chong, senior APAC market strategist

BNY



Wee Khoon Chong

The highlights from the China Government Work Report (GWR) were a steady “around 5%” GDP, a more proactive fiscal policy and lower inflation target of around 2%, after having kept at or above 3% for the past two decades.

The key and game changer of the 2025 GWR in our view is fiscal expansion and the primary focus on tech as a sector and domestic consumption. This is positive and important as a growth stabilising factor.

Further credit and monetary easing should bolster sentiment in the equities market, countering somewhat the global headwinds such as slowing growth momentum, tariffs uncertainties and geopolitical tension.

Outlook for RMB is not as straight forward. Inflows into China is positive for Chinese yuan but fiscal expansion and easing measure might weigh.

Despite the acute foreigner investors outflows pressure in regional equities complex, sentiment towards China has seen a positive turn.

We observed a surge of capital inflows in Chinese equities since mid-February.

Recent advancement of AI and the resolute government resolve to stabilise the economy has won investors confident.

Capital flows suggest a potential asset re-allocation away from the region back into China.

Unless there is a sharp deterioration of macro data in China, the likelihood is current inflow momentum in China will continue.

William Xin, portfolio manager, Asia Fixed Income
M&G Investments

At the Central Economic Work Conference in December 2024, Chinese officials acknowledged the economic challenges facing the country, particularly “insufficient domestic demand, operational difficulties for small and medium-sized enterprises (SMEs), as well as pressures on employment and income growth.”



William Xin

This week's National People's Congress (NPC) meeting sought to address these challenges, while signalling the government's resolve in maintaining the country's growth trajectory, setting the 2025 GDP growth target at approximately 5%, consistent with 2023 and 2024.

The meeting also emphasised fiscal policy as a priority, with plans for increased issuance of special government bonds and a record-high fiscal deficit target of 4% of GDP.

Meanwhile, monetary policy will remain 'moderately accommodative'. We expect further policy measures aimed at boosting consumption, fostering innovation, and promoting private sector development to be announced.

These initiatives are expected to provide crucial support for growth amid ongoing external uncertainties.

The Chinese onshore bond market saw a sell-off this week, with 10-year and 30-year China Government Bond (CGB) yields rising by 15 and 13 basis points, respectively, from their end-of-February levels.

These yield movements, in our view, appear to be a market retracement from the sharp yield compression observed since December last year.

We expect further rises in yields to be capped, while the 10-year CGB yields within the 1.90-2.0% range, and 30-year CGB yields within the 2.1-2.2% range,

which could present attractive entry points for re-establishing long CGB positions.

RELATED ARTICLES

China's private sector charm offensive fails to fully convince fund managers

— Haymarket Media Limited. All rights reserved.

FUNDING MANAGERS

Stanley Le
#china #regulation #two sessions
Feb 27, 2025