

# Chinese equities lure institutional capital from overheated India

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China's policy tailwinds and favourable valuations are driving fresh institutional flows, while contrasting trends in India sees some US investors reducing their stakes.



Institutional investors are rebalancing toward Chinese equities, reflecting a broader tactical rotation driven by valuation differentials, policy support, and geopolitical recalibration.

"Institutions such as Temasek, CPPIB, AIA, and GIC are increasingly favouring Chinese equities due to a combination of valuation appeal, sector-specific policy tailwinds, and scalable access via Hong Kong and thematic mandates," Steve Alain Lawrence, CIO of Balfour Capital, told *AsianInvestor*.



Steve Alain Lawrence  
Balfour Capital Group

"Investors are turning to China, where liquidity, access, and alignment with global megatrends—particularly AI and green tech—offer more investable upside," he added.

At the same time, US managers like Blackstone, Franklin Templeton, and Goldman Sachs Asset Management have eased back on Indian equity exposure, concerned about exit difficulties and regulatory opacity.

"After a strong two-year run, Indian equities—particularly small and mid-caps—are showing signs of fatigue,"

Lawrence said, describing current fund flows as "a tactical rotation rather than a structural reallocation."

The contrast in valuation has become more pronounced, with Chinese equities, represented by the CSI 300, trading at around 13x earnings, significantly lower than the Nifty Smallcap 250's 35x multiple.

The KraneShares CSI China Internet ETF attracted \$1.2 billion in Q2 2025, while the iShares MSCI India ETF saw \$900 million in outflows.

"This suggests investors are rotating into attractively valued, policy-supported Chinese names rather than permanently exiting India," Lawrence said.

Momentum has also been bolstered by macro and geopolitical shifts, as measures such as reserve requirement ratio (RRR) cuts and support for strategic sectors, including AI, EVs, and semiconductors, have revived investor confidence.

Tech majors like Tencent, Baidu, and SenseTime gained 20–30% in Q2, fuelled by institutional flows through ETFs and mandates. The easing of internet platform regulation and progress in US-China trade negotiations have further buoyed sentiment.

"A mild thaw in US-China relations—reflected in more constructive dialogue on tech export controls, tariff relief, and clearer policy signalling from Beijing—has helped ease investor concerns," Lawrence said.

"Compared to India's pricing premium and market constraints, China currently offers deeper liquidity, greater scalability, and more accommodative policy signals."

Angela Lan, senior strategist at State Street Investment Management, also pointed to the successful US-China tariff negotiations as a key factor lifting sentiment and reducing geopolitical concerns for investors.



Angela Lan  
State Street IM

"Chinese equities are still trading at a discount to global peers, making them an attractive opportunity," she told *AsianInvestor*.

## STRUCTURAL BARRIERS

On the other hand, India's underperformance is rooted in more persistent structural barriers.

Foreign investors have voiced concerns over opaque regulatory practices, shallow market liquidity, and limited corporate governance.

The Adani Group's post-Hindenburg fallout in 2023 heightened worries over board independence and legal safeguards.

"Foreign investors like PIMCO, NBIM, Allianz, and Ontario Teachers' Pension Plan have reduced exposure, citing poor transparency and exit complications," according to Lawrence.

While domestic institutional inflows have helped stabilise India's market, foreign outflows remain a headwind.



Kai Wang  
Morningstar

“Geopolitical uncertainty—particularly surrounding the India–Pakistan conflict—has also influenced positioning,” said State Street’s Lan.

“Institutional investors have remained agile year-to-date, actively responding to evolving macroeconomic and geopolitical developments,” she added.

#### MARKET OUTLOOK

Indian equities saw renewed inflows in Q2 2025, reversing earlier losses, however, Lan advises measured expectations.

“Short-term optimism is building, but sustained inflows will ultimately depend on clearer signals of economic recovery and a more stable geopolitical backdrop,” she said.

Similarly, despite the recent momentum in Chinese equities, some analysts urge caution. Kai Wang, Asia equity market strategist at Morningstar, noted that much of the repositioning toward China occurred in late 2024 following initial policy signals.

“The idea that there’s a renewed interest just as of now is a bit off. That narrative has passed—much of that positioning occurred last year following the truce,” Wang said.

Going forward, the broadening scope of US tariffs, particularly under Trump’s administration, may cast a longer shadow over Asia’s major equity markets, he added.

While Chinese equities remain modestly undervalued, further inflows will hinge on fresh policy stimulus and sustained corporate earnings growth, said Wang.

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