Market Views: How are Asian investors positioning China amid weak domestic activity?

Heather Ng
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China's 5% growth in 2025 met official targets but the numbers masked deep sectoral divides and persistent weakness on the home front.

China's economy grew 5.0% last year, meeting the government's official target but the data masked stark sectoral imbalances. Export-oriented manufacturers delivered robust gains, while industries reliant on domestic demand faltered.

Powered by high-tech manufacturing, industrial output rose 5.9% in 2025—well ahead of the 3.7% increase in retail sales—while property investment plunged 17.2%, underscoring persistent weakness in the real estate sector.

Against this backdrop of uneven growth and simmering trade tensions, *AsianInvestor* spoke with market watchers to see how investors are recalibrating their China exposure.

Chaoping Zhu, global market strategist
JP Morgan Asset Management

China's latest economic data reflects a sharp contrast between weak domestic trends and robust export momentum, and it is also reflected in the stock market. Sectors linked to global demand—such as


Chaoping Zhu

materials, information technology, and industrials—outperformed, especially those benefiting from overseas AI infrastructure investment. Within the IT sector, sub-sectors like optical communication modules, PCB (Printed Circuit Boards), and consumer electronics, particularly those Chinese listed companies securing massive overseas orders, saw spectacular gains. Similarly, metal raw materials in the materials sector, along with power equipment and lithium batteries in the Industrials sector, were also propelled by the surging demand for AI infrastructure.

Recent conversations with investors indicate that institutional investors remain cautious about domestic recovery, focusing instead on the earnings growth potential of the "going global" theme. As valuations in growth sectors rise, there is growing interest in high-dividend stocks.

Policymakers are emphasizing advanced manufacturing and technology as new growth drivers, with the stock market playing a key role in supporting capital formation and household wealth allocation. Monetary policy remains focused on targeted and structural measures rather than broad-based easing. The People's Bank of China has prioritised liquidity stability and sector-specific support, and this approach is expected to continue into 2026, with moderate adjustments as needed. While external and sector-specific risks remain, a balanced investment strategy—combining growth and income opportunities—may help navigate the evolving landscape.

Sat Duhra, portfolio manager, Asia dividend income
Janus Henderson Investors

Exports have certainly been the bright spot in an otherwise lacklustre set of data from China in recent months. This confirms that consumption remains subdued, nominal GDP growth is weak, the property market continues to grind lower and deflation is in danger of becoming a structural issue. There is little reason to be overweight China at this point, in fact our positioning has fallen in recent months as we struggle to find new ideas despite our preference for North Asia over South Asia.


Sat Duhra

Recent positive market performance in China has been a re-rating and not earnings led, unlike Taiwan and Korea, there is no sign of an earnings turnaround anytime soon and market performance is quite narrow. However, there are two areas that are working well and where we have exposure – high dividend yield SOE type names as interest rates and bond yields fall, and AI beneficiaries.

High yield is attracting retail investors with attractive valuations and a corporate reform program that is not well understood but is increasing dividends. China's strong position in AI is also underestimated and given the more measured CapEx and performance of LLMs there is reason to be optimistic as applications begin to be rolled out.

Song Zhe, senior investment specialist, Asia ex-Japan and emerging market equities & Greater China equities
BNP Paribas Asset Management


Song Zhe

We expect, and embrace, a higher volatility in China equities in 2026. At the same time, we are more optimistic as the window of achieving attractive risk adjusted returns in China Equities is open. The focus shifts from headline GDP to earnings and cash flow engines: innovation, industrial upgrades, lifestyle change, consolidation -- where winners can compound despite macro noise. A selective approach by more aggressively prioritising the next wave of mega trends rather than broad beta to old-growth models will be rewarded in such a market. We are particularly optimistic about innovation and industrial upgrades, where strong policy support and global competitiveness are most apparent.

Hersh Oberoi, global research department director
Balfour Capital

Across Asia, investors are becoming more deliberate in how they maintain exposure to China, rather than stepping away from it altogether. While China met its 5.0% GDP growth target in 2025, lifting total output beyond RMB 140 trillion, the recovery has been clearly uneven.


Hersh Oberoi

Momentum remains firm in parts of the economy. Industrial output rose 5.9%, supported by 9.4% growth in high-tech manufacturing, with standout gains in robotics (+28%) and new-energy vehicles (+25.1%). Exports continue to underpin growth and earnings visibility. By contrast, domestic demand remains subdued: retail sales increased just 3.7%, fixed-asset investment declined 3.8%, and property investment stayed under pressure – highlighting still-fragile household confidence and private-sector sentiment.

This divergence is increasingly shaping portfolio construction. Rather than broad market exposure, many Asian investors are favouring selective allocations to export-oriented manufacturers, advanced technology and globally competitive supply-chain leaders, while remaining underweight domestically driven sectors such as property and discretionary consumption. Risk management has also become more prominent, with tighter position sizing and greater use of hedging around policy and trade developments.

In practice, China is no longer viewed as a simple rebound trade. For most investors, it has become a measured, long-term allocation that rewards selectivity, patience and a clear focus on the country's enduring strengths, even as structural challenges persist.

Brock Silvers, CIO
Kaiyuan Capital


Brock Silvers

The positioning depends on the particular investor class. Export data looks suspect, but there's an obvious trend of stronger industrial performance against weaker consumer performance, as well as an untreated RE malaise.

For onshore investors, the play book remains mostly the same -- bet on exports and new technologies favoured by authorities. For offshore investors, resist the siren's call until there are more serious reforms.

I'm sceptical of 5% GDP growth, and geopolitical risks abound, so downside odds still seem to predominate. I'll keep powder dry at this point, and things may have to worsen before we'll see the moves that could change my mind.

Vivian Lin Thurston, partner and portfolio manager, emerging markets growth
William Blair


Vivian Lin Thurston

We expect the China economy to follow the similar "tale of two cities" pattern in the foreseeable future as we have seen in the past few years. On the one hand, domestic consumption and services would continue to face deflationary pressure, driven by historical low consumer confidence, declining property markets, rising youth unemployment, and relatively limited stimulus. Fixed asset investments and manufacturing related to the domestic economy would also remain weak given low demand and overcapacity. However, on the other hand, the innovation-driven and exports-led industries have done well, including AI, EV, advanced manufacturing, robotics, automation, biotech and CRDMO. Growth of these industries is driven by the structural growth opportunities related to AI and energy transition both globally and in China, strong government support, and Chinese companies' increased competitiveness in the global markets in terms of technologies, cost structure and scale. This has led to the continually increasing and record high China gross exports and trade surplus, despite ongoing US-China trade tensions.

Against this backdrop, we believe global and Asian investors may remain selective in China and continue to favor the industries and companies with attractive growth and strong fundamentals, driven by innovation and exports.

Robert Li, head of APAC investment strategy
Barings


Robert Li

The latest data print in China continue to show a "two-speed" economy driven by exports, emerging industries, and soft domestic demand. While the government has already announced a series of short-to-medium, broad-based to targeted, policy support to smoothen the transition towards a consumption-driven economy and high value-added exports, the progress would likely take time to implement and filter through the economy. To that end, we think active selection from a sectoral or bottom-up perspective is likely key to investing in the Chinese market, with a bias towards beneficiaries of AI and automation thematics.

We are somewhat constructive on international relations this year as China is likely a counterbalance for geopolitical friction elsewhere. US-China relations should be stable ahead of President Trump's potential visit to Beijing. China's record high surplus from 2025 has led to concerns over price competition by other trade partners. But this is likely calmed by the strengthening of Renminbi in 2026 and the continuation of anti-involution policies to escape deflation. With a benign outlook on external demand, we think Chinese exports should remain resilient this year, with likely mechanical payback in the first half and backloaded growth due to base effects.

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