

CIO View Special

10 themes for the year ahead

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Marketing material



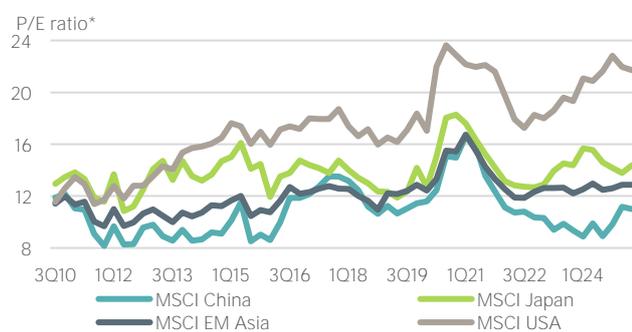
China as relative beneficiary of U.S. trade policy

No country is targeted by U.S. tariffs and sanctions as much as China. But China is also a country that seemed well prepared for Trump's second term. China's stock markets may be benefiting.

Sometimes the stock market can be ironic. Chinese stocks began to rally around the time Donald Trump returned to office in January 2025. But the Chinese rally may be explained by several factors.

(1) The situation is hardly new, as China was already a key focus of U.S. foreign policy under President Biden. (2) though China remains a chief target of U.S. tariff policy, the impact was diluted in April when the U.S. imposed punitive tariffs on multiple countries around the globe. At the same time, the repeated postponement of the introduction of many tariffs means that the average tariff rate on China is currently estimated to be "only" around 40%. That may reduce the pressure for Western companies to relocate their supply chains out of China. (3) China responded quickly to Trump's return with policy measures aimed at economic stability. (4) the share of Chinese exports destined for the U.S. has halved to some 10% over the past 8 years. And finally, China's economy is now far less dependent on global trade than often assumed: in 2024 exports accounted for less than 20% of GDP – in the EU that figure is 36%.

China's shares appear reasonably priced at first glance



Sources: LSEG, DWS Investment GmbH as of 9/22/25

* Price/ Earnings ratio based on next 12-month estimated earnings

China's stock market drivers are therefore primarily domestic rather than foreign. And, before this year's upturn, they were not generally positive. Since 2021 the Chinese market has been lagging behind both the U.S. and Europe. The problems are well known and partly unresolved: the oversaturated real estate market, the aging population, the high level of local authority debt, the concentration of power in the party, poor

consumer sentiment & high savings rates, patchy data quality and overcapacity in many sectors.

The government's "anti-involution" strategy aims to address some of these problems. Measures have been taken in the solar, electric car, and battery sectors, for example, to help prevent the creation of additional capacity and harmful price wars. In our view, the renewed shift in the debate on the relationship between state-owned enterprises and the private sector is just as important. After the hesitant restart following the difficult Covid period, the government had to recognize that private companies provide most of the innovations and new jobs. But at the same time the private sector also benefits from Beijing's policy decisions. Some of the best performing stocks are from the "official" strategic sectors (AI, EVs, semiconductors, renewable energies, and biotechnology).

Following this policy reset, the MSCI China has gained almost 40% this year. Valuations are back to the average of the past 15 years. We find China interesting again, for many reasons:

(1) The large number of exciting companies with leading positions in future-oriented fields. (2) Moderate valuations by international standards. (3) **The low correlation of Chinese and American stocks.** Those concerned about the high concentration on and in the U.S., market may find a counterweight here. (4) A counterweight, too, to dollar weakness. (5) We expect earnings growth of around 15% in 2026. (6) Dividend yields are above 10-year domestic bond yields for the first time this century. Real estate and bonds still appear less attractive alternatives to equities for domestic investors. (7) Trump's aggressive foreign policy has given Beijing's diplomatic efforts in Asia fresh momentum. Sebastian Kahlfeld, DWS Head of Emerging Market Equities, says: "Deteriorating confidence elsewhere lifts the boat for China where the potential for a step-by-step turnaround may become more probable. Even excluding the potential for a wider turnaround, opportunities in technology related sectors could potentially offer solid upside despite the recent re-rating."

Of course, shareholders in China need strong nerves. Both the U.S. and Chinese leaders have the power to produce headlines in the blink of an eye that can cause entire sectors to crash overnight.

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Glossary

Correlation is a measure of how closely two variables move together over time.

The **dividend yield** is the dividend that a company pays out each year divided by its share price.

The **gross domestic product (GDP)** is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

The **MSCI China Index** captures large- and mid-cap representation across China H shares, B shares, Red chips, P chips and foreign listings.

The **price-to-earnings (P/E)** ratio compares a company's current share price to its earnings per share.

A **state-owned enterprise** is a legal entity that executes commercial activities on behalf of an owner government.

A **tariff** is a tax imposed by one country on the goods and services imported from another country.

Yield is the income return on an investment referring to the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value.

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