WEEKLY ANALYSIS

A WINNING RETURN ON CHINESE STOCKS

Strong exports and industry. Weak domestic economy. Emergency measures implemented. Support from public spending. Inflation under control. Accommodative monetary policy. Strong yuan. Bullish outlook for stocks.

Key points

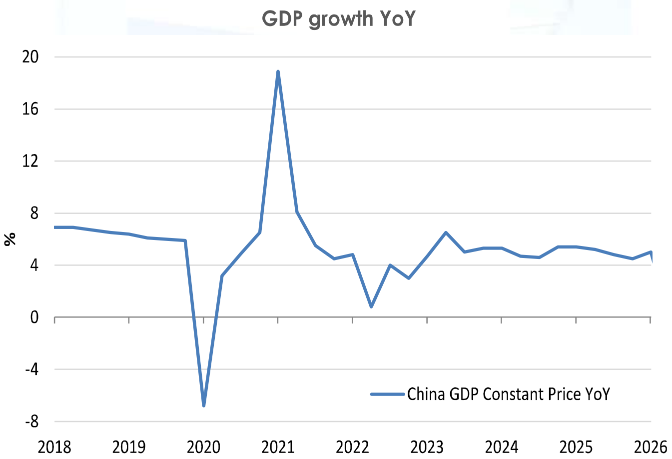
- Mismatch between the domestic economy and exports
- Emergency support measures implemented in Q2
- Second half of the year supported by public spending
- With no inflation, monetary policy will remain ultra-accommodative
- Stabilization of the yuan following an appreciation in 2026
- Mixed but positive performance in bonds
- REITs in Asia and China continue to struggle
- Reforms needed for securitized real estate
- Strong comeback for Chinese stocks

Mismatch between the domestic economy and exports

At the end of the second quarter of 2026, the Chinese economy presented a mixed picture. The geopolitical shock of the spring and the four-month blockade of the Strait of Hormuz acted as a powerful catalyst for pre-existing trends. While statistical data highlight an export and industrial machine running at full speed, domestic consumption remains the Achilles' heel of a recovery that is struggling to gain broad traction. As the third quarter begins, Beijing must balance defending its supply-side growth model with the urgent need to stimulate demand. Q2 thus saw manufacturing activity outperform expectations, driven by a strategy to circumvent Western trade barriers and by the dynamism of transition sectors (electric vehicles, batteries, solar energy). Chinese exports posted a dramatic jump of +19.4% in May, accelerating from April's +14.1% growth. In a further sign of the industrial sector's resilience, the official manufacturing PMI (50.3) stabilized in expansionary territory, supported by the national "AI+" plan and massive subsidies for the modernization of production equipment. Year-over-year, industrial production rose by 4.5%, and year-to-date growth stands at 5.4%. Continued robust external demand is supporting the sector. Oil refinery utilization rates appear to be rebounding after the sharp drop in the spring, but steel inventories have risen sharply, suggesting a prolonged slowdown in construction activity. Export freight rates rose by 20% year-over-year in June, a significant increase compared to May (16%). Container tonnage bound for the United States slowed further, from +24% to +9% month-over-month. However, this relative industrial momentum will likely not offset weak domestic demand in Q2. GDP growth could, in fact, fall slightly short of the 4.5% to 5% target set for 2026. This is because, conversely, the domestic economy has suffered from persistent sluggishness. China continues to face a problem with domestic consumption. Retail sales recorded their first annual contraction (-0.6%) since 2022, car sales fell by 21% year-over-year, and residential real estate sales dropped by 16.2%.

Emergency support measures implemented in Q2

The second quarter also saw financial authorities implement emergency measures to stabilize the two pillars of confidence. The real estate buyback plan is the first component of these measures and is a program that allows local governments to purchase unsold housing inventory and convert it into public housing. This plan is intended to prevent a systemic collapse in prices, but given the current statistics, the psychological impact remains limited, as buyers are waiting for a complete market correction. The second aspect concerns the Chinese currency and the battle over the yuan.



Sources : Bloomberg, BBGI Group SA