Manulife Investment Management

Investment Note

11 Mar 2025

As we progress through 2025, Greater China equities have demonstrated strong performance, particularly Hong Kong equities, which have been supported by southbound inflows. In addition to the recent breakthroughs in AI and humanoid robot development, we observe other positive catalysts that further support the region's market.

Takeaways from China's NPC Meeting & upcoming drivers for Greater China equity market

Greater China equities showed resilience year-to-date in 2025, with the Hang Seng Index rising by 22.1%, the Hang Seng China Enterprises Index (HSCEI) gaining 23.3%, and the MSCI China Index increasing by 20.8%. (see table below)[1].

2025 year-to-date performance of Greater China equity indices[1]

Indices	Total returns in USD (%)
Hang Seng TECH Index	+35.82
Hang Seng China Enterprises Index	+23.33
Hang Seng Index	+22.21
MSCI China Index	+20.83
MSCI Zhong Hua Index	+19.48
Shanghai Stock Exchange Composite Index	+2.02

Upcoming drivers for China/HK equity market

Besides the DeepSeek AI breakthrough (which prompts acceleration of AI adoption in mainland China) and humanoid robot development, there are other positive catalysts as we move into the rest of 2025.

(1) Positive policy signals

On 24 February, Mr Wu Qing, Chairman of the China Securities Regulatory Commission (CSRC), published an article in the *Journal of New Industrialization* highlighting mainland China's development priorities, particularly in fostering technologically innovative high-end manufacturing and new-industry companies.

- Greater focus: Chairman Wu's article pinpointed the high percentage of technology and new-industry businesses in the listed market and vowed to facilitate these firms' capital-raising needs.

- The CSRC reiterated its plan to implement its 16 Measures to Serve the High-level Development of Technology Enterprises (科創十六條) and Eight Measures to Further the Reform of the STAR (科創板八條). These moves will help facilitate equity listings and private-equity development.

[1] Bloomberg, data as of 6 March 2025. Total returns in USD. Past performance is not indicative of future performance.

- Furthermore, the CSRC plans to implement the Six Mergers and Acquisitions (M&A) Measures (併購六條) and highlight notable market examples of successful M&A activity. M&A was also a key focus of the CSRC's earlier value-up programme initiatives.

(2) Positive messages from China's National People's Congress (NPC) meeting

The key messages from work report from China's NPC meeting are largely in-line with our view. The targets span across various areas, which are holistic and help navigate macro uncertainties and boost domestic growth. Domestic demand is key for 2025.

Key targets and priorities announced in NPC meeting[2]

Areas	Details
Monetary and fiscal policy	• Budget deficit ratio set at around 4% of GDP • RMB 500 billion of new special sovereign bonds for big banks • RMB 4.4 trillion of new special local government bonds in 2025 • RMB 1.3 trillion of ultra-long special sovereign bonds • May cut required reserve ratio (RRR) and interest rates when time is appropriate • To coordinate reforms of fiscal and tax systems
Economy	• China vows to make domestic demand the main economic driver in 2025 • Gross domestic product (GDP) growth target at around 5% • CPI growth target at ~2% • Target urban unemployment rate of about 5.5% in 2025 • To carry out special initiatives to boost consumption • To maintain basic stability of the RMB • Plans 7.2% increase in 2025 defense spending
Property	• Give local governments more autonomy in acquiring homes • To expand scope of affordable housing relending
Technology	• To increase funding to bio-manufacturing and quantum technology • To develop a system of open-source models for AI & 6G technology • To support extensive application of large-scale AI models
Energy and agriculture	• Target -3% energy use per unit of GDP for 2025 • To develop intelligent new energy cars
Health Care	• To refine policy for centralized medicine procurement • China subsidy for resident medical care to be raised by RMB30 per person • To support and encourage private investment • To support cross-border e-commerce, boost logistics system • To improve policies on volume-based drug procurement

[2] NPC meeting, 5 March 2025.

(3) Recovery pace of mainland China's property market

Some positive data points include:

- Improving new home sales in Tier-1 cities, with sales increasing by 27% year on year since the policy pivot in September 2024. Meanwhile, growth in the 30 largest cities was around 6%.
- Home price recovery: Approximately 25 cities recorded month-on-month improvements from December 2024 to January 2025.
- An increase in land sales: Land sales were up by 26% year on year in January 2025, with activities concentrated in eight cities.
- Foreign investment participation: Besides state-owned enterprises (SOEs), foreign capital is entering the property market, with two Singaporean developers/investment funds acquiring land sites in Shanghai on 20 February.
- Progressive inventory clearing: 54 out of 80 cities saw an average inventory decline of 14% in January 2025 compared with December 2023.

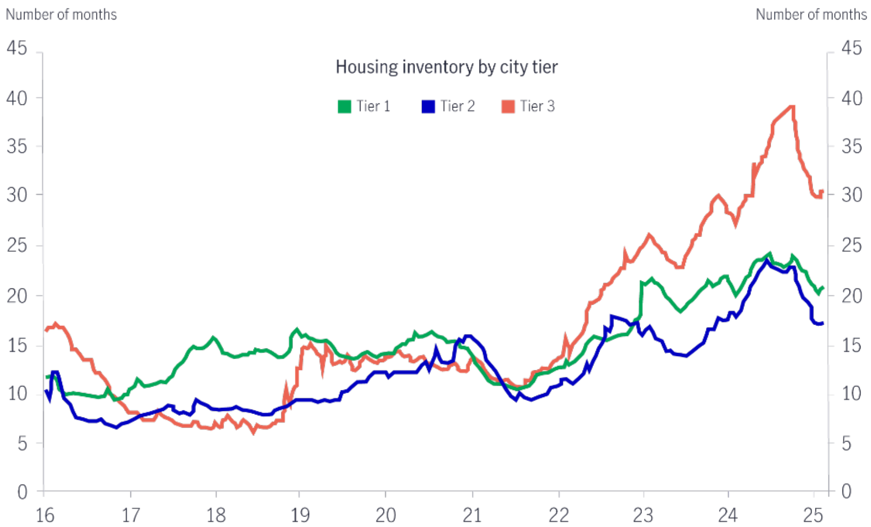
(4) Additional support for the mainland China banking sector

During the China NPC meeting, China announced RMB 500 billion of new special sovereign bonds for banks, which lends support to banks as well as a broad range of sectors, including consumer, property and industrials.

Our view and positioning

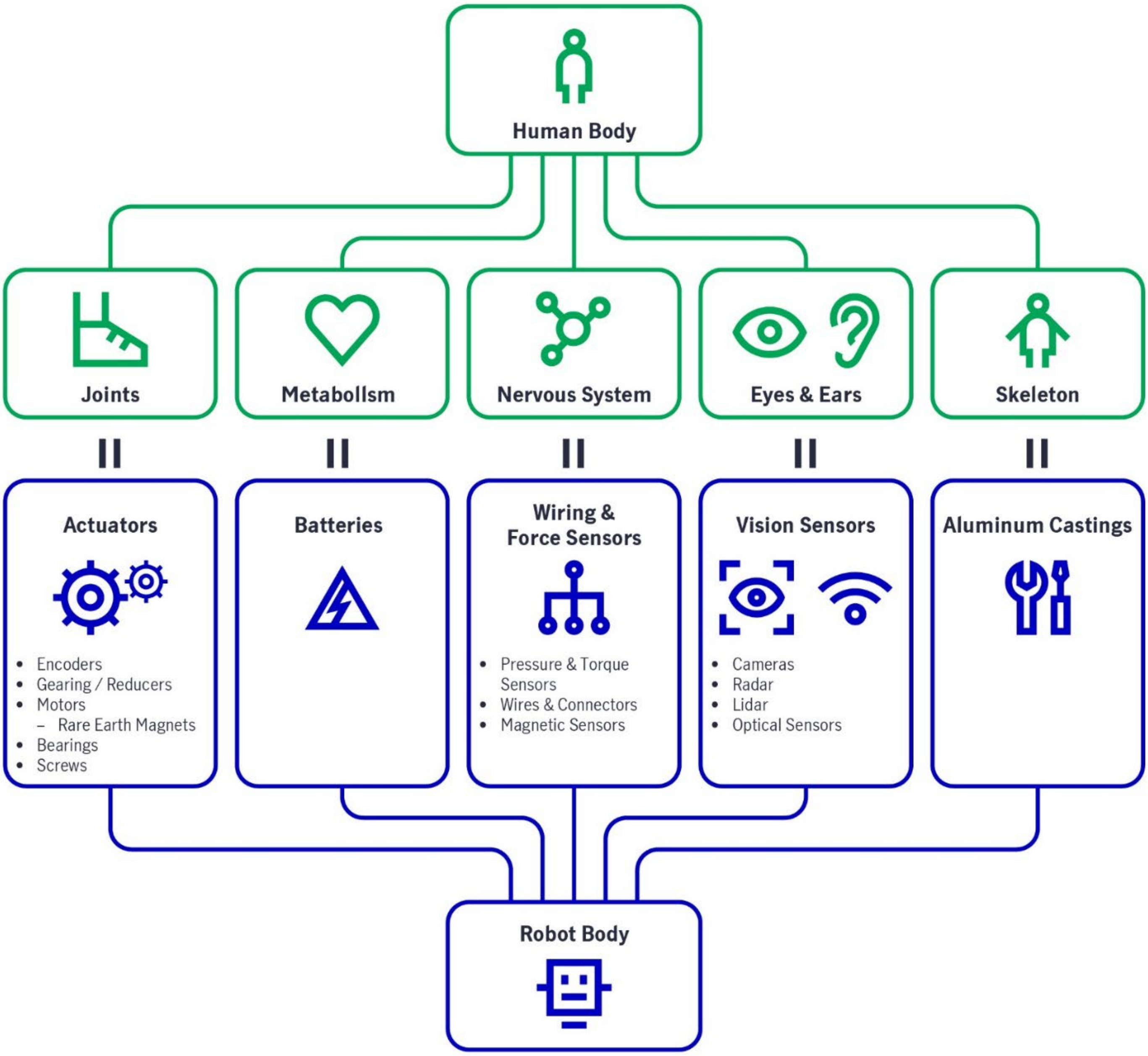
- **The AI moment has arrived!** The DeepSeek breakthrough has accelerated the adoption of AI in Greater China. Many technology and AI-related sectors have outperformed the broader market year-to-date, ranging from software to edge AI, and AI PCs. Indeed, the rally has extended beyond software and hardware names.
- **Expect more innovation for the humanoid robot industry:** The dancing robots on CCTV during the Lunar New Year celebrations were another milestone for mainland China. It is a key beneficiary of the global robotic supply chain, with many global and domestic customers. In the past, machine learning was limited to self-reinforcing software algorithms. The advancement of large language models (LLMs) and GenAI has made a great leap into the field of robotics, accelerating how physical machines learn through natural language, imitation, and simulation!

Housing inventory ratios fell significantly in recent months, driven by improving sales[3]



[3] Source: GS research, 11 February 2025.

Dissecting the humanoid body[4]



- **The development of autonomous driving is faster than expected:** Autonomous vehicles are technically robots with three primary outputs: (1) a steering wheel, (2) the accelerator pedal angle and (3) the brake pedal.

  A leading auto manufacturer launched 21 refreshed models for 2025 (priced at around RMB200,000 and below) with autonomous driving functions, including highway navigate on autopilot (NOA) and parking pilot largely standardised, while the entry price remains the same (i.e. for free). This should create more competition among industry players to innovate ahead.

[4] Morgan Stanley Research.

Positioning

The recent development and encouraging technological breakthrough are positive drivers for Greater China equity markets in 2025. We continue to **favour technology, media, and telecommunications (TMT)** and **platform companies (with AI adoption acceleration, advanced manufacturing companies with go-global strategies, edge AI beneficiaries** (e.g. AI smartphones and AI PCs), as well as the **robotic supply chain**.

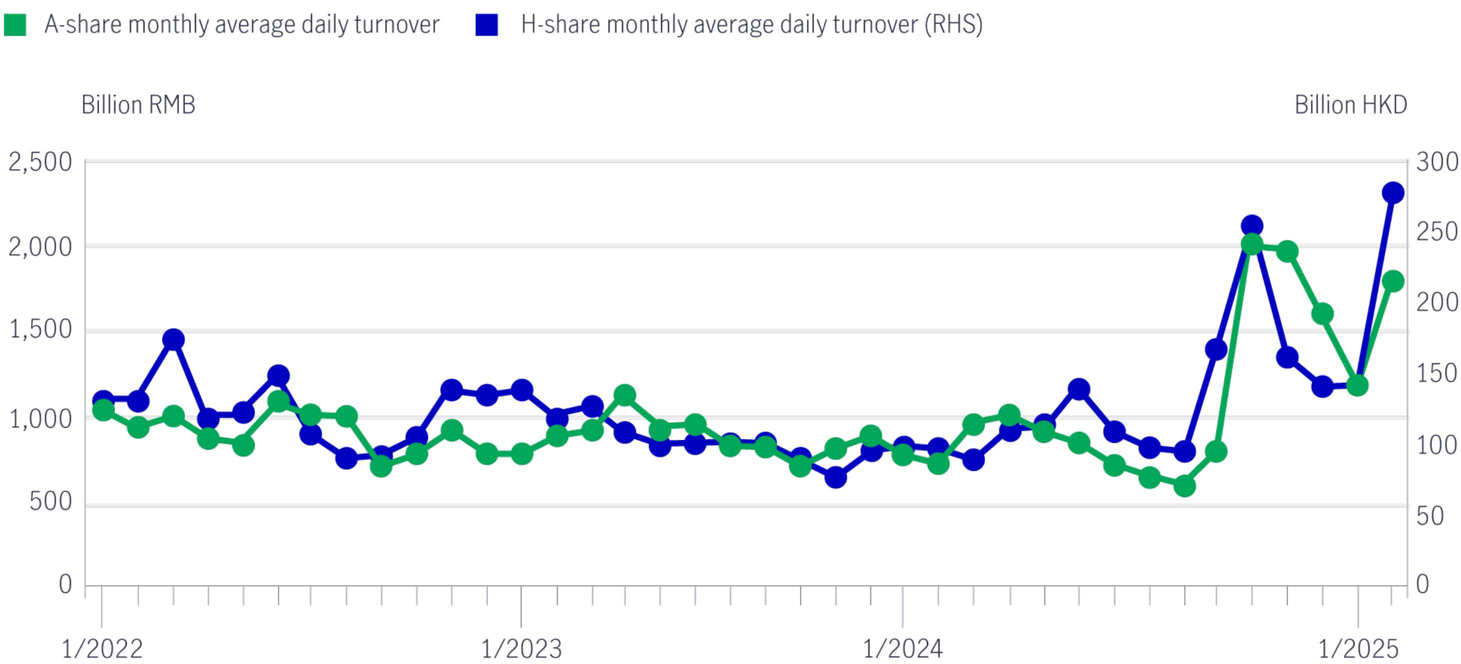
Flow data Year-to-date 2025

- **Mainland China's southbound flows remain strong.**
  - Southbound continued to lead the buying in the region (+USD 16 billion in January 2025, +USD 20 billion in February 2025).
  - Southbound saw its third largest weekly buying in history, strong inflows of USD 9.6 billion week-on-week (USD 36 billion year-to-date) as of 28 February 2025.
  - The Hong Kong market's turnover and performance have been highly concentrated in TMT stocks, whereas Southbound flows have been more diversified (SOEs plus the technology and consumer segments).

Conclusion:

We see positive catalysts which further support the Greater China equity markets. These include supportive policies aimed at addressing the capital-raising needs of innovative high-end manufacturing and new-industry companies, a series of domestic growth measures announced during the NPC meeting, a recovering mainland property market, and potential additional recapitalization in the mainland banking sector. As we anticipate more innovation in the humanoid robot industry and faster development in autonomous driving, we continue to favour technology, media, and telecommunications (TMT) and platform companies, advanced manufacturing companies with go-global strategies, edge AI beneficiaries, as well as the robotic supply chain.

Turnover in both A-share and H-share markets accelerated in January and February 2025



Source: Wind, Hong Kong Stock Exchange, HSBC GR, as of 26 February 2025. February 2025 data is up to 24 February 2025.

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