

## Greater China Equities: 2H 2025 Outlook



Despite the challenges posed by potential slower global growth and trading activities, and the uncertain geopolitical backdrop, Greater China's economic stimulus measures and competitive position in structural growth trends are expected to sustain its economic expansion. In this outlook, the Greater China equities team explains why key drivers, such as advancements in AI, the

pursuit of semiconductor self-sufficiency, niche consumption themes, and healthcare innovation, present investors with various investment opportunities.

## Powering up on innovation, localisation and globalisation: Part II

### Market review

Offshore China and HK equity markets outperformed the US and Asian equity markets year-to-date in 2025, driven by technological breakthroughs, advancements in autonomous driving and humanoid robot development<sup>1</sup>. Despite geopolitical and mainland China-US tariff headwinds, China A-share, HK and Taiwan equity markets erased all losses incurred since the beginning of April<sup>2</sup>.

The DeepSeek breakthrough has boosted the development of AI inferencing and adoption in mainland China. The pace of localisation in semiconductors, software and hardware also accelerated in the first half of 2025. Generative AI enhances its robotic capabilities for the fast-growing autonomous driving and humanoid robotic industries.

On the macroeconomic front, mainland China has front-loaded the RMB 2 trillion National People's Congress (NPC) stimulus package as

members of Congress strived to support the economy, including:

- 1) **Monetary easing** – an announcement on rate cuts, new re-lending tools and quotas, structural policy tools
- 2) **Capital market support** - incentives for insurance companies for long-term investment into capital markets
- 3) **A ramp-up of the consumer trade-in program**

Besides, mainland China's go-global trends have not stopped due to geopolitical tensions. During the first half of 2025, mainland China's biotech sector has been a bright spot, with more mainland China-originated assets entering the global stage. Advanced manufacturing leaders are coping well with self-help measures.

### What is our view of Greater China in the second half of 2025?

We believe the ongoing dialogue between mainland China and the US is encouraging as both countries try to negotiate the best outcome. The details of President Trump's original tariff proposal are already well-known, which means the prospect of the most severe 145% tariff levels may already be priced in. In addition, the US may not want to implement tariffs at such a

<sup>1</sup> Source: Bloomberg, data as of 31 May 2025. Performance period: 1 January 2025 – 31 May 2025. Total returns in US dollars. Offshore China equity market is represented by MSCI China index. HK equity market is represented by Hang Seng index. US equity market is represented by S&P 500 index. Asian equity market is represented by MSCI Asia Pacific ex Japan index. Past performance is not indicative of future performance.

<sup>2</sup> Source: Bloomberg, data as of 31 May 2025. Total returns in US dollars. China A-share equity market is represented by Shanghai stock exchange composite index. HK equity market is represented by Hang Seng index. Taiwan equity market is represented by Taiwan stock exchange weighted index. Past performance is not indicative of future performance.

level that they cause inflation in the US to increase. We continue to expect earnings recovery in mainland China, driven by DeepSeek, technology innovation, AI, and health care development (as licensing out continues to be strong). For financials, the outlook is brighter as mainland China steps up its efforts to roll out monetary, fiscal and sector-specific stimulus, and major banks have been re-capitalised. Corporate earnings also showed signs of stabilisation in Q1 2025, with positive earnings surprises.

Portfolio positioning

To mitigate the current headwinds, we adopt a barbell approach, where the investment team invests in (1) structural growth opportunities and (2) companies with dividend growth potential and a strong ability for share buy-backs.

The investment team reduced export-related exposure in the second quarter of 2025 and added to domestic-oriented sectors, e.g. domestic consumption, healthcare, technology, etc.

The investment team uses the GCMV (growth, cash generation, management, valuation) + catalyst framework to identify structural growth opportunities in Greater China.

Investment opportunities for 2H 2025

Investment opportunities remained abundant in the areas noted below, expressed via the “4A positioning”.

1st A: Acceleration

We believe growth from traditional consumption may still be under pressure. Because of tariff fears, mainland China is prepared to roll out stimulus but has not massively introduced consumption stimulus just yet. Hence, companies that are doing “self-help” and bottom-up restructuring will likely stay competitive as the cycle turns.

We favour niche/new and service-oriented consumption – e.g. specialty food and beverage, cosmetics, tourism, music, and online gaming, etc. More specifically, respective leaders in niche consumptions are still observing higher-than-industry growth and margin expansion. Hence, the majority of them are less impacted by macro headwinds due to the domestic nature of their businesses.

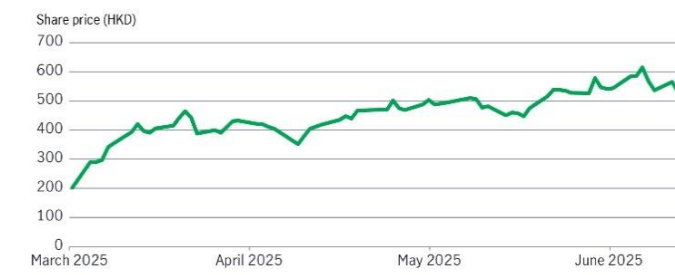
GCMV+ Catalyst analysis

Example 1 : A Chinese consumer food and beverage (F&B) company

Growth (G)	<ul style="list-style-type: none"><li>Leader in milk tea industry in China and South Asia with strong brand equity</li><li>Strong bargaining power in the supply chain due to scale of economy</li><li>Rapid store expansion at a CAGR of 16% between 2024 and 2026</li></ul>
Cash Flow (C)	<ul style="list-style-type: none"><li>The company adopts franchise model and sells raw ingredients to franchisees.</li><li>The company's self-built supply chain offers cost advantages and good quality control.</li><li>Positive free cash flow (FCF) in 2024 and 2025</li></ul>
Management (M)	<ul style="list-style-type: none"><li>Chairman and CEO hold majority stakes (close to 80%) of the company.</li></ul>
Valuation (V)	<ul style="list-style-type: none"><li>Discounted cash flow (DCF) based valuation implied close to 17.8 times FY25 net profit.</li></ul>
Catalyst	<ul style="list-style-type: none"><li>Faster adoption of AI smartphones</li><li>Narrowing the loss of its non-smartphone business</li></ul>

Source: Manulife Investment Management, Company data, May 2025.

Share price of a Chinese consumer food and beverage (F&B) company

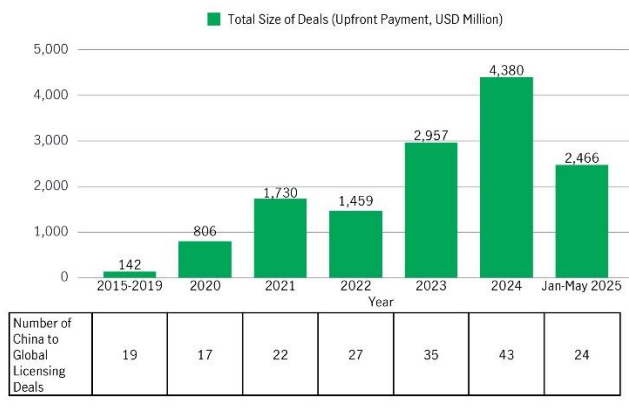


Source: Bloomberg, data as of 10 June 2025. Past performance is not indicative of future performance.

## 2<sup>nd</sup> A: Abroad

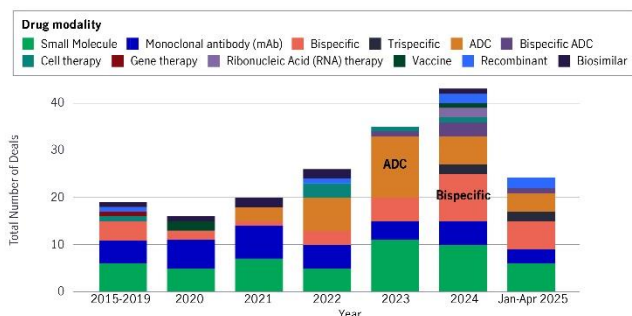
The mainland China healthcare sector had re-rated over the year to date driven by (1) ongoing strong collaboration with global pharmaceutical companies with strong out-licensing trends, (2) supportive policies for innovative drugs and (3) the defensive nature of mainland China's healthcare sector. Tariff headwinds have not dampened this trend, and mainland China's biotech sector reported resilient earnings in the first quarter of 2025. Furthermore, mainland China's out-licensing deals have broadened into various novel modalities, including bi/tri-specifics and antibody-drug-conjugates (ADCs), not limited to small molecules.

**Mainland China's healthcare sector: total upfront payment and number of mainland China-to-global licensing deals as of May 2025**



Source: Jefferies research, May 2025.

**Mainland China's novel drug modalities (e.g. bi/tri-specifics and ADCs) gained popularity in 2023-2024**



Source: Jefferies research, May 2025.

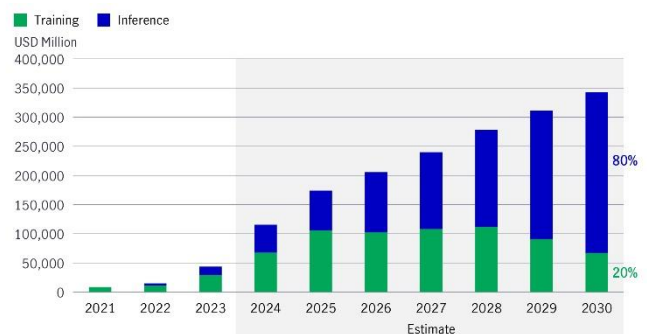
The investment team has invested in and continued to favour mainland China's biotech companies with unique out-licensing opportunities with strong pipelines.

## 3<sup>rd</sup> A: Advancement

With DeepSeek's breakthrough earlier this year, China's AI adoption is notably taking off, and Cloud AI stands to benefit from inference demand. We favour mainland China's cloud service providers (CSPs) as they benefit from booming AI inference demand. Mainland China's CSPs are aggressively ramping up capital expenditure to enable the deployment of large language models (LLMs) for enterprises, which is expected to grow by 62% in 2025 and remain at a high level of around RMB 370-380 billion from 2025 to 2027<sup>3</sup>.

On the other hand, major CSP players are already seeing AI transformation on their product platforms. For example, a leading China technology, media and telecommunications (TMT) company's recent results showcased revenue improvements in gaming and advertising aided by the deployment of AI.

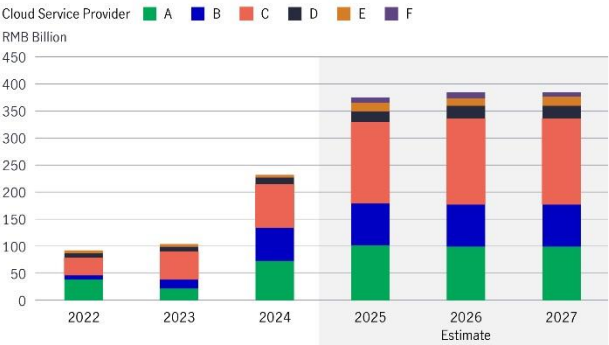
**Demand for AI inference is expected to surpass demand for AI training over the next few years**



Source: Morgan Stanley research "Greater China Semiconductors: Navigating AI capex fluctuations and tariff/FX volatility", 29 May, 2025

<sup>3</sup> Source: Morgan Stanley research, May 2025

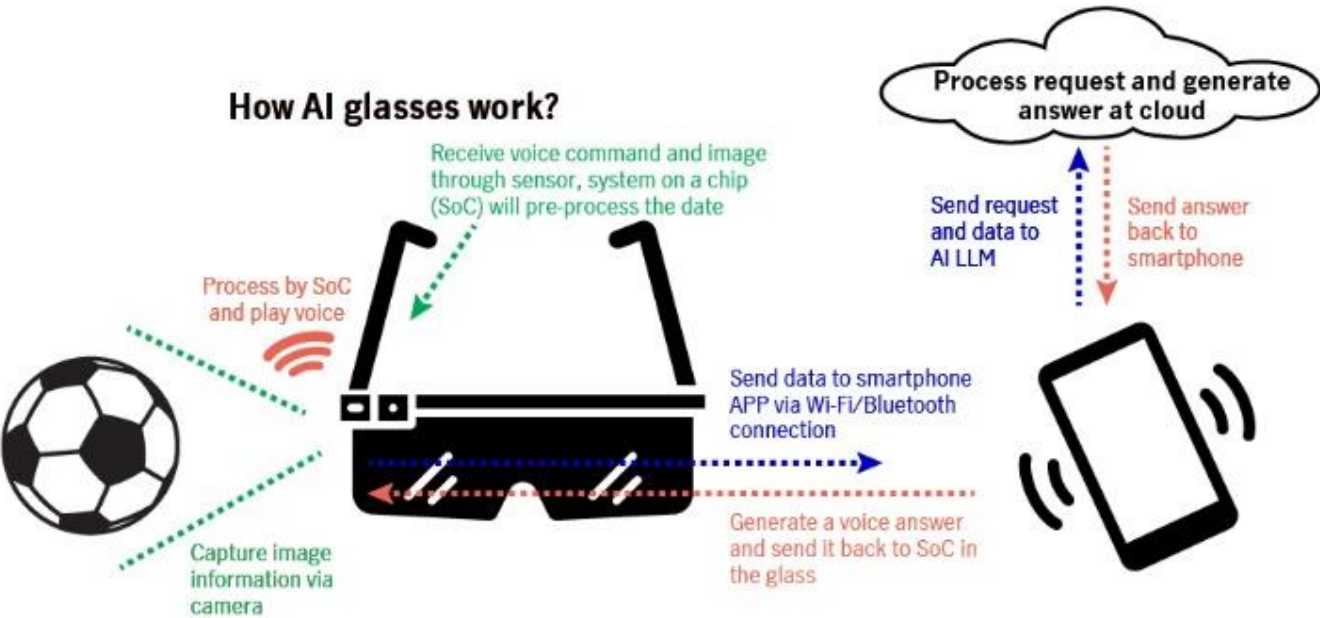
Chinese companies cloud capital expenditure estimate (2025-2027)



Source: Morgan Stanley research, May 2025

Edge AI

Besides cloud service providers, we believe mainland China’s AI supply chain also stands to benefit as AI adoption takes off. Despite the delay of an AI system developed by a leading US technology company to 2026, we still expect the demand for AI wearables to remain strong, which benefits the AI wearable supply chain in mainland China.



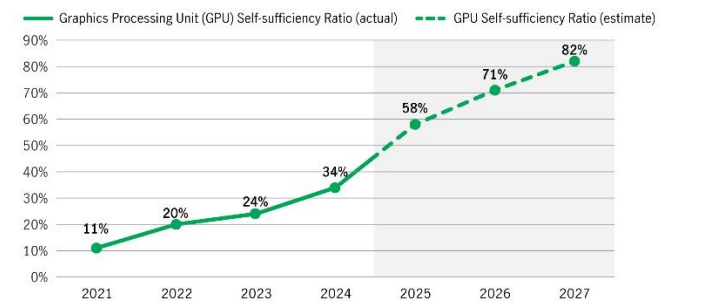
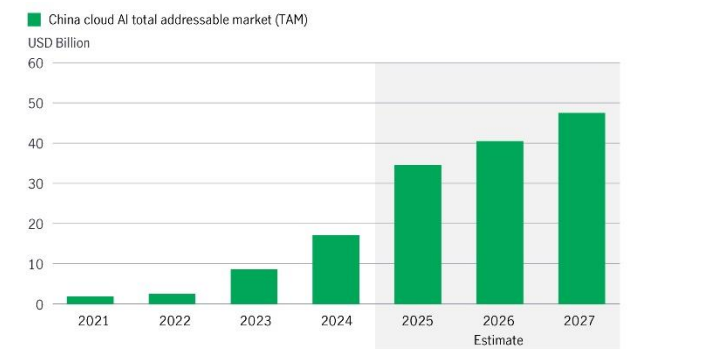
Source: Meta, Ray-Ban, IDC, Morgan Stanley research, May 2025



Semiconductors

Semiconductor localisation remains a multi-year structural trend. Beneficiaries range from fabrication equipment, foundries, chip designers and manufacturers, and components in the semiconductor supply chain. Regarding chip design and production, China has made significant technological advancements on many fronts. For example, mainland China’s graphics processing units (GPU) self-sufficiency ratio stood at 34% in 2024 and is expected to reach 82% by 2027 (i.e. aiming for self-sufficiency across China).

We favour and invest along the semiconductor supply chain in Greater China, ranging from mainland China fabless integrated circuit (IC) designers, mainland China and Taiwan foundries, and Taiwan application-specific integrated circuit (ASIC) designers.



Source: Morgan Stanley research, May 2025

Autonomous driving

Advanced driver-assistance systems (ADAS) have become a necessity in electric vehicles. We believe that companies in the autonomous driving supply chain should benefit from market share

and volume gains. Also, companies that can provide product features and localisation capabilities stand to benefit from the development.

GCMV + Catalysts analysis:

Example 2: A leading company in autonomous mobility applications

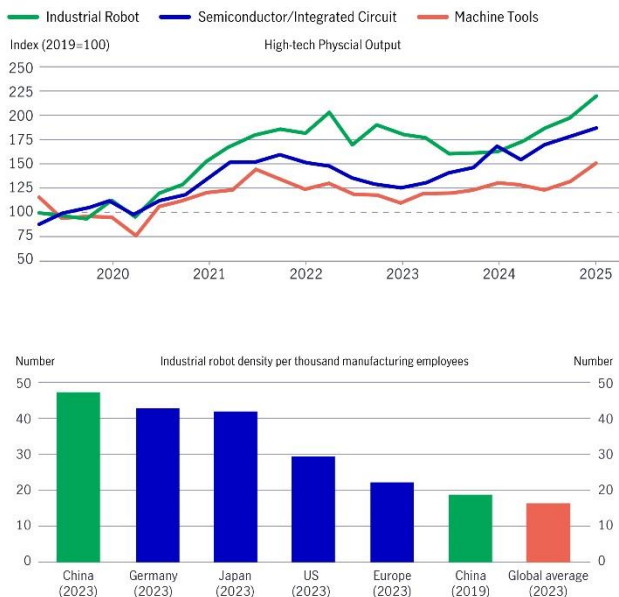
Growth (G)	<ul style="list-style-type: none"><li>The company is a leader of autonomous mobility LiDAR (Light Detection and Ranging), with 12 of the top 15 autonomous mobility firms using its products in 2021. The company also leads the industry sales ahead of peers.</li><li>Beneficiary of China's autonomous driving market, which is expected to grow from USD 29 bn in 2025E to USD 639bn in 2030E, with an industry CAGR growth of 85%.</li><li>Right technology roadmap: The company has a hybrid solid state architecture that balances performance, reliability and costs</li><li>The company also has unique ASIC design for automotive market</li><li>The company has strong customer base with domestic China clients, foreign auto brands as well as new entrants to the market.</li></ul>
Cash Flow Generation (C)	<ul style="list-style-type: none"><li>Effective cost control due to the company's in-house manufacturing capabilities, which allows the company to manage costs better and control product quality.</li><li>The company raised guidance for 2025 and expected to turn profitable going into 2025.</li></ul>
Management (M)	<ul style="list-style-type: none"><li>The management team has a clear vision for the future of autonomous mobility and ADAS.</li><li>The CEO is from Top tech company with solid engineering experience. The three co-founders have solid technological background.</li></ul>
Valuation (V)	<ul style="list-style-type: none"><li>The company is trading at above-peers, with price to sales ratio of 2.5x.</li></ul>
Catalyst	<ul style="list-style-type: none"><li>Market share gains among global OEMs.</li><li>Growth potential of autonomous driving solutions in China in 2025</li><li>Product mix and gross margin enhancement</li><li>Further penetration of LiDAR products</li></ul>

Source: Manulife Investment Management, Company data, May 2025.

## 4<sup>th</sup> A: Automation

Over the past five years, mainland China's high-tech manufacturing industries registered rapid growth, especially from 2020 to 2025, driven by external demand. During the COVID-19 period from 2020 to 2023, the demand for industrial robotics accelerated as many factories implemented automation. Production growth of industrial robots from 2024 to 2025 year-to-date has further accelerated, driven by demand for humanoid robots.

**Key high-tech manufacturing industries saw robust production growth over the past five years**



Source: Goldman Sachs research, March 2025

In January 2024, mainland China's Ministry of Industry and Information Technology (MIIT) issued the "Guidelines for the innovative development of humanoid robots", with a clear roadmap for industrial innovation. While mainland China's humanoid robot industry is still in its early stages, it possesses a comprehensive supply chain (i.e. brain/body/integrators) with high equipment localisation rates, which gives mainland China's supply chain competitiveness and cost advantages. The investment team has invested and continued to favour domestic Chinese players in the supply chain.

## What are the Investment opportunities in Taiwan for 2H 2025?

Taiwan equities rebounded in the second half of April 2025, following the US announcement of (1) a 90-day pause in its reciprocal tariff implementation and (2) exemptions for 20 product categories (including smartphones, laptops, computer displays, hardware, computer processors, and memory chips). The exemption is positive for Taiwan's tech sector, specifically (1) Taiwan personal computer (PC) original equipment manufacturers (OEM), (2) communication and base station equipment manufacturers, (3) display companies, (4) optoelectronic component companies, and chip design and IC module companies.

Ultimately, the US consumes many of the final electronic goods and products, so the exemption indirectly benefits US consumers. Also, leading Taiwan foundries and PC companies have built factories in the US, which could potentially mitigate tariff headwinds with US production capacities.

For the Taiwan region, a major concern for the second half of 2025 remains the potential slowdown of global and US consumption. If a consumption slowdown materialises, this would affect Taiwan as it is primarily an export-driven economy. According to our investment team's research, certain areas may experience a slowdown, e.g., consumer electronics and corporates are downwardly revising their earnings expectations in these sub-sectors.

However, we see bright spots in certain areas of the Taiwan tech sector, which we believe will continue to drive the next stage of growth in the Taiwan region throughout the second half of 2025.

### 1) The next generation of the AI supply chain

Our investment team's research on Taiwan's technology OEM supply chain suggests that demand for AI servers remains robust. While US customers have not scaled back AI capital

expenditure, we remain convicted in the next generation of the AI supply chain. We see opportunities in AI application-specific integrated circuits (ASIC), fabless chip designers, and co-packaged optics (CPO) manufacturers, etc.

### **2) Smartphone form-factor change in 2026**

A US-based leading tech company is going to roll out its new smartphone model in 2026 with form-factor changes, which is expected to drive the next AI smartphone upgrade cycle. We expect Taiwan's smartphone component manufacturers to benefit from the trend.

### **3) Network switch gear equipment**

Networks are migrating to 800G (800 gigabits per second) globally. We believe Taiwan's white-label network switch manufacturers will continue to gain market share due to higher demand for network bandwidth driven by AI inference.

#### **Conclusion:**

Despite global macroeconomic concerns and potential tariff headwinds in the second half of 2025, we see various growth opportunities in mainland China, ranging from healthcare, new and niche consumption, and AI to autonomous driving and humanoid robotics. These structural trends are domestically oriented and, hence, not as affected by global macroeconomic fluctuations

Mainland China's AI growth trajectory is longer and stronger. We think mainland China's technology advancements will accelerate with strong localisation capabilities. Furthermore, opportunities for innovation in health care remain abundant.

Mainland China's overcapacity situation remains in some sectors; however, we think companies with strong market positioning are still gaining global market share.

Traditional consumption may take a longer time to recover. However, new and niche consumption sectors will likely continue to excel.

For the Taiwan region, we see tech sectors gaining market share in different sub-sectors despite potential weaknesses due to US consumption and tariff concerns. We still believe that the global demand for AI and next-generation smartphones with form factor changes will be major catalysts for Taiwan's technology supply chain in the second half of 2025.

Major risks for Greater China equity markets in the second half of 2025 include: (1) potentially slower-than-expected global economic growth, (2) a worse-than-anticipated outcome from the tariff negotiations, and (3) potential investment restrictions from the US on mainland China. Overall, we do not think the above-mentioned risks (if they materialise) will entirely stop mainland China's development in strategic sectors.

On the positive side, major catalysts for the Greater China equity markets include: (1) mainland China's upcoming plans to further stimulate the economy through monetary, fiscal, and consumption measures. (2) a potential step-up of consumption policies.

In summary, mainland China has made great strides on many "unstoppable trends" and we believe that there are more fruits to harvest over the coming years. We believe Taiwan's distinctive pre-positioning also makes it competitive and outstanding in the global technology supply chain.

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