China: What do local clients think about the economy? Local marketing takeaways, September 2026

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Over the past week, we met in Shanghai with onshore investors across equities, fixed income, and corporates, including mutual funds, private equity firms, bank and insurer asset managers, and listed companies. Compared with end-June, local clients appeared more risk-averse amid near-term uncertainty, especially over Fed policy and the upcoming Trump-Xi meeting. On China's macro outlook, most investors we met with expect the "K-shaped" economy to persist and expressed greater concerns about domestic demand, especially consumption. Most anticipate policy support to strengthen through year-end relative to previous months, but remain cautious on the scale, duration, and implementation efficiency of incremental easing, particularly given recent property policies, tighter tax collection, and still-elevated anti-corruption investigations. Clients appear to remain confident in global AI capex in 2026-27, especially in the US and China, but views diverged on 2028 and beyond. On markets, clients shared our view that the RMB will appreciate gradually and long-term government bond yields will stay low for longer.

Key Takeaways:

1. Risk aversion amid near-term uncertainty

Despite a busy September calendar of global macro catalysts, onshore investors remain in wait-and-see mode, seeing no clear near-term market direction amid uncertainty over Fed policy and the upcoming Trump-Xi meeting. Most fixed income clients expect a September Fed hike, although this view was not broadly shared by equity clients we met with during our trip. Following the stronger-than-expected August core CPI, our US economics team now expects the Fed to raise policy rates in September – While they see no compelling economic case for a hike, they believe the FOMC may worry that holding rates steady would undermine perceptions of Fed credibility and push longer-term yields higher. Onshore clients appeared to have low expectations for the Trump-Xi meeting and do not anticipate a broad US-China agreement in the near term, but they also do not expect the September summit to be derailed. Equity clients focused more on which Chinese companies might accompany President Xi to the US, while fixed income clients were more interested in potential RMB moves around the meeting.

2. Rising concerns about domestic demand and growing expectations for policy easing

Most clients expect the "K-shaped" economy to persist. While they remain constructive on China's exports, concerns about domestic demand—especially consumption—has increased. Weaker-than-expected Q2 GDP and July activity data, as well as still-subdued growth momentum in August, have deepened onshore

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investors' concerns about China's near-term macro outlook. Some expect real GDP growth to remain below 4.5% yoy in Q3, after 4.3% yoy in Q2. Investors also highlighted the growth drag from tighter tax collection and recent property policies, and view ongoing technological breakthroughs as providing little support to domestic consumption. Recent signals from the State Council, MOF, and NDRC pointed to faster implementation of planned easing since late August, raising market expectations for additional stimulus later this year. Onshore clients broadly shared our view that policy support will strengthen through year-end relative to previous months and continue to favor high-tech sectors and investment—particularly the "Six Networks" projects ("六张网"项目)[1]—over consumption.

3. Low confidence in the effectiveness of cyclical easing

Although onshore investors we met with expect incremental easing in the coming months, they have low expectations for its scale, duration, and implementation efficiency, given the continued emphasis on the "correct view of performance" (正确政绩观) and intensifying anti-corruption investigations amid a year of local government leadership reshuffles. Despite stronger easing rhetoric at the July Politburo meeting, investors remain concerned about local government funding conditions and local officials' incentives to launch major projects in the near term. Most view the tightening of tax collection as a longer-term effort to strengthen government revenue while remaining alert to additional taxation on other parts of the economy, if any. In addition, some clients cited that major developers received little advance notice before policymakers introduced measures to facilitate the shift to a completed-property sales model in late August, expressing concerns about future policy communication and coordination.

4. Certainties and uncertainties around AI's impact

AI remains a key focus for investors, particularly equity clients. Clients we met with are confident in global AI capex in 2026-27, especially in the US and China amid the intensifying technological race, but views diverged on 2028 and beyond. Bulls cited continued strong power purchases by leading AI companies and the banking system's available capacity to expand financing for AI capex, while bears highlighted deteriorating investment returns amid rising training costs and falling token prices of AI models. Investors acknowledged that AI had improved labor productivity, but noted that these gains remained difficult to quantify at the company level, potentially limiting firms' willingness to pay for AI solutions. Most clients also cited evidence that AI development and adoption had made mainland China's job market more challenging for the younger generation, particularly by reducing entry-level white-collar opportunities.

5. Diverging price expectations across property and the broader economy

On the property sector, most onshore investors agreed with our view that more Tier-1 and Tier-2 cities could achieve local home price stabilization within the next 1-2 years, with Shenzhen and Shanghai likely to lead, supported partly by the expansion of new-economy sectors after prices fell around 40% from peak levels. However, they saw no quick fix for lower-tier property markets and cautioned that recent contractionary policies could further weaken local government finances and household balance sheets, delaying home price stabilization in some regions. For the broader economy, despite

[1] "Six Networks" projects include water networks, new power grids, computing power networks, next-generation communication networks, urban underground pipeline networks, and logistics networks.

imported inflation this year, most clients see limited demand-driven reflation and expect disinflation to persist in the coming years. Consistent with our forecast, clients expect year-on-year PPI inflation to turn negative in Q2 2027 due to this year's high base and the absence of broad-based, significant demand-side stimulus. That said, they believe concerns about "Japanification" may have eased somewhat relative to previous years, thanks partly to AI breakthroughs, early signs of home-price stabilization in some large cities, and sector-specific "anti-involution" efforts.

6. Consensus on gradual RMB appreciation and persistently low long-term rates

On FX, we are more bullish than market consensus on RMB appreciation against the USD, with 6m/12m USDCNY forecasts of 6.60/6.40. Onshore clients shared our view that the RMB will appreciate gradually, but had low expectations for the extent of appreciation that the Chinese economy can absorb and the PBOC will tolerate. We estimate that China's real export volume grew a solid 11% yoy in H1 2026, matching the annualized pace in 2024-25. Meanwhile, our China Portfolio Strategy team estimates that FX losses accounted for around 4% of total earnings for the Chinese listed companies in H1 2026, the highest share in a decade. On rates, onshore investors agreed with our view that China's long-term government bond yields may stay low for longer amid limited demand-driven reflation, slowing credit growth, and the ongoing local government debt resolution.

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