CHINA MUSINGS

Policy and macro back to school

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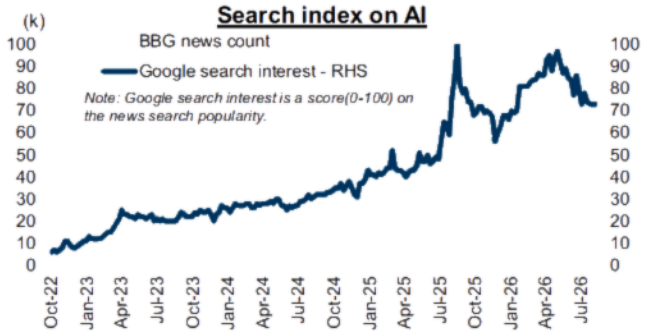
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1. It was all about AI for global/China equities for the most part of 2026. But investors' focus and topicality have recently pivoted (back) to policy and macro issues, spurred by the resurging tensions in the Mideast, rising global bond yields and Fed policy, China macro and policy developments. There is also an active political event calendar in late September which features President Xi's potential state visit to the US and the September Politburo meeting. In this China Musings, we take stock of these policy and macro issues, refresh our equity market views, **emphasize our portfolio diversification bias** (from AI Hard Tech), and reiterate our **preferred alpha-generating ideas** in a muted beta market, notably A shares (OW), domestic AI vs AI exporters, non-AI opportunities, and specific themes such as Shareholder Returns and IPO strategy.

Exhibit 1: Market focus on AI has cooled somewhat in the past month

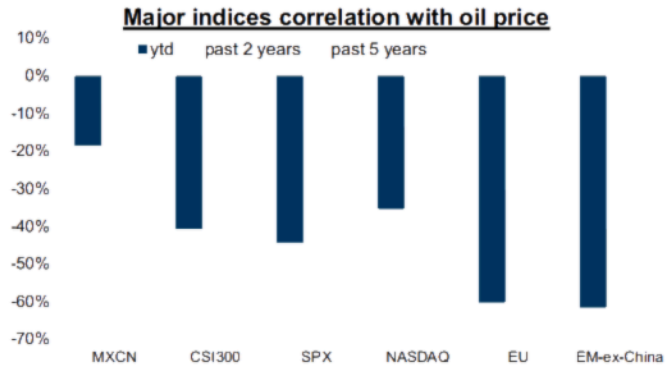


Source: Google, Bloomberg, Data compiled by Goldman Sachs Global Investment Research

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2. Oil prices are back up to above the US$100/bbl mark after hovering much around the 80-dollar range in the past couple of months. Supply disruptions in the Persian Gulf are still in place, but the daily oil flows through the Strait of Hormuz and from the Gulf countries are now roughly 40% and 2/3 of the pre-War levels, according to our Commodity strategists' estimate, supporting their view that Brent should settle at around US$85/bbl by the end of this year, even with the tensions possibly extending into 2027. **China (growth) has remained relatively unscathed in this oil shock**, thanks to its strategic energy diversification policy (geographically and by energy source), sizable oil reserves, fiscal offset, and robust refining capacity. China's resilience to oil price volatility has also manifested in the equity space, with Chinese equities exhibiting lower return beta to oil prices than their global peers.

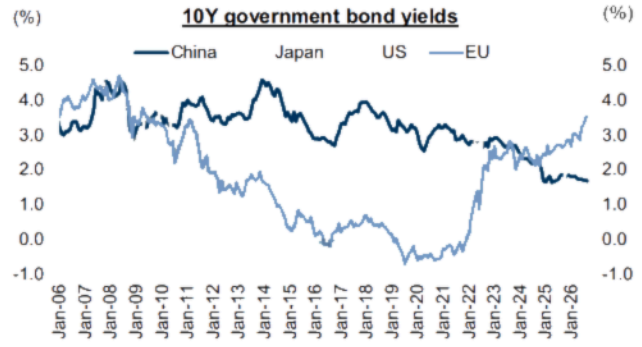
Exhibit 2: China equities are relatively less correlated with oil prices



Source: FactSet, Goldman Sachs Global Investment Research

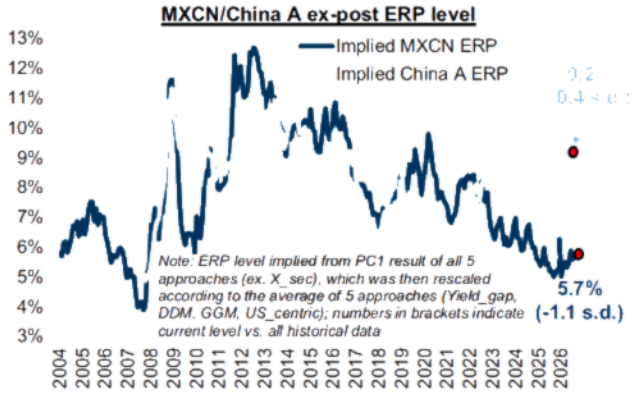
3. Bond yields in developed economies and certain EMs are at multi-decade highs on inflation, fiscal sustainability, AI (capex) crowding out concerns. On policy rates, following a firmer-than-expected August CPI/PCE print released last Friday, our economists added a 25bps hike to their base-case Fed Fund Rate forecast in the September FOMC meeting. Tightening of financial conditions globally typically bodes ill for Asian equities, but our analysis shows that **the speed of (real) rate increases tends to matter more than simply the level of rates**. With the neutral rate in the US still likely trending towards 3%, and the growth/inflation profile potentially improving over the medium term on GS projections, the September hike, if it materializes, should not be a significant performance roadblock to **Chinese equities, the offshore market in particular, for which equity duration has shortened and pricing is at what we view as below-fair valuation levels.** Importantly, onshore rates have been an outlier in the recent bond market correction, with the 10-year CGB yields hovering at their all-time lows, at 1.7%. This implies that equity risk premium for A shares is at the high-end of the recent-year range, and that Chinese assets are a decent place to look for diversification.

Exhibit 3: China rates have diverged from the global bond market



Source: FactSet, Goldman Sachs Global Investment Research

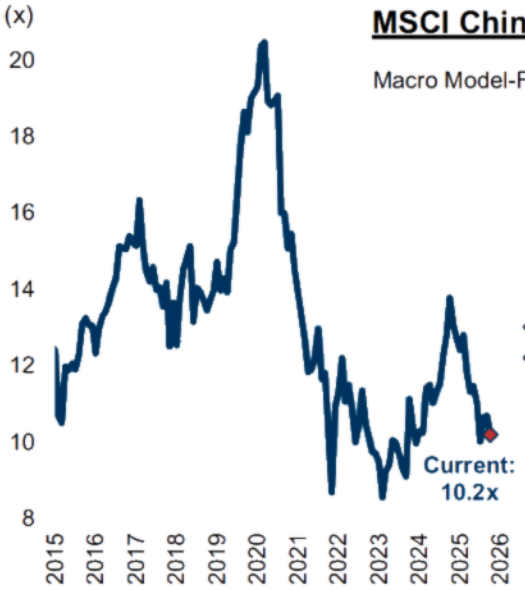
Exhibit 4: ERP for A shares remains elevated



For detailed methodology, please refer to Global Strategy Paper | China ERP: Your risks and expected returns of investing in China, 4 July 2023

Source: MSCI, FactSet, Wind, Goldman Sachs Global Investment Research

Exhibit 5: Our top-down analysis suggests that China equities should trade at an equilibrium fP/E of around 12x



Macro model implied: 13.0x

GS forecast: 12.2x

Model inputs

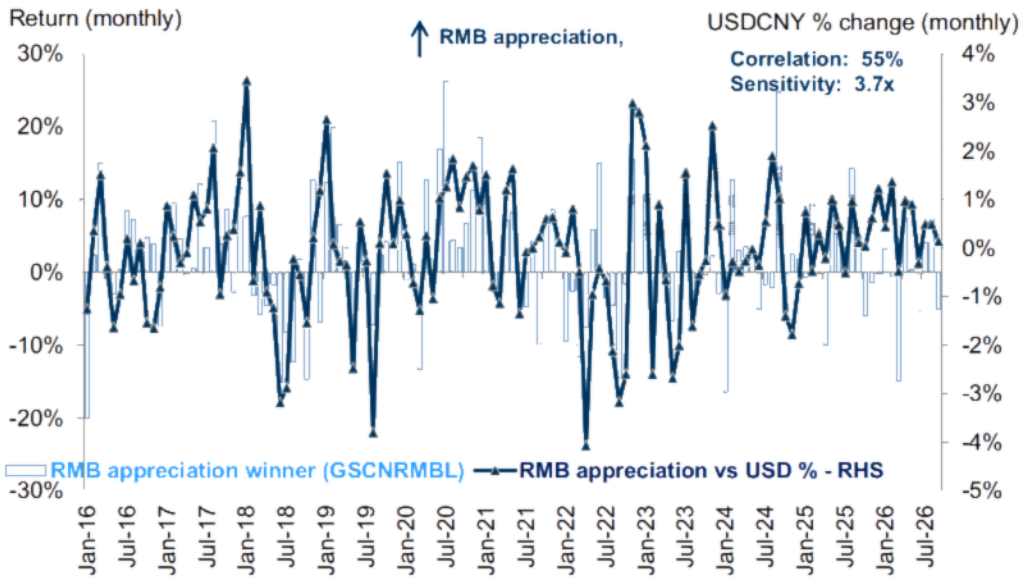
	Coef.	Forecast
China nominal GDPg (forward)	0.18	5.8
Rates (CGB10Y, UST10Y)	-0.86	3.0
China AFD (12mma)	-0.04	-10.5
Global CAI	0.37	3.2
SPX PE	0.14	20
USDCNY	-2.86	6.4

Source: MSCI, Wind, FactSet, Goldman Sachs Global Investment Research

4. The diversification argument is also applicable to the Rmb, which has appreciated against the USD and on a trade-weighted basis by 4.1% and 3.6% ytd. Our FX Strategy team expects the USDCNY to fall to 6.4 (from 6.7 now) in the next 12 months, with the continued strength of Chinese exports, which grew 14.6% yoy in the first 8 months of the year, underpinning that view. Politically, the repeated policy emphasis on Rmb internationalization may also motivate Chinese policymakers to engineer **a gradual appreciation path for the currency**. Rising Rmb exchange rates will weigh on exporters' reported earnings via translation and transaction losses, but potential market share gains, product and geographic diversification, and further value-added upgrade by Chinese exporters, which grew their profits by 80% yoy in 1H26, should more than offset the FX headwinds. We are still of the view that **the Going Global theme is structural in nature,** albeit with sporadic concerns regarding tariffs and protectionist measures, and

investors could monetize the FX impact in the stock market by focusing on companies that are positively linked with, or adversely impacted by, a stronger Rmb.

Exhibit 6: Our Rmb appreciation beneficiaries list has performed well alongside the Rmb uptrend



Source: Bloomberg, Factset, Goldman Sachs Global Investment Research

5. China policy is back in focus. The recent property market policy on phasing out the long-standing pre-sell model could lengthen the cash conversion cycle for developers, accelerate industry consolidation, further pressure local governments' finances, but **shore up banks' asset quality**. In similar veins, the US$54bn recap for banks and insurers should also add a financial buffer and inject growth impetus to the financial system, partly driving the continued re-rating of bank equities, some of which are trading at all time highs. However, the intensity of capital (out)flows as well as tax policy per Announcement #21 seems to have increased lately for possible geopolitical and fiscal reasons, and could **dampen sentiment for Chinese-capital-linked overseas assets in the near term**, notably HK developers and insurers, Macau gaming, and offshore-listed Chinese POEs where dividends paid to major shareholders (individuals and/or trust entities) could be in scope for taxation as per Announcement #21 by the MoF and State Taxation Administration published on July 24, 2026.

Exhibit 7: We screen for offshore-listed Chinese POEs incorporated in the Cayman Islands or Bermuda that have delivered high dividend yields in recent years and feature concentrated shareholding structures

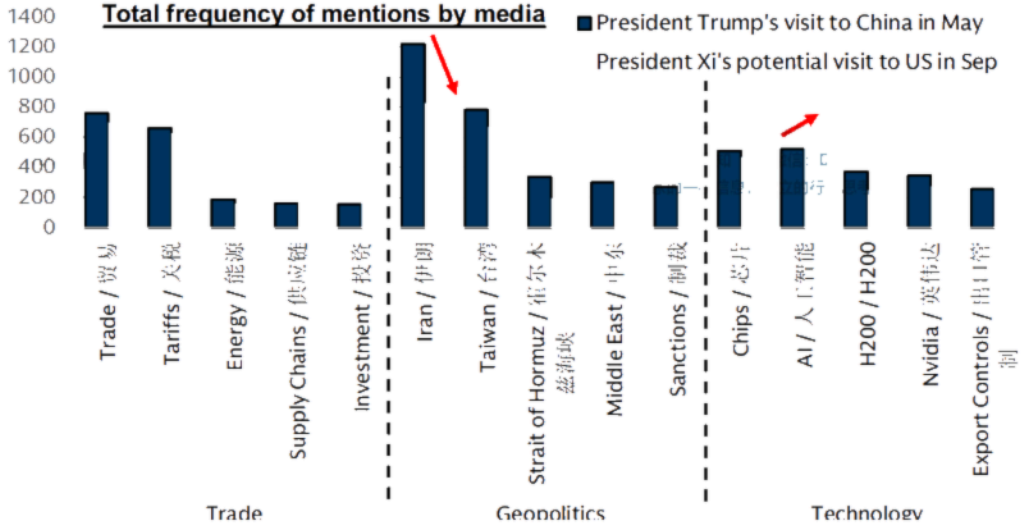
			>US$1bn	*>5%*	*>30%*	*not in Mainland/HK*
BBG Ticker	**Name**	**GICS Industry Group**	**Mkt Cap (USD bn)**	**Median DY Since FY2023**	**% held by top 3 shareholders**	**Country/Region of Registration**
A list of offshore-listed POEs with high dividend yields in recent years and concentrated shareholding structures						
1378 HK	China Hongqiao	Materials	30.6	6.7	63	Cayman Islands
1308 HK	SITC International	Industrials	15.6	5.3	51	Cayman Islands
288 HK	WH Group	Cons Stpl	11.6	8.5	38	Cayman Islands
6862 HK	Haidilao	Cons Disc	7.3	7.7	38	Cayman Islands
1364 HK	Guming	Cons Disc	7.2	5.5	70	Cayman Islands
3998 HK	Bosideng	Cons Disc	6.4	6.2	53	Cayman Islands
241 HK	Alibaba Health	Cons Stpl	6.3	7.4	63	Bermuda
JOYY US	JOYY	Comm Svcs	3.6	5.1	36	Cayman Islands
1585 HK	Yadea Group	Cons Disc	3.5	5.7	63	Cayman Islands
2367 HK	Giant Biogene	Cons Stpl	3.5	5.2	55	Cayman Islands
1044 HK	Hengan International	Cons Stpl	3.2	7.2	45	Cayman Islands
6186 HK	China Feihe	Cons Stpl	3.0	10.4	51	Cayman Islands
9896 HK	MINISO	Cons Disc	2.9	6.6	64	Cayman Islands
2518 HK	Autohome	Comm Svcs	2.7	8.3	44	Cayman Islands
CHA US	Chagee	Cons Disc	2.4	7.2	78	Cayman Islands
6098 HK	Country Garden Services	Real Estate	2.3	7.7	38	Cayman Islands
1277 HK	Kinetic Development	Energy	2.3	6.2	73	Cayman Islands
9985 HK	Weilong	Cons Stpl	2.3	5.3	78	Cayman Islands
3933 HK	United Laboratories	Health Care	2.1	6.2	43	Cayman Islands
2580 HK	Aux Electric	Cons Disc	2.0	12.6	82	Cayman Islands
1579 HK	Yihai International	Cons Stpl	1.9	6.1	40	Cayman Islands
2869 HK	Greentown Service	Real Estate	1.7	5.1	55	Cayman Islands
9898 HK	Weibo	Comm Svcs	1.6	10.9	64	Cayman Islands
546 HK	Fufeng Group	Materials	1.5	9.4	51	Cayman Islands
1999 HK	Man Wah	Cons Disc	1.5	8.6	63	Bermuda
1681 HK	Consun Pharmaceutical	Health Care	1.4	5.6	42	Cayman Islands
3306 HK	JNBY Design	Cons Disc	1.3	7.2	61	Cayman Islands
2128 HK	China Lesso	Industrials	1.3	6.0	72	Cayman Islands
1368 HK	Xtep International	Cons Disc	1.2	7.9	57	Cayman Islands
999 HK	Xiaocaiyuan	Cons Disc	1.2	6.0	70	Cayman Islands
667 HK	China East Education	Cons Disc	1.1	6.5	71	Cayman Islands
2391 HK	Tuya	Information	1.1	6.2	66	Cayman Islands
2858 HK	Yixin Group	Financials	1.0	11.6	52	Cayman Islands

Source: Wind, Bloomberg, FactSet, Goldman Sachs Global Investment Research

6. President Trump has suggested that President Xi will make a state visit to Washington on September 24, although Beijing has not officially confirmed the trip. Per media reports and our recent client conversations, market participants are hopeful that the meeting could yield clarity on consequential topics around bilateral trade and investment, AI regulation/cybersecurity, and geopolitics, but **the conviction level that major breakthroughs could be reached is low**, consistent with the client feedback from our economists' latest survey. Empirically, offshore equities traded mostly sideways or in a narrow range prior to the two presidents meeting/speaking in the past 19 episodes (since 2017), but tended to perform better post the events, gaining 2% and 4% on average in the subsequent 1 and 3 months. But against a backdrop where

equity-market-implied US-China tensions are moderate according to our measure, we believe any potential near-term upside is more likely to be triggered by other macro and micro catalysts than by this potential political event.

Exhibit 8: Certain issues regarding bilateral trade, technology, and global geopolitics could be on the agenda at the meeting



Based on 124 links from 48 global (English) media sources and 156 links from 28 Chinese media sources over the past month; Top 5 keywords in each category are shown

Source: News Source, Data compiled by Goldman Sachs Global Investment Research

Exhibit 9: China equities have usually performed better after in-person meetings or phone calls between President Trump and President Xi



Source: MSCI, Bloomberg, Goldman Sachs Global Investment Research

Exhibit 10: Equity-market-implied US-China tensions are still moderate according to our US-China Relations Barometer (GSSRUSCN)



Source: Goldman Sachs Global Investment Research

7. The potential September 24 meeting also marks the 2nd anniversary of the Chinese 'policy pivot' that transpired around the September Politburo meeting 2 years ago, which sparked a powerful but short-lived rally in Chinese equities. The macro backdrops now and then indeed share some similarities—macro growth momentum slowing, domestic demand sluggish, and the housing market struggling. Howeve profit growth is on a much better footing now, expanding at the fastest since 2021, exports and trade surplus are surging, and onshore equities 42% higher than the local troughs in September 2024. As such, **the like urgency for policymakers to introduce another large-scale stimulus September Politburo meeting seems low**. But to achieve the around 4

growth target for 2026, our economists believe additional fiscal impulse via faster government issuance, execution of previously-planned investment projects, and support to consumption/social safety nets will still be required.

Exhibit 11: The current macro backdrop shares some similarities with September 2024, but corporate profit growth is on a much better footing

		Politburo meeting (Sep 2024)	Current	Now - Sep 24
Price performance	MSCI China YTD perf	-2%	-13%	-11 ppt
	12M Forward P/E (Aggregate)	8.4x	10.2x	1.8
Positioning	Global Active Funds Allocation	5.2%	6.2%	1.0 ppt
	Global Hedge Funds Allocation	6.8%	7.4%	0.6 ppt
	Domestic MF Equity Allocation	85.8%	86.3%	0.5 ppt
Macro Indicators	US 10Y Treasury Yields[2]	3.7%	5.0%	131 bp
	China 10Y Govt Bond Yields[2]	2.1%	1.7%	-42 bp
	China CAI	5.4	5.1	-0.3 pt
	Property Sales (yoy)	-16.1	-12.8	3.3 pt
	Retail Sales (yoy)	-1.8	0.4	2.2 pt
	Exports (yoy)	8.6	25.0	16.4 pt

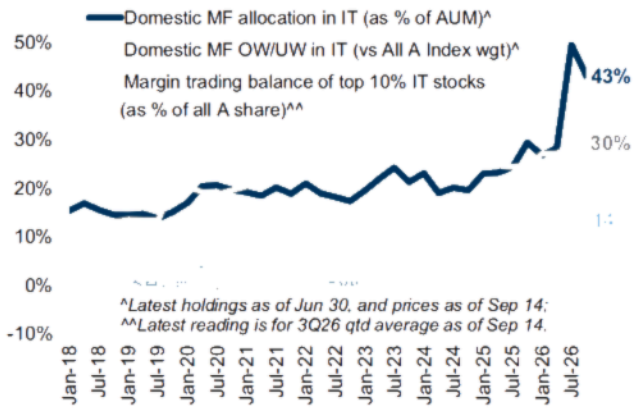
Note (1): Abbreviation: pt - point; ppt - percentage point; MF - mutual funds; CAI - GS Current Activity Indicator; FCI - GS Financial Condition Index

Note (2): Nominal yields
Note (3): Higher means tighter financial conditions

Source: Factset, Wind, Goldman Sachs Global Investment Research

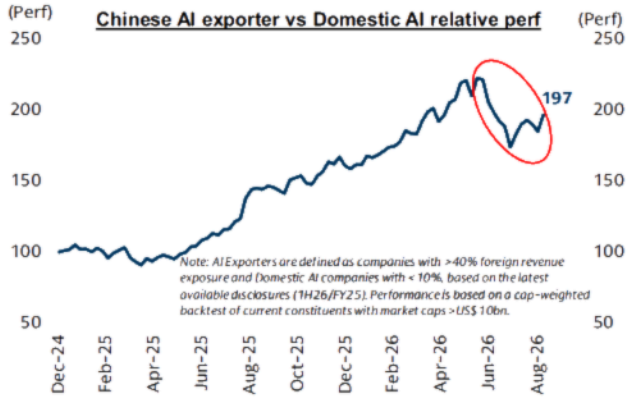
8. Price velocity of AI stocks has slowed post the broad-based July selloff, but AI is still likely to remain a game changer for corporate earnings—Chinese AI companies grew their profits by 40% in 1H26, vs 7% for non AI names, and AI-related profits now represent 23% of the aggregate earnings pool in the China listed universe. **Most investors we recently interacted with have expressed comfort/conviction of holding onto these first-half winners on fundamental grounds**, in sync with our observations that onshore mutual funds are still heavily exposed to AI Hard Tech in their portfolios. This probably explains why diversification was one of the most frequently discussed topics in our conversations with investors at our Asia Leaders Conference held in HK two weeks ago. Specifically, within the AI domain, the theme of **buying domestic Chinese AI firms**, the proxies for China's goal of being technology self-sufficient, and hedged by Chinese AI exporters has resonated with investors.

Exhibit 12: Onshore mutual fund allocation and margin financing balance are still concentrated on AI Hard Tech



Source: Wind, Goldman Sachs Global Investment Research

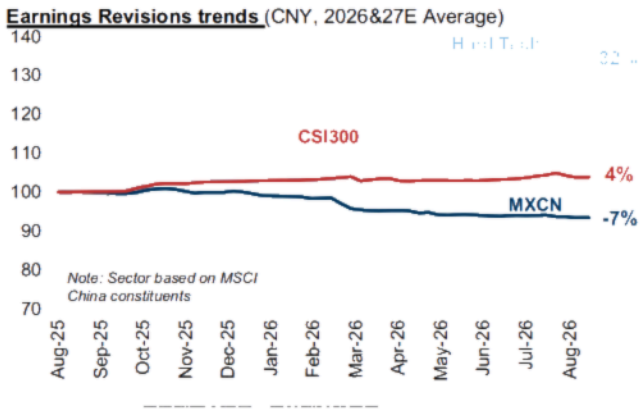
Exhibit 13: Chinese AI domestic firms have outperformed AI exporters since June



Source: FactSet, Wind, Goldman Sachs Global Investment Research

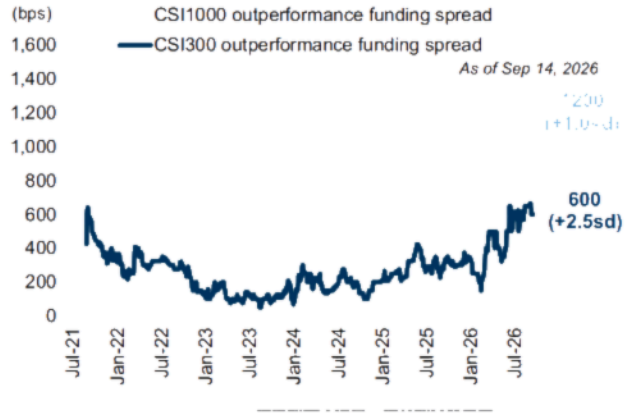
9. Offshore internet is another area where investors could look for AI (application) exposures without taking too much positioning concentration risk. However, the debate about AI ROI leads us to believe that investors are unwilling to pay for AI upside optionality for the platform companies until their core businesses return to profitability, cashflows revert to positive territory, and/or a clear AI monetization roadmap emerges. As earnings growth continues to be the differentiating factor for stock returns, especially in a high-interest-rate environment, **China A (Overweight) still looks better placed vis-a-vis its offshore H-share peers (Marketweight)**. For investors who are able to access A shares through swaps, the risk/reward looks even more compelling with the funding spreads for major indexes trading at historical peaks.

Exhibit 14: Strong upward earnings revisions continue in the hard tech sector



Source: FactSet, MSCI, Goldman Sachs Global Investment Research

Exhibit 15: The funding spreads of CSI300 and CSI1000 outperformance are at historical highs



Source: Goldman Sachs FICC and Equities

10. The dominance of the AI theme has masked the expansive alpha opportunity set outside of the AI universe. The quiet outperformer, particularly in Sharpe-ratio terms, has been the **Shareholder Returns theme**, supported by record dividend and buyback (with share cancellation) programs and robust Southbound inflows since 2Q. Sectorally, **healthcare and materials have received strong client interest** given their adjacent exposures to the AI theme but low beta to the AI equity trade. The **very active IPO market in HK/China**, which has hosted more than 200 new companies and helped them raise US$77bn in aggregate ytd, is another venue for investors to trade for idiosyncratic

returns, although investors are advised to focus on parameters that have contributed to and correlated with positive post-listing returns when engaging in this theme tactically.

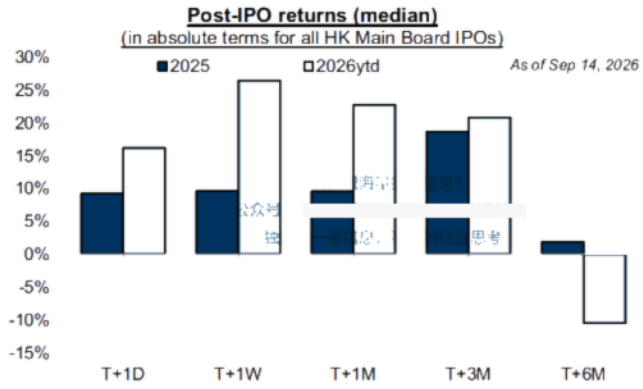
Exhibit 16: The Shareholder Returns theme has outperformed the broader market



Constituents are cap weighted in the portfolio

Source: FactSet, Goldman Sachs Global Investment

Exhibit 17: IPO investors over the past two years could have realized solid returns within three months of listing



Source: Wind, FactSet, Goldman Sachs Global Investment Research