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China Equity Strategy | Asia Pacific

Global MNCs China Sentiment Index (2Q26): Edging Up As China's Cost Competitiveness Persists

Laura Wang
Equity Strategist
Laura.Wang@morganstanley.com +852 2848-6853

Vicky Wu
Equity Strategist
Vicky.Wu@morganstanley.com +852 3963-3928

MNCs' 2Q26 sentiment reading improved marginally to 35 from 33 in 1Q26, as geopolitical uncertainties eased. Thematic sentiment saw a broad-based increase, with cost and labor impact rising the most, while supply chain sentiment decreased.

AlphaWise α

We set out the 2Q26 final reading of the AlphaWise Global MNC China Sentiment Index based on 1,032 qualified data points from 357 global MNCs. US and European MNCs accounted for 68% of the underlying data points.

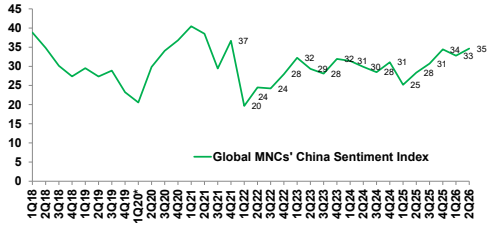
1) MNC sentiment edged up marginally in 2Q26 (Exhibit 1): The latest sentiment edged up to 35, 2pt above the 1Q26 reading. The share of MNCs reporting positive sentiment also moved slightly higher to 63%, up from 62% in 1Q26 (Exhibit 2). By region, Europe, Japan, Global and EM/AxJ all showed signs of improvement with Europe standing out, while the US score declined marginally.

2) Thematic sentiment increased in most themes, with Cost and Labor impact leading the improvement: Among the key themes we track, Cost sentiment saw the sharpest rise (+8pt), followed by Labor impact (+4pt), suggesting some easing in underlying pressures. On the other hand, Supply chain sentiment decreased by 5pt. (Exhibit 3).

3) By sector, six out of 11 showed a QoQ increase in sentiment vs. 1Q26: Real Estate, Materials, Industrials and Financials increased the most this quarter, while Energy and Utilities declined the most in sentiment reading vs. 1Q26 (Exhibit 4).

(*continued in the following section*)

Exhibit 1: AlphaWise Global MNCs' China Sentiment Index – Rebounded marginally in 2Q26



investors should be aware that the firm may have a conflict of

Research as only a single factor in making their investment decision.

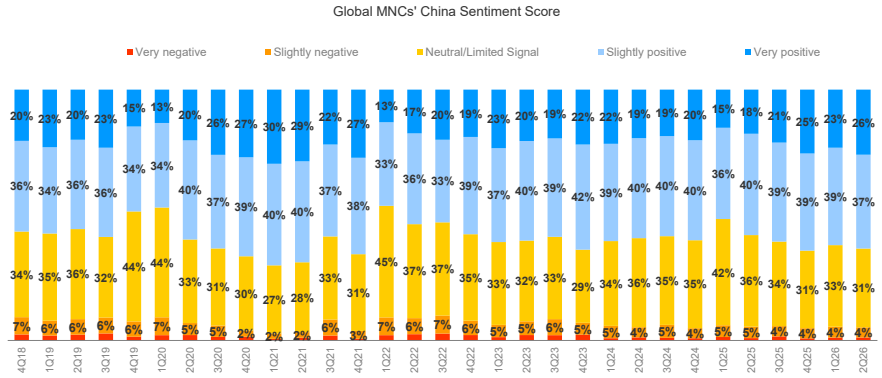
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Key Findings (cont'd)

MNC sentiment edged up as geopolitical disruptions eased and the global AI trade regained momentum in 2Q26: Our latest MNC sentiment tracker showed a marginal improvement in 2Q26, as geopolitical disruptions eased and macro uncertainty receded, while renewed momentum in global AI trade helped refocus corporate attention on AI-related opportunities. **Looking ahead, however, we see a more challenging backdrop for China equities amid softer macro conditions, tighter liquidity and flow dynamics, and renewed regulatory concerns.** Within the market, we maintain **a tactical preference for A shares over offshore equities**, given greater insulation from external liquidity tightening and stronger domestic policy support, while structural opportunities around AI capex and supply-chain localization remain in focus.

Exhibit2: Percentage of MNCs with positive views toward China increased 1pt in 2Q26 vs. 1Q26

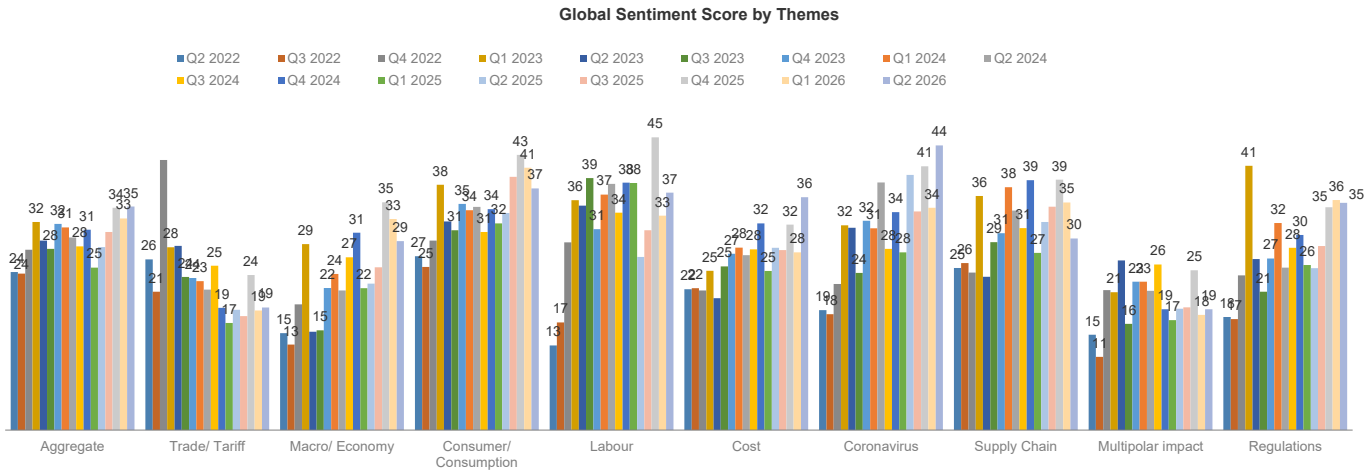


backed by AlphaWise, leveraging AI for aggregated, systematic sentiment. The underlying automated and systematic methodology allows for real-time measurement of Global MNCs' sentiment toward China and on a particular theme.

Key Exhibits

By theme

Exhibit3: Global sentiment scores by long-term fundamental themes



Excerpts from Global MNCs' 2Q26 earnings calls on China

On the "Macro Economy" themes

From a UK Financials company: *The China, or the Chinese economy, continues to be a very high savings economy, which in many ways, given the low interest rate environment, speaks to some of the solutions that we can bring to our customers, but I do want to start by saying that clearly bancassurance has been a key driver of growth for us in in China and it's heartening that we are now seeing significant traction from Citibank, and this is an account of the focus that brought in terms of ensuring that there is a segment of branches that are exclusively dedicated to selling Citi Prudential life insurance policies, and that has made a dramatic difference in terms of Citi's contribution to overall bancassurance sales and overall sales in mainland China compared with some previous years. It's interesting to note our margins on bancassurance are pretty healthy in China, and this again underscores the point that I made earlier that that is underpinned by the focus on quality and how we would like to grow our new business profit in China.*

From a Europe Materials company: *China, of course, is an economic system, a governmental system. They want to grow. And they've also seen now in the last 12, 24 months that in many areas where investments that we made, this is leading to substantial overcapacity, which puts pressure on the Chinese system as well. So not only has China exported pricing pressure to the European market, which was accelerated through the tariff escalation between United States and China, but also the overcapacity has led to price erosion in the market in China itself. And the tougher price reductions are, the lower the income and the cash flow are to make innovation and to reinvest. I think this is something that the Chinese government*

has seen and understood now. So this is now being taken into consideration for a variety of industries. If I look at China in general, I think the approach will be taken to consolidate, but consolidation is not happening over a quarter or two – this will take a multi-year approach.

On the "Consumption" theme

From a South African Industrials company: *Freight was able to turn around a soft top-line result with good margin and expense control, and similarly branded products delivered strong margin management, cost control, and improved inventory management. The automotive division benefited from improved new vehicle volumes, although margins are under pressure following the large influx of lower priced Chinese vehicles, and Adcock had a very strong result off what was a seasonally low base. While the consumer remains under pressure, we are starting to see pockets of improvement. Our cost control was excellent, as evidenced by the improvements in both our gross and net margins. Very pleased with that, and with an almost equal contribution from organic and acquisitive growth. Services SA and international produce excellent results, commercial products and brand products produce good results as trading pressures, particularly on margins persist, freight overcame a soft, revenue line, as disbursement levels, fell with good margin mix and excellent expense control. Automotive was stable, supported by a good insurance result and higher new car volumes, but retail margins are being materially impacted by the influx of cheaper Chinese vehicles. Adcock had a very pleasing result, up 20%, albeit off a slightly lower prior year base. Our effective tax rate at 26.7% is unchanged from last year.*

From a European Consumer Discretionary company: *I know there are different opinions about this, but I think we all agree here that there is no alternative. And it could look like when we do a Superstar campaign, and don't forget, Superstar is not only a shoe, Superstar is also in the apparel world, and it's just an expression of a consumer, then the frame of the campaign will look the same, but how we execute it, where we execute it can actually be then different from market to market, and you see some examples of it here. It is also true that creativity doesn't only happen in Herzo in our headquarters, but it happens all over the world. And I assume if you are on social media, you see it in the Tang jacket – it's a China design that was meant to be for Chinese New Year, and it went viral all over the world, and now we have demand in every market around the globe. And that showcases again the creativity power that we have and that we can exploit when we have the right attitude and the right systems. It is also true that there are local developments and local fashion shows and local relevance that we do only for the market, like you see here, not only in China but of course also in other markets.*

On the "Multipolar impacts" theme

From a UK Industrials company: *The Chinese market and the US market have always been the biggest but also the most lucrative markets for Western OEMs. And essentially, the reason why we've seen a very quick wave of restructuring across all OEMs in Europe and the UK here, but also in the US, it's essentially for two reasons, right? The Western OEMs have basically lost massive market share in China because the Chinese OEMs have an advantage in terms of electric vehicles. So the electric vehicle segment and hybrid segment continued to grow globally, the issue is that the OEMs are losing market share in China. And for the European*

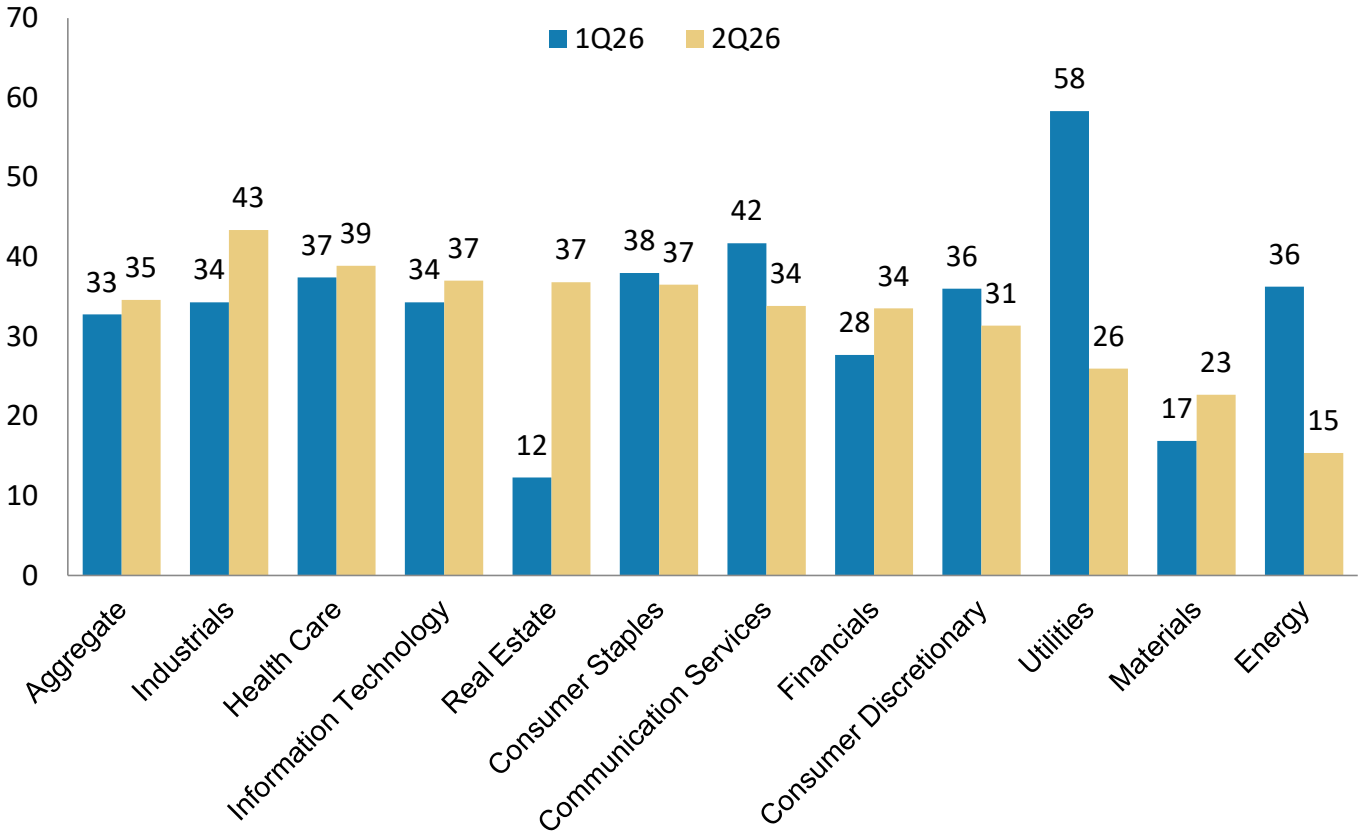
OEMs, the tariffs obviously have increased the cost of doing business in North America, which is the second-most secretive market for all OEMs here in Europe and the UK. So that's why you've seen this massive cost-cutting in terms of irony projects and people and dividends in the short term because these OEMs had to basically deal with short-term cash pressure. When you step back and if you look at where our footprint is for Intertek in terms of transportation technology, we are very strong in the United States. We are strong in China, and we've got, I would say, decent operations in Europe. Looking at the investment moving forward, I don't think that OEMs will stop investing in EV and hybrid for all markets outside of the United States because the demand continues to be very, very robust and all the Western OEMs need to dial up their EV and hybrid capabilities to compete against Chinese OEMs. The US, of course, we have never expected huge growth for electric vehicles. This is a market where the traditional combustion engine will continue to play a big role.

From a European IT company: *I think it was very tough for us to give a very clear projection for China. One factor is changing trade restrictions and also funding releases, which really are very unpredictable from our customers. But we did see that at the end of actually at the end of the year that Chinese customers are becoming much more bullish about their business in 2026, which really was really exciting to us, and that's why we feel that 2026 is going to increase with us, we see visibility with them, and we see strong momentum from that point of view. And, I think absolutely it changed in the last two to three months. You've seen announcements from some of our customers that have significantly increased their outlook, especially a large foundry customer, which I think is where it started. We just explained the improved sentiment in China in combination with the pause of some of the export control measures that were initially put in place but then pull some customers will take advantage of that. But at the same time, sentiment also clearly improved there. You read about the hyperscalers and their investments in data sales and infrastructure, hundreds and hundreds of billions. It's definitely a different situation in the last two, maybe three months than what we thought before, but we always thought 2026 would be a good year, but starting slow and then accelerating more towards the second half of the year. But that acceleration that we expect may occur somewhere in the course of the year – that all starts now.*



By sector

Exhibit 4: MNCs' Sentiment Index by sector – six out of 11 sectors showed a QoQ increase, led by Real Estate and Materials



By region

Exhibit 5: Global MNCs' China Sentiment Index by region – Sentiment scores in Europe increased the most (5pt)

