Special Coverage:

China NPC: Policy pivot benefits innovation and consumption supports market re-rating

Key takeaways

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- China set policy priorities on technological innovation, consumption revival and private sector development at the annual National People's Congress (NPC) on 5-11 March, powering up these new growth engines built on domestic demand to pursue its ambitious GDP growth target of "around 5%" for 2025.
- Boosting consumption is highlighted as the number one priority of government work in 2025. Apart from doubling of fiscal stimulus to RMB300bn to expand the consumer goods trade-in programme, more supportive measures will be rolled out to increase household income.
- We see attractive re-rating opportunities in Chinese equities, led by internet and technology stocks, due to the market's distinctive AI re-rating driver, improving earnings expectations, compelling risk-reward profile underpinned by conservative foreign investor positioning and significant valuation discounts with global and regional peers. Policy tailwinds from the NPC reinforce our bullish view on Chinese equities and Chinese hard currency IG bonds.

What happened?

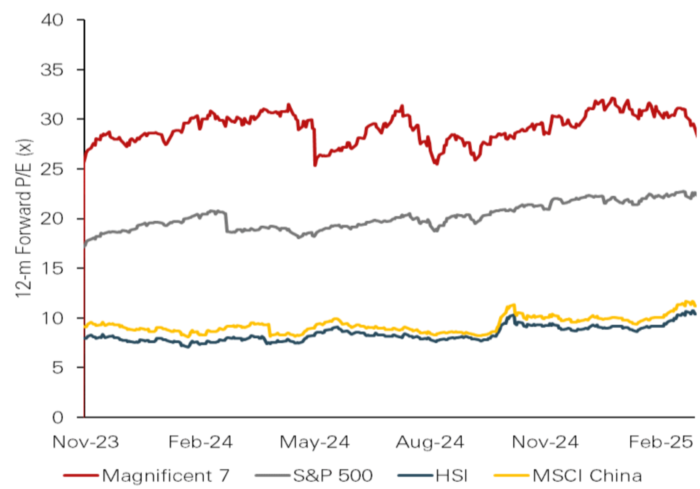
- To counter global headwinds from trade tensions and tariffs, China set policy priorities on technological innovation, consumption revival and private sector development at the annual National People's Congress (NPC) on 5-11 March, underscoring these new growth engines built on domestic demand.
- Chinese Premier Li Qiang's 2025 Government Work Report mapped out the policy pivot towards AI-led technological innovation and domestic consumption, which are expected to offer critical driving forces to pursue the ambitious 2025 GDP growth target of "around 5%".
- The Report set a record high official fiscal target at 4% of GDP and higher special government bond issuance quotas, including special ultra-long dated central government bonds (CGBs) of RMB1.3trn and RMB500bn for big banks' recapitalisation, coupled with special local government bonds (LGBs) of RMB4.4trn.
- Premier Li actively promoted extensive applications of large-scale AI models under the "AI Plus" strategy to combine digital technology with competitive advantages of the manufacturing sector, such as LLM applications in advanced manufacturing, development of connected EVs, AI mobile phones and smart robotics. The plan to launch a new board for issuance of "science and technology bonds" was also revealed to support banks and securities companies to increase their funding capacity for tech-related loans, as well as bond and equity investments.
- Boosting consumption is the number one priority for 2025, up from the number three priority in 2024. To expand the consumer goods trade-in programme, the ultra-long special CGB issuance quota will be doubled to RMB300bn.
- The government also pledged to increase household income by improving the mechanisms for "regular pay increases" for the first time since 2024 and proposed to increase pension payout levels for retired urban-rural households and hand out subsidies to encourage newborns. Subsidies for services consumption, such as support for childcare and gradual implementation of free pre-school education, should also help revive consumer confidence.

- Four pilot programmes to support the private sector and innovation will be introduced, encouraging more equity investment by financial management companies, increasing long-term capital deployment of insurance funds, extension of loan duration and LTV ratio for M&As of technology companies, and supporting development of the intellectual property financial ecosystem.
- Chinese start-up DeepSeek has prompted local governments to take more supportive policy actions to foster technological innovation. For example, Guangdong, Jiangsu and Shandong provincial governments have announced that the DeepSeek LLM model is connected to the government service systems. Shenzhen also announced the plan to launch a RMB10bn industry fund to support development of AI and robotics in the city.

Investment implications

- Beijing's strong pro-growth priorities and policy pivot towards AI-led technological innovation and domestic consumption are supportive of our overweight on Chinese equities. Despite the AI-driven rally that started in late January, we see further upside potential for the re-rating opportunities of Chinese equities.
- Even after the sharp rally over the past month, the HSI and the MSCI China are trading at only 11.0x and 11.9x 12-month forward P/E, respectively, on the back of 5.0% and 9.4% 2025e EPS growth based on Bloomberg consensus estimates. They are also priced at 49% and 45% discounts to the 21.5x forward P/E of the S&P 500 Index, respectively.With compelling valuation discounts and new catalysts from favourable policy priorities and the rapid acceleration of AI adoption and monetisation, China's internet and tech stocks provide global investors with attractive alternative vehicles to diversify from the crowded positions in the Magnificent 7.

Even after the AI-driven rally, MSCI China and HIS are still trading at steep valuation discounts to S&P



Source: Bloomberg, HSBC Global Private Banking and Wealth as of 10 March 2025. Past performance is not a reliable indicator of future performance.

- We favour AI enablers and adopters, including Chinese industry leaders in the internet, ecommerce, software, smartphone, semiconductor, autonomous driving, and humanoid robotics sectors. We also like beneficiaries of stronger corporate spending in AI infrastructure and applications.
- We expect more consumption boosting stimulus and favourable policies for the private sector to support the broadening out of the market re-rating from AI-related plays to the consumption, financials and industrial sectors when corporate earnings momentum turns more positive.
- In China's low-for-longer rate environment, we continue to favour high-dividend quality SOEs and expect the broader A-share market to catch up with the tech rally when economic activity shows a fundamental recovery later this year.
- More proactive policy support for the private sector and technological innovation will likely attract global fund flows into Chinese hard currency bonds and drive credit spread tightening. We continue to favour Chinese investment grade corporate bonds in USD, mostly in tech, financials and SOEs, while we also like Macau gaming credit in the high-yield segment.

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