RBC BlueBay
Asset Management

China – still the Yuan?

Notes from the road

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Richard Farrell
EM Equity Portfolio Manager

James Bateson
Senior Portfolio Engineer

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As one of our more seasoned brokers used to say, "China is a big country". While this statement has stood the test of time, it increasingly captures a profound duality: the scale that has long been a source of structural cost advantage is proving to be more of a contemporary headwind fuelled by over investment and excess supply.

This scale became immediately apparent before even arriving in the far east, as the Hong Kong-Macau-Zhuhai bridge stretches out into the distance on the approach to Hong Kong International airport. On more than one occasion, we hear that "enough steel to build 60 Eiffel Towers" is contained within the world's longest bridge-tunnel sea crossing. It is as good a representation as any of the increasing integration into the Greater Bay Area under the 'One Country, Two Systems' framework. It may also represent China's continued dependence on state-driven investment to drive economic growth, which is the underlying cause for the deflation that has been stubbornly persistent in the last few years.

> "Mirroring the U.S., this strong market performance was primarily driven by the tech sector and internet consumer stocks."

Despite this deflationary background, the stock market had a very strong year in 2025, up 28% in USD terms and over 70% since its low on 22nd January 2024. Mirroring the U.S., this strong market performance was primarily driven by the tech sector and internet consumer stocks. The release of DeepSeek's open-source AI model in January ignited the market in 2025 as investors realised that China is not far behind the U.S. in terms of AI capability and has a significant cost advantage due to lower energy prices.

Shenzhen/Guangzhou

Shenzhen is our first port of call. A first-tier city home to approximately 18 million people, Shenzhen is often referenced as China's answer to Silicon Valley. The technological focus and entrepreneurial energy within the city is evident in several ways but perhaps most notably the scale of electric vehicle ("EV") infrastructure. It came as little surprise to learn that Shenzhen has the highest density of public charging stations per million inhabitants in the world.

We are told on several occasions throughout the trip that the city continues to attract a growing number of Hong Kong residents for evening and weekend leisure purposes, as a place where goods and services can often be found at better than half price discounts.

Our company meetings here span the Guangdong province, covering the cities of Shenzhen, Foshan, and Guangzhou, and the Household Appliances, Renewable Energy and Health Care sectors, among others. The hot topic of robotics quickly emerges as a common theme across multiple meetings.

The entrepreneurial spirit of the province is clear, underpinned by a very pro-business, low tax local government that was the first to implement market-based reforms in the early 1990s after Deng Xiaoping's "Southern Tour" in 1992. Companies here have been quick to respond to central government targets in new industries such as EVs, robotics, and batteries, and many of the China global champions come from the region. The ability to execute quickly has meant that global companies have been able to adapt quickly to tariffs, raising labour costs by rapidly moving production abroad and increasing automation in their plants globally using their own robot technology. The same entrepreneurialism and adaptability that once turned coastal villages into the world's factory floor is today taking this knowhow overseas.

For centuries, China's colourful red lanterns have inspired artists, historians, travelers, and locals.

Beijing

Next up is the Chinese capital, Beijing. The look and feel of the city couldn't be more different to Shenzhen, and with its political and military power clearly on display, it is more reminiscent of Old China. The scale is still huge but dominated by low rise concrete buildings rather than the glass and steel skyscrapers of the south. We meet four companies in the city, spanning industries that include Luxury Goods, Communications Equipment, Real Estate, and IT. Global growth is a common thread among most of the management teams we speak to, underscoring a wider feeling that China's growth ambitions are about restoring the country to previous high levels and reasserting its historical place in the world. The economic prowess of multiple Chinese dynasties over the last 2,500 years has not been forgotten on the mainland, something that we were reminded of at our next destination.

"Companies here have been quick to respond to central government targets in new industries such as EVs, robotics, and batteries."

Robotics was a key theme during our meetings.

In the investment arena this is manifesting itself in the emergence of domestic Chinese heritage brands such as certain luxury jewellery brands. Their rising popularity among the affluent younger generation demonstrates that high-end domestic brands continue to take market share from the multi-nationals. Luxury consumption has been relatively resilient amidst overall low sentiment post Covid.

Indeed, weak consumer sentiment was a consistent theme throughout our trip, with the fall in property values being blamed as the main factor behind this. We met China's leading property listing platform and estate agent to get an update on the market. After 2024's central government stimulus package, property values and transaction volumes seemed to be stabilising into the end of the year, however both values and volumes continued to slide in 2025. Given that most of middle-class wealth is stored in property, we really need the housing market to stabilise in order for consumer sentiment to sustainably improve.

"After 2024's central government stimulus package, property values and transaction volumes seemed to be stabilising into the end of the year, however both values and volumes continued to slide in 2025."

On a more optimistic note, we also met a Chinese tech giant whose products span air conditioners, smart phones, and more recently EVs. We were able to take a test drive in the company's new SUV, which has electrified the market since its launch earlier this year. Starting from the equivalent of USD35,000, the vehicle's quality, performance, and autonomous features are compelling, underlying China's leadership in EVs globally.

Test driving a newly-launched leading SUV.

Xi'an

We board a flight of just over two hours from Beijing to Xi'an – one of China's four great ancient capital cities holding the position under several dynasties, most notably Tang and Qin. The approach to Xi'an airport is a beautiful one over the Qinling Mountains, reminding us that "The mountains are high, and the emperor is far away." The proverb aptly describes the diminishing reach of central authority with distance from Beijing. For disciplined investors in emerging markets ("EM"), state intervention remains a key risk to mitigate and one that we prefer to keep, metaphorically and literally, far away.

The region, which is home to much of the Chinese solar power industry, is no stranger to such government intervention, enjoying supportive policies and plentiful subsidies as far back as the late 1990s. The story today however focuses on AI. No, not Artificial Intelligence, but Anti-Involution. Launched in early 2025, the central government campaign targets excessive internal competition and the resulting issues of overcapacity and price wars. The capacity of the Chinese solar PV sector is bloated, vastly exceeding both domestic and global demand and, as a result, returns for companies in the sector have suffered.

China's many temples are an important part of its Buddhist heritage and culture.

The Terracotta Army was created to accompany the tomb of Qin Shi Huang, the first emperor of China.

The most striking example of this overcapacity continues to be the Real Estate market. Losses on residential property assets continue to decline and the subject is a gloomy one for almost all the locals we speak to.

During our time in the city, we visited another attraction of epic scale: the vast Terracotta Warrior Army of Emperor Qin's dynasty dates back to roughly the year 200BC but was only unearthed by farmers in 1974. Perhaps the investment parallel we can draw here is simple: the greatest discoveries can be made when others have stopped digging. In China today, the field has been largely abandoned (at least by international investors), yet beneath the surface lies selective opportunity.

Hangzhou / Shanghai

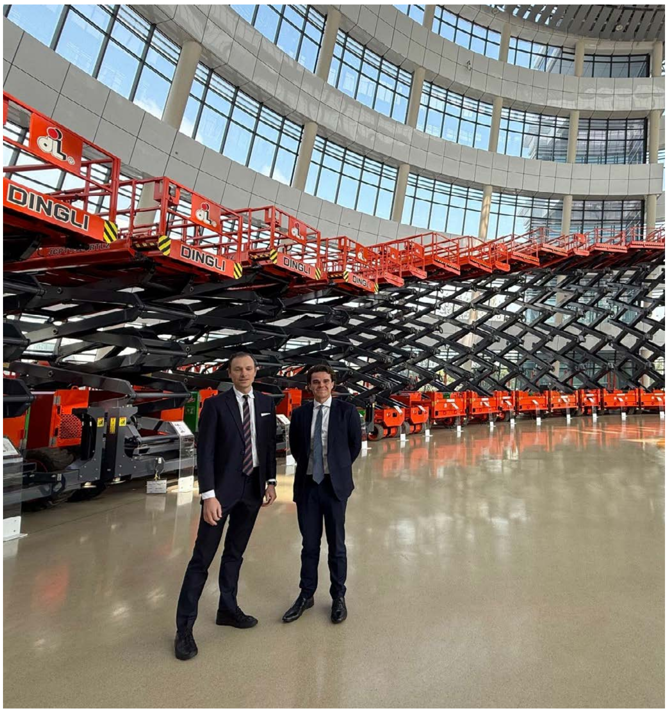
As we touchdown for the penultimate leg of the journey, a cautious reminder as to the extent of the property surplus is laid bare. While vast in number and scale, we cannot help but notice the staggering lack of lights on in the apartment blocks surrounding Hangzhou airport as we land at approximately 7pm local time. It's hard to imagine that early bedtimes are quite this commonplace for such a vibrant city.

A single day in the Yangtze Delta delivered three vivid snapshots of new productive Chinese forces in action, albeit operating in very different remits. A milk-tea empire opening multiple stores each day with pinpoint precision, an aerial-work-platform champion whose backlog stretches as far as some of the machines themselves, and a specialty pharma leader whose innovative approach to oncology is attracting a deep pipeline of its own. Different sectors, same region, same entrepreneurial vigour.

Browsing an article within a national newspaper on the flight down to Hong Kong outlines a bull case for the anti-involution campaign: creating the good fortune of stronger companies out of the misfortune of oversupply. Or as the proverb suggests 'The old man lost his horse; how do you know it's not a blessing?'. The article references how education is a good example of a sector – once devastated by regulatory crackdowns – that has become leaner and started to show signs of accelerating growth and improving returns.

Hong Kong

The final stop of our journey sees us return to Hong Kong and ties off a route map that handily represents the number 8 – the single luckiest number in China. A good omen for the country perhaps? Only time will tell. In Hong Kong though, the mood is considerably more buoyant and one that is well reflected in the IPO pipeline. As of 31st October 2025, the number of active IPO applications surged past 320 – from 240 at the end of August. Although the majority are mainland companies seeking dual listings, there are also unicorn companies.

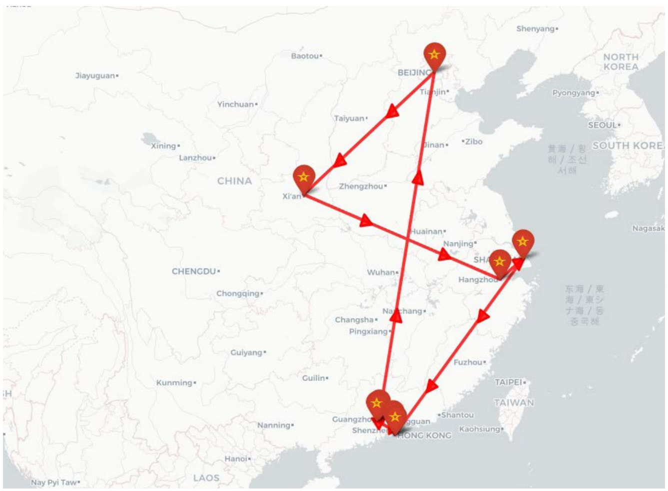


Productivity is high in the Yangtze Delta area.

A common topic of discussion at the conference that we attend is robotics, with companies along this supply chain enjoying stellar market returns over the course of 2025. We speak to one management team who are looking to take advantage of the improved market liquidity as one of the 320+ IPO applicants with a fundamental focus on developing the intelligent mind within robotics. It appears the arrival of robots is more a question of 'when' rather than 'if'.

Disparity with the mainland was most apparent in terms of the residential property market. Apartment prices are reportedly on the rise again and the mood amongst locals is upbeat, but most importantly, previously cautious developers are back to bidding for plots of land.

Despite the buoyant mood, it sounds as though global offshore equity investors are yet to fully return to the market, suggesting that domestic investors have done much of the heavy lifting in this rally.



The number 8 is a symbol of prosperity and fortune in China.

Summary

Upon leaving Hong Kong, we take a moment to reflect on our main conclusions. The dominant themes across the mainland meetings were ones of oversupply, deflation, and weak consumption. While there can be little doubt that subsidies have fuelled overcapacity and excess competition has damaged pricing power for many companies, our meetings have underwritten our positive view on China's technological dominance and long-term development. Companies that have built domestic dominance and are operating in sectors with limited state involvement stand out by focusing on product quality and service. Several areas provided further food for thought, notably Tech, Industrials, and Health Care.

Our approach to investing in the region however warrants a more cautious strategy. We have consistently emphasised the advantages of active management in inefficient asset classes, and EM is a prime example. Our visit to the region has only reinforced this view; in few markets is rigorous, bottom-up active management more essential than in China. While there are widespread questions over the market as a whole, there are ample world class, high-return companies to choose from. For stock pickers like us, China is still the Yuan.

Authors

Richard Farrell

Portfolio Manager

CFA (2012); MSc (Investment Management) (2009), Cass Business School, U.K.; BSc (Business and Finance) (2005) King's College London, U.K.

Richard is a portfolio manager on the RBC Emerging Markets Equity team at RBC GAM-UK and is responsible for research on China. Prior to joining the firm in 2013, he spent three years at U.K. asset manager Aviva Investors, providing fundamental equity analysis in the energy and materials sectors within global emerging markets. Richard began his career in the investment industry in 2005 as an analyst in the mergers and acquisitions team of HSBC.

James Bateson

Senior Portfolio Engineer

MSci (Geography with Quantitative Research Methods) (2017), University of Bristol, U.K.

James is a senior portfolio engineer on the RBC Emerging Markets Equity team at RBC GAM-UK, responsible for enhancing the team's data analysis, portfolio construction and risk management capabilities. He initially joined RBC in 2017, which is when he started his career in the investment industry, for the Graduate Rotational Program. Over the two years of the program, James completed rotations with RBC Wealth Management, BlueBay Fixed Income team, and the RBC Global Equity team before joining his current team in 2019.

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