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APAC Market Thematics - Specialist Sales Commentary
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JPM | CHINA SUMMIT - 3x key themes = (1) AI & Tech, (2) Domestic Economy, (3) Geopolitics & Rates / JPM research team will host key takeaways call 4pm HK on Tues.

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APAC Thematics focuses on key macro views, market debates, and favoured investment themes.

What were the key themes from JPM's Global China Summit? *Following our Summit Preview (link) and Investor Sentiment & Key Discussion Topics (link), 3x key themes stood out to me from the Summit:*

(1) AI & Tech = Remains the core focus for investors. *Agentic AI is expected to drive multi-year growth in China's tech sector. The AI capex supply chain remains the sector with the best high-growth visibility. But elevated valuations in some areas (e.g. SPE) have started to become a headwind for some, leading to a focus on lower priced alternatives (e.g. Hardware or Grid Plays). Beyond AI capex plays, there's a growing focus on companies emerging as leading AI application beneficiaries - across internet platforms, drug discovery platforms, and robotics.*

(2) Domestic Economy = Sentiment improving (but slowly/tentatively). *The recent uplift in Tier 1 city prices (m/m) is leading investors to consider if China's property, after a 4-year down-cycle, is on the verge of stabilizing. Sentiment is improving, but conviction remains low. The property discussion is also triggering some to revisit domestic consumer names. Most consumer-cos remained subdued in their commentary at the Summit, saying the consumer remain value-conscious. But some also hinted things are (slowly) getting a bit better.*

(3) Everything Else = Geopolitics and Interest Rates. *On geopolitics… investors said Xi/Trump underwhelmed, but this was expected given US/China are pursuing self-reliance and self-sufficiency - not deeper integration. On rates... China isn't seeing the upward pressure the ROW is amid subdued growth, high savings & low inflation. As a result, some equity investors are looking for yield proxies including property, also with a view to diversifying somewhat from tech (not because they are bearish tech, but because tech concentration has become so high).*

JPM will host a China Summit takeaways call at 4pm HK / 9am UK on Tues 26 May. *Speakers = Alex Yao (Internet), Billy Feng (Tech), Alan Hon (Power & Renewables), Stephen Tsui (Power Equipment & Utilities), Rebecca Wen (EV & Auto Parts), Katherine Lei (Financials), Karl Chan (Property) and DS Kim (Consumer & Macau) - link to register.*

(1) AI & TECH = Remains the core focus for investors

> AI CAPEX - The biggest driver of equity markets right now... is the rise of Agentic AI (digital assistants that can think, reason, plan, and action), which is driving demand for compute/tokens & fuelling the massive AI capex wave. In China, the AI capex ramp started later vs the US and has been more disciplined ($39bn last year). But it has a strong runway ahead aided by strong policy support, with JPMe AI capex to hit $140bn by 2030. Large-cap SPE leaders (e.g. Naura/AMEC) have been the most consensus way to play this, while in H-shares model players Minimax/Zhipu have seen strong post-IPO performance. But valuations in SPEs/Models are starting to become a hurdle for some... leading to discussions on "alternative plays". On the tech front, Baidu (AI chip/cloud proxy) which is growing cloud revs >50% y/y driven by inference demand, and Inspur (server play with high operating leverage) are getting attention as well-valued AI capex proxies. Industrials supporting the AIDC build-out are also front-and-center. CATL (ESS batteries), Weichai (gas engines & fuel cells) and Wasion (AIDC electrical equipment) are the names which keep coming up in investor discussions, with Weichai a top 10 meeting request at this year's Summit.

***> AI APPLICATION* - Companies embracing AI to drive growth.** The market's overriding focus in recent years was "AI capex" - owning the pick-and-shovel providers of the AI infra buildout. But as AI models and agentic systems develop, investors are searching for "AI application" winners as well - those companies best integrating AI to drive innovation, accelerate revenues, or optimize costs. Nvidia's Jensen Huang referenced research & lab assistants as 2x areas where work patterns shifts will occur (e.g. impacting AI drug discovery), something backed-up by Insilico CEO who said AI now touches the full drug development value-chain including targeting ID, molecule design, & clinical trial prediction. Another area getting more attention is AI enabled digital entertainment. Bilibili for example, said daily content submissions was +19% y/y thanks to AI - helping drive time spent online +19% y/y. Ad revs +30% y/y are driven by the storng content growth and aided by AI driven algo optimization - leading non-GAAP profit >60% y/y.

***> PHYSICAL AI* - Combining China's tech & industrial leadership.** AI applications won't just exist in the digital world, but will be directly embedded in the physical world (e.g. robotics, transport, logistics). Jensen sees "physical AI" as the biggest growth opportunity for AI. China looks well positioned in this regard, given their combination of tech/AI strength and industrial manufacturing leadership. A few user examples from the China Summit = Baidu said robotaxi orders grew by triple-digit (this could be an area for value-unlock post Kunlun IPO), JD is now using AI/robots extensively in warehouses to drive efficiency-gains in sorting and supply chain management, and UB Tech selling >1000 full scale humanoids last year with deployment across logistics and manufacturing. On the component side, Inovance (industrial automation), Sanhua (actuators) and Leader Drive (reducers) are the names which continue to come up frequently in investor discussions.

(2) DOMESTIC ECONOMY = Sentiment improving (but only slowly/tentatively)

***> PROPERTY MARKET* - Lots of focus on whether it's bottoming.** The recent uplift in Tier-1 city prices over the past 2-3 months has led many to ask if China's property market is stabilizing. Many are hopeful, but few have conviction - as inventories remain elevated. Two positive nuggets from developer COLI which caught my eye (1) Secondary listings are falling despite the recent price bounce, suggesting existing homeowners behaviourally are no longer rushing to sell, (2) Sales have increased faster than footfall, suggesting buyers are becoming more decisive and less speculative. Both healthy signs. An expert speaker noted "pricing not volumes" is now the most important factor, since transaction volumes will only rise after pricing stabilizes. And even if the ASP baseline is "stabilisation" not "recovery", after a 4-year period when prices fell 30-40%... that's a meaningful delta. CR Land remains the name most fundamentally favour, but COLI and agency Beike are also back on the radar.

***> CONSUMER* - Company feedback still lackluster.** The fortunes of the Chinese consumers ultimately depend on the real estate market (given property is still 40-50% of HH wealth and income growth remains modest). For now, there are few signs of outright optimism. On the corporate side, high-quality discretionary proxies Anta (sportswear) and CRB (beer) continued to reference the "value conscious" and "discount seeking" consumers. As a result, their strategy remains "premiumization" to try and segment the market. Nongfu Spring (beverages) was one of the more upbeat companies as they continue to grow double-digit thanks to healthier (e.g. sugar-free) and functional drinks (e.g. electrolyes). More broadly, company feedback was that things are (slowly) getting better, not worse… & industry leaders are finding ways to leverage scale and multi-brand strategies to drive EPS growth. Investors are interested (Anta & PopMart were both top 10 requests), but yet to be convinced to turn bullish despite cheap valuations - wantingto see more evidence of an uplift in growth first.

(3) EVERYTHING ELSE = Geopolitics, Rates & Diversification

***> GEOPOLITICS* - Strategic stabilization, but little to get excited about.** Despite efforts by both the US/China to talk-up the progress of the recent Xi/Trump Summit, in reality… most investors were underwhelmed. "It was ok" was common feedback. Not that anyone was expecting much more - given the 2x countries are seeking self-reliance and self-resilience, not deeper integration. What investors were trying to figure out was what is the "norm new" - which seems to be (i) Invest and trade where needed - areas of dependency, (ii) Have respectful dialog on areas of strategic difference, e.g. trade or Japan/Taiwan, (iii) Work collaboratively on the areas of mutual gain, e.g. climate change, & (iv) Avoid mutally negative outcomes, by focusing on self-gain not competitor-harm. The days of surprisingly large US/China trade deals or proactive G2 x-border investments are likely behind us. Looking forward, many noted that stabilising the downside in the strategic relationship is key, but ultimately this is something of an "understable equilibrium" that needs constant work/attention. Afterall, when was the last time you recall a stable 2x superpower world?

***> INTEREST RATES* - Area of Chinese differentiation.** While much of the RoW is grappling with high inflation and bond market vigalanties… China's bond market remains blissfully calm. Higher inflation in China would actually be welcome (to remove the deflationary funk) & excessive household savings (given the ongoing private sector deleveraging) means there are plenty of bond buyers out there. So rates in China are likely to stay disconnected from the ROW - much as they did in Japan through the 2000s. For EQ investors, this is triggering a debate on whether it's time to revisit property developers (especially those with large investment properties that should be valued using cap-rates), and high-dividend plays (the bid for yield amid low/falling onshore rates). One question which continues to get asked to economists is "why doesn't the PBOC cut rates more" - given the RMB is strong, the capital account semi closed, & domestic demand lackluster. The common reply is bank NIM stability. But given the big banks are arms of the state and doing just fine (see share prices) - that doesn't feel like a particularly compelling reason to not try and end deflation. In my view, more rate cuts = likely.

… For more "early takeways" from JPM's China Summit...

- **Join key takeaways call with HKCN research** at 4pm HK / 9am UK on Tues 26 May (register here)
- **Joann Kim** (APAC industrial/auto spec sales) key takeaways & investor discussions (link/link),
- **Anmol Mehta** (APAC commodity spec sales) key takeaways & investor dicussions (link/link).
- **Alex Yao** (internet) highlights early evidence of AI application workflow monetization (link)
- **Yang Huang** (healthcare) highlights AI supported drug-discovery growth opportunities (link/link)
- **Karen Li** (industrials) highlights growth for automation companies from AI capex (link/link)
- **Stephen Tsui** (power equipment) highlights strong DC demand growth driving equipment orders (link)
- **Katherine Lei** (banks) highlights weak loan growth, but recovering NIMs & stable fee income (link)
- **MW Kim** (insurance) highlights ongoing confidence on core life insurance earnings growth (link/link)

Best, Matt

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