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China in your hand

Has China become too cheap to ignore?

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September ushered in two lambs to the slaughter, sorry, state leaders, to run the gauntlet of a Trump visit. Andy Burnham endured a long 40 minutes looking like he'd been called into the headmaster's office (for the crime of giving away the Chagos Islands rather than vaping behind the bike sheds, though Andy does like to portray himself as a bit of a rebel you understand).

By contrast, Chinese President Xi received the full three-day red-carpet treatment and, to cap it all off, a giant bald eagle to find "a nice place, a wonderful place, in Beijing". I suspect Donald was hoping for a jumbo jet in return rather than the furry delights of Ping Ping and Fu Shuang, but his loss was at least Atlanta Zoo's gain.

Still, it's not all doom and gloom for our Andy. Against all the odds, the FTSE 100's 80%-plus return has more or less kept pace with the mighty S&P 500 over the last five years. China, meanwhile, has been consigned to the naughty step, with the MSCI China returning just 20%, despite boasting household giants such as Tencent, Alibaba and PDD (better known to online shoppers as Temu).

But market leaders can be fickle friends, and today's pariahs can become tomorrow's darlings. Aside from the omnipresent strains of *Frozen* pumping out of Hamleys into the Kepler office, one of the best things about my job is picking fund managers' brains about what's been catching their eye. Last week's guests were Josh Golomb of [Biotech Growth \(BIOG\)](#) and Omar Negyal of [JPMorgan Emerging Markets Dividend Income \(JEMI\)](#) and, despite very different remits, both are finding opportunities in Chinese equities.

First, a quick recap on China's fall from grace. As the pandemic turbocharged the shift towards digital infrastructure and e-commerce, the Chinese tech behemoths propelled stock markets to record highs, with Tencent briefly flirting with a \$1 trillion valuation. Then came the perfect storm: a regulatory crackdown on technology firms, a

property crisis, brutal zero-Covid lockdowns and fractious relations with the US. Within two years, the gains had evaporated and investors retreated to friendlier climes.

But writing off the world's second-largest economy as uninvestable does seem a little premature. The crackdown on technology companies has eased, with policymakers shifting their focus towards a pro-growth and innovation mandate. China's stereotype as the world's factory floor is also looking distinctly dated: it now tops the global patent league tables and produced more than four times the number of STEM graduates as the US last year, creating a vast pool of technical talent.

And on that topic, DeepSeek's arrival brought a timely reminder that technological leadership isn't always confined to Silicon Valley. It may be the Aldi to Claude's Harrods, but lower-cost, open-source models can be remarkably disruptive, with the Chinese start-up's debut wiping more than \$1 trillion off US equities.

Nor is China's prowess confined to software. It's number one in solar energy, installing more capacity in 2024 alone than the US has installed in its entire history. It also leads the world in electric car manufacturing, accounting for more than two-thirds of global production. Indeed, the Jaecoo 7 dupe reportedly outsold Range Rovers by four-to-one in the UK last year and I'll wager they'll be spending a lot less time in the garage, too. The list goes on and on.

There have been plenty of speed bumps along the way, from US tariffs to restrictions on NVIDIA's most advanced chip exports, but China has shown surprising resilience. Given the geopolitical backdrop, it's little surprise that the latest Five-Year Plan makes technological self-reliance a strategic priority, from artificial intelligence and quantum computing to robotics and semiconductors.

Three takes on China

In fairness, the bears don't lack ammunition. The property market remains moribund, the population is shrinking and tensions with the US are a constant. Arguably, though, China doesn't need to solve every single problem to drive equity returns, and undemanding valuations are attracting the attention of active managers once again.

Of course, plenty of things are cheap for good reason, but the biotech sector also serves up the powerful demographic tailwind of an older, richer and (unfortunately) sicker population. Over the last decade, China has evolved from a manufacturing hub into an innovation powerhouse and is rapidly closing in on the US by share of global clinical trials. Faster and cheaper trials are a big draw for western peers, with Chinese biotech firms landing \$115 billion of licensing deals last year as big pharma look to plug looming patent cliffs.

BIOG invests in growth-stage biotech companies with first-mover advantages across the public and unlisted universe. The trust has a near-4% allocation to China, supported by OrbiMed's on-the-ground resources in Shanghai and Hong Kong. Its tilt to smaller companies weighed on returns as the biotech recovery hit the buffers, but the trust has bounced back strongly with a 60% return in the last year.

Changing tack again, think of traditional income markets and China probably isn't top of the list (or even on it), but JEMI has increased its China allocation to almost a quarter of the portfolio. Manager Omar Negyal sees potential in improving capital allocation, with the economic slowdown forcing companies to think about striking a better balance between dividends and reinvestment. Its income mandate also sets JEMI apart from typical growth-focused emerging market strategies, with its focus on high-quality, dividend-paying companies helping to provide downside protection in falling markets.

On the pure-play front, a final mention for [Baillie Gifford China Growth Trust \(BGG\)](#), which offers a high-conviction portfolio anchored around domestically-focused growth companies, aligning with China's push for self-sufficiency in semiconductors, healthcare and the energy transition. It also offers exposure to some of China's leading lights in the unlisted sector, such as TikTok developer ByteDance and Rednote (China's answer to Instagram).

China isn't without its challenges, but corporate reform, innovation and undemanding valuations could yet prove a powerful driver of returns for patient, long-term investors. And on a final, unrelated note, we're not fussed about the bald eagle but please could you send us a giant panda too?

Index returns in local currency (as at 29/09/2026), portfolio allocations sourced from factsheets as at 31/08/2026.

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