

## China: Recovering Under the Radar?

I've just returned from a trip to China and wanted to share some observations. I believe the recovery is real in parts, as reflected in the recent sector specific stock market performance, but it remains far from complete.

Overall sentiment remains cautious, shaped by the lingering impact of a multi-year property crisis, stringent COVID lockdowns, and a regulatory crackdown on private enterprise. These compounded pressures have weighed on consumer confidence and driven youth unemployment higher. Government stimulus has helped stabilise parts of the economy, but its impact on market performance and consumer sentiment remains uneven.

There are, however, encouraging signs of resilience and innovation. In February 2025, China's tech sector experienced a sharp rally, led by the emergence of companies like DeepSeek positioned at the forefront of AI and deep learning. Innovation remains a bright spot in an otherwise subdued environment. Select consumer-related stocks, including our portfolio holdings such as Gambol, Eastroc, and Xiaomi, have also delivered strong fundamental growth and impressive stock returns. This indicates that despite macro headwinds, companies aligned with evolving consumer demand and digital trends are still able to perform well.

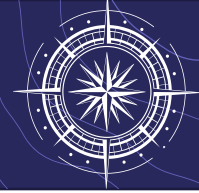


### Glimpses of Change at the Canton Fair

At the 137th Canton Fair, the country's tech ambitions were front and centre. High-tech products dominated the exhibition halls, highlighting China's push to climb up the manufacturing value chain. A standout theme was the emergence of humanoid and service robots, designed to enhance factory safety and efficiency. Private companies like Unitree are gaining momentum in this space.

Compared to last year's spring fair, total overseas attendance grew 17%. The share of US visitors was noticeably lighter, largely due to renewed concerns around US tariffs. However, there was strong participation from Belt and Road Initiative countries, suggesting China's diversification efforts are gaining traction. The US, though it remains a critical market, now accounts for only around 15% of China's total exports, down from 20% in 2017.

The pressure on SMEs that rely solely on US clients has been particularly acute. A friend who runs a household appliance OEM factory described how he had to halt production after the initial tariff threat. This led to job losses. When a temporary truce was announced, he struggled to restart operations and lost business to competitors who had continued production. This highlights the challenges of operating in a volatile policy environment.



### **A Mixed Employment and Business Landscape**

Supported by China's tech ambitions, sectors driven by AI and automation are creating new roles for graduates with the right capabilities, fuelling rising demand for skilled tech workers. Outside of the tech space, however, the employment market remains weak. Many younger friends spoke of difficulties securing even part-time or retail work.

Despite the challenging operating environment, some contacts reported steady growth, particularly in niche sectors. For example, the artificial flower industry, benefiting from shifting consumer preferences and the adoption of technologies like 3D printing and laser cutting, has seen quality improvements and steady expansion.

Offline retail sales growth remains tepid, yet anecdotal evidence suggests that people are still spending, albeit even more selectively. Public spaces were lively on weekends. Restaurant traffic has been recovering, especially at venues that offer good value or have gained social media traction. Game arcades and collectible toy stores like Pop Mart were thriving, reflecting a shift towards experience and more emotional-driven consumption.

### **Local Finances and the Push for Discipline**

Despite visible signs of recovery, local governments remain under pressure. In some regions, civil servants are not receiving full salaries. However, pensions remain prioritised, an indicator of Beijing's focus on maintaining social stability.

Meanwhile, the anti-corruption campaign has gained renewed momentum. The recovery of misappropriated public funds continues to be a central government priority, in line with the broader effort to strengthen fiscal discipline and address inefficiencies within the public sector.

### **Final Thoughts**

Structural issues in real estate, low employment rate, and consumer sentiment continue to weigh significantly on the broader economy. But, on the ground, transformation is underway. Innovation-led growth, consumer behavioural shifts, and external diversification are starting to reshape the landscape.

In this complex environment only a fundamentally driven, bottom-up active manager with deep experience in the region is best placed to uncover the companies and sectors leading the next leg of China's development.

Chinese companies currently account for 30% of our portfolio with the average PE being 19x and EPS CAGR being 30% in the next two years. These companies are high-quality, growth-oriented businesses with strong earnings visibility, robust balance sheets, and dominant market positions.



## Biography

### Camellia Huang | Investment Analyst



Camellia joined Aubrey in 2020 as an Investment Analyst after gaining a range of experience in previous roles.

Camellia started her career in investment management at Seven Investment Management in London and Qianhai Equity Exchange in Shenzhen. She then worked at Aberdeen Standard Investments where she was an Investment Analyst in Private Markets across their Corporate Finance, Diversified Assets, Infrastructure Equity and Private Equity teams.

Camellia has gained a Master's degree in Accounting and Finance from the University of Edinburgh. She has lived and studied in both China and Australia and is fluent in Cantonese, Mandarin and Hakka. She has also completed Level 1 of the CFA course and has achieved the CFA ESG certificate.

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