FUND LAUNCHED	FUNDS UNDER MANAGEMENT	NET ASSET VALUE PER SHARE
2005	**£521.1** MILLION	**470.6%** SINCE INCEPTION*

UTILICO
Emerging Markets Trust plc

China: A Mixed Bag - On-the-Ground Investor Insights

August 2025

Despite multiple headwinds, China's GDP grew by a solid 5.3%[1] in 1H25, beating the government's 5.0% target. This was driven by front-loaded government bond issuances, fiscal measures such as the RMB 300 billion consumption subsidy[2], and accelerated exports ahead of US tariffs[3]. Six months into the Trump administration, with investors awaiting the outcome of the recent China-US talks in Stockholm – held alongside the July Politburo meeting - our recent trips to China provide valuable insights into the on-the-ground economic conditions amidst renewed trade tensions.

Trade and tariffs: Shifting power dynamics
In 2024 the US' trade deficit with China stood at US$295 billion[4], making China by far the largest contributor, while direct exports to the US accounted for only 2.3% of China's GDP[5]. President Trump, aims to address this deficit, hence the 34% reciprocal tariff[6] on China announced on "Liberation Day", lifting the total tariff to 54% following the 20% imposed in January over the "fentanyl issue"[7]. China retaliated, making bilateral trading virtually impossible as the US threatened a sweeping 145%[8] tariff. Tensions eased on 12 May in Geneva, when the US rolled back the rate to 30%[9] after just two days of talks with Chinese leaders. Later in June, the US further agreed to ease chip export restrictions and to reinstate Chinese students' visas[10].

Why the change of path? China's near-monopoly position in refined rare earths, supplying 92% of global demand[11] is something the US cannot do without. At the time of writing, revised tariffs on other Asian countries have been lifted from 0% to 15%-25%. If the China-US truce extends another 90 days as expected, China's competitiveness will improve as the tariff gap narrows against regional peers. Despite lingering concerns about front-loading growth, companies remain focused on securing near-term certainty.

Further, China has doubled down on building a more self-sufficient economy since Trump's first term, with its firm negotiating stance helping secure favourable terms while undermining US credibility. During our recent talks with Chinese companies at a conference in Shanghai, it was made evident that Beijing is rebalancing diplomatic ties under 'Trump 2.0'. Some state-owned enterprises noted that they are being urged to 'carefully manage relations with Europe' despite surface-level tensions, while others see overseas expansion as a priority in the 15th Five-Year Plan ("FYP") to recalibrate diplomacy and hedge geopolitical risks in a multipolar world.

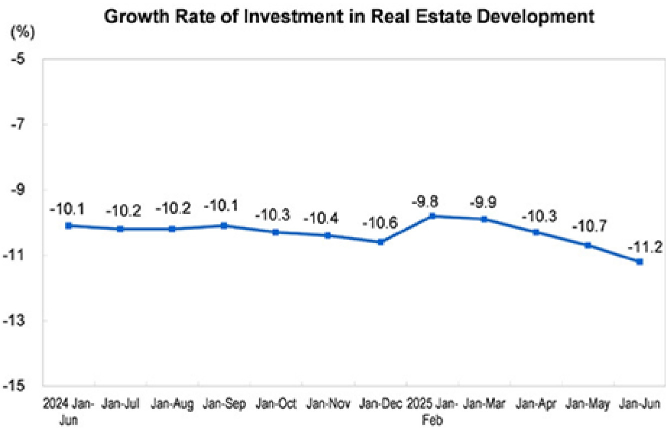
July Politburo: Expectations for policy stimulus cool

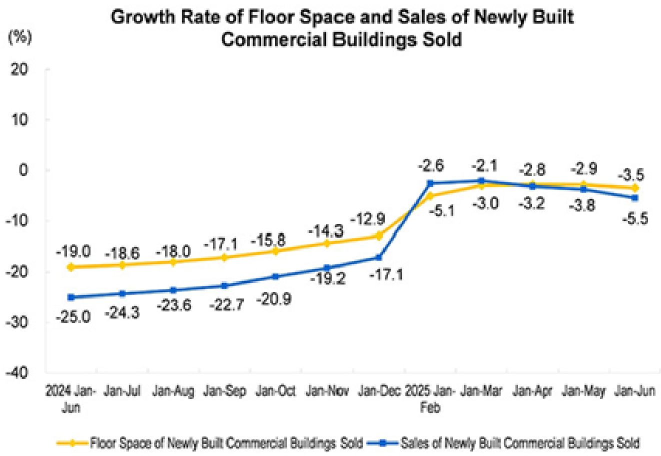
The recently held July Politburo meeting maintained a cautious stance, delivering no major stimulus[12], as seen that the Chinese government is possibly preserving leverage against the US in future trade negotiations. Monetary policy remains "moderately loose"[13] with markets expecting a further 10bps interest rate cut and 50bps reserve requirement ratio cut[14] before year-end. However, policy impact is constrained, as trade tensions are weighing on the currency and the current weak loan demand is hindering effectiveness[15]. Fiscal policy focus remains on accelerating bond issuances and boosting domestic demand, without interim budget revisions[13]. The meeting confirmed the 4th Plenary Session in October which is expected to review the economy and outline high-level objectives for the 15th FYP[13]. Therefore, we do not rule out additional fiscal support later in the year, potentially via bond quota revision.

Domestic property slump eases, but bottom still elusive

Residential property prices in core cities continued to outperform lower-tier markets. In June, new home prices in tier-1 cities fell 1.4%[16] year-on-year ("YoY") versus 3.0% and 4.6% in tier-2 and tier-3 cities[16], while second-hand prices followed a similar trend, down 3.0%, 5.8%, and 6.7%[16]. Despite persistent declines, the pace of contraction moderated across all tiers by 0.3 percentage points ("ppts"), 0.5 ppts, and 0.3 ppts, respectively[16].

However, with monthly property investment contracting ~10% YoY for over three years[17] and no major stimulus from the July Politburo, the sector is likely to stay in correction mode through 2025, and it remains too early to call a bottom.





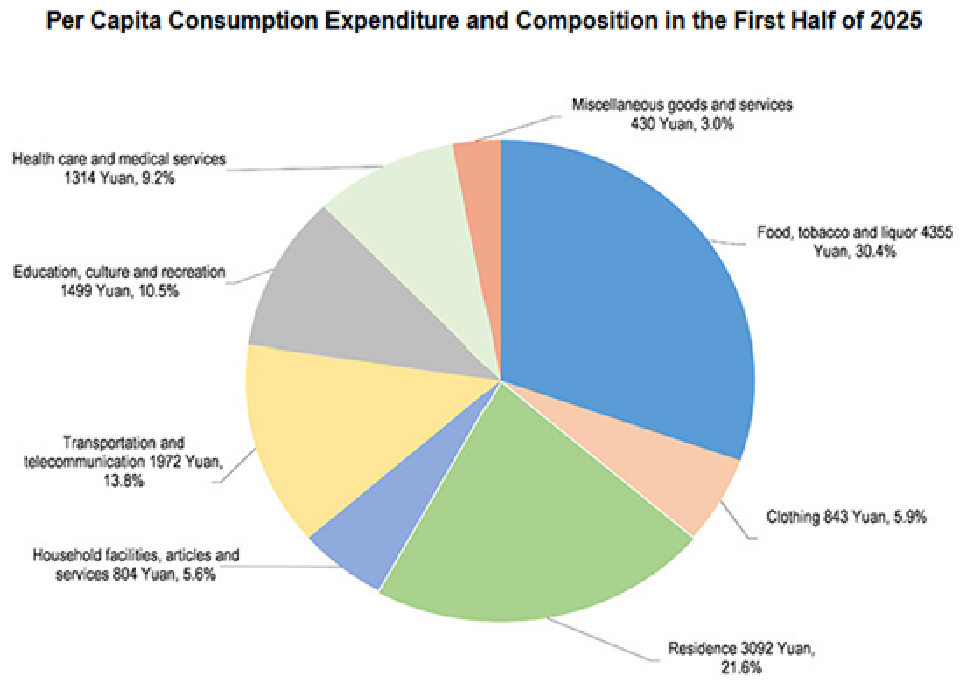
Source: National Bureau of Statistics, China

Relaxed chip bans sustain AI-driven optimism

Compared to a year ago, on-the-ground sentiment has visibly improved, bolstered by China's AI narrative and an influx of growth-oriented investors. Several data centre operators we spoke with during the trip highlighted a surge in new orders from Chinese hyperscalers, entirely driven by AI-related demand following the launch of DeepSeek LLM in December 2024. Although activity has slowed amid chip shortages, sentiment has rebounded after the US eased export curbs, enabling suppliers like NVIDIA to resume H20 chip shipments to China[18]. Companies remain upbeat on AI's long-term potential.

One major step to unleash consumption potential

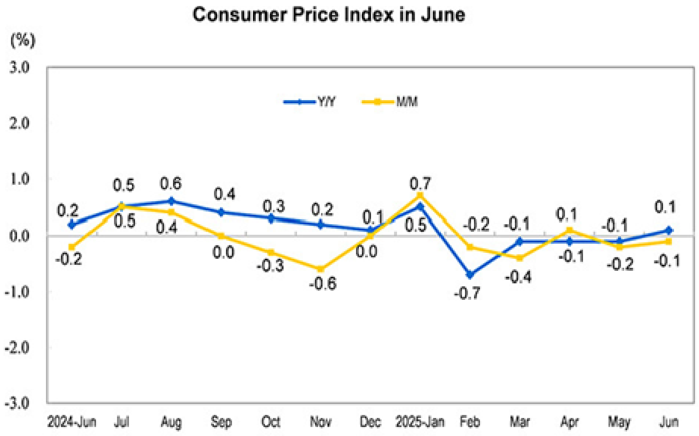
The RMB 300 billion consumption subsidy announced at the March National People's Congress[19] appears to be running low (has now been spent), based on our recent visit to a Huawei store in Chongqing, where staff noted not having vouchers for a while. Still, consumption remains a policy priority with the July Politburo signalling a shift toward service-related spending – currently below 20% of total household consumption[20] - and potentially introducing new forms of support[21]. Recently confirmed measures include the long-awaited childcare subsidy of RMB3,600 per child per year up to age three[22] and free education for the final year of public kindergarten[23]. We see this nationwide, demand-side cash stimulus as a significant step toward a consumption-led economy by strengthening the social safety net, which is crucial for unlocking household savings over the long term. However, China still has a long way to go.

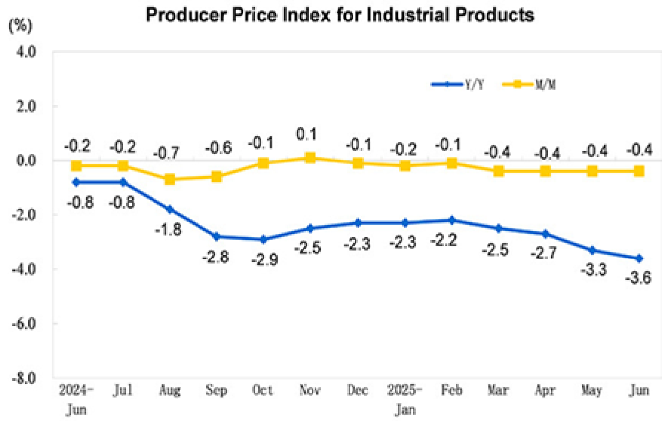


Source: National Bureau of Statistics, China

But it remains to be seen how China can reflate the economy…

At present, weak consumer price growth remains a key concern, with 1H25 data showing CPI at -0.1% YoY and PPI at -2.8%[24], indicating deflation. Many companies we met cited pricing pressure, leading some to relocate production sites from Eastern to Western China, while others are expanding overseas to capture higher margins in regions still years behind China on structural growth. The newly launched "Anti-involution Campaign"[25] aims to combat overcapacity and address deflation concerns in key industries, but its effectiveness in reflating the economy remains to be seen.





Source: National Bureau of Statistics, China

In this environment, quality matters more than ever. One of the key observations from our trip was that investors are increasingly seeking high-quality, value-driven companies offering attractive dividends. This shift comes against the backdrop that the Chinese 10-year bond yield has softened to 1.70%[26] and with a further 10bps interest rate cut anticipated before year-end, the downward trend in yields is likely to continue. This trend has directly benefited UEM, as our portfolio remains well-positioned with defensive quality assets in utilities and infrastructure, which are better positioned to withstand heightened market volatility in the current investment world.

Gillian Zhao
13 August, 2025

Source Data: ICM Limited.

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