Special Coverage:

China forges its economic agenda at NPC while uncertainty continues over the Middle East

Key takeaways

- The National People's Congress has laid out a pragmatic and supportive economic agenda for 2026, anchored by a GDP growth target of 4.5%-5.0% and sustained policy accommodation. The strategic focus is on boosting domestic demand through consumption subsidies, service sector support, structural fiscal reforms and doubling down on technology.
- The escalating Middle East conflict introduces a tangible external risk, primarily through potential disruption to energy and petrochemical supply chains. As the region is a critical supplier of industrial feedstocks, a prolonged conflict would cascade through downstream industries and accelerate sectoral consolidation. However, the inflationary pass-through to consumers is expected to remain muted.
- We remain overweight on Chinese equities, focusing on innovation champions and high-quality dividend stocks through our barbell approach. This allows investors to participate in China's structural growth stories while anchoring portfolios with durable income. The offshore Chinese equity market is more sensitive to global factors, including geopolitical uncertainties. Valuations have become more attractive after the recent weakness.

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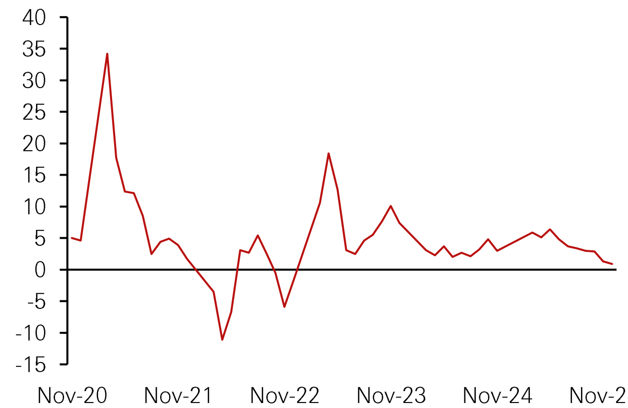
What happened?

- Starting 5 March, delegates gathered in Beijing for the annual National People's Congress (NPC) to chart policy priorities against transitory headwinds to growth. The proceedings also unfold against a global backdrop that has grown markedly more turbulent.
- In the Premier's Government Work Report, the headline GDP target was set at 4.5%-5.0% for 2026, a pragmatic easing from last year's "around 5%" target. It's underwritten by a strong commitment to sustained policy support.
- The fiscal stance remains proactively expansive, with a stable official deficit of 4% GDP and a significant increase in quota for targeted financing tools from RMB500bn last year to RMB800bn in 2026. This signals an intent to channel funds directly into strategic investments and to catalyse private sector participation in infrastructure and equipment upgrades. While growth is moderating, investment in high-tech and renewables industries remains a clear policy focus.
- On the monetary front, the "moderately loose" designation remains in place, with further reductions in reserve requirement ratios and policy rates anticipated, ensuring ample liquidity to cushion any growth deceleration. We expect 0.5% of RRR cuts and 0.2% of interest rate cuts this year.
- The strategic focus for 2026 is a concerted push to invigorate domestic demand. While the consumer goods trade-in subsidy programme was reduced to RMB250bn from RMB300bn last year, fiscal reforms to move some taxes closer towards consumption as opposed to production will be implemented.
- The policy tone towards the property sector has shifted from short-term stablisation to a longer-term focus on balancing supply and demand, with an emphasis on quality development and social housing, foregoing expectations of a sharp, centrally engineered rebound.

- The Chinese government stands firm on doubling down on innovation and technology as the cornerstone of its high-quality growth strategy, strengthening R&D and making breakthroughs in core technologies and in frontier fields such as AI, cloud computing, quantum computing, biomanufacturing, future energy, semiconductor development, embodied AI, brain-computer interfaces, and 6G.
- The growth target and deficit guidance don't appear to have made accommodation for the conflict in the Middle East. The downside risk from this exogenous shock remains relatively measured if the war doesn't extend beyond a couple of months, in our view. China's strategic oil reserve, estimated at over one billion barrels, account for three to four months of import volume.
- If the conflict lingers, the potential exposure could be rather profound, even though China's direct import dependence on Iranian oil is limited. We estimate that Iran accounted for around 12% of China's seaborne oil imports in 2025.

Support is needed for retail sales (yoy growth in %)



Source: China's National Bureau of Statistics, HSBC Private Bank and Premier Wealth as at 6 March 2026.

- However, a significant proportion of the nation's energy imports – almost half of its seaborne oil and a quarter of its liquefied natural gas – must transit the Strait of Hormuz. A closure or sustained disruption would directly threaten a substantial portion of China's energy supply. This vulnerability extends beyond crude. The region is a dominant supplier of essential petrochemical feedstocks, accounting for the majority of China's imported methanol and sulfur, and over a third of its polyethylene. These materials are the building blocks for industries, ranging from plastics and textiles to agriculture and construction.
- However, the pass-through to consumer price inflation is expected to be muted. China's economy is presently characterised by deflationary pressures, weak domestic demand, and administered pricing on retail energy, which together create a formidable barrier to broad-based consumer price increases. The primary inflationary impact would be within the producer price index, squeezing corporate margins.
- Even if the Strait of Hormuz is reopened, oil prices could take longer time to return to the USD60-65 levels seen at the beginning of the year.

Investment implications

- We continue to advocate a barbell approach, balancing particpation in China's structural growth engines with the stability of durable income generators.
- Internationally, we're observing a discenible shift in market leadership, with capital rotating from pure AI momentum plays towards earnings-driven stories and HALO assets (high-quality, liquid, and defensively positioned names with visible cash flows).
- China hasn't been immune to this repricing. Technology-linked names have felt the ripple effects of this global recalibration. However, the drive for domestic substitution in AI hardware remains a multi-year imperative, insulated from near-term growth fluctuations by the strategic urgency of semiconductor self-sufficiency. The rise of AI will also translate into greater demand for energy supply chains and high-end manufacturing.
- In an environment where the external shock introduces volatility and the domestic recovery remains uneven, the compounding effect of sustainable dividends offers a degree of portfolio resilience. These companies are often found in state-linked enterprises with disciplined capital management and stand to benefit from the ongoing "anti-involution" campaign.
- In the offshore Chinese equity market, we believe the recent underperformance of China's internet names has been overdone. We see selective opportunities in platforms with robust cash generation and clear pathways to integrating AI into their core offerings. Valuations reflect considerable pessimism.
- The offshore Chinese equity market is more sensitive to global factors, including geopolitical uncertainties. Yet we think the market remains attractive given its enlarged valuation discount to the US market and stronger earnings growth than last year. The IPO market should remain active, with new listings braodening investment choices, esepcially in the innovative sectors.

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