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Cautious Optimism: China's Recovery and the Aussie Equity Edge

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I learnt early on in my career as an active fund manager; your edge isn't just in the data—it's in the details you can only find on the ground.

I recently returned from China, it's my fourth research trip in five years and by far the most constructive yet.

I met with corporates, industry experts, and government officials in Hong Kong, Beijing and Shanghai.

Encouragingly, there are signs that both the Chinese economy and consumer sentiment are improving.

Over the past five years, China has been transitioning away from traditional growth drivers like property and infrastructure, and toward high-growth sectors such as **electric vehicles, advanced electronics, renewable energy, artificial intelligence, and healthcare**.

As a sign of this shift, **renewable energy now makes up 38% of China's electricity generation**—up from 24% in 2015.

Stimulus Green Shoots

In September 2024, the Chinese government finally took decisive action to stimulate the economy, introducing both fiscal and monetary easing.

The twin goals: stabilise the struggling property market and revive the underperforming stock market.

So far, early signs are promising. The Shanghai Composite is up 21% from September 2024 to April 2025, and property prices in Tier 1 cities have begun to stabilise, with some showing modest gains.

Anecdotally, there appears to be stronger government support for growth—high-profile meetings with business leaders like Jack Ma, a friendlier tone toward private enterprise, and the public unveiling of cutting-edge technology.

Technology and consumption are the clear beneficiaries of this early recovery, though we expect it to broaden in time.

That said, risks remain.

Trump's Tariff Era

Trade tensions between the U.S. and China could dampen momentum, as about 15% of China's exports go to the U.S.

Without further stimulus, unresolved tariffs could shave 1–2% off China's 2025 GDP target of 5%.

However, China still has room to move, including raising its fiscal deficit (currently at 4%), lowering interest rates (currently at 3%), boosting infrastructure investment, and expanding bank lending.

Australia Outlook

While we're encouraged by China's early recovery, the implications for Australia—particularly the resources sector—are mixed. The property market may be stabilising, but developers remain reluctant to launch new projects due to oversupply and inventory build-up.

Add to that a declining population, and it's hard to see a near-term rebound in Chinese demand for iron ore and coal—two key Australian exports.

In contrast, demand for lithium has been strong thanks to EVs and energy storage. However, China has been quick and efficient in scaling up low-cost supply, likely keeping lithium prices near the bottom for now.

The real bright spots lie in copper and aluminium—both of which are in high demand, driven by investments in China's electricity grid and advanced manufacturing.

One of the most impressive areas we saw was China's leadership in electric vehicles. Local EV makers, particularly BYD, are setting global standards.

Barriers to EV adoption—price, charging time, and infrastructure—are rapidly falling.

EVs in China are now cheaper than combustion engine cars, and BYD's latest supercharger delivers 400 km of range in just 5 minutes. Government incentives also remain highly supportive.

China's shift from "old world" to "new world" industries has been uneven, but the September 2024 stimulus appears to be gaining traction. While tariffs will likely slow growth somewhat in 2025, further policy support should help cushion the impact.

Overall, while the China recovery is underway, it remains narrow for now.

For Australian equities, especially in resources, identifying clear beneficiaries is not straightforward.

Bulk commodities like iron ore and coal face subdued demand, but base metals and rare earths are better positioned to benefit from China's evolving growth priorities.

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