

Setting the stage for a sustainable Chinese equity rally

Jasmine Duan – Hong Kong

Last year, once again, saw positive market results despite many naysayers. Can this rally extend into 2026 in the face of long-term challenges? In this article, we examine China's policy stance, economic fundamentals, and equity market implications to find answers.

Chinese equities closed out 2025 with strong annual gains for the second consecutive year. The MSCI China Index surged 31 percent, while Hong Kong's benchmark Hang Seng Index rallied 28 percent. The gains caught many market participants by surprise, as numerous analysts had urged caution at the start of 2025 due to ongoing U.S.-China trade tensions.

We think the following factors will shape equity market returns in 2026.

How will policymakers set the economic growth target?

Chinese policymakers outlined their roadmap for 2026–2030 in the 15th Five-Year Plan announced in October 2025. Regarding economic growth, the plan aims for China to reach the level of moderately developed countries by 2035. This implies nearly a 50 percent increase in GDP per capita to US\$20,000 from the current US\$13,300 level.

Policymakers specified that China will achieve an annual average economic growth rate of 4.17 percent over the next decade in official Party study material. While the 2026 GDP growth target is expected to be officially announced in March, we anticipate the growth rate will remain elevated (i.e., around five percent) in the coming years before gradually moderating.

Securing higher growth at the outset of the 15th Five-Year Plan period would allow the target to ease in subsequent years, in our view. Pursuing stronger growth in the early phase may also be a positive indication, bolstering household and business confidence.

But what about long-term growth challenges?

Setting ambitious growth targets is inspiring, yet investors may question their achievability. Many market participants argue that China continues to face multiple long-term growth challenges, for example, an incomplete property market correction, weak domestic consumption, deflationary pressures, and persistent geopolitical tensions. While these issues are unlikely to resolve quickly, their broader economic and equity market impacts require careful analysis, in our view.

Take the property sector as an example. Residential property prices and investment remain in a downturn, and developers continue to face distress. Notably, two-thirds of China's top 50 developers have defaulted on bond payments in recent years.

However, the impact on the economy and equity market should be less severe than years ago. At the peak in 2018, property and related sectors contributed 25 percent of China's GDP, but Bloomberg Economics estimates suggest this share has fallen significantly, and the economic

For perspectives on the week from our regional analysts, please see [pages 3–4](#).

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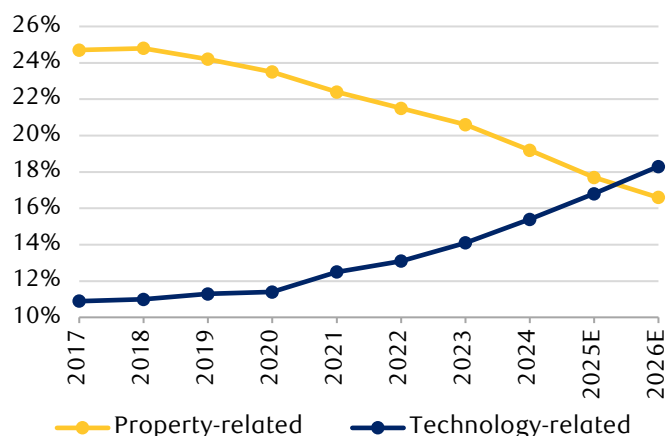
Priced (in USD) as of 1/14/26 market close (unless otherwise stated). Produced: 1/15/26, 16:26 ET; Disseminated: 1/15/26, 16:35 ET

contribution from technology industries has filled the property sector's shoes. The property sector now accounts for just 1.4 percent of the MSCI China Index, limiting its direct equity market impact even if negative news from developers continues to emerge.

The housing market correction no longer poses systematic financial risk, in our assessment. Policymakers have reduced emphasis on the property sector, ranking it last among eight economic priorities for 2026.

China's economic contribution from technology industries have filled the property sector's shoes

Technology-related and property-related sectors' contribution to Chinese GDP



Source - RBC Wealth Management, Bloomberg Economics, National Bureau of Statistics of China; figures for 2025 and 2026 represent Bloomberg Economics projections.

Shifting means of boosting domestic demand

The 15th Five-Year Plan prioritizes domestic demand and consumption more than ever. However, recent stimulus measures—such as the revised trade-in subsidy program for consumer goods—suggest to us that subsidy amounts and scope in 2026 will be more restrained than last year. This raises the question: Is boosting domestic demand merely a slogan, or will the government implement meaningful action?

We believe the approach to supporting domestic demand has shifted. Policymakers are now focusing on reducing income inequality and preventing a resurgence in rural poverty. Recent labor market weakness has suppressed wage growth for migrant workers, and the growth in migrant worker numbers has slowed significantly since 2023. The rural poverty rate could increase if migrant workers lose their jobs in the city and move back to rural areas.

Therefore, we anticipate more targeted measures aimed at redistributing and strengthening the social safety net for lower-income groups, rather than broad-based consumer subsidies. Potential new initiatives, such as reducing maternity-related costs, may also be introduced.

Technology transcends self-sufficiency to emerge as a growth driver

It is unsurprising that policymakers have prioritized advancing science and technology and industrial modernization as the top goals for the next five years. However, the technology agenda extends beyond national security and self-sufficiency.

Following recent breakthroughs in electric vehicles, innovative drugs, and AI, technology has emerged as a new driver of China's economic growth. Policymakers aim to deploy technology economy-wide to enhance productivity, enable scalable commercial applications, and generate new demand.

China is making rapid progress in technological adoption, leveraging its manufacturing supply chain advantages. For instance, its deployment of robotics in manufacturing is 12 times greater than the U.S. when adjusted for income.

To achieve these goals, we think the central government may assume a greater role in directing technology and industrial policy. This could reduce local protectionism, market segmentation, and overcapacity issues.

Renminbi appreciation

The renminbi has begun 2026 with a notable rally, appreciating nearly one percent against the U.S. dollar over the past month and strengthening past CNY 7.0 for the first time since 2023.

We believe the People's Bank of China may tolerate further renminbi appreciation against the dollar as the U.S.-China trade truce looks more durable this time. If growth concerns ease and depreciation risks subside, we think the central bank is likely to reduce currency market intervention, consistent with historical patterns.

Implications for the equity market

After a year dominated by U.S.-China trade tensions, China's economic trajectory appears to be back under its own control. The latest trade deal between the two countries, reached in October, appears more durable and is likely to set the stage for a more sustainable Chinese equity market rally, in our view.

Following a pullback in Q4 2025, the MSCI China Index trades at a more reasonable valuation, with a 12-month forward price-to-earnings multiple of 12.7x, slightly above an 11.6x historical average. Notably, valuations of China's AI and internet leaders still look discounted relative to their U.S. peers. As investors increasingly question whether U.S. AI companies are overvalued, we anticipate greater interest in Chinese AI stocks. This could provide support for the broader equity market.

With the contribution of Leo Shao.

UNITED STATES

Miles D'Alessandro – Minneapolis

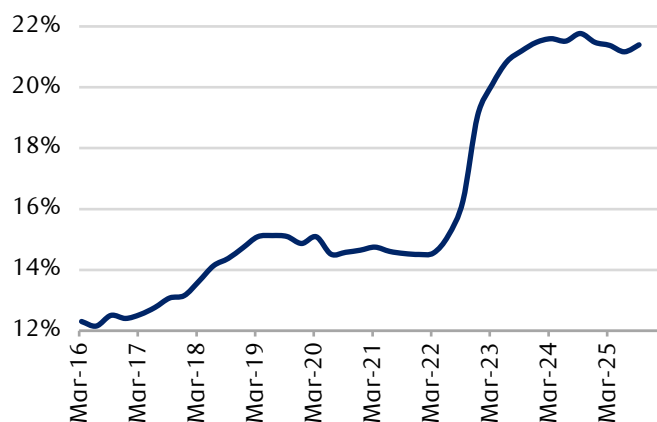
■ **Quarterly earnings kicked off this week**, starting with major banks. To round out fiscal 2025, three of the four largest U.S. banks reported what we view to be broadly positive earnings, driven by continued net interest income growth, as well as better loan loss provisions and credit quality. Forward estimates by the street were revised upward, but large banks are down this week due to the Trump administration's proposal to cap credit card rates. U.S. stock indexes are down as well as a variety of headlines have added to uncertainty, as seen by a spike in the CBOE Volatility Index (VIX) on Tuesday.

■ **President Donald Trump's proposal to cap credit card rates at 10% is framed as an attempt to lower borrowing costs for households and businesses.** However, we believe caps on credit card rates would negatively affect profit margins at lending and credit card firms. A rate cap may push borrowers with low credit scores out of the lending pool and could limit available credit for others, potentially driving up rates for this cohort. This proposal would likely need congressional approval, so the president has more feasibly ordered Fannie Mae and Freddie Mac to acquire \$200 billion in mortgages in an effort to lower borrowing costs for home purchases. Even without approval, the proposal may cajole lenders into lowering rates. According to the Federal Reserve's consumer credit report from last week, the average interest rate on credit cards in November 2025 was 20.97%.

■ **To end last week, Federal Reserve Chair Jerome Powell announced that the Department of Justice had served the central bank with subpoenas and threatened a criminal indictment** regarding a multiyear renovation of historic Fed office buildings. Trump and Powell have repeatedly clashed over interest rate policy,

Credit card rates have been rising for a decade

Average U.S. commercial bank interest rate for credit card plans



Source - RBC Wealth Management, FactSet; quarterly data through 9/30/25

and this isn't the first time that the administration has raised concerns about the Fed building renovation. While some Republicans have disagreed with the investigation, the administration has nonetheless continued its attempts to shake up the traditionally independent Federal Reserve. Notably, the Federal Open Market Committee does not solely rely on the chairperson to make policy decisions, and voting members appear to remain in favor of the Fed's independence. A lack of market movement related to this news may be a sign that market participants are not overly concerned about this issue, in our opinion, although some have expressed concern.

CANADA

Matt Altro, CFA & Elizabeth Grant – Toronto

■ In an environment of economic uncertainty with a potentially fragile Canadian consumer, much focus has been placed on the impact of mortgage renewals, inflation, and the elevated unemployment rate. Despite these lingering risks, **the S&P/TSX Composite Consumer Discretionary sector surged by more than 30% in 2025, suggesting robust Canadian spending and a remarkably resilient consumer base.** Core retail sales (excluding autos and gas) remained strong in December's reading, rising 0.7% on a three-month rolling average basis and marking the 13th consecutive period of growth. The majority of the increase in consumer spending, according to RBC Economics, was driven by the clothing and apparel subsector, a trend visible by the performance of related stocks last year. As we evaluate the macroeconomic environment for the year ahead, **optimism around an improving economy and continued spending growth are driving earnings growth across the Canadian equity market.** With the S&P/TSX Composite trading at above-average valuations, we recommend a disciplined approach to position sizing and risk-taking, with an emphasis on high-quality companies.

■ **Canada's labour market is experiencing a structural shift as population growth pauses following surges in 2023–2024.** The breakeven employment rate, the estimated pace of job creation needed to prevent the unemployment rate from rising, has declined sharply. According to RBC Economics, while Canada experienced record job growth numbers of 32,000–45,000 per month in 2023 and 2024, this was outpaced by population growth, causing unemployment to rise by two percentage points. By 2025, fewer temporary resident arrivals lowered the breakeven employment rate to 25,000 per month. In 2026, RBC Economics expects the breakeven employment rate to shrink further and be slightly negative at -10,000 jobs per month—highlighting the impact of a shrinking labour force as a result of an aging population and policies to reduce immigration and temporary foreign workers. Rising retirements of “baby boomers” have already lowered the

labour force population by more than four percentage points since 2008, a trend that RBC Economics expects to continue apace over the next decade. **We believe this shift in Canada's labour market dynamics means modest job losses—which would normally be expected to contribute to a rising unemployment rate—could instead result in a stable or declining unemployment rate in the future.**

EUROPE

Rufaro Chiriseri, CFA & Thomas McGarrity, CFA – London

■ **The UK economy defied expectations in November**, with GDP rising 0.3% m/m, reversing October's 0.1% contraction and surpassing both our economists' forecast of flat growth and the 0.1% growth consensus estimate. The biggest surprise to us was the services sector, which climbed 0.3%, driven by robust business-to-business activity, despite retail struggles and pre-budget uncertainty. Industrial production also rebounded, recovering from September's disruption caused by a cyberattack at Jaguar Land Rover.

■ However, **the construction sector remained a weak spot**, contracting 1.3% for the second consecutive month, with forward-looking indicators indicating continued pressure. While we think this uplift boosts Q4 GDP prospects relative to the Bank of England's flat-growth projection, the economic outlook remains clouded, in our view.

■ **The share price of semiconductor equipment manufacturer ASML**, the largest stock in Europe by market capitalisation, **has gained over 25% in 2026**, sending it to an all-time high. The company's largest customer, Taiwan Semiconductor Manufacturing Company (TSMC), announced on Jan. 15 that it planned to increase its capital expenditure in 2026 to \$52–\$56 billion, a more than 30% y/y uplift at the midpoint vs. the \$40.9 billion in 2025, as well as noting that capex will “be significantly higher in the next three years.” With respect to its outlook for 2026, ASML's management stated in October 2025 that it did not expect 2026 total net sales to be below the 2025 level despite China sales being down significantly, as these would likely be offset by AI-related demand for Extreme Ultraviolet (EUV) lithography equipment. Since then, extremely tight supply conditions have emerged for memory chips, adding to the tightness in the logic chip market on continued strong AI chip demand. We think this supports the likelihood of semiconductor manufacturing capacity expansion in the years ahead, and thus improving wafer fab equipment (WFE) spending. RBC Capital Markets forecasts WFE spending to grow at a high-single-digit rate in 2026 and double digits in 2027. ASML plans to report its full-year 2025 results and update its 2026 guidance on Jan. 28.

ASIA-PACIFIC

Nicholas Gwee, CFA – Singapore

■ **Japanese equities outperformed their developed market peers this week with the TOPIX and the Nikkei 225 posting new highs.** Meanwhile, the yen weakened to its lowest level in a year against the U.S. dollar. The sharp moves came after Kyodo News reported that **Prime Minister Sanae Takaichi told a senior member of her ruling Liberal Democratic Party (LDP) that she intends to call a snap election.** With the prime minister's approval rating running high, we believe a snap election could help the LDP expand its thin majority in the lower house of Parliament, making Takaichi's expansionary policies more likely to pass. While Japan's equity market may continue to climb higher if the LDP's prospects of gaining more seats improve, we are less convinced the yen can continue to depreciate against the greenback, with the Ministry of Finance raising concerns publicly on several occasions. **Bank of Japan (BoJ) Governor Kazuo Ueda has suggested the central bank intends to further lift interest rates as conditions allow.** Our research correspondent expects the BoJ to hike interest rates twice this year, first in April, followed by another in October.

■ **Beijing is making another attempt to slow the pace of the equity rally.** Chinese authorities raised the minimum margin requirement for financing securities purchases to 100% from 80%, which will apply to the Shenzhen, Shanghai, and Beijing bourses. Chinese equities have had a strong start in 2026, lifted by tech stocks. We think the latest move suggests Beijing prefers a moderate bull market over one that is overheated. **We hold a constructive view on Chinese equities as they currently trade at reasonable valuations**, in our view. Notably, China's AI and internet leaders have become attractively valued on a forward 12-month basis, and yields of the dividend-paying stocks also appear relatively attractive.

Japan equities hit new high on anticipation of snap election

TOPIX daily price



Source - RBC Wealth Management, Bloomberg; data through 1/15/26

MARKET Scorecard

Equity returns do not include dividends, except for the Brazilian Ibovespa. Bond yields in local currencies. Copper Index data and U.S. fixed income returns as of Tuesday's close. Dollar Index measures USD vs. six major currencies. Currency rates reflect market convention (CAD/USD is the exception). Currency returns quoted in terms of the first currency in each pairing.

Examples of how to interpret currency data: CAD/USD 0.72 means 1 Canadian dollar will buy 0.72 U.S. dollar. CAD/USD -1.1% return means the Canadian dollar has fallen 1.1% vs. the U.S. dollar year to date. USD/JPY 158.50 means 1 U.S. dollar will buy 158.50 yen. USD/JPY 1.1% return means the U.S. dollar has risen 1.1% vs. the yen year to date.

Source - Bloomberg; data as of 1/14/26

Equities (local currency)	Level	MTD	YTD	1 yr	2 yr
S&P 500	6,926.60	1.2%	1.2%	18.5%	44.8%
Dow Industrials (DJIA)	49,149.63	2.3%	2.3%	15.6%	30.7%
Nasdaq	23,471.75	1.0%	1.0%	23.2%	56.8%
Russell 2000	2,651.64	6.8%	6.8%	19.5%	35.9%
S&P/TSX Comp	32,916.47	3.8%	3.8%	33.9%	56.8%
FTSE All-Share	5,483.97	2.5%	2.5%	23.1%	31.6%
STOXX Europe 600	611.56	3.3%	3.3%	20.3%	28.3%
EURO STOXX 50	6,005.05	3.7%	3.7%	20.6%	34.0%
Hang Seng	26,999.81	5.3%	5.3%	40.5%	66.2%
Shanghai Comp	4,126.09	4.0%	4.0%	27.3%	43.2%
Nikkei 225	54,341.23	7.9%	7.9%	41.2%	52.7%
India Sensex	83,382.71	-2.2%	-2.2%	9.0%	14.9%
Singapore Straits Times	4,812.51	3.6%	3.6%	27.0%	50.8%
Brazil Ibovespa	165,145.98	2.5%	2.5%	38.4%	26.1%
Mexican Bolsa IPC	67,403.08	4.8%	4.8%	35.2%	21.2%
Gov't bonds (bps change)	Yield	MTD	YTD	1 yr	2 yr
U.S. 10-Yr Treasury	4.136%	-3.1	-3.1	-65.6	19.7
Canada 10-Yr	3.358%	-7.5	-7.5	-18.6	13.8
UK 10-Yr	4.340%	-13.9	-13.9	-54.9	54.7
Germany 10-Yr	2.814%	-4.1	-4.1	16.2	63.0
Fixed income (returns)	Yield	MTD	YTD	1 yr	2 yr
U.S. Aggregate	4.33%	0.2%	0.2%	8.6%	9.2%
U.S. Investment-Grade Corp	4.83%	0.2%	0.2%	9.3%	10.6%
U.S. High-Yield Corp	6.58%	0.5%	0.5%	9.2%	18.3%
Commodities (USD)	Price	MTD	YTD	1 yr	2 yr
Gold (spot \$/oz)	4,618.38	6.9%	6.9%	72.5%	125.4%
Silver (spot \$/oz)	92.71	29.4%	29.4%	210.0%	299.7%
Copper (\$/metric ton)	13,254.23	6.4%	6.4%	46.7%	60.8%
Oil (WTI spot \$/bbl)	60.47	5.3%	5.3%	-22.0%	-16.8%
Oil (Brent spot \$/bbl)	64.82	6.5%	6.5%	-18.9%	-17.2%
Natural Gas (\$/mmBtu)	3.09	-16.1%	-16.1%	-22.1%	-6.7%
Currencies	Rate	MTD	YTD	1 yr	2 yr
U.S. Dollar Index	99.0880	0.8%	0.8%	-9.3%	-3.2%
CAD/USD	0.7204	-1.1%	-1.1%	3.4%	-3.4%
USD/CAD	1.3882	1.2%	1.2%	-3.3%	3.5%
EUR/USD	1.1644	-0.9%	-0.9%	13.0%	6.3%
GBP/USD	1.3437	-0.3%	-0.3%	10.0%	5.4%
AUD/USD	0.6684	0.2%	0.2%	7.9%	0.0%
USD/JPY	158.5000	1.1%	1.1%	0.3%	9.4%
EUR/JPY	184.5600	0.3%	0.3%	13.3%	16.3%
EUR/GBP	0.8665	-0.6%	-0.6%	2.7%	0.9%
EUR/CHF	0.9318	0.1%	0.1%	-0.9%	-0.2%
USD/SGD	1.2879	0.2%	0.2%	-5.8%	-3.3%
USD/CNY	6.9729	-0.2%	-0.2%	-4.9%	-2.7%
USD/MXN	17.7974	-1.2%	-1.2%	-13.2%	5.5%
USD/BRL	5.3928	-1.5%	-1.5%	-10.9%	11.1%

Authors

Matt Altro, CFA – Toronto, Canada

matt.altro@rbc.com; RBC Dominion Securities Inc.

Rufaro Chiriseri, CFA – London, United Kingdom

rufaro.chiriseri@rbc.com; RBC Europe Limited

Miles D'Alessandro – Minneapolis, United States

miles.dalessandro@rbc.com; RBC Capital Markets, LLC

Jasmine Duan – Hong Kong, China

jasmine.duan@rbc.com; Royal Bank of Canada, Hong Kong Branch

Elizabeth Grant – Toronto, Canada

elizabeth.grant@rbc.com; RBC Dominion Securities Inc.

Nicholas Gwee, CFA – Singapore

nicholas.gwee@rbc.com; Royal Bank of Canada, Singapore Branch

Thomas McGarrity, CFA – London, United Kingdom

thomas.mcgarritty@rbc.com; RBC Europe Limited

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			Count	Percent
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Sell [Underperform]	46	3.03	3	6.52

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