

Special Coverage: The full-arc AI opportunity in China

Key takeaways

- ◆ The YTD performance gap between China's A-shares (e.g. CSI300: +8.4%) and the MSCI China Index (-15.5%) or Hang Seng Index (-10.0%) is material. The gap is even wider in the tech space. Year-to-date, the ChiNext Index, a Nasdaq-style board on the Shenzhen Stock Exchange, recorded 36.5% of return vs HSTECH's -20.1%.
- ◆ While this is to some extent reflective of the structure of the global AI rally so far, the difference is amplified by China's K-shape economic story. For that reason, we currently prefer A-shares over H-shares, driven primarily by A-share's much larger exposure to AI-related hardware beneficiaries.
- ◆ Having said that, we believe it's important to be positioned in the full-arc AI opportunity set in China, which means taking exposure to some of the large offshore listed internet and cloud players, which are critical enablers of AI transition and adoption.



Desmond Kuang

Chief Investment Officer, China,
HSBC Private Bank and
Premier Wealth



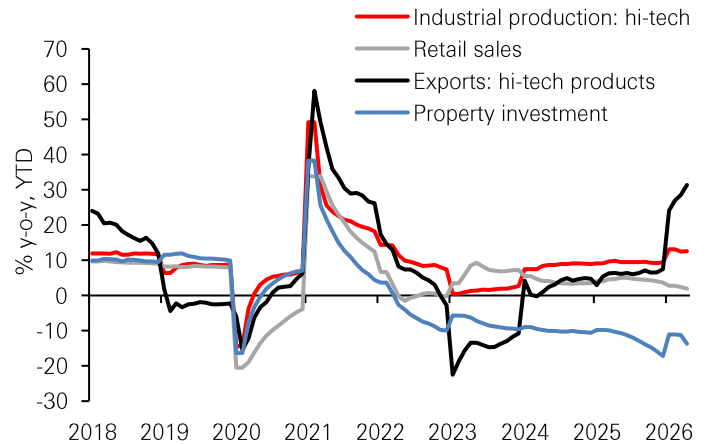
Lulu Jiang

Investment Strategist,
HSBC Private Bank and
Premier Wealth

What happened?

- The K-shaped bifurcation of the Chinese economy may be deepening. The upper arm of the K, AI compute, semiconductors, and advanced equipment and hardware, is expanding rapidly, fuelled by policy support, export-driven demand and domestic substitution. The lower arm, consumption, property, and discretionary spending, remains structurally impaired. According to economic activity data in May, the two arms have diverged even further.
- In May, China's exports grew by 19.4%. According to Bloomberg, chips and computers contributed nearly half of export growth, with overseas sales of semiconductors surging by 111%. Against this backdrop, industrial production of high-tech and equipment manufacturing ramped up 15.1% and 9.5% y-o-y, respectively. Yet this factory-floor strength has conspicuously failed to transmit into retail sales.
- Government policy is attempting to bridge this gap. From January to May 2026, the Chinese government allocated RMB125 billion in ultra-long special bonds for the initial phase of the 2026 consumer trade-in subsidies. While these programmes have provided modest support, more structural and broad-based measures to restore confidence is called for.

China's K-shaped economic recovery suggests more policy support is needed to boost domestic demand

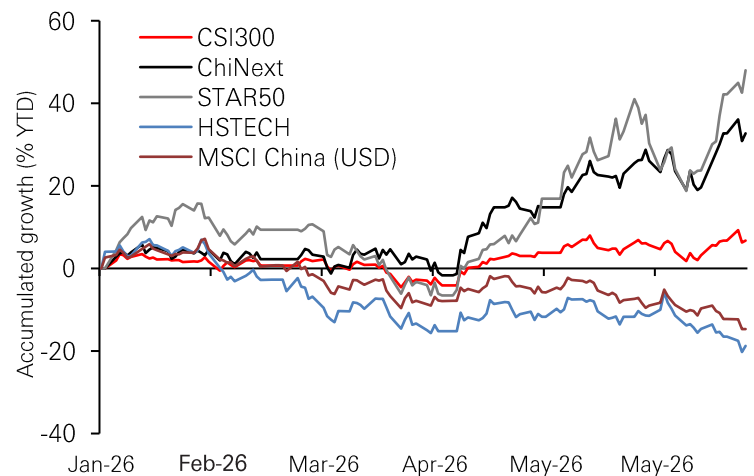


Source: Wind, HSBC Private Bank and Premier Wealth as at 25 June 2026.

Chinese equity views herein are from HSBC PB and Wealth Global Investment Committee

- The global AI rally of 2025–26 has been concentrated in AI hardware enablers (semiconductors, advanced packaging, optic modules, and AI servers), asset classes where A-share listings on the ChiNext and the STAR50 board dominate.
- By contrast, H-share technology names (China’s large internet platforms and AI application adopters) are dragged by consumption weakness, regulations and near-term capex overhang. We believe such divergence is predominantly a market composition story.
- But the performance gap is amplified by China’s aforementioned bifurcation and the large platform companies’ big exposure to the over-competitive consumer market. This is on top of ongoing waves of regulatory scrutiny, ranging from fines imposed by the market regulator (SAMR) for merchant food safety breaches to the latest review of e-commerce subsidies, tax compliance issues, and cross-border investment restrictions.

YTD, onshore tech indices outperformed the offshore Hang Seng Tech Index (HSTECH) by a material margin



Source: Wind, HSBC Private Bank and Premier Wealth as at 25 June 2026.

Investment implications

- While some of these factors may stay as headwinds for the offshore listed Chinese internet giants in the near term, the case for staying invested across the entire AI ecosystem, not merely the hardware layer, is strengthening.
- China’s AI infiltration into enterprise and consumer workflows is real and accelerating. Token usage across major domestic model providers has surged through 1H26. As AI gets more deeply embedded in actual workflows, we expect the current hardware-led rally to broaden to the application and platform layers as monetisation visibility improves.
- China’s cloud infrastructure market has accelerated sharply on AI tailwinds, with leading domestic players consolidating market share. Alibaba, Tencent and Huawei, the top three players, collectively command around 60-70% of the market as of late 2025, underscoring an oligopolistic structure that favours large players with integrated ecosystems. Recent quarterly earnings also point to standout performance in both cloud business growth and AI contribution. However, investors have largely overlooked these successes, choosing to focus instead on massive capex and the sluggish, highly competitive traditional businesses.
- Concurrently, we think a potential rotation within the global AI equity value chain from upstream hardware towards midstream platforms, cloud infrastructure, and applications can also offer a re-rating opportunity for the Hong Kong-listed Chinese internet giants.
- On top of that, valuations are becoming more compelling. As of mid-June 2026, HSTECH’s forward P/E has fallen to a historically low level (17.9x). The low valuation (and thus significant risk premium) means that China’s internet large caps listed in Hong Kong are trading at a 49% PE discount (vs. a historical average of 28%) to US names, while Chinese AI names are trading at a 43% P/E discount.
- At current valuations, successful execution of cloud/AI monetisation could drive meaningful multiple expansion and relative performance catch-up. With China’s domestic AI self-reliance push providing policy support and data moats from massive user bases remaining intact, these HK-listed giants are positioned to capture midstream value, which should form a critical part of investors’ overall playbook when looking at China’s full AI ecosystem.

Disclaimer

This document or video is prepared by The Hongkong and Shanghai Banking Corporation Limited ("HBAP"), 1 Queen's Road Central, Hong Kong. HBAP is incorporated in Hong Kong and is part of the HSBC Group. This document or video is distributed and/or made available by HSBC Bank (China) Company Limited, HSBC Bank (Singapore) Limited, HSBC Bank Middle East Limited (UAE), HSBC UK Bank Plc, HSBC Bank Malaysia Berhad (198401015221 (127776-V))/HSBC Amanah Malaysia Berhad (20080100642 1 (807705-X)), HSBC Bank (Taiwan) Limited, HSBC Bank plc, Jersey Branch, HSBC Bank plc, Guernsey Branch, HSBC Bank plc in the Isle of Man, HSBC Continental Europe, Greece, The Hongkong and Shanghai Banking Corporation Limited, India (HSBC India), HSBC Bank (Vietnam) Limited, PT Bank HSBC Indonesia (HBID), HSBC Bank (Uruguay) S.A. (HSBC Uruguay is authorised and oversight by Banco Central del Uruguay), The Hongkong and Shanghai Banking Corporation Limited – Philippine Branch, HSBC Investment and Insurance Brokerage, Philippines Inc, HSBC Insurance Brokerage Company Limited, HSBC Mexico, S.A. Multiple Banking Institution HSBC Financial Group (collectively, the "Distributors") and HSBC Bank Middle East Limited Qatar Branch, P.O. Box 57, Doha, Qatar (regulated by Qatar Central Bank for the purpose of this promotion and lead regulated by the Dubai Financial Services Authority) to their respective clients. This document or video is for general circulation and information purposes only.

The contents of this document or video may not be reproduced or further distributed to any person or entity, whether in whole or in part, for any purpose. This document or video must not be distributed in any jurisdiction where its distribution is unlawful. All non-authorized reproduction or use of this document or video will be the responsibility of the user and may lead to legal proceedings. The material contained in this document or video is for general information purposes only and does not constitute investment research or advice or a recommendation to buy or sell investments. Some of the statements contained in this document or video may be considered forward looking statements which provide current expectations or forecasts of future events. Such forward looking statements are not guarantees of future performance or events and involve risks and uncertainties. Actual results may differ materially from those described in such forward-looking statements as a result of various factors. HBAP and the Distributors do not undertake any obligation to update the forward-looking statements contained herein, or to update the reasons why actual results could differ from those projected in the forward-looking statements. This document or video has no contractual value and is not by any means intended as a solicitation, nor a recommendation for the purchase or sale of any financial instrument in any jurisdiction in which such an offer is not lawful. The views and opinions expressed are based on the HSBC Global Investment Committee at the time of preparation and are subject to change at any time.

These views may not necessarily indicate HSBC Asset Management's current portfolios' composition. Individual portfolios managed by HSBC Asset Management primarily reflect individual clients' objectives, risk preferences, time horizon, and market liquidity.

The value of investments and the income from them can go down as well as up and investors may not get back the amount originally invested. Past performance contained in this document or video is not a reliable indicator of future performance whilst any forecasts, projections and simulations contained herein should not be relied upon as an indication of future results. Where overseas investments are held the rate of currency exchange may cause the value of such investments to go down as well as up. Investments in emerging markets are by their nature higher risk and potentially more volatile than those inherent in some established markets. Economies in emerging markets generally are heavily dependent upon international trade and, accordingly, have been and may continue to be affected adversely by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries with which they trade. These economies also have been and may continue to be affected adversely by economic conditions in the countries in which they trade. Investments are subject to market risks, read all investment related documents carefully.

This document or video provides a high-level overview of the recent economic environment and has been prepared for information purposes only. The views presented are those of HBAP and are based on HBAP's global views and may not necessarily align with the Distributors' local views. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of its dissemination. It is not intended to provide and should not be relied on for accounting, legal or tax advice. Before you make any investment decision, you may wish to consult an independent financial adviser. In the event that you choose not to seek advice from a financial adviser, you should carefully consider whether the investment product is suitable for you. You are advised to obtain appropriate professional advice where necessary.

The accuracy and/or completeness of any third-party information obtained from sources which we believe to be reliable might have not been independently verified, hence customers must seek several sources prior to making investment decisions.

The following statement is only applicable to HSBC Mexico, S.A. Multiple Banking Institution HSBC Financial Group with regard to how the publication is distributed to its customers: This publication is distributed by Wealth Insights of HSBC México, and its objective is for informational purposes only and should not be interpreted as an offer or invitation to buy or sell any security related to financial instruments, investments or other financial product. This communication is not intended to contain an exhaustive description of the considerations that may be important in making a decision to make any change and/or modification to any product, and what is contained or reflected in this report does not constitute, and is not intended to constitute, nor should it be construed as advice, investment advice or a recommendation, offer or solicitation to buy or sell any service, product, security, merchandise, currency or any other asset.

Receiving parties should not consider this document as a substitute for their own judgment. The past performance of the securities or financial instruments mentioned herein is not necessarily indicative of future results. All information, as well as prices indicated, are subject to change without prior notice; Wealth Insights of HSBC Mexico is not obliged to update or keep it current or to give any notification in the event that the information presented here undergoes any update or change. The securities and investment products described herein may not be suitable for sale in all jurisdictions or may not be suitable for some categories of investors.

The information contained in this communication is derived from a variety of sources deemed reliable; however, its accuracy or completeness cannot be guaranteed. HSBC México will not be responsible for any loss or damage of any kind that may arise from transmission errors, inaccuracies, omissions, changes in market factors or conditions, or any other circumstance beyond the control of HSBC. Different HSBC legal entities may carry out distribution of Wealth Insights internationally in accordance with local regulatory requirements.

Important Information about the Hongkong and Shanghai Banking Corporation Limited, India ("HSBC India"): HSBC India is a branch of The Hongkong and Shanghai Banking Corporation Limited. HSBC India does not distribute or refer investment products to those persons who are either the citizens or residents of United States of America (USA), Canada or any other jurisdiction where such distribution or referral would be contrary to law or regulation.

HSBC India is an AMFI-registered Mutual Fund Distributor of select mutual funds and a referrer of other 3rd party investment products. HSBC India will receive commission from HSBC Asset Management (India) Private Limited, in its capacity as a AMFI registered mutual fund distributor of HSBC Mutual Fund. The Sponsor of HSBC Mutual Fund is HSBC Securities and Capital Markets (India) Private Limited (HSCI), a member of the HSBC Group. Please note that HSBC India and the Sponsor being part of the HSBC Group, may give rise to real, perceived, or potential conflicts of interest. HSBC India has a policy in place to identify, prevent and manage such conflict of interest. For more information related to investments in the securities market, please visit the SEBI Investor Website: <https://investor.sebi.gov.in/> and the SEBI Saaathi Mobile App. **Mutual Fund investments are subject to market risks, read all scheme related documents carefully.** Issued by The Hongkong and Shanghai Banking Corporation Limited India. Incorporated in Hong Kong SAR with limited liability. HSBC Bank ARN - 0022 with validity from 19-Feb-2024 to 18-Feb-2027. Date of initial registration: 19-Feb-2002.

The following statement is only applicable to HSBC Bank (Taiwan) Limited with regard to how the publication is distributed to its customers: HSBC Bank (Taiwan) Limited ("the Bank") shall fulfill the fiduciary duty act as a reasonable person once in exercising offering/conducting ordinary care in offering trust services/ business. However, the Bank disclaims any guarantee on the management or operation performance of the trust business.

The following statement is only applicable to PT Bank HSBC Indonesia ("HBID") HBID is licensed and supervised by Indonesia Financial Services Authority ("OJK"). Investment products that are offered in HBID are third party products, HBID is a selling agent for third party products such as Mutual Funds and Bonds. HBID and HSBC Group (HSBC Holdings Plc and its subsidiaries and associates company or any of its branches) do not guarantee the underlying investment, principal or return on customer's investment. You must read and understand the investment policy of each investment product to see if a product contains ESG and sustainability elements and is classified as an ESG and sustainable investment. Investment in Mutual Funds and Bonds are not covered by the deposit insurance program of the Indonesian Deposit Insurance Corporation ("LPS").

Important information on ESG and sustainable investing

Today we finance a number of industries that significantly contribute to greenhouse gas emissions. We have a strategy to help our customers to reduce their emissions and to reduce our own. For more information visit www.hsbc.com/sustainability.

In broad terms "ESG and sustainable investing" products include investment approaches or instruments which consider environmental, social, governance and/or other sustainability factors to varying degrees. Certain instruments we classify as sustainable may be in the process of changing to deliver sustainability outcomes. There is no guarantee that ESG and Sustainable investing products will produce returns similar to those which don't consider these factors. ESG and Sustainable investing products may diverge from traditional market benchmarks. In addition, there is no standard definition of, or measurement criteria for, ESG and Sustainable investing or the impact of ESG and Sustainable investing products. ESG and Sustainable investing and related impact measurement criteria are (a) highly subjective and (b) may vary significantly across and within sectors.

HSBC may rely on measurement criteria devised and reported by third party providers or issuers. HSBC does not always conduct its own specific due diligence in relation to measurement criteria. There is no guarantee: (a) that the nature of the ESG / sustainability impact or measurement criteria of an investment will be aligned with any particular investor's sustainability goals; or (b) that the stated level or target level of ESG / sustainability impact will be achieved. ESG and Sustainable investing is an evolving area and new regulations are being developed which will affect how investments can be categorised or labelled. An investment which is considered to fulfil sustainable criteria today may not meet those criteria at some point in the future.

THE CONTENTS OF THIS DOCUMENT OR VIDEO HAVE NOT BEEN REVIEWED BY ANY REGULATORY AUTHORITY IN HONG KONG OR ANY OTHER JURISDICTION. YOU ARE ADVISED TO EXERCISE CAUTION IN RELATION TO THE INVESTMENT AND THIS DOCUMENT OR VIDEO. IF YOU ARE IN DOUBT ABOUT ANY OF THE CONTENTS OF THIS DOCUMENT OR VIDEO, YOU SHOULD OBTAIN INDEPENDENT PROFESSIONAL ADVICE.

© Copyright 2026. The Hongkong and Shanghai Banking Corporation Limited, ALL RIGHTS RESERVED.

No part of this document or video may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior written permission of The Hongkong and Shanghai Banking Corporation Limited.

PUBLIC