China's loan subsidy and specialized trade growth extend the value opportunity for investors

by Edmund Harriss

Additional support for consumers and an extended trade war truce with the world's largest importer of goods. Each suggests a position of greater strength for China than first appears in its resources to support its domestic economy and in its negotiating position on trade. We believe the latest developments in each area are positive for China in the long term and reinforce the opportunity for investors in the short to medium term.

Consumer Subsidies

On August 12th, China announced subsidies in a further effort to support personal consumption[1].

The government will pay a subsidy of one percentage point of the interest rate on some personal loans from September 1st, 2025 to August 31st, 2026. The plan will apply to purchases in eight priority sectors: Cars, Home Furnishing & Decoration, Electronics, Tourism, Healthcare & Medical Services, Elderly Care, Childbirth Support, and Education & Training.

A subsidy will also be available for businesses loans in the consumer sector including restaurants & hotels, health, tourism, sports and entertainment.

Central government will provide 90% of the funding for these subsidies, local governments 10%.

This comes on top of the $42 billion of funding for the household trade-in program, $53 billion worth of increases to pensions and Medicare and $69 billion to support low-cost consumer-related lending announced earlier this year. Consumer subsidies announced this year now amount to a meaningful extra 3.5% to ex-food consumer spending.

We believe these measures will provide material support to weakened consumer confidence by supporting both consumers and the businesses that employ them.

Trade Tariffs

We observe from the initial tariff salvos that both the US and China can do significant harm to one another. Each holds negotiating cards that reflect both their scale and access to specialized products or commodities that the other needs. The trade truce has been extended another 90 days, and we expect talks to continue, with neither side able to ride roughshod over the other.

The impact of existing tariffs hurts some but by no means all businesses in China. We can see that in less specialized manufactured goods, conditions for Chinese companies exporting to the US have deteriorated, and businesses here are suffering. But over the long term, we can see new industries (in renewable energy

[1] Source: Reuters

equipment, EVs, batteries, industrial automation, semiconductors, cloud computing, advanced manufacturing) reaching a scale that can provide growth to replace that of the defunct property sector.

In the short term, we see the redirection of China's export manufacturing, both of supply chains and market destinations play out; Chinese exports to the US are slowing but are more than offset by growth to the EU, Southeast Asia and Latin America. Chinese trade is growing; not to the US but still growing overall.

What does this mean for investors?

Against that backdrop we conclude that there is still a good underlying story for China in the long term, which is why we are overweight in in our Asian and emerging market strategies. Many market participants are still skeptical, which means that Chinese stock valuations are still low.

Therefore, we look for companies that have been growing earnings and growing cash flows over the last 8 to 10 years and continue to do so. We call these "quality" companies, because if they have maintained profitability during difficult conditions since 2020, we believe they are likely to continue to do so as China's domestic economy picks up. They are available at low valuations which incorporate very little future growth. We find them in Consumer Staples and Consumer Discretionary; in household goods, video games, health care, and financial services.

Conclusion

China is a manufacturer with a scale that few can match, serving markets beyond that of the US. It has moved beyond low-cost manufacturing into specialized areas in which its unique research and development approach has translated into sector dominance such as 5G, EVs, battery technology, renewable energy, and – notably – DeepSeek. Jockeying over trade with the US creates meaningful disturbances in the short term, but we already see the response in terms of diversification of products and markets. Chinese stocks would be exposed if they were expensive, as uncertainty compresses valuations. But they are cheap, with valuations close to their "intrinsic" levels – that is, the present value of existing cash flow generation. We are overweight China and believe that with the range of investment options, the underpinnings for sustainable growth over the next 5-10 years, and current valuations, this is a significant opportunity.