

Weekly Market Flash

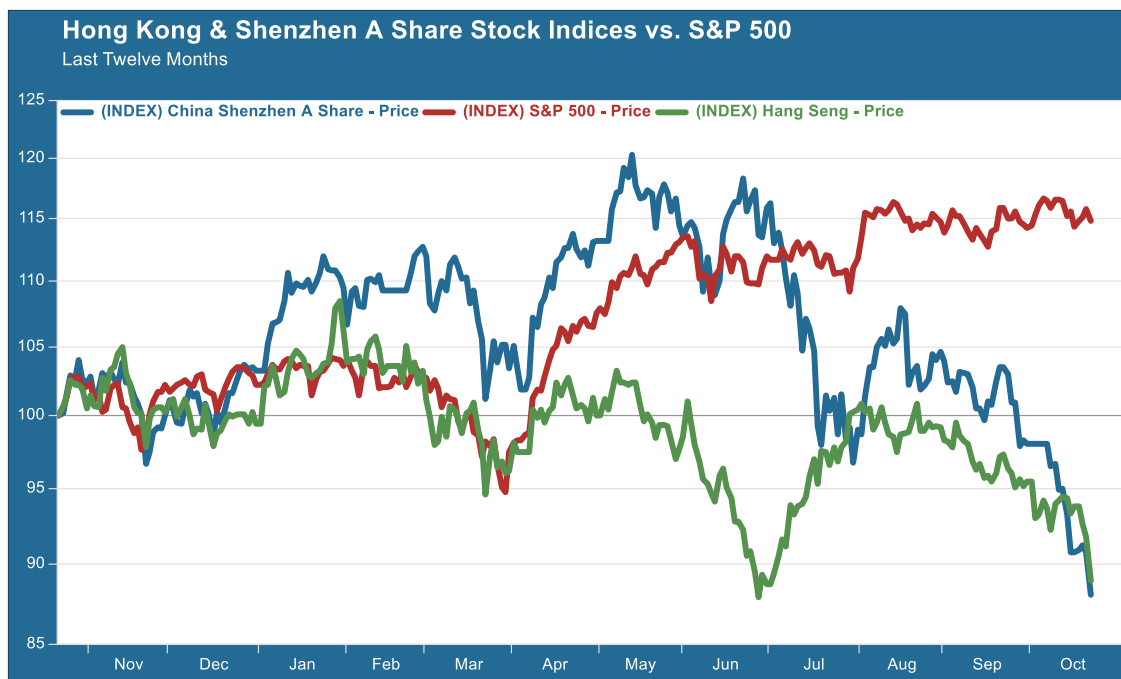
China Is Winning Tomorrow, But Losing Today

October 23, 2026

Earlier this week, China reported its third quarter real GDP growth, and the number came in at the high end of economists' expectations. In other news of the week, Chinese AI model developer DeepSeek announced plans to raise upwards of \$15 billion, from prominent investors including Tencent and CATL, as it steps up competition against US frontier models. This in a week when the shares of US AI companies have been hit hard by investors worried about – well, competition from China, among many other things. If you read stories about competition in just about any leading-edge technology sector, from clean energy to biotech to electric vehicles, it is hard to miss the glaring fact of China's growing leadership. The industries of tomorrow, it seems, have a high likelihood of being dominated by China.

Surviving Today

But in order to get to the world of tomorrow, one has to actually make it through today. China's economy of today is an entirely different story, and it may shed some light on why China's stock markets are in bear or near-bear market territory.

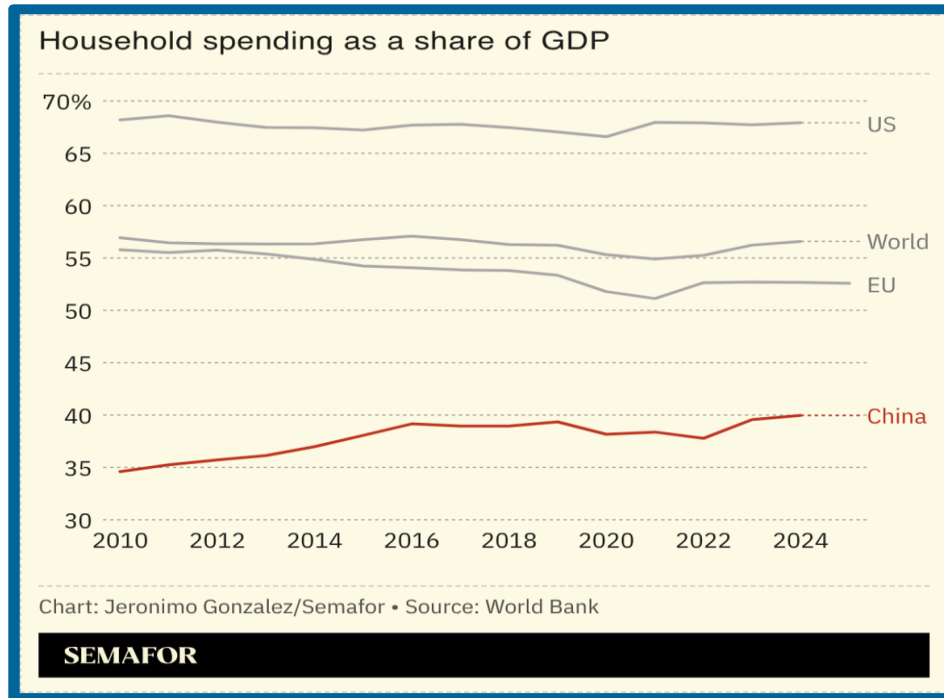


Source: MVM Research, FactSet

The Shenzhen A Share index, a benchmark for mainland Chinese shares, is down 26 percent from its peak earlier this year. Hong Kong's Hang Seng index, which features the shares of many of China's tech leaders and other high-growth enterprises, is just a hair under 20 percent off its high at the beginning of the year. Of course, there are many reasons why the stock market goes up and down, and only a few of them have anything to do with the wider economy. But there many reasons to wonder what it will take for China to get over the chasm that lies between the troubled economy of today and the potentially much sunnier climes of tomorrow.

Consumer Discontents

At the heart of China's problems today is a moribund consumer sector. Household spending in China, as a percentage of GDP, is much, much lower than it is in other parts of the world, as the chart below shows.



Source: World Bank data obtained from Semafor magazine

Consumer spending is the number one driver of growth in the US, at around 68 percent of GDP, while the world average is around 57 percent of GDP. The comparable figure in China is only 40 percent. Households there have still not recovered from the property implosion that began in 2021. Families that put down deposits representing a major portion of their total savings for a not-yet-built apartment are still waiting, with diminishing expectations of ever recovering their investments. Youth unemployment is high, there is barely any social safety net to speak of, and the government has done next to nothing to inject fiscal stimulus into the domestic economy. The population is declining, and is projected to continue doing so at a rate even faster than its demographically troubled neighbor Japan. Meanwhile, the country's total private and public debt runs to more than 300 percent of GDP.

Not Japan...Yet

If these troubles sound familiar, then you probably are at least somewhat familiar with what Japan experienced in the wake of its own property bubble collapse in the early 1990s. "China as the new Japan" is one of the topics likely to come up at conferences and among financial media talking heads. But the comparison is far from exact, mainly because Japan's "tomorrow" never looked as promising during its doldrum days as China's does now. It really does have the pieces of the puzzle in place for dominating the economy of the coming decades. But, again, there's no tomorrow without getting through today.

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