

Quarterly Insights

2Q 2026

The second quarter of 2026 was marked by a gradual recovery in global risk assets, despite persistent geopolitical disruption, energy-price volatility and repricing of interest rate expectations. U.S. equities staged a powerful rebound, driven by continued AI infrastructure investment, resilient corporate earnings, and a moderation in geopolitical risk. Yet the market debate is becoming more demanding: investors are moving beyond the broad AI narrative and increasingly focusing on earnings delivery and returns on capital expenditure. China presented a more uneven picture. While first-quarter GDP growth came ahead of expectations, consumer activity softened meaningfully in the second quarter, exacerbating the structural divergence. Technology, healthcare, and consumer sectors, therefore, continued to offer structural opportunities, but with sharper dispersion across business models and valuations. Policy support and capital-market access remain important tailwinds for hard technology, AI applications, innovative drugs, brain-computer interfaces, and globally oriented consumer platforms. However, the threshold for investment has risen: tangible order visibility, closed-loop data, cash-flow quality, and credible exit pathways are now central to underwriting discipline.

Key Takeaways

Healthcare

Payer Reform and Technology Re-Rating

The commercial innovative drug catalog is supporting a complementary payer system, and out-licensing transactions have reached new highs. Generative AI, smart manufacturing, and brain-computer interfaces are accelerating. Investment logic is broadening from single-pipeline risk to payer access, global deal capability, and platform value.

Technology

AI Moves from Narrative to Real-world Deployment and ROI

As model competition cools, investors are focused on inference cost, real-world deployment, and customer ROI. Domestic compute, embodied AI, and Robotaxi remain core themes, but valuations are increasingly tied to orders, margins and earnings delivery.

Consumer

Weak Consumption Data with Resilient Structural Themes

Retail sales weakened in Q2, with durables pressured by subsidy tapering and energy shocks. Value-for-money retail, the emotional economy, AI hardware, services, and full-chain global expansion remain resilient. Focus should return to repeat purchases, brand/IP, supply-chain efficiency and global operations.

Macro Pulse

US Capital Markets Update

After the sharp volatility of the first quarter, U.S. equities delivered a powerful rebound in Q2 2026, with major indices nearing all-time highs. The S&P 500 rose approximately 14.9%, while the Nasdaq Composite gained 21.4%, marking the strongest second-quarter performance for both indices since the post-pandemic rebound in 2020. Entering Q3 2026, the overall market outlook remains positive, but investors are taking a more cautious stance. is more conservative. Wall Street's focus is gradually shifting from high enthusiasm for the AI theme toward whether companies can deliver actual earnings in a "higher-for-longer" macroeconomic environment.

Q2 Key Drivers and Market Performance

- **AI trade re-accelerated:** Large-scale semiconductor and AI infrastructure spending remained a key driver of market performance. Investor interest broadened across the hardware stack, including chips, memory, and the physical data-center infrastructure required to support AI deployment.
- **Geopolitical risk eased:** As the U.S.–Iran conflict cooled, equities rebounded strongly from their March lows. Crude oil prices also fully reversed their conflict-related spike and returned to pre-conflict levels.
- **Strong corporate earnings:** Q1 earnings grew by a blockbuster 29% year-on-year (YoY), materially ahead of expectations. Consensus estimates for Q2 EPS continued to be revised higher, currently expected to grow 23.1% YoY.
- **Market breadth improved:** While mega-cap technology companies and hyperscalers led the initial recovery, gains later broadened into wider sectors in the latter part of the quarter.. The Russell 2000 rose 21.5%, and mid-cap indices reached new highs.
- **The Fed turned more hawkish**: Strong consumer demand and the earlier oil-price shock pushed headline CPI to 4.2% in May, a three-year high. This prompted the Federal Reserve to shift from a rate-cutting bias to holding rates steady, while signaling the possibility of further rate hikes.

From AI Concept to Actual Execution

Entering Q3 2026, the market is moving into a stage that places greater emphasis on actual monetization capabilities and financial execution, rather than simply chasing AI concepts. Investors are closely watching whether the massive capital expenditures of major cloud service providers can truly translate into revenue growth and profitability. With hyperscaler capex expected to approach $700–800 billion in 2026, the critical question is whether this spending can translate into higher software revenue mix and a visible path to profitability.

Rate and Currency Headwinds

After the June Fed rate meeting released hawkish signals, the market has priced out expectations for near-term rate cuts, revising the median year-end federal funds rate projection up to 3.8%. The tighter policy backdrop pushed the U.S. Dollar Index to 101, a one-year high. Dollar strength reflects relatively resilient U.S. economic data, but it also creates a translation headwind for multinational companies' overseas earnings. However, the recent noticeable pullback in oil prices may help alleviate inflationary pressures and reduce the necessity for the Fed to hike rates further before the end of 2026.

Sector Opportunities and Risks

- **Technology and Infrastructure:** Enterprise software, hardware networking equipment, and clean energy and utilities sectors providing power support for data centers still offer relatively high investment certainty.
- **Energy:** Impacted by the earlier spring oil price surge, the energy sector is expected to still deliver strong year-over-year data in Q2; however, as crude prices normalize, near-term momentum may fade in Q3.
- **Small caps and value stocks:** Relative valuations remain more attractive compared with the sharply re-rated mega-cap technology leaders. If the overall macro backdrop remains stable, small caps and value stocks could benefit from structural catch-up opportunities.

Expectations for Technical Pullback Rise

Major indices are currently hovering near key technical resistance levels, and some institutional analysts have observed signs of fading upward momentum. Historical patterns suggest that Q3 could bring a 5%–11% pullback. Majority believe that potential volatility is more likely to be a healthy correction rather than the start of a bear market; for long-term investors, if fundamentals do not materially deteriorate, a pullback may actually present a better positioning opportunity.

China Macroeconomic Update

Economic Growth and Domestic Demand

China entered Q2 2026 with a degree of residual momentum, but the scale of the slowdown in domestic demand soon proved larger than expected. Q1 GDP grew 5.0% YoY, ahead of market expectations of approximately 4.8%, supported by 5.2% growth in services and 6.1% growth in industrial production. However, the recovery became noticeably more uneven in April and May. Total retail sales of consumer goods rose only 0.2% YoY in April, the weakest reading in nearly 40 months, before contracting 0.6% YoY in May — the first negative print in more than three years.

Durable goods were the main drag. Auto sales declined 16.1% YoY, while home appliances fell 15.6%, reflecting the combined impact of fading marginal support from trade-in

subsidies, higher energy costs, and still-cautious household balance sheets. Policy support remains in place, but incremental easing has been limited. As a result, market expectations for Q2 GDP growth have been revised down to approximately 4.3%–4.8%, implying that policy execution and demand repair in the second half will be increasingly important if the full-year policy target of 4.5%–5.0% is to be achieved. The key signal from Q2 is not a collapse in growth, but rather that the consumption recovery remains narrow and has yet to develop self-reinforcing domestic momentum.

Trade, Industry and External Demand

External demand remains an important stabilizer for the economy. China's exports continued to benefit from resilient global goods demand, technology-related orders, and competitiveness in higher-value-added manufacturing. Exports rose 13.8% YoY in May, imports increased 21.5% YoY, and total goods trade expanded 15.3% YoY over the first five months. Mechanical and electrical products accounted for more than 60% of exports and grew 18.4% YoY, underscoring the continuing role of manufacturing upgrading as a macroeconomic buffer. Industrial production also outperformed domestic demand. Value-added industrial output above designated size grew 4.1% YoY in April and recovered to 4.5% in May, supported by high-tech manufacturing and export-linked supply chains.

While consumption weakened more than expected, technology-sector fundamentals and primary-market exit channels continued to improve, creating a more pronounced divergence across the economy. For investors, China allocation should therefore place greater emphasis on structural selection: advanced manufacturing, AI-related infrastructure, globally competitive exporters, and companies with more verifiable orders and cash flows should be prioritized over a broad-based bet on a full consumption recovery.

Policy and Financial Conditions

The policy environment in Q2 was influenced by two main themes: weak domestic demand and external shocks. At the macro level, the Middle East conflict continued to disrupt supply chains. The joint U.S.–Israeli military operation launched on 28 February led to a sharp decline in shipping traffic through the Strait of Hormuz, pushing Brent crude from around $70 per barrel at the end of February to a Q2 peak of approximately $100 per barrel. By mid-June, the U.S. and Iran signed a ceasefire memorandum and initiated a 60-day truce, allowing energy markets to stabilize gradually, although the geopolitical risk premium has not fully disappeared. The cost shock was also visible in price data. CPI rose approximately 1.2% YoY in May, indicating that end demand remained subdued, while PPI increased 3.9% YoY, driven more by upstream cost pressures than by broad-based demand-led reflation.

Domestically, the People's Bank of China kept the Loan Prime Rate unchanged in June, marking the 13th consecutive month without adjustment. This suggests that policymakers view the main constraint as weak real-economy financing demand rather than insufficient liquidity. In the first five months, RMB loans increased by RMB 9.11 trillion, while aggregate

social financing rose by RMB 17.48 trillion, slightly below the same period last year. Fiscal policy also remained targeted rather than broad-based. Fixed-asset investment fell 4.1% YoY in the first five months; excluding real estate, the decline narrowed to 1.2%, confirming that the property sector remains the largest drag on investment.

On U.S.–China relations, the two leaders held their first summit of President Trump's second term. Under the existing tariff framework, the two sides reached preliminary consensus on agricultural purchases and aviation equipment and established a bilateral committee on trade and investment. This marked a temporary easing in bilateral relations during Q2, although structural competition remains unresolved.

Overall, subsequent policies is more likely to continue through property-sector optimization, selective fiscal support and moderate liquidity provision, rather than a full-scale stimulus cycle.

Special Perspective

Sovereign Compute and Open-Source Model Ecosystems are Reshaping the Valuation Framework for Chinese AI Assets

In Q2 2026, the primary bottleneck in the AI sector shifted from the race for the largest model parameters to securing a sustainable, cost-effective, and compliant supply of AI capabilities within a compute-constrained environment. While U.S. export controls on high-end AI chips experienced a marginal easing early this year, uncertainties persist regarding H200 shipments to China and corresponding domestic procurement approvals. Concurrently, domestic clients emphasis on supply chain security, inference costs, and software stack portability has significantly increased.

Consequently, China's AI ecosystem is bifurcating into two parallel tracks: high-end training compute remains contingent on global supply chain dynamics, while inference and vertical applications are rapidly migrating toward domestic silicon, open-source models, and cost-effective engineering solutions. Recent studies on China's open AI ecosystem suggest that export controls have objectively amplified the strategic imperative of localized open-source models, standardized interoperability, and alternative infrastructure.

- **Compute transitioning from a "resource constraint" to a "balance sheet consideration":** Enterprise AI deployment is no longer evaluated solely on model efficacy. Decision-makers are increasingly scrutinizing inference costs, power consumption, silicon availability, migration friction, and service-level agreements (SLAs). Enterprises capable of compressing unit inference costs to fit squarely within standard client IT budgets are best positioned to outlast the ongoing model price wars.

- **The integration of open-source models with proprietary vertical data is emerging as the pragmatic roadmap for AI application and commercialization in China:** Rather than competing for absolute leadership in foundational, general-purpose models, a more viable strategy involves establishing scalable, reusable frameworks for data governance, benchmarking, and deployment across key verticals, including the public sector, manufacturing, finance, healthcare, and retail.
- **The true moat for the Chinese compute ecosystem lies in the software stack:** Hardware performance is only the first layer. Compilers, toolchains, operator libraries, developer communities, and seamless client migration experiences are the critical factors determining the friction costs of transitioning "from pilot programs to at-scale deployment".

Investment Insights

Moving forward, future valuation framework for AI assets should increasingly adopt the framework of "Compute Availability + Unit Economics + Closed-Loop Vertical Data + Ecosystem Migration Costs". For private equity and venture capital (PE/VC) investors, strategic allocation should be dual-pronged: maintaining focus on critical hardware infrastructure (e.g., silicon, liquid cooling, power management, optical transceivers) while concurrently targeting application-layer enterprises that demonstrate cross-platform deployment capabilities, possess deep industry know-how, and have sustainable data flywheels.

Healthcare

Summary

Greater China's healthcare sector enters the second half of 2026 supported by a constructive macroeconomic backdrop and favorable domestic policy tailwinds. Q1 GDP growth of 5.0% YoY, an expansionary fiscal stance, and a RMB 30 per capita increase in medical insurance subsidies collectively reinforce structural demand across pharmaceuticals and medical devices, amplified by China's aging demographics.

China's domestic policies are increasingly favoring healthcare companies with advanced technology platforms. The 15th Five-Year Plan names biomanufacturing, advanced therapies, brain-computer interfaces (BCI), and AI-driven healthcare as focus verticals eligible for preferential regulatory and funding support. The proposed U.S. Biotech Investment National Security Act (BINSA) threatens to subject outbound US biotech investment into China to national security review, creating headwind for Chinese biotech targeting the U.S. market.

Capital markets reflected notable divergence: despite Hong Kong's strongest H1 IPO market in five years (HK$209.9bn across 85 listings), the Hang Seng Healthcare Index fell ~19.8% (early March to mid-June) before rebounding 14.7% in late June, signaling a potential rotation away from a "technology-only" investment thesis towards a more balanced sector allocation.

We highlight five investable themes.

First, **the implementation of commercial innovative drug catalog** establishes a dual-payer system, rewarding differentiated oncology, Alzheimer's, and rare-disease pipelines with preserved pricing power.

Second, **record out-licensing activity**, potentially reaching $240bn in 2026, led by landmark Hengrui–BMS, Innovent–Pfizer, and UCB–Antengene deals, validates the equity-retaining 'NewCo' model favored by PE/VC investors.

Third, **generative AI is penetrating the full pharmaceutical value chain**, with China commanding ~70% of AI drug-discovery patent filings; we favor "picks-and-shovels" infrastructure and data providers.

Fourth, **smart pharmaceutical manufacturing** creates opportunities in digital-twin providers and next-generation CDMOs.

Fifth, **world-first commercial BCI approval** positions component and rehabilitation-technology suppliers for expanding addressable markets.

Healthcare Policy Landscape: 15th Five-Year Plan and Geopolitical Tensions

Key Biotech Verticals in the 15th Five-Year Plan (2026–2030)

China's 15th Five-Year Plan designates biomedicine as a strategic emerging industry for priority development, alongside new-generation information technology, robotics, and aerospace[1]. Within healthcare specifically, the plan names biomanufacturing, advanced therapies (gene and cell therapy), and brain-computer interfaces as priority technologies[2]. Life sciences, genetic research, and AI-driven healthcare are designated to drive economic growth, with the goal of raising average life expectancy to 80 by 2030[3].

This policy framework provides long-term visibility for investors. Companies operating in designated priority verticals benefit from preferential regulatory pathways, government procurement preferences, and dedicated funding channels. The explicit naming of brain-computer interfaces and AI-driven healthcare as strategic priorities is particularly notable, as these represent relatively nascent sectors where early-stage investment can capture significant policy-driven upside.

Sino-US Geopolitical Tensions: The Biotech Investment National Security Act

On June 2 2026, Representatives Moolenaar (R-MI) and Dingell (D-MI) introduced the Biotech Investment National Security Act (BINSA), structured as an amendment to the Comprehensive Outbound Investment National Security (COINS) Act[4]. BINSA would expand Treasury's outbound investment screening to cover biotechnology, specifically pharmaceutical development, biologics manufacturing, clinical R&D, drug discovery platforms, and related intellectual property, including the know-how[5].

The legislation would require outbound US biotechnology licensing deals, joint ventures, and equity investments in China to be subject to strict national security review[6]. This represents a significant escalation from the existing COINS Act framework (currently covers only semiconductors, artificial intelligence, and quantum information technologies[7]).

Investment Insights

BINSA creates a dual dynamic for Greater China healthcare investors. On one hand, it may constrain certain cross-border deal structures and slow US-China biotech collaboration. On the other hand, it could accelerate the "China-for-China" innovation thesis, driving domestic capital formation and creating opportunities for Hong Kong-based investors to fill funding gaps previously addressed by US capital. From an allocation perspective,

[1] http://en.ce.cn/main/latest/202603/t20260315_2829326.shtml
[2] https://cisema.com/blog/china-15th-plan-healthcare
[3] https://meetingsinternational.com/mi-magazine/features/china-strong-government-support-under-the-15th-five-year-plan/
[4] https://pharmasource.global/content/policy-briefing/congress-proposes-federal-oversight-for-us-china-drug-licensing-deals/
[5] https://www.mondaq.com/china/terrorism-homeland-security-defence/1803300/recent-federal-developments-targeting-china-linked-companies-and-overseas-biotechnology-investments-and-collaboration
[6] https://www.reuters.com/world/us-house-committee-opens-investigation-into-merck-abbvie-china-drug-trials-2026-06-30/
[7] https://pharmasource.global/content/policy-briefing/congress-proposes-federal-oversight-for-us-china-drug-licensing-deals/

companies with strong domestic pipelines, revenue streams primarily from China and the Asia-Pacific market, and active Asia-Pacific licensing partnerships may be relatively insulated from BINSA's impact.

HKEX Healthcare Capital Markets: Q2 2026 Performance and IPOs

The broader Hong Kong IPO market delivered its strongest first-half performance in five years, with HK$209.9 billion raised across 85 new listings in H1 2026[8]. However, the healthcare sector experienced notable divergence from this broader strength. The Hang Seng Healthcare Index fell ~19.8% from 02-Mar-2026 to 17-Jun-2026, underperforming the Hang Seng Index, which declined ~6.7% over the same period, possibly due to investors' preference for technology and AI stocks. Notably, this trend had reversed recently, as the Hang Seng Healthcare Index climbed 14.7% in the last 2 weeks of June, while the Hang Seng Index fell 4.0%, signaling a paradigm shift from the previous 'technology-only' investment thesis in the Hong Kong stock market.

Landmark Healthcare IPOs

Several healthcare companies achieved exceptional IPO performance during Q2, demonstrating strong investor appetite for differentiated biotech stories:

Table 1: HKEX Landmark Healthcare IPOs, Q2 2026

Company	Listing Date	IPO Proceeds	Listing Rule
Metis TechBio (7666.HK)	May 13, 2026	~US$270mn	Chapter 18C [9]
TenNor Therapeutics (6872.HK)	May 22, 2026	~US$76mn	Chapter 18A [10]
Micot Pharma (02335.HK)	June 24, 2026	~US $126mn	Main Board [11]
Alebund Pharmaceuticals (09637.HK)	June 29, 2026	~US$164mn	Main Board [12]

TenNor Therapeutics achieved the strongest first-day performance of any firm listed under Hong Kong's Chapter 18A pre-profit biotech rules, surging 179% on its May 22 debut, with the Hong Kong retail portion oversubscribed approximately 9,000 times[13]. Metis TechBio, an AI nano-delivery company, raised approximately US$270 million under Chapter 18C Specialist Technology listing rules[14].

[8] https://kpmg.com/cn/en/media/press-releases/2026/06/hk-delivers-strongest-first-half-ipo-performance-in-5-years-driven-by-record-breaking-a-h-and-specialist-technology-listings.html
[9] https://omm.com/news/press-releases/o-melveny-advises-on-first-ipo-of-an-ai-nano-delivery-company-in-us-270-million-hong-kong-chapter-18c-listing-of-metis-techbio/
[10] https://thebambooworks.com/investors-pile-onto-tennor-ipo-with-hopes-for-new-type-of-gastric-drug/
[11] https://www.deloitte.com/cn/en/about/press-room/deloitte-china-assists-listing-of-micot-pharma-on-sehk.html
[12] https://www.caproasia.com/2026/06/30/china-clinical-stage-biopharmaceutical-alebund-pharmaceuticals-hong-kong-ipo-share-price-increased-103-5-on-day-1-trading-29-6-26-ipo-price-hkd-22-60-closing-hkd-46-to-1-3-billion-market-value/
[13] https://thebambooworks.com/investors-pile-onto-tennor-ipo-with-hopes-for-new-type-of-gastric-drug/
[14] https://omm.com/news/press-releases/o-melveny-advises-on-first-ipo-of-an-ai-nano-delivery-company-in-us-270-million-hong-kong-chapter-18c-listing-of-metis-techbio/

Core Theme 1: Commercial Insurance as Complementary Payer

The Emerging Dual-Payer System

In January 2026, China's commercial innovative drug catalog became effective, establishing a meaningful complementary payer system alongside the National Reimbursement Drug List (NRDL). The commercial insurance framework focuses specifically on drugs with significant innovation and clinical value that exceed basic medical insurance coverage. It fills a critical gap for high-cost but clinically valuable innovative drugs across oncology, Alzheimer's disease, and rare genetic disorders—therapeutic areas where the NRDL's cost-effectiveness thresholds have historically constrained access to breakthrough therapies.

This structural shift addresses one of the most persistent challenges facing China's biotech sector: the tension between innovation-driven pricing and the NRDL's emphasis on affordability. By creating a dedicated commercial payer channel for high-value innovative drugs, pharmaceutical companies can secure reasonable commercial returns on high-investment R&D programs without relying solely on NRDL negotiations, thereby enhancing the sustainability of innovation investment.

Investment Insights: Targeting Differentiated Pipeline Companies

The commercial innovative drug catalog potentially improves the risk-return profile of companies developing first-in-class or best-in-class therapies in catalog-eligible indications. Investors should prioritize companies with late-stage pipelines targeting oncology, neurodegenerative diseases (particularly Alzheimer's), and rare genetic disorders where clinical differentiation is demonstrable and pricing power is preserved. The catalog effectively creates a premium market segment within China's pharmaceutical landscape, rewarding genuine innovation with sustainable commercial economics.

Core Theme 2: Innovative Drug Licensing-Out Deals — A Record-Breaking Quarter

Unprecedented Out-Licensing Activity

Chinese biotech out-licensing activity reached extraordinary levels during March–June 2026. According to ING estimates, the full-year 2026 out-licensing value could reach approximately $240 billion, up from $136 billion in 2025. China-based sellers drove 66% of global licensing value in Q1 2026, up from 48% in full-year 2025, and Chinese companies now represent approximately 50% of global out-licensing deals. Three mega-deals defined the period and validated China's emergence as the world's leading source of licensable pharmaceutical innovation.

Landmark Transactions

Hengrui Pharma–Bristol Myers Squibb (May 12, 2026): BMS will pay Hengrui up to $950 million in near-term payments, including a $600 million upfront payment, a $175 million first anniversary payment, and a contingent $175 million second anniversary payment in 2028[15]. The total potential deal value reaches up to $15.2 billion, including exercise option fees, development, regulatory, and commercial milestones across all programs[16]. The agreement covers 13 early-stage programs across oncology, hematology, and immunology, with BMS receiving ex-China rights to four oncology and hematology assets and jointly discovering and developing five additional candidates[17].

Innovent Biologics–Pfizer (May 29, 2026): Innovent will receive a $650 million upfront payment and is eligible for up to $9.85 billion in development, regulatory, and commercial milestone payments, bringing the total deal value to up to $10.5 billion[18]. The agreement covers 12 early-stage oncology programs, including antibody-drug conjugates (ADCs) and multi-specific antibodies, with double-digit royalties on net sales of approved products and closing expected in Q3 2026[19].

UCB–Antengene (March 2026): Antengene received $60 million upfront plus $20 million in near-term milestones, with eligibility for more than $1.1 billion in development, regulatory, and commercial milestones, plus tiered royalties on net sales[20]. UCB gained worldwide exclusive rights to develop, manufacture, and commercialize ATG-201, a CD19/CD3 bispecific T-cell engager targeting B cell-driven autoimmune diseases[21].

Investment Insights

The mega-deal trend further validates the "NewCo" model, which is a hybrid structure where a Chinese pharmaceutical company spins off clinical assets into a newly formed offshore entity, retaining an equity stake while external investors take majority ownership and fund development independently[22] [23]. The "NewCo" model represents an evolution from "product export to value export," allowing Chinese biotechs to share their assets' long-term value through equity stakes rather than one-time licensing fees[24].

For PE/VC investors, the "NewCo" structure offers distinct advantages over traditional out-licensing: equity participation enables full long-term value appreciation through IPO or M&A exits rather than capped milestone payments[25], while the structure isolates the asset from the parent company's operational risks and provides dedicated management focus[26].

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[15] https://www.cooley.com/news/coverage/2026/2026-05-12-hengrui-pharma-and-bristol-myers-squibb-announce-strategic-agreements
[16] https://www.fiercebiotech.com/biotech/bms-inks-15b-biobuck-deal-bag-hengrui-assets-tap-chinas-rd-speed
[17] https://www.fiercebiotech.com/biotech/bms-inks-15b-biobuck-deal-bag-hengrui-assets-tap-chinas-rd-speed
[18] https://www.cnbc.com/2026/05/29/innovent-shares-rise-10percent-after-pact-with-pfizer-of-up-to-10point5-billion.html
[19] https://www.pharmtech.com/view/pfizer-innovent-deal-new-model-for-global-drug-development
[20] https://www.bioxconomy.com/partnering/ucb-and-antengene-join-forces-to-target-autoimmune-diseases
[21] https://www.ucb.com/newsroom/press-releases/article/ucb-and-antengene-enter-global-license-agreement-for-atg-201-a-b-cell-depleting-bispecific-antibody
[22] https://www.morganlewis.com/ru/pubs/2024/10/understanding-the-newco-model-a-trending-approach-of-chinese-pharmaceutical-companies
[23] https://www.bioxconomy.com/investment/a-growing-phenomenon-the-rise-of-biopharma-newcos-in-china
[24] https://www.yicaiglobal.com/news/chinese-biotech-firms-expand-beyond-licensing-toward-newco-model-experts-say
[25] https://www.bioxconomy.com/investment/a-growing-phenomenon-the-rise-of-biopharma-newcos-in-china
[26] https://www.bioxconomy.com/investment/a-growing-phenomenon-the-rise-of-biopharma-newcos-in-china

Core Theme 3: Generative AI in China's Biotech Industry

Rapid Penetration Across the Pharmaceutical Value Chain

China's biotech and life science industry is experiencing fast penetration of generative AI across the pharmaceutical value chain. The main application areas span drug target identification and lead generation, pre-clinical molecule optimization, and drug commercial launch. Digital solutions, automated experimentation, and advanced analytical tools serve as key enablers, providing high-quality datasets for AI model training, routine data feeds for task execution, and robotic systems that translate AI's digital outputs back into the physical world.

The scale of China's AI-pharma ecosystem is remarkable. Chinese biotechs account for nearly 70% of global AI-driven drug discovery patent filings[27], reflecting both the depth of technical talent and the government's strategic prioritization of AI-driven healthcare in the 15th Five-Year Plan[28].

Leading Companies

Insilico Medicine (HKEX: 3696) operates an end-to-end generative AI platform comprising PandaOmics for target discovery, Chemistry42 for molecule design, and Generative Biologics for antibody design. Listed on HKEX in December 2025 raising approximately $293 million, the company secured a $2.75 billion deal with Eli Lilly in March 2026 and an approximately $120 million collaboration with Qilu Pharmaceutical for cardiometabolic therapies. Its pipeline includes 27 preclinical candidates and more than 10 IND-cleared molecules[29] [30] [31].

XtalPi (HKEX: 2228) uses quantum algorithms to calculate molecular structures and trains proprietary AI large language models to screen billions of molecules for drug candidates, tested in robotic labs in China and the US. The company serves nearly 80% of global big pharma companies and signed a US$6 billion deal with DoveTree in August 2025[32].

Investment Insights

- **Enabling Infrastructure and Data Providers:** The generative AI wave in pharma creates derivative investment opportunities in companies providing the enabling infrastructure: high-quality biological datasets, automated experimentation platforms, and robotic laboratory systems. These "picks and shovels" companies benefit from sector-wide AI adoption regardless of which specific drug candidates succeed, offering more diversified risk profiles than single-pipeline bets.

[27] https://www.drugpatentwatch.com/blog/china-leads-in-ai-driven-drug-discovery-patents-signaling-pharmaceutical-innovation-boom/
[28] https://meetingsinternational.com/mi-magazine/features/china-strong-government-support-under-the-15th-five-year-plan/
[29] https://aipharmachina.com/
[30] https://insilico.com/news/ohz90zx0t1-insilico-medicine-announces-2025-annual
[31] https://insilico.com/news/l16526c8p1-insilico-medicine-launches-science-mmai
[32] Source: wikipedia.org

- **AI-Enabled Commercial Intelligence:** Beyond discovery, generative AI is increasingly applied to drug commercial launch—optimizing market access strategies, physician targeting, and real-world evidence generation. Companies building AI-powered commercial platforms for the Chinese pharmaceutical market represent an underappreciated investment category with recurring revenue models and high switching costs.

Core Theme 4: Smart Pharmaceutical Factories

The Smart Manufacturing Paradigm

Smart pharmaceutical factories integrate Internet of Things (IoT), cloud computing, AI, and robotics technologies to create efficient, agile, and data-driven manufacturing platforms. Real-time data from the manufacturing floor is continuously collected and fed into complex computational systems such as digital twins to optimize drug manufacturing conditions and minimize costly errors, achieving higher margins than traditional manufacturing platforms. This is particularly critical for biologics production, where process variability directly impacts product quality and yield.

Case Study: WuXi Biologics — Digital Twin and Continuous Manufacturing

WuXi Biologics has deployed two transformative smart manufacturing technologies across its Chinese operations. In January 2026, the company launched PatroLab™, a digital twin platform combining real-time monitoring, Raman-based Process Analytical Technology (PAT), and predictive in-silico modelling to enable proactive control across biologics manufacturing[33]. The platform allows operators to anticipate process deviations before they occur, reducing batch failures and improving consistency across production campaigns.

Complementing this, WuXi Biologics' WuXiUP™ platform achieves fully automated continuous drug substance production, enabling 24/7 operation with 24-day cell culture runs producing over 110 g/L in total, with peak daily yields of 7.6 g/L [34]. This represents a step-change in biologics manufacturing productivity, dramatically reducing the cost per gram of antibody production while maintaining GMP compliance.

Investment Insights

- **Digital Twin and PAT Solution Providers:** Companies developing digital twin platforms, process analytical technology, and predictive modelling software for biologics manufacturing represent high-growth investment targets. As GMP requirements tighten and biologics complexity increases, demand for real-time

[33] https://pharmasource.global/content/news/cdmo-news/wuxi-biologics-launches-patrolab-digital-twin-platform-for-bioprocessing/
[34] https://pharmasource.global/content/news/cdmo-news/wuxi-biologics-announces-fully-automated-continuous-drug-substance-production-platform/

process intelligence will grow across both CDMOs and in-house manufacturing operations[35].

- **Next-Generation CDMOs with Smart Manufacturing Capabilities:** Contract development and manufacturing organizations (CDMOs) that have invested in smart factory infrastructure can offer clients superior yields, faster timelines, and lower costs. Investors should evaluate CDMOs based on their digital maturity—those with integrated and AI-enabled yield increase technology platforms will capture market share from traditional batch-process competitors[36] [37] [38].

Core Theme 5: Brain-Computer Interface Breakthroughs

World's First Commercial BCI Approval

In March 2026, China's National Medical Products Administration (NMPA) granted the world's first commercial approval for an implantable brain-computer interface—the NEO system developed by Shanghai-based Neuracle Medical Technology in collaboration with Tsinghua University[39]. The device received a Class III medical device registration certificate, indicated for adults aged 18–60 with C2-C6 cervical spinal cord injuries to restore hand grasping function via a pneumatic glove[40].

The supporting clinical trial included 36 implant procedures (4 feasibility cases and 32 multicenter confirmatory cases) with 18 months of follow-up[41]. Notably, NEO's sensors rest on top of the brain's protective membrane rather than piercing it, representing a less invasive approach compared to penetrating electrode arrays[42]. This regulatory milestone positions China ahead of the United States in commercial BCI deployment, with Neuralink and other U.S. competitors still in clinical trial phases.

Strong Government and Industry Support

The Chinese government has mobilized substantial resources behind brain-computer interface development. In December 2025, a dedicated RMB 11.6 billion fund for brain science was launched[43]. BCI firms raised RMB 4 billion in investments in Q1 2026 alone, surpassing their entire 2025 fundraising total[44]. A joint policy document authored by seven government departments, including the Ministry of Industry and Information Technology,

[35] https://pharmasource.global/content/news/cdmo-news/wuxi-biologics-announces-fully-automated-continuous-drug-substance-production-platform/
[36] https://pharmasource.global/content/news/cdmo-news/wuxi-biologics-launches-patrolab-digital-twin-platform-for-bioprocessing/
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[38] https://www.biospace.com/press-releases/wuxi-biologics-chengdu-microbial-commercial-manufacturing-site-achieves-structural-completion-and-key-equipment-arrival
[39] https://spacedaily.com/n-china-approved-the-worlds-first-commercial-brain-implant-before-neuralink-and-the-key-difference-is-that-neos-sensors-rest-on-top-of-the-brains-protective-membrane-rather-than-piercing-th/
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[43] https://merics.org/en/comment/chinas-swift-moves-brain-computer-interfaces-challenge-europe-and-us
[44] https://merics.org/en/comment/chinas-swift-moves-brain-computer-interfaces-challenge-europe-and-us

the National Health Commission, and the Chinese Academy of Sciences, lays out a roadmap for China to achieve BCI breakthroughs by 2027 and build an internationally competitive industry by 2030[45]. The BCI sector has been explicitly highlighted as a key emerging industry in the 15th Five-Year Plan[46] [47].

Investment Insights

Neural Interface Component and Ecosystem Suppliers: The BCI industry's rapid growth, RMB 4 billion raised in Q1 2026 alone[48], creates derivative opportunities in neural electrode manufacturing, biocompatible materials, signal processing chips, and rehabilitation robotics (such as the pneumatic glove systems used with NEO). As the BCI ecosystem matures from single-device approval toward broader clinical indications, component suppliers and rehabilitation technology companies will benefit from expanding addressable markets without bearing the full regulatory risk of device development.

Conclusion and Portfolio Positioning

The Q2 2026 landscape presents Hong Kong-based healthcare PE/VC investors with a compelling but complex opportunity set. Five structural themes—commercial insurance expansion, record out-licensing activity, generative AI penetration, smart manufacturing, and BCI breakthroughs—are simultaneously reshaping China's healthcare sector. The supportive macro environment (5.0% GDP growth, expanded fiscal spending) and explicit policy prioritization through the 15th Five-Year Plan provide long-term tailwinds, while BINSA-related geopolitical tensions and HKEX healthcare index rotation create near-term entry opportunities at attractive valuations.

Investors should construct portfolios that balance exposure to validated platform companies (capable of generating out-licensing mega-deals) with earlier-stage positions in policy-designated emerging sectors (BCI, AI-driven healthcare, and smart manufacturing). The commercial innovative drug catalog's creation of a premium payer segment potentially improves the commercial economics for differentiated innovative drugs, making late-stage biotech companies with first-in-class assets particularly attractive. Across all themes, the common thread is that China's healthcare sector is transitioning from a volume-driven, generics-dominated market to an innovation-driven ecosystem capable of generating globally competitive intellectual property and commanding premium valuations.

[45] https://www.wired.com/story/china-is-getting-serious-about-brain-computer-interfaces/
[46] https://cisema.com/blog/china-15th-plan-healthcare
[47] https://www.wired.com/story/china-is-getting-serious-about-brain-computer-interfaces/
[48] https://merics.org/en/comment/chinas-swift-moves-brain-computer-interfaces-challenge-europe-and-us

Technology

Summary

The 15th Five-Year Plan (2026–2030), officially promulgated during the National People's Congress in March, mentioned "AI" 52 times, designated semiconductors as a "pillar industry" and elevated new compute infrastructure to a national strategy, firmly cementing the policy trajectory for the tech sector over the next five years. The Hong Kong IPO market hit a record high in the first half of the year, with HKEX fundraising reaching HKD 209.8 billion (+92% YoY), 65% of which originated from the industrial and "hard tech" sectors. A+H dual listings have become the mainstream conduit, accelerating the entry of domestic AI chips and Embodied AI companies into capital markets. Large Language Model (LLM) competition has entered a new phase characterized by "Sino-US parity and accelerated open-source adoption", with domestic models capturing an increasing share of global Hugging Face downloads alongside a continuously declining cost curve.

PE/VC Investment Recommendations:

- Focus on the Return on Investment (ROI) of AI applications, domestic inference compute, the Embodied AI data closed-loop, Robotaxi operational efficiency, and Pre-IPO windows for high-quality hard tech companies.
- Strictly adhere to the principle that "policy support does not equate to a commercial closed-loop" when performing valuations. Project screening must be firmly anchored by cash flow quality, organizational capabilities, and clear, viable exit pathways.

Capital Market Review: The AI Thematic Narrative Remains Resilient Amidst a Notable Spike in Volatility

The defining theme for global tech assets in Q2 was "volatility following crowded trades". In late June, the Asian semiconductor and AI supply chains experienced noticeable drawdowns followed by subsequent rebounds, indicating the increased capital sensitivity toward AI infrastructure valuations, memory cycles, and the sustainability of CapEx. Following a Q1 retracement, the Hong Kong and A-share tech sectors have entered a volatile recovery phase. Internet platforms, domestic silicon, compute infrastructure, robotics, and autonomous driving remain the primary strategic directions for liquidity and thematic funds.

For primary markets, the expectation for "hard tech" exits remains the critical variable for confidence restoration. The Sci-Tech Innovation Board (STAR Market) growth tier, the relaunch of the Fifth Set of Listing Standards, and the renewed enthusiasm for tech-consumer IPOs in Hong Kong are continuing to improve exit visibility for VC/PE. However, a stark divergence is evident on the financing side: capital is showing a strong preference

for projects nearing commercial validation, anchored by policy tailwinds, and backed by tangible industrial order books.

Core Theme 1: AI Agents Enter the Race for Distribution and Workflow Integration; ROI Becomes the Ultimate Valuation Watershed

A Record-Breaking Cadence in Model Iteration in Q2

April 2026 marks the densest cluster of AI model releases in history, featuring major breakthroughs from Chinese models. Kimi K2.6 (Moonshot AI, April 20) became the first open-weights model to outperform GPT-5.4 on SWE-Bench Pro. DeepSeek V4 Preview (April 24), which was launched under the MIT license, had its Flash version aggressively priced at $0.14 per million tokens, while its Pro version is just 7-8 percentage points behind Claude Opus 4.7 on SWE-Bench. Concurrently, GPT-5.5 (OpenAI, April 23) and Gemini 3.1 Pro (Google, released in February) maintained the frontier for Western closed-source models, alongside rapid update cycles from mainstream open-source alternatives like Llama 4 and Qwen 3. As of June, download volumes of Chinese models on Hugging Face surpassed those of their US counterparts. Models such as GLM-5, DeepSeek V4, and Kimi K2.6 consistently dominate trending charts, driving a 421% YoY surge in the global token consumption share of Chinese models.

A Decisive Downward Shift in the Cost Curve

DeepSeek V4-Flash has established a new floor, becoming the most cost-effective frontier-class model to date at $0.14 per million input tokens. Simultaneously, domestic competitors like Kimi and Step have aggressively positioned themselves within the $0.10–$0.30/MTok bandwidth, opening up a staggering 5x to 30x price differential compared to the mainstream Western counterparts. This sustained price war is structurally compressing the marginal costs of enterprise AI applications, catalyzing a "Token Globalization" strategy wherein the international commercialization of domestic models is pivoting from B2C to B2B vertical integrations.

Distribution Channels as the Next Competitive Frontier

The AI battleground has evolved beyond parameter counts and price wars, shifting toward a multidimensional competition centered on "Distribution + Workflows + Usage Volume". While overseas platforms are embedding AI Agents into chat, productivity suites, and developer toolchains, Chinese tech giants are leveraging search, short-video, e-commerce, enterprise software, cloud platforms, and operating systems to secure high-frequency distribution touchpoints. For enterprise clients, the ability to integrate into real-world workflows, reduce headcount, or generate incremental revenue now supersedes abstract model leaderboard rankings. The structural advantage of Chinese AI applications lies in rapid engineering capabilities and high "scenario density": sectors such as manufacturing, public administration, finance, healthcare, and retail offer massive

runways for process automation. This, coupled with extreme client price sensitivity, forces vendors to relentlessly optimize inference costs, delivery cycles, and Service-Level Agreements (SLAs). Conversely, structural headwinds include immature software-paying habits, complex data compliance requirements, and high system integration friction. Relying solely on API calls or lightweight Proof-of-Concepts is no longer sufficient to build a durable economic moat.

Investment Insights

Due diligence on AI application projects must now pivot to three hard metrics: paid customer retention, per-customer usage growth, and delivered gross margins. Capital allocation should prioritize teams demonstrating the capacity to graduate from simple tool-based products to enterprise-grade vertical middleware, utilizing closed-loop data to drive continuous, compounding model improvements.

Core Theme 2: Domestic Compute Enters the "Usability Validation" Phase; Inference Chips and Liquid Cooling Infrastructure to Benefit

Restrictions on the supply of high-end chips to China have reinforced the need for domestic clients to deploy controllable computing power. While the training side remains constrained by high-end GPUs and advanced packaging, computing demand on the inference side is growing faster and shows higher cost sensitivity. This makes inference an ideal entry point for domestic chips via vertical use cases. Liquid cooling, power supplies, optical modules, high-speed interconnects, advanced packaging, and data center operations and maintenance (O&M) will continue to benefit from structural capital expenditures driven by AI compute.

The critical risk to monitor is the gap between "hardware deliverability" and "ecosystem migratability". Transitioning from the CUDA ecosystem to a domestic platform requires clients to re-adapt models, operators, toolchains, and O&M systems; short-term pilot projects do not equate to scaled commercial orders. Chip and system companies that possess robust software stacks, industry adaptability, and strong ecosystem partnerships should command significantly higher valuations than standalone hardware vendors.

Investment Insights

Focus on inference chips, AI servers, liquid cooling, and optical interconnect targets that have secured validation from top-tier cloud providers, State-Owned Enterprises, or major internet clients. Maintain strict valuation discipline regarding "concept-stage chip companies" that have yet to secure ecosystem-backed orders.

Core Theme 3: Embodied AI Pivots from Investment Frenzy to Commercial Use-Case Validation

In Q1 2026, financing in the Embodied AI sector surpassed RMB 20 billion—an approximate 2.8x YoY increase—intensifying the concentration of capital among top-tier players. Q2 maintained this high activity level: Unitree Robotics' path to a STAR Market IPO has become clearer, and Morgan Stanley projects 2026 sales of humanoid robots in China to reach approximately 28,000 units (+133% YoY). The official release of the national standard system for humanoid robots and Embodied AI in February, coupled with the Ministry of Commerce incorporating Embodied AI robots into key statistics for emerging consumption growth categories, signals the industry's transition from "exhibition prototypes" to commercial deployment.

Key Challenges

The underestimated difficulty of the data closed loop remains a core challenge. Many current demos remain fundamentally scripted or teleoperated; scenarios capable of forming a genuine "perception–decision–execution–feedback" closed loop are extremely limited. Leading companies have widely adopted "1 million hours of real-world scenario data" as their 2026 benchmark. Consequently, the expansion of operational "nodes" across factories, warehousing, inspection, and the service sector has emerged as the critical competitive differentiator.

The Risk of OEMs Cannibalizing Component Suppliers

Top-tier humanoid robot companies, both domestically and globally, are universally evolving toward a vertically integrated "complete machine + controller + critical actuator" model. Independent component suppliers providing only generic dexterous hands or standard joint modules risk marginalization. To defend their market positioning, these suppliers must deeply embed themselves within ecosystems or pivot toward high-barrier niches such as specialized sensors and ultra-low backlash reducers.

Investment Insights

2026 is the pivotal year for use-case validation and data closed-loop construction. Prioritize top-tier operators that are the first to successfully execute the "scenario-data-algorithm-iteration" business loop. Core due diligence metrics for Embodied AI projects must include real-world operating hours, failure rates, unit payback periods, and data closed-loop quality. Component enterprises must prove their resistance to easy vertical integration by OEMs or demonstrate deep integration with leading ecosystems.

Core Theme 4: Robotaxi Enters the Era of Platform Partnerships and Urban Operational Efficiency Competition

The commercialization of Robotaxis continues to accelerate

Baidu's Apollo Go maintains the largest scale domestically, with fully driverless operational orders surging over 200% YoY in Q3-Q4, surpassing 17 million cumulative rides across 22 cities. Its Q4 partnership announcements with Uber (London) and Lyft mark the execution phase of its "platform-based globalization" strategy.

Pony.ai is accelerating fleet expansion after securing citywide fully driverless commercialization permits in Shenzhen, targeting a 5,000-vehicle fleet for 2026. Concurrently, Baidu is advancing testing licenses in overseas markets like Hong Kong and Dubai. Momenta continues to drive its "dual-flywheel" approach of ADAS mass production and L4 overseas platform cooperation; its smart driving system for Mercedes-Benz has entered the mass production rollout phase, and a Southeast Asian partnership with Grab was finalized in Q4. Tesla's Robotaxi announced overseas expansion plans within 2026, continuously driving demand for cameras and compute chips under its vision-only approach.

The Infrastructure Nature of the Profit Model

Robotaxis more closely resemble urban transportation infrastructure than internet platform businesses. A significant positive feedback loop exists among fleet scale, route density, and algorithmic iteration efficiency—larger operational scopes yield more comprehensive data accumulation, which in turn accelerates urban deployment speeds. We recommend pricing these assets using a "long-term franchised infrastructure" framework, rather than applying the traditional asset-light valuation logic of standard ride-hailing companies.

Investment Insights

Focus on in-vehicle computing, sensors, drive-by-wire chassis, operational dispatch systems, remote takeover platforms, and autonomous driving data toolchains. Different technological roadmaps correspond to distinct supply chain opportunities; investors must avoid uniformly applying a single valuation template across all Robotaxi companies.

Core Theme 5: Hard-tech Exit Window Remains, but Valuations Shift from "Scarcity" to "Earnings Delivery"

STAR Market hard technology policies have continued to improve primary market exit expectations, and high-quality enterprises in tracks such as semiconductors, AI, robotics, commercial aerospace, and the low-altitude economy still offer Pre-IPO opportunities. However, following the rapid valuation repair in the secondary market since the second

half of 2025, investors' requirements for financial performance, orders, and gross margins have increased significantly.

For hard tech enterprises planning to go public, policy support can only solve the issue of "whether they can list"; it cannot substitute for "whether they can be sustainably priced after listing." Enterprises with controllable customer concentration, verifiable revenue, genuine room for domestic substitution, and a clear path for R&D expense ratios and gross margins are more likely to secure long-term capital backing.

Investment Insights

Hard-tech Pre-IPO opportunities remain worthy of attention, but it is necessary to adhere to comprehensive assessments of secondary market comparable company valuations, issuance pacing, lock-up periods, and earnings delivery, to avoid paying an excessive premium for "policy labels."

Consumer

Summary

Under the dual pressures of diminishing marginal returns from trade-in subsidies and energy price shocks, traditional goods consumption witnessed a broad-based pullback. Consumer staples demonstrated relative resilience, and service consumption, such as cultural tourism and catering, held up reasonably well. The "emotional economy" (designer toys/IPs, pets, outdoor gear) maintained structural robustness. AI consumer hardware continued to scale, entering a critical volume-validation phase. Furthermore, the "full-chain localization" trend deepened as Chinese companies expanding overseas accelerated their diversified footprints across Europe, Southeast Asia, and Latin America.

PE/VC Investment Recommendations

- Prioritize product categories where policy subsidies successfully translate into genuine repeat purchases, AI hardware gateways, service consumption, and consumer platforms exhibiting strong global operational capabilities.

Overall Observations: Policy Support Remains Effective, but Organic Recovery is Still a Work in Progress — Consumption Underperforms Expectations as Structural Divergence Widens

The underlying logic of consumer spending in Q2 2026 remains strong policy support coupled with a slow recovery in consumer confidence. The trade-in subsidy program continues to serve as the primary lever for durable goods consumption, but policy support should not be mistaken for a broad-based consumption recovery. Households remain cautious on employment, income, and asset prices; the marginal stimulus effect of online shopping festivals is fading, and platform-driven "everyday low price" subsidies are compressing merchant margins. Consumer investment strategy needs to pivot from a "total revival" framework to a "structural stratification" framework: essential categories should be evaluated on supply-chain efficiency, emotional-value categories on IP strength and community engagement, service consumption on fulfillment quality and scenario design, and AI hardware on hardware-software integration and ecosystem access.

Total Retail Sales of Consumer Goods grew just +0.2% YoY in April 2026 (vs consensus of +2.0%), the weakest print in over three years, with growth deteriorating further to -0.6% YoY in May — the first negative print since December 2022. Durable goods bore the brunt of subsidy step-down and energy-price headwinds: automobiles (-16.1%), home appliances and audio-visual equipment (-15.6%), and construction and decoration materials (-13.6%) all posted sharp declines. Even after stripping out categories materially distorted by the trade-in program, underlying organic consumption growth still looks considerably weaker.

Relative resilience persisted in essential-consumption categories such as beverages (+6.1%) and dining/catering (+0.6%), while telecommunications equipment also posted positive growth, driven by AI consumer hardware demand. Following the May data release, HSBC cut its full-year retail sales growth forecast from 5.2% to 2.8%.

Key headwinds include: diminishing marginal returns on trade-in subsidies (against a high base from 2025 stimulus); geopolitical volatility weighing on consumer confidence; real estate investment down 16.2% cumulatively YoY for January–May, with overall Fixed Asset Investment (FAI) down 4.1%, continuing to erode household confidence in stored wealth; and an "employment–income–consumption" virtuous cycle that has yet to take hold.

We expect Q2 GDP growth of approximately 4.3%–4.8% YoY. Hitting the full-year target of 4.5%–5.0% will require sustained policy escalation in H2, with the market pricing in a meaningful probability of a ~20bp RRR cut and expanded fiscal transfer payments in Q3.

Core Theme 1: Consumption Stratification Amid Weak Retail Sales — Rational Consumption and the "Emotional Economy" Deepen in Parallel

Value-for-money Positioning Continues to Strengthen

Mixue Ice Cream & Tea maintained its lead in net new store openings in Q2, while discount snack and bulk-format retail continued to gain penetration. Value benchmark brands such as Pinduoduo and Miniso continued to expand. The Pang Dong Lai store-transformation model is being replicated across large-format hypermarkets, including Yonghui Superstores and RT-Mart; Sam's Club continues to deepen its Member's Mark private-label push; and hard-discount new retail formats — Meituan's Kuaile Hou (Happy Monkey), Freshippo NB, and JD Discount Supermarket — are scaling aggressively, continuing to erode the bargaining power of traditional distributor channels.

The "Emotional Economy" is Showing Structural Resilience

Against a backdrop of broad-based softness in goods consumption, experiential and emotionally-driven spending categories continue to show notable elasticity: travel and cultural-tourism revenue, along with cultural and entertainment services, sustained double-digit growth, while designer-toy IP (Pop Mart's Labubu validating successful cross-cultural export), pet economy, and outdoor sports all posted positive growth. Despite tighter household budgets, willingness to pay for emotional value has not meaningfully declined — the resilience of "self-pleasing" consumption is outperforming expectations.

Investment Insights

Precise stratification is required across the rational-consumption and emotional-economy tracks. The former rewards supply-chain efficiency and channel management (scale economics plus digitalization); the latter hinges on brand equity, IP moats, and consumer-insight capability. Both tracks present opportunities, but valuation frameworks differ materially and should not be conflated.

Core Theme 2: AI Consumer Hardware Moves from Early Adoption to a Battle for the Entry Point. Form Factors Will Fragment, but the Ecosystem Will Consolidate

AI glasses, AI earbuds, wearable recording devices, AI toys, companion robots, and consumer-grade robotic dogs remained the standout categories in consumer tech in Q2. Unlike traditional consumer electronics, the value proposition of AI hardware extends well beyond hardware gross margin. It lies in sustained interaction, content generation, subscription services, and platform ecosystem lock-in.

Device form factors are likely to fragment going forward: glasses are best suited to first-person perspective and hands-free use cases, earbuds to continuous audio and real-time translation, pendant devices to recording and retrieval, and toys/companion robots to emotional-value delivery. Ecosystem control, however, is likely to consolidate around major platforms' account systems, payments, maps, content, productivity, and smart-home integrations. Startups will need to either own an extreme, well-defined use case or become an indispensable plug-in within a major platform's ecosystem.

Investment Insights

Prioritize companies with hardware-software integration capability, proven mass-production supply chains, closed-loop content/data assets, and ecosystem-level interfaces. A single hit device is insufficient to sustain a long-term valuation — the critical differentiator is whether hardware can be converted into a durable services entry point.

Core Theme 3: Globalization 2.0 — Deepening Full-Chain Localization Amid Tariff Pressure and Geopolitical Realignment

In Q2, the US-China tariff standoff eased somewhat following the Trump-Xi summit, but Nasdaq's tightened listing standards for Chinese issuers have materially narrowed the US listing pathway for China-concept stocks, pushing companies to diversify into Europe, Southeast Asia, and Latin America. European cross-border e-commerce exports from China grew over 14% YoY, while Latin America grew approximately 12.2% YoY — both outpacing the global average and emerging as the most promising alternative markets. The core competency required has evolved from "cross-border operations outsourcing"

to integrated "brand + warehousing + local operations" capability: Anker Innovations, SHEIN, and Temu are all scaling up local fulfillment infrastructure investment in North America and Southeast Asia; Mixue Ice Cream & Tea continues to export its replicable "local franchising + shared supply chain" playbook across Southeast Asia; and Chinese capital's "operational holding" model — exemplified by HongShan's (Sequoia China) acquisition of Golden Goose and other opportunistic acquisitions of international consumer assets — continues to evolve. Unlike Globalization 1.0, which centered on cross-border e-commerce logistics, Globalization 2.0 is fundamentally a test of organizational capability: local team-building, fulfillment infrastructure, tax and regulatory compliance, content marketing, franchise governance, M&A integration, and long-term brand stewardship. Acquiring a brand does not equate to acquiring growth, and deal success ultimately hinges on whether acquirers can lift ROIC while respecting the acquired brand's identity.

Investment Insights

Competitive advantage in overseas expansion now requires capability across the full value chain. Prioritize consumer companies with strong multi-region self-built infrastructure, globally coordinated supply chains, and a demonstrated ability to integrate overseas M&A assets — while remaining vigilant on geopolitical risk to low-value cross-border customs clearance policies (e.g., the US De Minimis/T86 provision).

Core Theme 4: Automotive Consumption — Smart-Driving Adoption Accelerates in the Second Half of the Cycle, Moving from Optional Feature to Standard Equipment

New energy vehicle (NEV) retail penetration approached 60% in May and reached 60.6% in early June, with national subsidies continuing to provide effective support for full-year auto consumption. That said, overall auto sales fell 16.1% YoY in May as national subsidy benefits stepped down, weighing materially on headline retail sales data — underscoring how sensitive the consumption structure remains to current income expectations.

On the competitive front, as NEV penetration continues to climb, the focus of competition is shifting from electrification adoption to the intelligent-driving experience. Consumers are no longer comparing range and price alone, with highway NOA (Navigate on Autopilot), urban NOA, active safety, AI cockpit systems, charging/energy-replenishment efficiency, and low-motion-sickness ride comfort now being the core purchase criteria. Autonomous-driving capability is migrating down from flagship models into the mainstream family price band, with joint-venture brands accelerating efforts to catch up.

This implies that automotive investment opportunities extend well beyond OEM brands themselves, into onboard AI chips, sensors, drive-by-wire (X-by-wire) actuation systems, cockpit software, mapping data, testing and validation, and aftermarket services. As price competition compresses OEM margins, third-party systems suppliers with the ability to

supply across multiple OEMs may, in fact, secure a more stable position within the value chain.

Investment Insights

Focus on the "pick-and-shovel" plays enabling the democratization of autonomous driving — onboard compute platforms, smart-cockpit software, sensor fusion, data closed-loop tooling, and energy-replenishment service networks. For OEM-level investments, prioritize rigorous evaluation of cash flow, inventory position, channel quality, and repeat-purchase rates.

Conclusion

Taken as a whole, the Q2 2026 tech and consumer investment landscape is not one of unqualified optimism, but rather one defined by "visible policy support, active industry development, valuation divergence, and an increasing premium on commercial proof points". On the technology side, the core narrative is AI's transition from storytelling to demonstrated usage; on the consumer side, the central question is whether policy support can ultimately catalyze organic demand. For long-term, value-oriented institutional investors, the current environment favors identifying structural opportunities defined by verifiable order books, data closed-loops, organizational capability, and credible exit pathways — even amid continued volatility.

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