

# The Next Big Rotation: Why China Healthcare's Rally Has Legs?

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- **China healthcare fundamentals are exceptionally strong, far from the speculative nature of meme stocks.**
- **Both global specialists and local generalists remain underweight, leaving room for capital rotation and momentum-driven inflows.**
- **Valuations are still highly attractive, with 100%+ upside to reach prior peak levels set in 2021, when fundamentals were far less compelling.**
- **Alpha generation isn't limited to biotech, medical devices and services are also re-rating with policy and demand tailwinds.**



## Valuation is Still Depressed Despite Recent Rally

- Despite the year-to-date recovery in 2025, the **Hang Seng Healthcare Index remains more than 50% below its peak.**
- A **100%+ rally is required** just to return to previous highs

In 2021, valuations peaked with:

- Less global BD visibility
- Weaker late-stage pipelines
- Fewer commercial-stage success stories.
- Huge cash piles were raised in the capital markets

Today, the landscape is fundamentally stronger with multiple global out-licensing deals, more commercial launches, sustained cost advantage, and cash piles are being renewed with large BD alliances.

### **Fundamentals Have Never Been Stronger**

- The **underlying discovery strength of China's biotechnology sector is at an all-time high**, with no signs of near-term slowdown.
- Large-scale **business development (BD) deals continue to emerge**, with Chinese innovative assets gaining global attention.
- **Cost advantage is substantial**, allowing China to develop drugs more efficiently and rapidly than most global peers, especially with respect to time to Proof of Concept.

### **Global Investor Participation Still Lacking**

- Global biotech specialists remain largely absent from China's healthcare equity market.
- There is **limited understanding of Chinese companies and the domestic capital market**.
- **Structural barriers** (e.g., access, liquidity, regulatory friction) make it mechanically difficult to invest in Hong Kong-listed and A-share listed healthcare names.

### **That is Starting to Change**

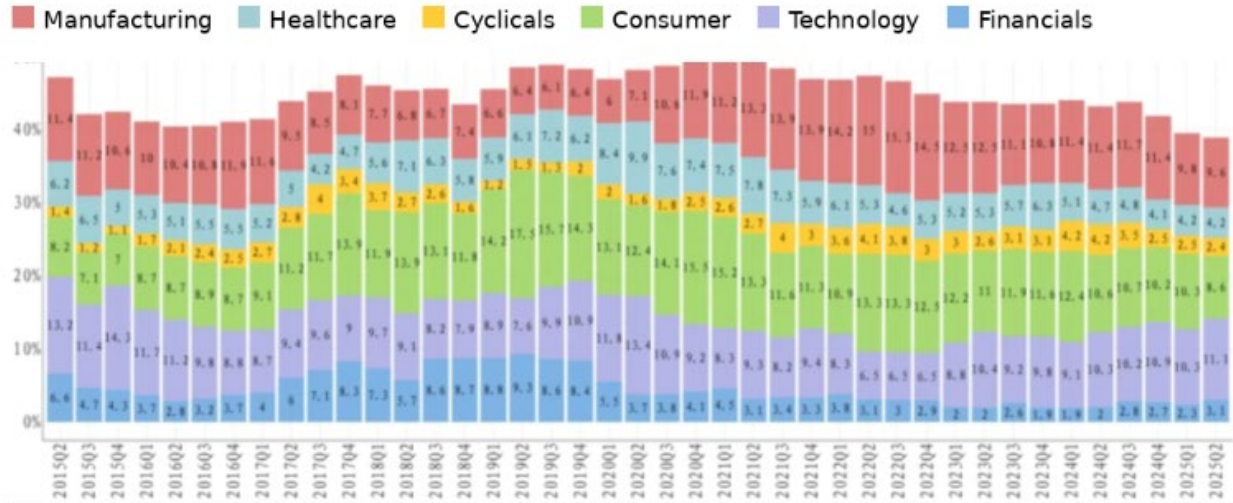
- Leading U.S. sell-side firms (e.g., **Evercore, Jefferies, Goldman, Leerink**) are organizing multiple **China biotech tours in H2 2025**, with **over 100 global healthcare specialist funds registered**—a key inflection point for awareness and capital flows.
- We expect increasing **inflows from global healthcare specialists** post-visit.

### **Local Generalist Funds Still Underweight, but Catching Up**

- Our research indicates that **local generalists remained underweight** healthcare in Q2.
- According to research from Kaiyuan Securities, generalist funds increased their healthcare allocation by just 0.1% in Q2 2025, reaching 4.2%, still significantly below the historical average.
- Note that the healthcare weight peaked at 9.9% in Q2 2020.
- Signs of **FOMO-driven flows** are emerging, with potential for significant re-rating if generalists re-engage.

Figure: China Generalist Mutual Fund Sector Positioning (2025 Q2)

In Q2 2025, the position in heavily held stocks of active equity funds was 38.89%, down 0.6% quarter-on-quarter; the consumer sector position decreased by 1.71%, while the financial sector position increased by 0.74% (Translated from Chinese)



**It is Not Just About Biotech**

- We are also seeing a **beta recovery in the medical device sector**, aided by:
  - **More rational pricing frameworks**
  - **A moderation in aggressive obligatory price cuts**
  - **Renewed domestic market growth potential**

*With strong fundamentals, under-positioned local and global investors, and early signs of renewed domestic and global attention, we believe China healthcare is entering the early stage of a durable re-rating cycle. Investors should position ahead of the curve.*

## Addendum: Beyond Healthcare

### *Macro tailwinds are fueling the China beta rotation*

#### 1. A Bull Market Amid Deflation? It Happened Before

Despite deepening domestic deflationary pressures, including falling property prices, weak credit growth, and sluggish consumer demand, Chinese equities are staging an unanticipated rally. Historical precedent: Japan (1998–2000) and China (2014–2015) both experienced bull markets in deflationary environments, driven by structural liquidity surpluses and global macro dislocations.

This implies that the current China healthcare rally does not need a domestic macro miracle to persist; it can continue riding the tide of **abundant liquidity, positioning catch-up, and global capital rotation**.

#### 2. China Bonds Are Forcing a Shift to Risk Assets

One of the most underappreciated drivers of equity flows has been the plunge in Chinese long-end government bond yields, which have declined sharply since 2024 (now near multi-decade lows). Domestic investors face an asset scarcity, pushing them away from fixed income into risk assets like equities.

Crucially, since early 2025, yields have stopped making new lows and appear to be reversing, a technical signal of the end of the bond bull cycle. This is especially relevant for healthcare, as historically risk-averse insurance and pension allocators reallocate to sectors offering **defensive growth, cost advantages, and policy visibility**, all traits central to China healthcare.

#### 3. The US Dollar Bear Market and Global Rotation

The U.S. dollar may have entered a secular bear market, driven by structural forces like deteriorating U.S. international investment position, waning Fed independence, and multipolar capital flows.

This shift is already translating into increased Emerging Market (EM) participation. Since Greater China comprises ~30% of the EM index, any re-risking by global allocators structurally boosts Greater China exposures. The healthcare sector, with its **low global positioning, cheap valuations, and new wave of global licensing deals**, is a natural beneficiary of this incremental capital.

#### 4. Technical Breakouts Reinforce the Regime Shift

Importantly, the Shanghai Composite Index appears to be breaking out of a 20-year consolidation range, while Tencent trades just 22% below its all-time high reached in 2021.

These technical signals are not typical of a market driven by short squeezes or retail euphoria; they reflect **structural position reversals** and **re-rating of long-underperforming sectors**.

**This observation aligns with the healthcare narrative: fundamentally stronger pipelines, lower valuations vs. 2021, and globally visible commercial wins are creating a setup not dissimilar to Tencent in tech.**

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