

The Compressed Spring: China’s 2026 Asymmetric Tech Breakthrough

MoatPeak — Independent Research

Executive Summary

We see today’s Chinese technology sector as a Compressed Spring. As of early 2026, a deep disconnect has opened up between how the market prices Chinese equities and what is actually happening on the ground. While global investors remain fixated on the soaring valuations of U.S. tech, Chinese technology is quietly transforming in what we would describe as the valuation basement. (see Figure 1).



Figure 1. The compressed spring in the skyscraper basement

Key takeaway: Our view is that Chinese tech is priced for pessimism while fundamentals are improving—creating an asymmetric setup.

In our view, this is one of the most compelling strategic opportunities in the current global capital cycle. The sector offers an asymmetric risk-reward: the downside is structurally constrained, while the upside is still largely unrecognized and unpriced.

Our thesis for a 2026 recovery is built on three core pillars. First, artificial intelligence is undergoing a paradigm shift—from brute-force, capital-intensive scaling to extreme architectural efficiency. Second, we are seeing a clear regulatory pivot away from involution and toward high-quality growth, which is enabling a meaningful margin recovery for leading platforms. Third, we expect a structural rotation of household savings—between \$4 trillion and \$10 trillion—as long-term deposits mature and capital searches for higher yields. (see Figure 2).

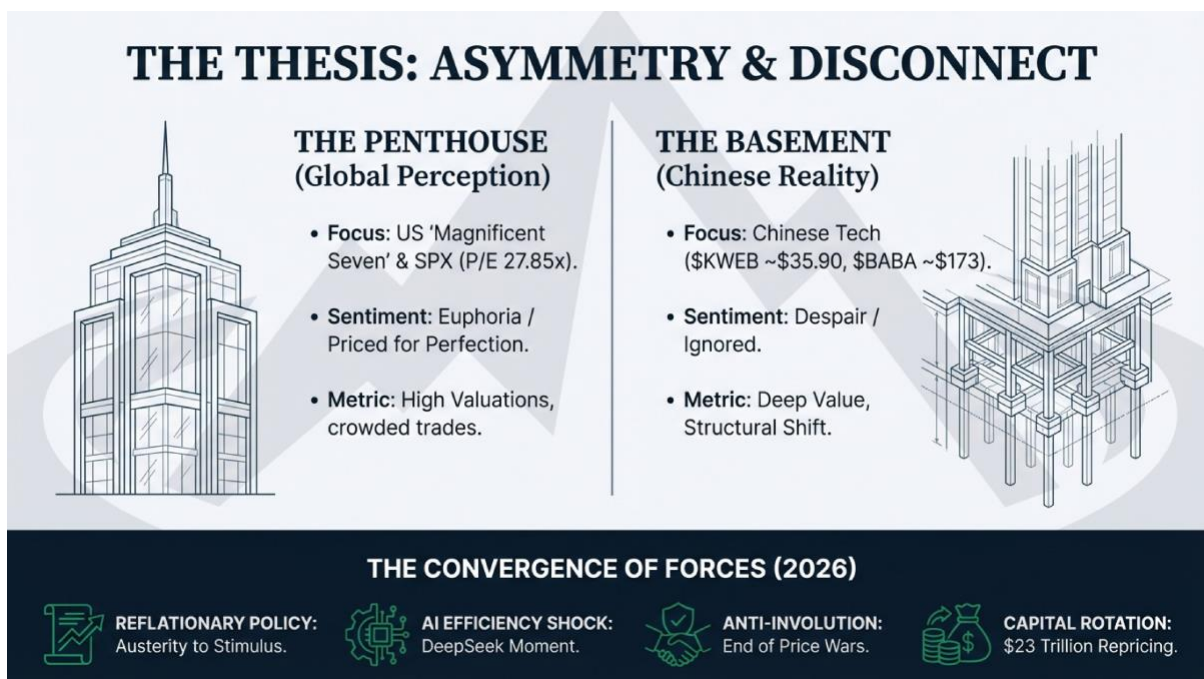


Figure 2. The thesis: asymmetry & disconnect

Key takeaway: We frame the opportunity around (i) AI efficiency gains, (ii) a regulatory pivot toward high-quality growth, and (iii) household savings rotation into risk assets.

With the KraneShares CSI China Internet ETF (\$KWEB) trading near \$35.90, we believe valuations have reached a fundamental floor. The interplay of fiscal stimulus, capital rotation, and technological breakthroughs is creating a vacuum of value that contrasts sharply with saturated U.S. markets. While most investors remain captivated by the shining floors of the U.S. skyscraper, we think the real stored energy lies in the compressed spring in the basement.

Impact on U.S. Markets: The Valuation Divergence

The strategic gap between the U.S. Magnificent Seven and Chinese Big Tech has, in our view, reached a critical tipping point. U.S. markets continue to trade at a substantial premium, but the efficiency of Chinese innovation is increasingly challenging the sustainability of the enormous capex cycles in the West. This is no longer just a geographic split; it is fundamentally about capital productivity.

We see the rise of Intelligence Dumping as a serious competitive threat to U.S. hyperscalers. The development of the DeepSeek-R1 model is emblematic: it has achieved performance in line with GPT-4 for under \$6 million, versus estimates of around \$3 billion for OpenAI. This dramatic cost advantage is powered by architectural advances such as Multi-Head Latent Attention (MLA) and MoE (Mixture-of-Experts) architectures. These innovations allow Chinese players to set a new global price benchmark for AI services. (see Figure 3).

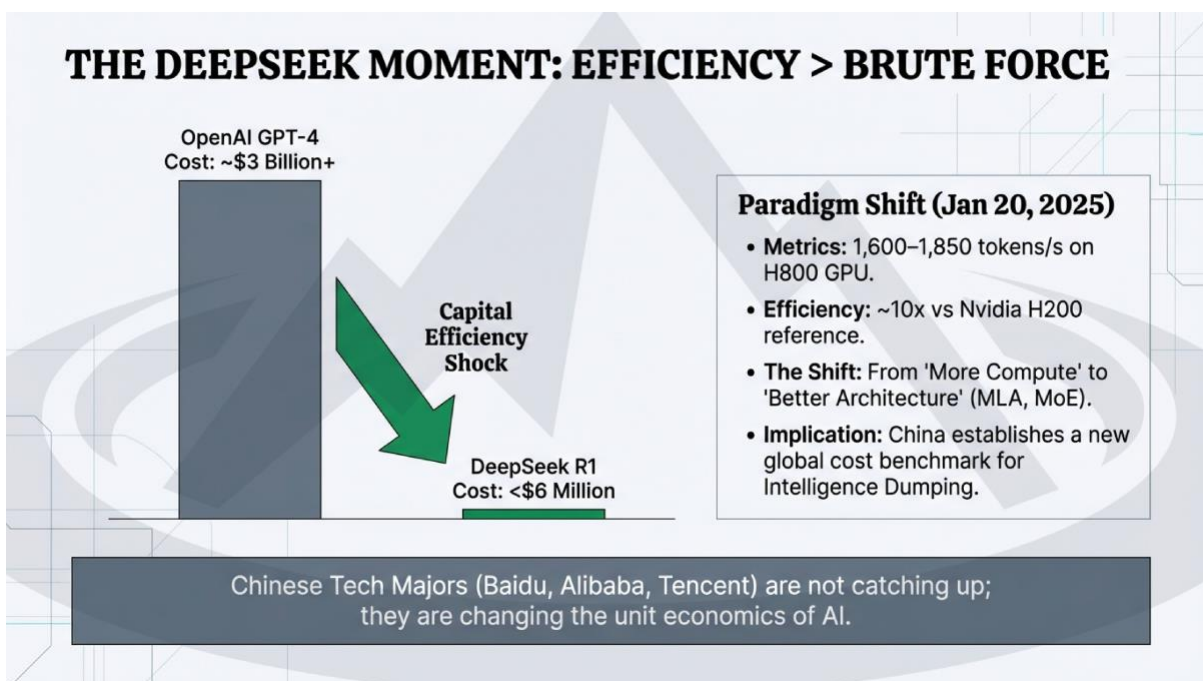


Figure 3. The DeepSeek moment: efficiency over brute force

Key takeaway: DeepSeek-R1’s cost curve highlights an efficiency shock that could reset AI pricing and challenge the sustainability of Western capex intensity.

Against that backdrop, the roughly \$240 billion in aggregate capex by U.S. firms—including Microsoft’s deployment of 485,000 GPUs—may rest on a less efficient model, especially when we compare it with Chinese firms delivering similar levels of intelligence at 10–15x lower cost.

In semiconductors, Nvidia’s software moat remains powerful, but Chinese challengers such as \$Cambricon and \$SMIC are advancing quickly. Progress on 7-nm N+2 processes signals that China is finding workarounds to export controls. This domestic capacity build-out gradually reduces long-term dependence on U.S. hardware and chips away at the absolute dominance of Western chipmakers.

Comparative Market Valuations (Early 2026)

Index / Market	Forward P/E Ratio	Strategic Context
S&P 500 (\$SPX)	27.85	Premium pricing near historical highs.
Nasdaq Composite	40+	Driven by extreme AI infrastructure spend.
Hang Seng Tech	22.6	31st percentile of historical range; deep value.
\$KWEB	~24.5	Historically suppressed relative to earnings.

A further layer of support comes from FX. A stronger Yuan (CNY \approx 6.96) offers a natural tailwind for U.S.-based holders of Chinese ADRs. With Morgan Stanley targeting 6.80 by year-end, we read the PBOC's stance as a signal of confidence in trade health and a reduction in capital flight risk.

Impact on Europe and Global Markets: The New Export Paradigm

China is now moving into what we call Going Global 2.0. The country is transitioning from exporting low-cost goods to exporting high-end technological ecosystems. We are no longer simply seeing hardware shipments—we are seeing the rollout of full-stack service infrastructures across the Global South and the Middle East.

Autonomous systems are a leading example. The expansion of \$BIDU Apollo Go in Abu Dhabi, in partnership with K2 AutoGo, is emerging as a blueprint for global AI service exports. The domestic numbers validate the maturity of this ecosystem: by early 2026, Apollo Go has completed over 17 million trips, running at a pace of roughly 320,000 trips per week. By launching fully driverless, commercial robotaxi services offshore, these companies are establishing early, scalable footprints in emerging markets—often ahead of Western peers. (see Figure 4).

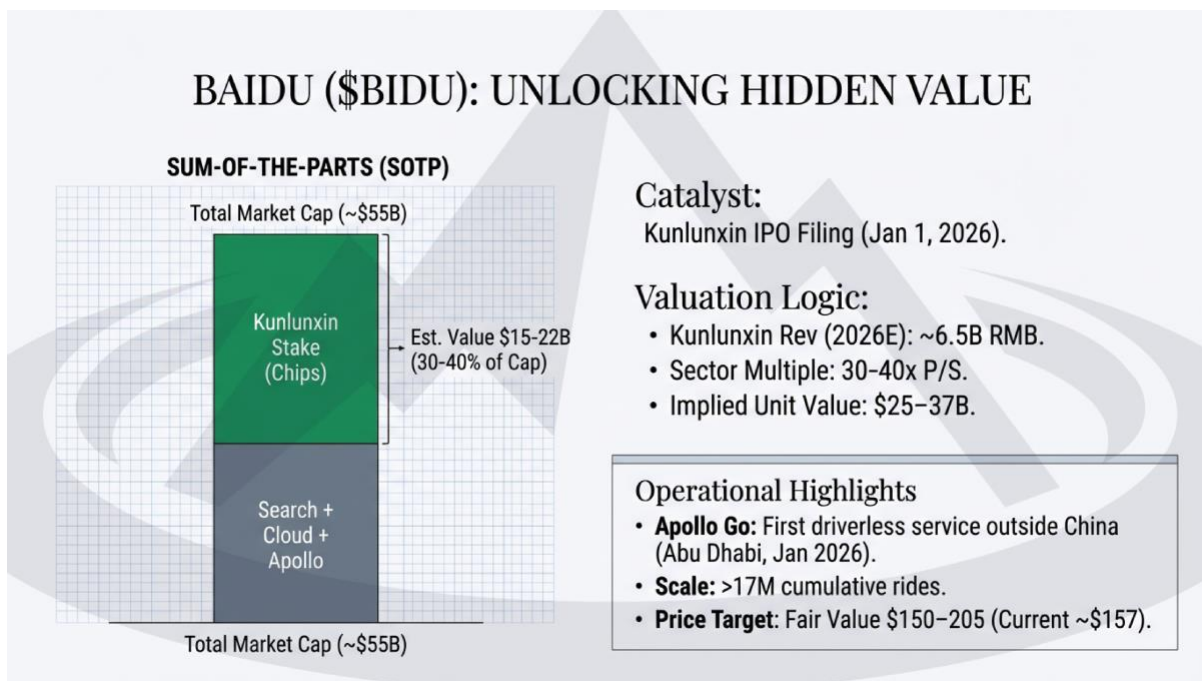


Figure 4. Baidu: unlocking hidden value via SOTP

Key takeaway: We see Apollo Go’s offshore expansion as early proof of exportable AI services, while Kunlunxin’s IPO is a potential SOTP catalyst for Baidu.

At the same time, this new export paradigm faces friction. We observe what we describe as ASEAN Rerouting: China’s record \$1.19 trillion trade surplus is increasingly sustained via transshipment through countries such as Vietnam and Thailand. While this preserves trade volumes, it also heightens the risk of regulatory pushback from Europe and the U.S., where policymakers are paying closer attention to the true origin of goods. This geopolitical tension forms an important backdrop to the domestic sector shifts we are tracking.

Sectoral Movements and Tactical Watchlist

We believe 2026 marks the end of the involution cycle. Years of hyper-competition and aggressive price wars have steadily eroded margins. Now, regulators are actively discouraging destructive subsidies, allowing leading platforms to pivot from pure scale to margin expansion and high-quality growth.

Deep Dive: The AI Powerhouse (\$BIDU)

We see the upcoming IPO of Kunlunxin, Baidu’s AI chip subsidiary, as a major catalyst for a Sum-of-the-Parts (SOTP) revaluation. We estimate Kunlunxin’s valuation at \$25-37 billion, driven by revenues rising from 3.5 billion yuan in 2025 to 6.5 billion yuan in 2026, an 85% YoY growth rate. With Baidu

owning 59%, this unit alone represents roughly 30–40% of Baidu’s \$54 billion market cap. In our view, Baidu should be understood as a vertically integrated AI powerhouse, not a legacy search company in decline.

Deep Dive: Margin Recovery (Meituan & \$BABA)

The food delivery price wars are finally cooling. Following anti-monopoly actions in January 2026, we expect Meituan’s Core Local Commerce margins to continue recovering from the H1 2025 low of 0.2%. By Q4 2025, margins had already rebounded to 8–9%, and we see a path toward the 12–15% target range. This pivot from volume-at-all-costs to profit-per-order is, in our view, a structural positive for sector valuations. (see Figure 5).

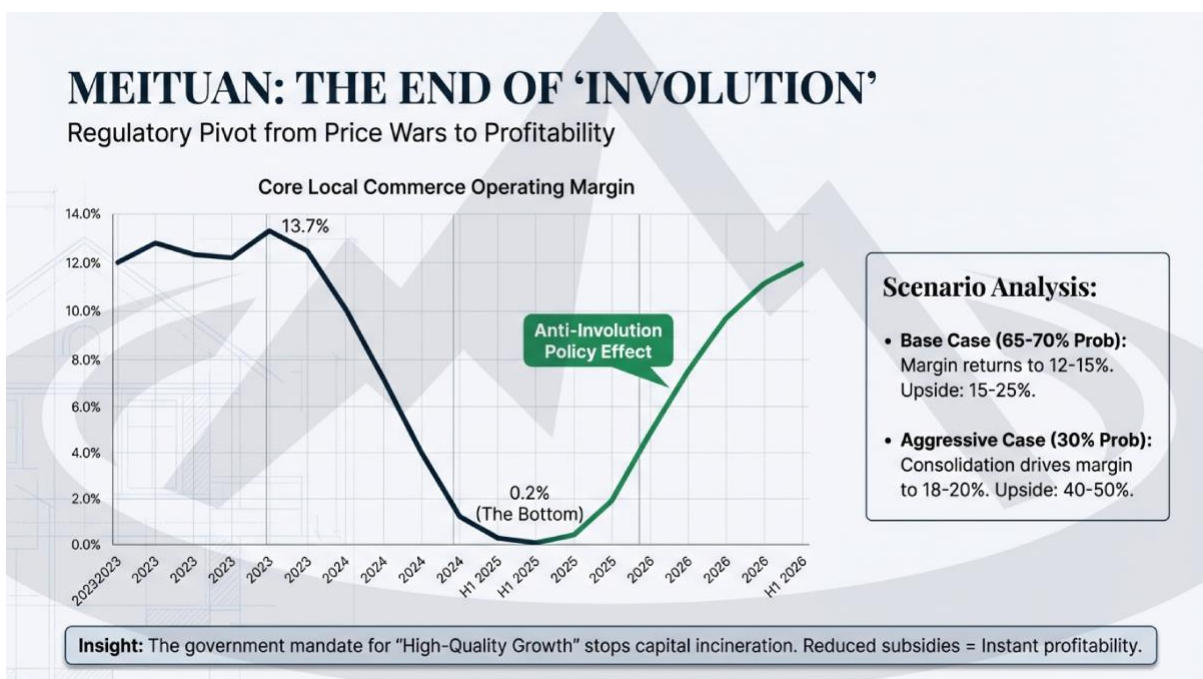


Figure 5. Meituan: the end of involution

Key takeaway: In our view, the policy pivot away from destructive subsidy wars is enabling a durable margin recovery for leading consumer platforms.

Deep Dive: Import Substitution (\$Cambricon)

We currently maintain a hold stance on “the Chinese Nvidia”. Cambricon stands out as a key beneficiary of the projected \$98 billion total Chinese AI spend in 2026. At the same time, we need to weigh its 500,000-unit production goal—including Siyuan 590/690 chips—against current 7-nm yield issues, which we estimate at roughly 20%. The software moat remains a challenge relative to Nvidia,

but we see government procurement catalogues as providing a guaranteed demand floor. (see Figure 6).

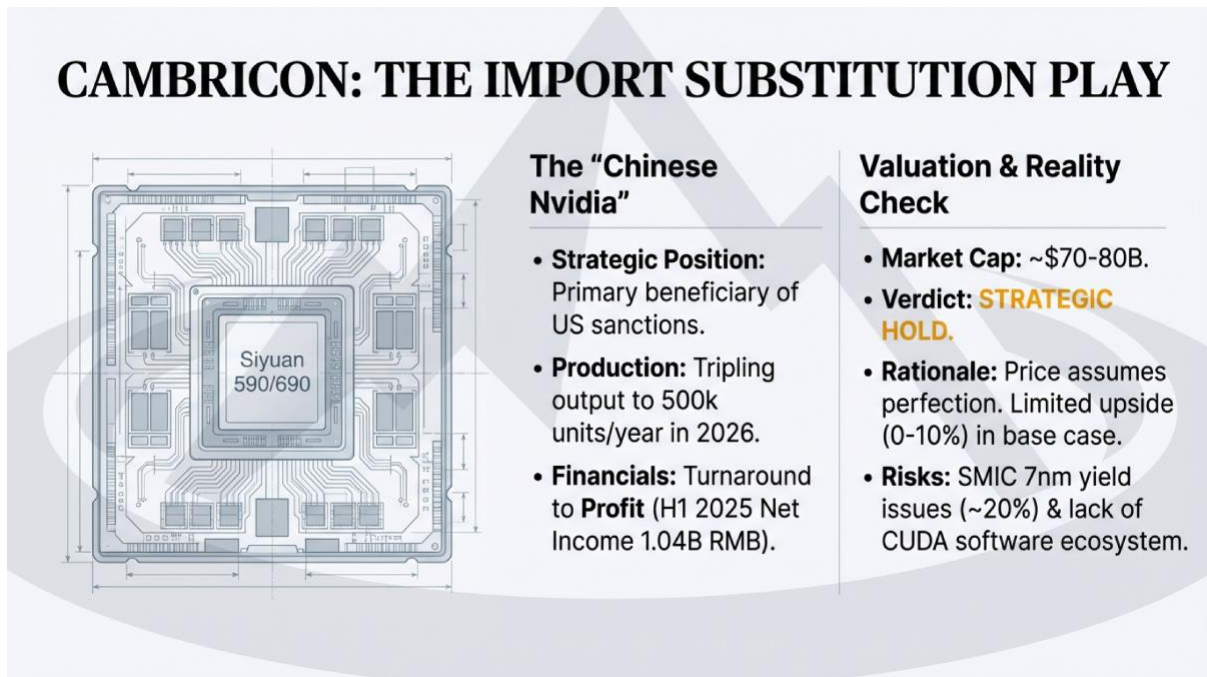


Figure 6. Cambricon: the import substitution play

Key takeaway: We keep a disciplined stance: the demand backdrop is strong, but yield constraints and software ecosystem gaps remain the core gating factors.

Tactical Watchlist

- \$TCEHY – We are monitoring the resilience of cloud services and gaming margins.
- \$JD – We are watching for supply chain efficiency gains as the economy reflates.
- \$TLT – We use this as a macro benchmark for global rate sensitivity.

The Grey Rhinos: Underestimated Macro Risks

Our outlook is constructive, but we remain attentive to what we call the Grey Rhinos—high-probability risks that are still being discounted by the broader reflation narrative. (see Figure 7).

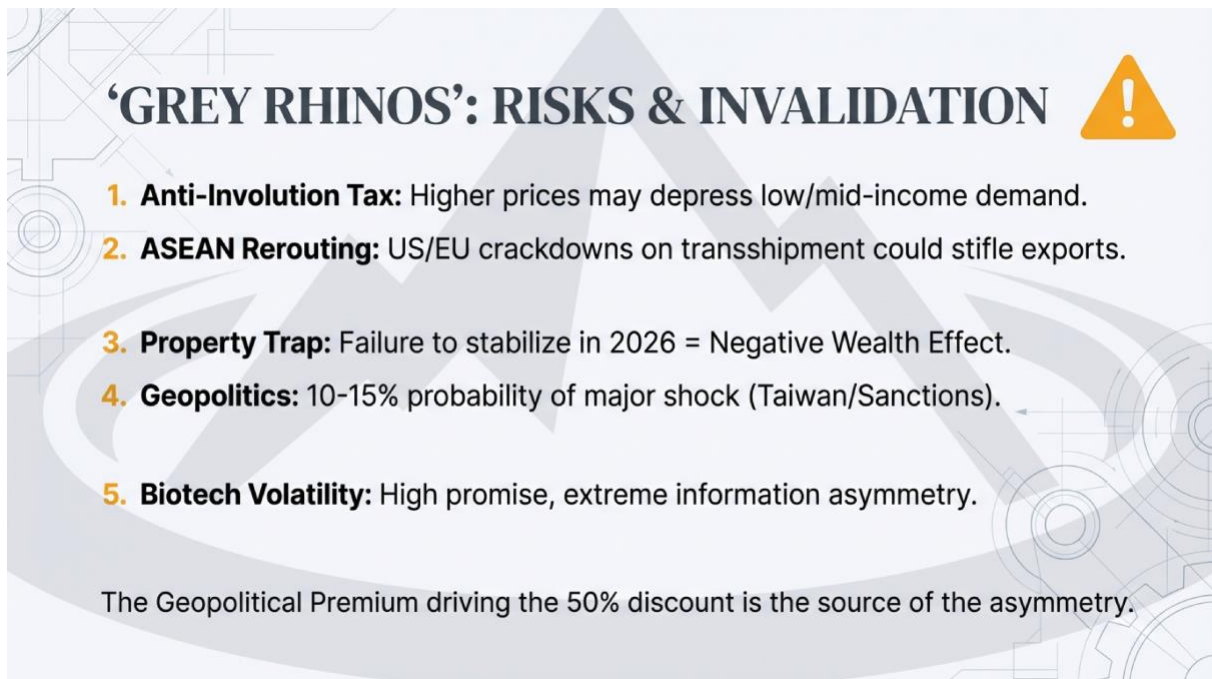


Figure 7. Grey rhinos: risks and invalidation

Key takeaway: Our constructive view is conditional: property, geopolitics, and policy-side consumer drag remain the primary downside vectors.

First, the Anti-Involution agenda effectively acts as a hidden tax on consumers. By rolling back subsidies on delivery and online services to protect corporate margins, policymakers are implicitly raising prices. That supports corporate balance sheets but risks softening consumer demand. To offset this drag, the government has leaned into reflationary policy, including a 300 billion yuan trade-in subsidy program and a 62.5 billion yuan front-loaded bond issuance in late 2025. (see Figure 8).

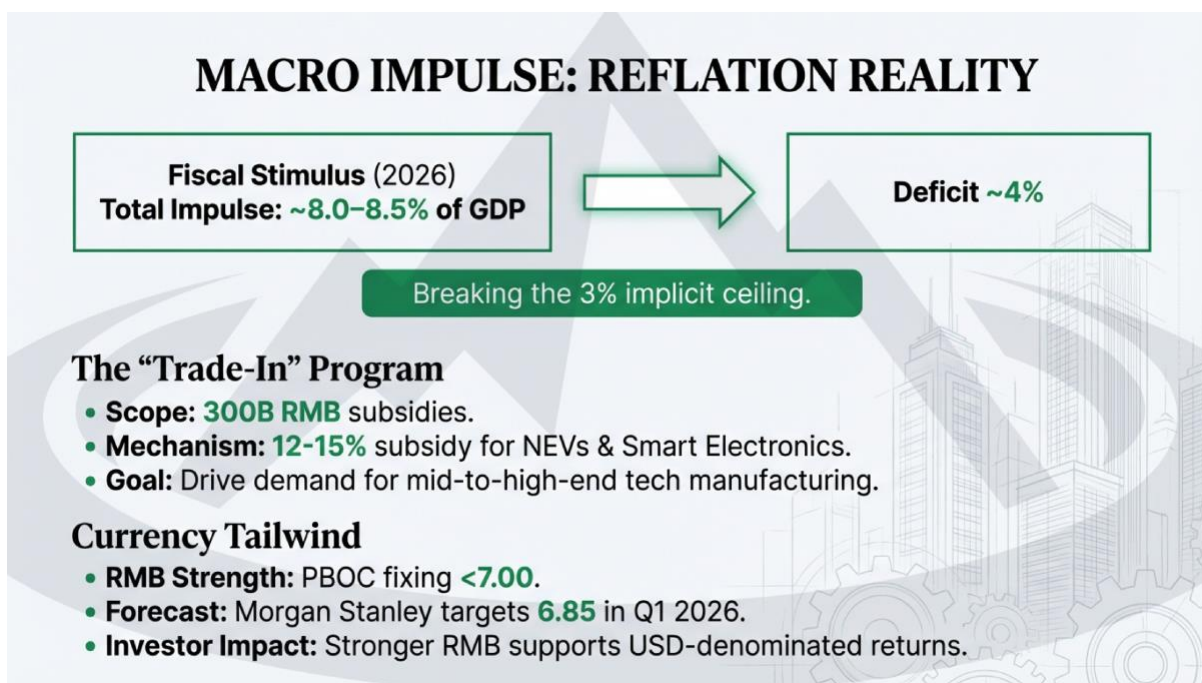


Figure 8. Macro impulse: reflation reality and FX tailwind

Key takeaway: Policy reflation is a key offset to the ‘anti-involution tax’ on consumers, while FX stability is an additional support for offshore holders.

Second, the Property Trap remains a heavy structural drag. We expect 3–4% annual declines in home prices through 2027. This steady erosion of the wealth effect narrows fiscal space and may prevent a full consumer recovery, even if the tech sector performs strongly.

Third, geopolitical risk is a constant presence. After the 2025 Trump–Xi summit, we assign a 10–15% probability to a major shock event—such as an escalation around Taiwan or a meaningful tariff hike. Taken together, these dynamics help explain why Chinese equities still trade at roughly a 50% discount to U.S. peers.

MoatPeak Scenarios and Probability Weighting

In a volatile 2026 environment, we put more weight on probabilities than binary calls. We frame our expectations in three core scenarios: (see Figure 9).



Figure 9. 2026 scenario planning: base, bull, bear

Key takeaway: We frame positioning through scenario probabilities, with policy follow-through and geopolitics as the key swing variables.

Scenario	Probability	Outlook and Triggers
Base Case	55-60%	The Spring releases. \$KWEB moves to \$38-45. The GDP deflator improves to around -0.3%. A phase of controlled reflation takes hold.
Bull Case	25-30%	Breakthrough IPOs (e.g., Kunlunxin) ignite the market. \$KWEB advances to \$50-55. Household savings rotate aggressively into equities.
Bear Case	10-15%	Geopolitical unplugging. \$KWEB falls to \$30-33. The property crisis extends beyond 2027 and deepens.

Invalidation Points

- A move toward the Bear Case would likely be triggered by a major expansion of the Entity List or by the failure of trade-in subsidies to meaningfully lift consumption.
- A shift to the Bull Case would be indicated by a step-change improvement in 7-nm yields beyond the current 20% level, or by the GDP deflator reaching +0.2-0.5% before 2027.

Even after we factor in these risks, we see current pricing as skewed to Limited Downside and High Upside.

MoatPeak Insights: Second-Order Thinking

Through the lens of Capital Cycle Theory, the heavy capital outflows from Chinese tech between 2022 and 2024 have, in our view, laid the groundwork for high returns in 2026. The theory suggests that capital starvation forces innovation and efficiency. The lean operating models we now observe at firms like DeepSeek are a direct product of that period of scarcity. The result is a surplus of intelligence that we expect to drive performance in 2026.

We are especially focused on the upcoming Household Savings Rotation. Trillions of dollars in long-term deposits are set to mature in Q1 2026. With bank deposit rates stuck around 1.5–1.7%, even a 3–5% reallocation into equities would constitute a very large liquidity injection, with a disproportionate benefit to tech-heavy indices. (see Figure 10).

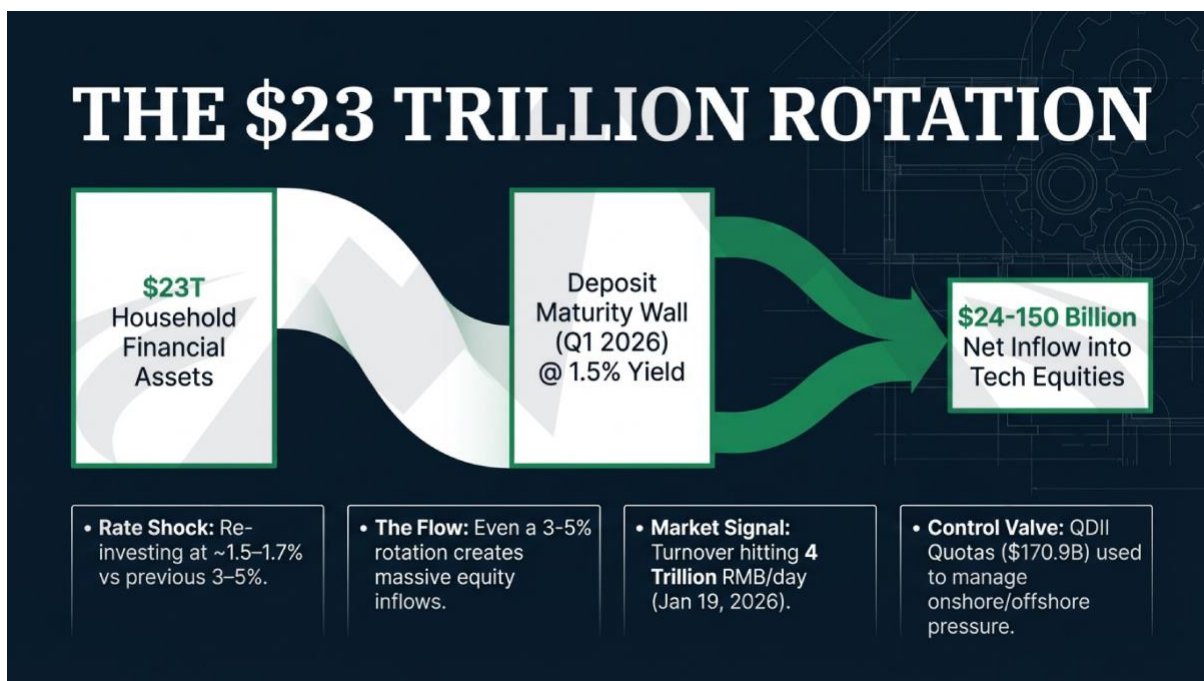


Figure 10. Household savings rotation: the liquidity catalyst

Key takeaway: Even a modest reallocation out of low-yield deposits can translate into outsized marginal flows for tech-heavy indices.

We also see Reflexivity at work. Rising prices in early 2026 are already feeding risk appetite, as evidenced by record-high turnover of 4 trillion yuan. We are watching the market plumbing closely. Regulators raised margin requirements from 80% to 100% on January 14, 2026, to guard against over-leveraged volatility. From our perspective, intellectual honesty requires acknowledging that this recovery is still fragile and heavily reliant on continued policy support.

Strategic Outlook for the Retail Investor

We approach the 2026 China thesis as a strategic allocation, not a short-term speculative trade. (see Figure 11).



INVESTOR CHECKLIST: DECISION FRAMEWORK

- Time Horizon:** Willing to hold for 18-24 months?
- Volatility Tolerance:** Can you withstand 20-30% drawdowns?
- Allocation Size:** Is this a STRATEGIC allocation (not an all-in bet)?
- Sector Focus:** Concentrated in Tech/AI (Reflationary)?
- Catalyst Watch:** Monitoring Kunlunxin IPO & Industrial Profits?

China 2026 is a strategic allocation in a global portfolio, offering asymmetric payoff if the spring releases.

Figure 11. Investor checklist: decision framework

Key takeaway: We think sizing, time horizon, and volatility tolerance matter as much as the thesis—this is an allocation decision, not a trade.

To succeed here, we believe investors need to look beyond near-term volatility and focus on the structural plumbing of the economy, including the gradual end of the deflation narrative as the GDP deflator moves from -0.7% toward positive territory. (see Figure 12).

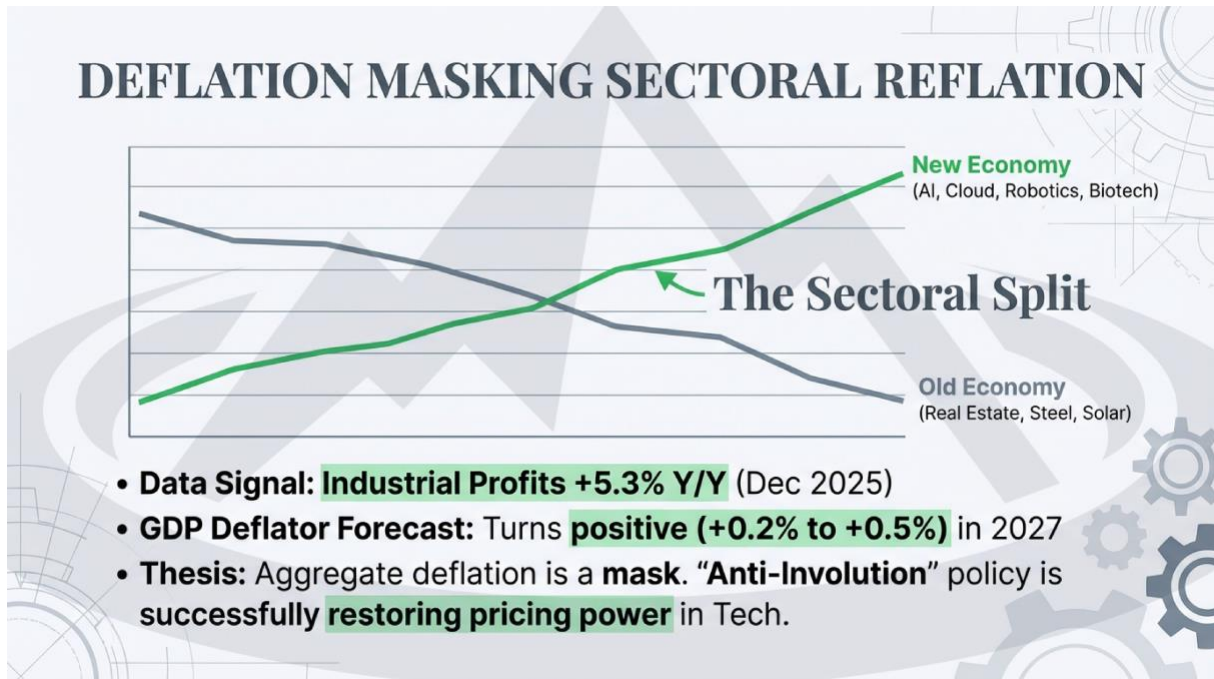


Figure 12. Deflation masking sectoral reflation

Key takeaway: We expect the anti-involution shift to restore pricing power in Tech even as legacy sectors remain pressured—supporting a gradual exit from deflation.

Actionable Monitoring Steps

1. Watch the QDII quota valve. Any expansion of the SAFE QDII quota (currently \$170.9 billion) will show how policymakers are managing offshore capital pressure.
2. Track the 36.4 level. A sustained move above 36.4 would, in our view, signal technical confirmation of the recovery. (see Figure 13).

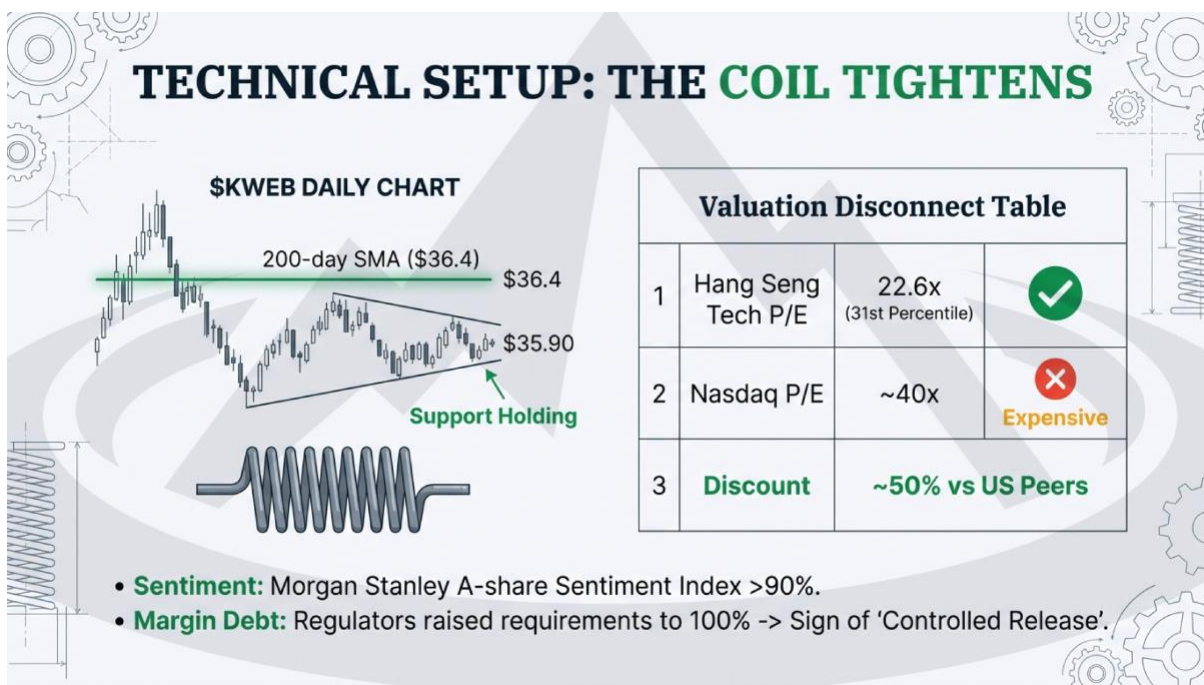


Figure 13. Technical setup: the coil tightens

Key takeaway: We treat the 36.4 level as a practical confirmation threshold, alongside policy 'valves' such as the QDII quota and RMB fixing.

3. 3. Observe PBOC Yuan fixing. A stable or strengthening Yuan (target ~6.80) would reinforce the narrative of healthier trade dynamics and lower capital flight risk.

For us, the So What? of 2026 is straightforward: the real edge for the retail investor is patience—and the willingness to go down into the basement and see the compressed spring. While global attention remains fixed on the gleaming skyscrapers of U.S. tech, the real energy, in our view, is stored in the value below. (see Figure 14).

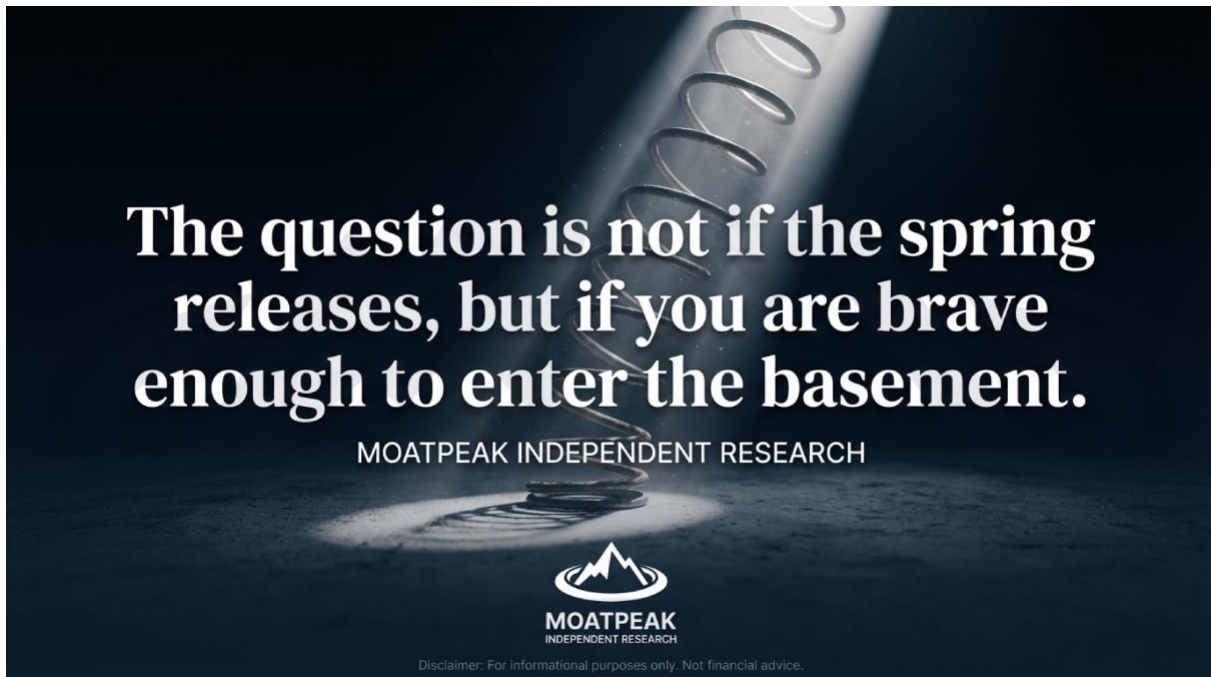


Figure 14. Final word: patience and positioning

Key takeaway: Our view is that the opportunity sits where sentiment is still depressed—investor discipline is the differentiator.

At MoatPeak, we believe there is significant value in looking where others are unwilling—or too tired—to look. The spring is already coiled; the only remaining question is whether you are positioned for its release.

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