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CAN CHINA'S RETAIL TRADERS BAIL OUT THE GLOBAL TRADE WAR?

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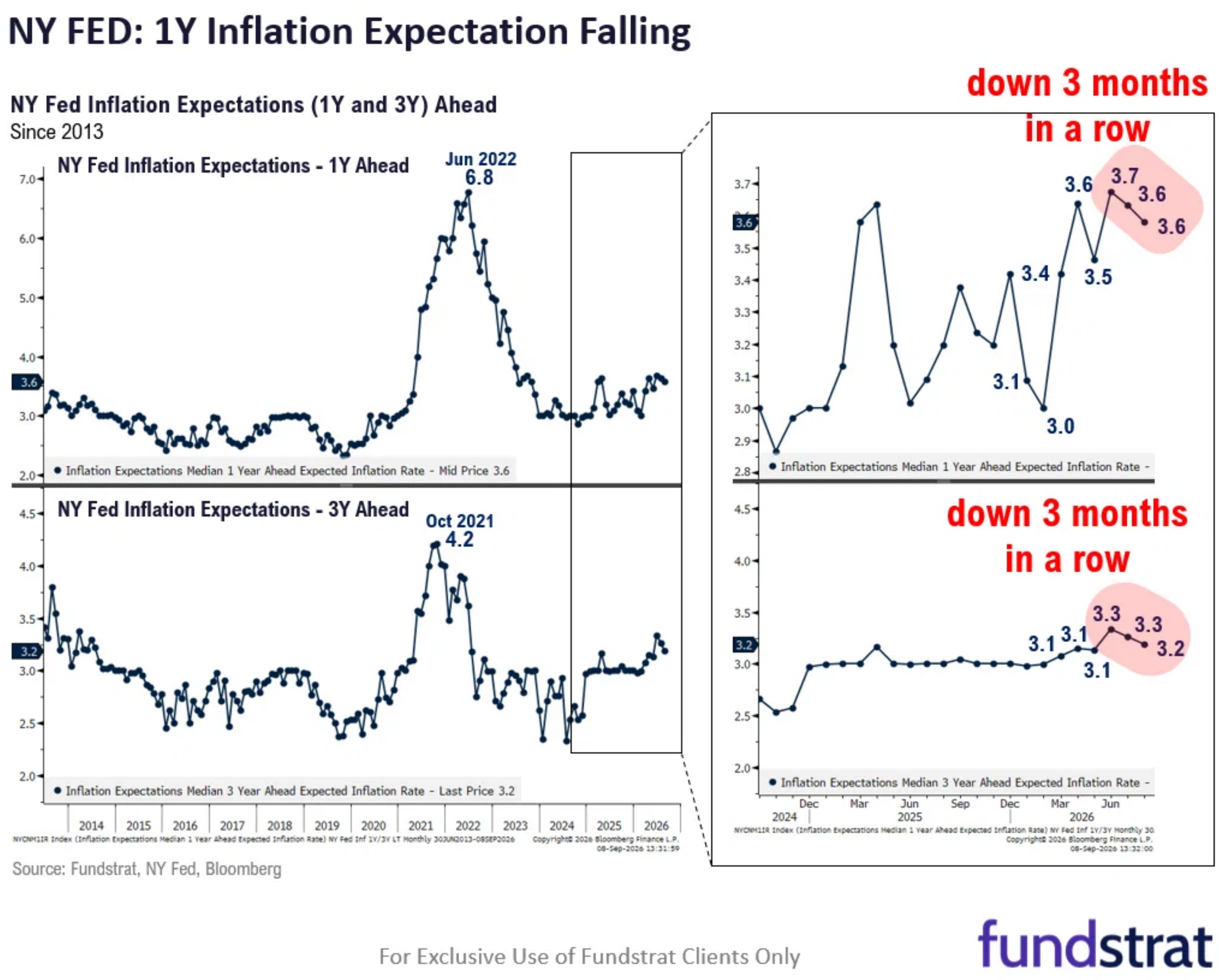
Chart of the Day



Good morning!

Could Chinese retail stock investors save the rest of the world? To me, it's not impossible.

Around the world, companies have been complaining about Chinese companies flooding the market with lower-priced goods. U.S., European, and Asian companies are asserting that such a flood of Chinese imports amounts to unfair trade practices, often alleging improper government subsidies and other questionable tactics.

This complaint is nearly universal: on Sept. 1, the G20 issued a joint statement signed by 19 countries (the obvious dissent came from China itself) asserting that "countries with excessive and persistent external surpluses should remove distortions that constrain domestic consumption and that result in an overreliance on exports for growth." Just about everyone (China included) understood which country was being singled out, even if not explicitly identified by name.

Yesterday, Chinese government data showed that the country's exports in August were 25% higher than 12 months earlier, following a similar 23.9% increase in July. Though Chinese data also showed vigorous YoY growth of imports into China (28.2% in August, 27.5% for July), China's trade surplus nevertheless widened in August.

A widely held view is that as a maturing economy, China should – for its own good if nobody else's – seek to boost domestic demand and transition into a more consumer-driven economy. Research suggests that countries with such economies tend to benefit from greater economic resilience, better living standards, and more sustainable long-term growth, after all.

That's easier said than done. It’s hard to transition a country’s economic model, especially for a country as big as China. China's Xi Jinping has tried to boost domestic consumer demand before. For example, in March 2024, Beijing provided vouchers and trade-in subsidies for purchases of major household appliances and electric vehicles. The effects were temporary at best. That's little wonder, with the unemployment rate amongst the non-student youth demographic (traditionally among an economy's biggest spenders) still at a wince-inducing 17.9%. What's more, the elevated property values of 2015-2021 are no more, and gone too is the resulting wealth effect that had helped drive Chinese consumer spending during that period.

Here in the U.S., the wealth effect shifted away from rising housing prices and more toward the stock market around 2022. In fact, the equities-driven wealth effect has arguably been stronger than the still-robust housing-price wealth effect. As we've written about on multiple occasions in this space, this has supported and driven consumer spending amidst U.S. post-pandemic inflation worries, economic uncertainty, geopolitical conflicts, and what has long been a murky job-market outlook.

Historically, Chinese households have not allocated much of their assets to the stock market. Part of this was due to the real-estate boom we mentioned earlier. Many

Chinese households also avoided what they have perceived to be a somewhat rigged Chinese stock market – not without cause.

But some of the hottest stock offerings in the world over the past two years have been on Chinese stock exchanges. That includes tech companies like CXMT and Moore Threads; consumer brands like Midea Group, and biotech/pharma names like Shanghai Junshi Biosciences and Kelun-Biotech. That might be driving an increase in FOMO in China. After all, although the broader Chinese stock market hasn't exactly been posting enviable numbers (the MSCI China Index $MCHI is down about 10.8% YTD), the tech-focused Shanghai Star 50 index is up 18.6% so far this year.

In January 2026, the Shanghai Stock Exchange reported a spike in monthly new individual brokerage-account openings, with 4.92 million new accounts. New margin accounts saw monthly growth of 30%. That was consistent with a contemporaneous surge in retail-investor optimism, in contrast to institutional investors. While new retail-account openings have declined since then to just under 2.4 million in August, the total number of retail brokerage accounts in China now sits at just shy of 447 million. Meanwhile, Chinese retail cash holdings remain at an elevated $23 trillion, arguably representing considerable "dry powder." With the property market still depressed, the stock market is arguably well-positioned to become a leading default destination for the average Chinese retail investor.

The kind of wealth generated by U.S. stock-market gains since 2023 has been impressive, and we are not suggesting that the Chinese stock market is about to match them. However, with Chinese retail participation still climbing and dry powder on the sidelines, Chinese stock-market gains could provide Xi with the room he would need to rein in Chinese exports – for the good of his own country and others.

Of course, just because he can, doesn't mean he will. Nevertheless …

Share your thoughts

Do you think Chinese retail-investor sentiment will stay elevated long enough for a wealth effect to emerge? Click here to send us your response.

✍Here's what a reader commented ✍

Q: Do you think prediction markets should be regulated on the state or federal level?

A: Yes, they should regulate it but also ban all big players mainly institutions from entering in it. If you can't fix the economy to work for all, those same big players should not be allowed to trample on the ones that can at least make a living in prediction markets.

Catch up with Fundstrat

This Friday is the 25th anniversary of the 9/11 terror attacks. And this date is also the release of August Core CPI. This is the single most important data point this week.

Technical

Weakness in consumer discretionary, healthcare, and financials caused the equal-weighted S&P 500 to break its uptrend from the late-March lows on Tuesday, the first trend break for the average stock since this spring rally began.

Crypto

Crypto held up reasonably well yesterday despite a challenging macro backdrop. Miners benefited from pockets of strength in tech, but the broader takeaway is that crypto absorbed what would otherwise be a fairly difficult environment. I think part of that resilience may reflect anticipation of an important Treasury catalyst over the next couple of days.

News We're Following

Breaking News

- Oil hits $100 for first time since July WSJ

Markets and economy

- Diesel crunch threatens lasting price pain, consumption cutbacks BBG
- US fixed 30-year mortgage rate climbs to highest since June 2025 REU

Business

- Mistral raises record €3bn as Europe strains to keep pace in AI race FT
- Apple’s $2,000-plus foldable iPhone was a decade in the making BBG
- China's DeepSeek taps CITIC Securities for domestic IPO, sources say REU
- States that gave data centers billions in tax breaks are now ripping up the deals WSJ

Politics/U.S.

- Trump officials ask high court to allow immigration database for voter scrutiny WSJ
- IRS under Trump unlawfully shared taxpayer info with immigration authorities, court rules REU
- Smithsonian Secretary Lonnie Bunch steps down amid strife with Trump WSJ

Overseas

- European nations impose trade bans on Israel over West Bank settlements WSJ
- Iceland summons U.S. ambassador over provocative Trump map NYT
- North Korea has built a new uranium enrichment facility, says nuclear watchdog BBC

Of Interest

- OpenAI says it has solved a Millennium Prize Problem—a holy grail of math WSJ
- Party's over for crypto scammers who went on a spending spree after a $240 million bitcoin theft AP

Overnight

S&P Futures	-33 ▼ point(s) (-0.4% ▼)
overnight range:	-36 ▼ to +11 ▲ point(s)

APAC

Nikkei	-0.19% ▼
Topix	-0.09% ▼
China SHCOMP	+0.28% ▲
Hang Seng	-0.17% ▼
Korea	+1.40% ▲
Singapore	-0.66% ▼
Australia	-0.11% ▼
India	-0.86% ▼
Taiwan	+0.16% ▲

Europe

Stoxx	50 -1.95% ▼
Stoxx	600 -1.53% ▼
FTSE	100 -1.12% ▼
DAX	-1.67% ▼
CAC	40 -1.89% ▼
Italy	-1.34% ▼
IBEX	-2.29% ▼

FX

Dollar Index (DXY)	-0.12% ▼ to 98.67
EUR/USD	+0.22% ▲ to 1.1649
GBP/USD	+0.10% ▲ to 1.3554
USD/JPY	+0.38% ▲ to 153.39
USD/CNY	+0.05% ▲ to 6.7067

USD/CNY	+0.05% ▲ to 6.7067
USD/CNH	+0.04% ▲ to 6.7038
USD/CHF	+0.24% ▲ to 0.8075
USD/CAD	+0.08% ▲ to 1.3773
AUD/USD	+0.11% ▲ to 0.7225

UST Term Structure

2Y-3M Spread narrowed	-0.1bps ▼ to 51.8bps
10Y-2Y Spread narrowed	-0.1bps ▼ to 39.1bps
30Y-10Y Spread narrowed	-1.0bps ▼ to 44.4bps

Yesterday's Recap

SPX	-0.58% ▼
SPX Eq Wt	-1.04% ▼
NASDAQ	100 -0.12% ▼
NASDAQ Comp	-0.32% ▼
Russell Midcap	-0.82% ▼
R2k	-0.52% ▼
R1k Value	-0.84% ▼
R1k Growth	-0.35% ▼
R2k Value	-0.88% ▼
R2k Growth	-0.16% ▼
FANG+	-0.94% ▼
Semis	+1.19% ▲
Software	-1.83% ▼
Biotech	-1.15% ▼

Regional Banks	-1.28% ▼
SPX GICS1 Sorted	-2.55% ▼
Fin	-1.43% ▼
Materials	-0.91% ▼
SPX	-0.58% ▼
Indu	-0.51% ▼
Cons Disc	-0.49% ▼
Cons Staples	-0.48% ▼
Comm Srvcs	-0.29% ▼
Tech	-0.19% ▼
REITs	+0.02% ▲
Utes	+0.86% ▲
Energy	+1.01% ▲

USD HY OaS

All Sectors	-4.1bps ▼ to 304bps
All Sectors ex-Energy	-3.4bps ▼ 282bps
Cons Disc	-5.3bps ▼ 301bps
Indu	+0.4bps ▲ 185bps
Tech	-7.1bps ▼ 444bps
Comm Srvcs	-11.5bps ▼ 487bps
Materials	-2.1bps ▼ 265bps
Energy	-1.1bps ▼ 188bps
Fin Snr	+0.8bps ▲ 286bps

Fin Sub	-0.9bps ▼ 253bps
Cons Staples	-10.7bps ▼ 234bps
Healthcare	+0.1bps ▲ 255bps
Utes	-0.5bps ▼ 207bps *

DATE	TIME	DESCRIPTION	ESTIMATE	LAST
9/10	8:30 AM	Aug PPI m/m	0.4	0
9/10	8:30 AM	Aug Core PPI m/m	0.3	0.2
9/10	10:00 AM	Aug Existing Home Sales	3.99	4.06
9/10	10:00 AM	Aug Existing Home Sales m/m	-1.6	-1.69
9/11	8:30 AM	Aug CPI m/m	0.4	0.1
9/11	8:30 AM	Aug Core CPI m/m	0.2	0.2
9/11	8:30 AM	Aug CPI y/y	3.4	3.4
9/11	8:30 AM	Aug Core CPI y/y	2.4	2.5
9/11	10:00 AM	Sep P UMich 1yr Inf Exp	4.2	4
9/11	10:00 AM	Sep P UMich Sentiment	51	51.7

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