



MACRO MORNING BRIEFING

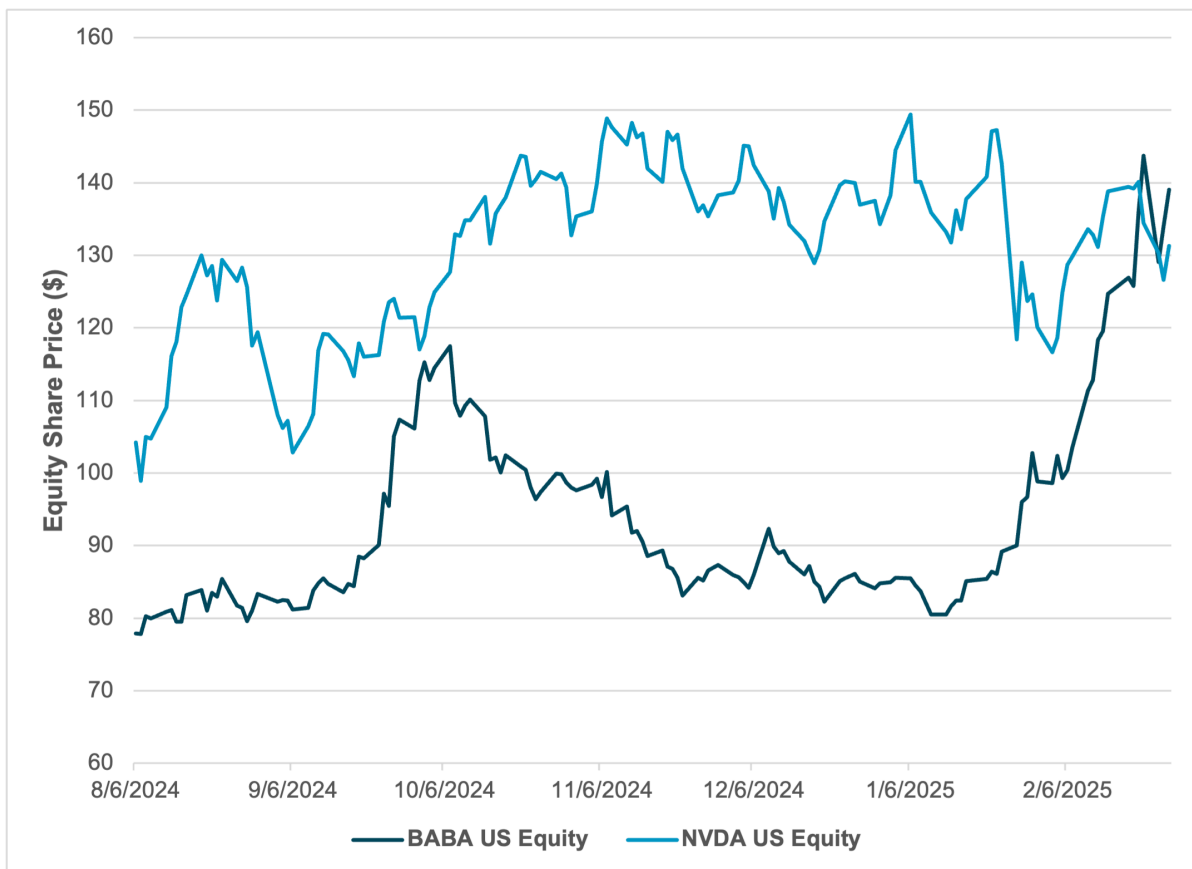
iFlow

February 28, 2025

## Comparing China and US AI Efforts

- China's Deep Seek AI success has called into question the need for higher end semiconductors and bigger spending as keys for winning the AI race.
- The Nvidia earnings provided a good but not great outlook ahead – with \$43bn 1Q sales and lower profit margin.
- Alibaba led the China stock market surge as technology dominated focus for investors in 2025.
- The asset allocation switch out of US exceptionalism to EU defense shares and China technology may have run its course.

**Exhibit #1: China Alibaba vs. US Nvidia**



Source: Bloomberg, BNY

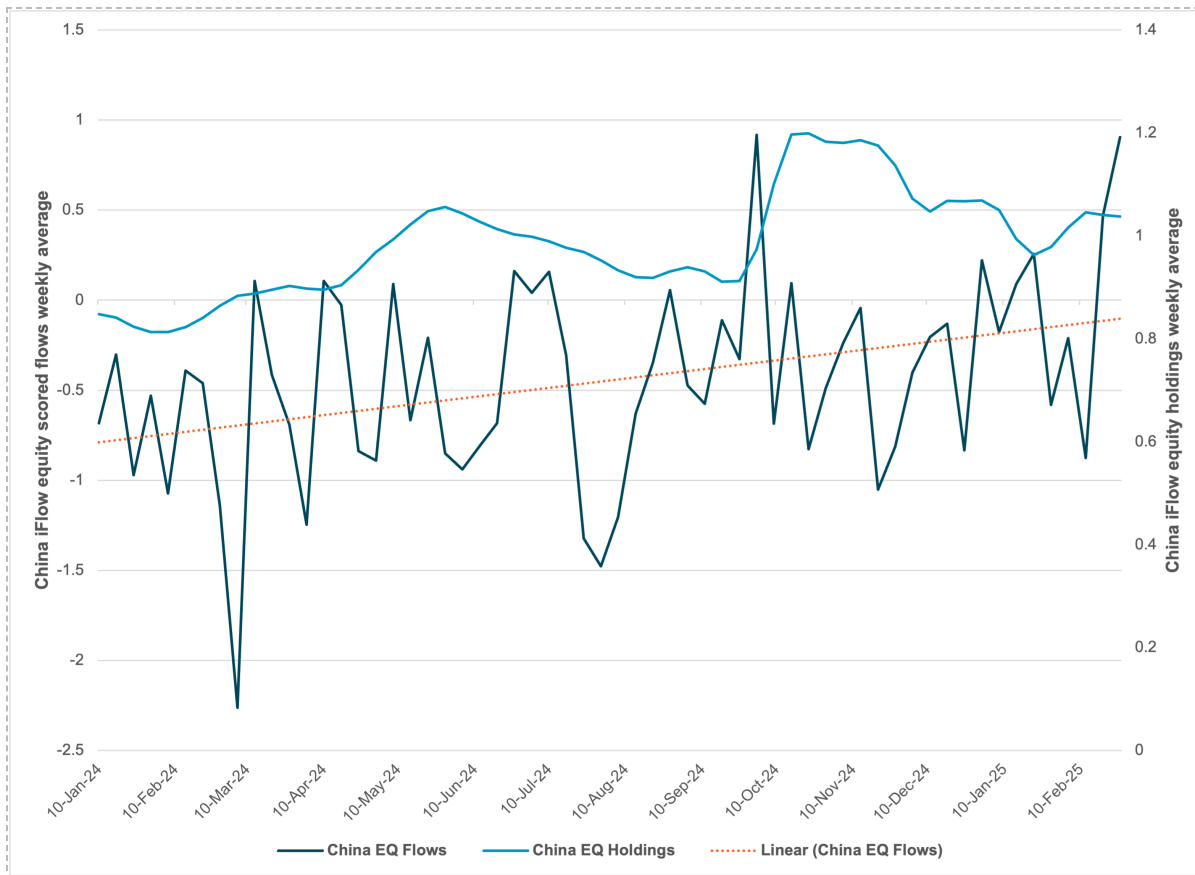
## Our view

The immediate contrast of China vs. US leaders in equities starts with growth vs. value. The comparison of AI Chipmaker Nvidia against China technology giant Alibaba is frequently seen as the barometer for measuring the technology race into 2025. In many ways, this is an unfair comparison. The usual factors for measuring equity success bend with technology, given the market acceptance and dependency on new forms like generative AI across businesses. The size, liquidity, free cash flow, government support and current value are all valid lenses for judging the two companies, but the current race for AI dominance is not clear regardless.

- The market capitalization of Alibaba doubled since 2024 from CNY1.264trn to \$2.401trn. Revenue growth is moderating from 8.3% in 2024 to 6.4% in 2025 with, EPS slowing from 25.3 to 20.9. Free cash flow slows from CNY150.5bn to CNY125.4bn in 1Q 2025 and is estimated at CNY158.8bn in 2026.
- The market capitalization of Nvidia more than doubled since 2024 from \$1.503trn to \$3.2trn. Revenue growth is moderating from 125.9% in 2024 to 114.2%, with EPS slowing from 364.8 to 53.83. Free cash flow is up from \$27.02bn to \$60.853bn and expected \$99.83bn in 2026.

**Our Take:** Nvidia is 7 times the market cap of Alibaba, half the value on an EPS basis and 3 times the free cash flow. The race to use Nvidia chips isn't going away in 2025.

**Exhibit #2: China Equity Flows and Holdings**



Source: BNY

### What You Need to Know About China Efforts in AI

The rise of China equity markets in February has been a standout move for global investors. Our iFlow data shows holdings moved from 4% under the long-term average to 3% over the long-term average. Flow in China shares has accelerated and continues trending upward after a lackluster 2024. The January 21<sup>st</sup> Deep Seek AI announcement and February 17<sup>th</sup> meeting of China President Xi Jinping with Jack Ma and other CEOs in the technology and industrial sectors is driving the flow. Xi said he hoped private businesses will continue to “get rich first, and then promote common prosperity,” in reference to a program to encourage development and close the wealth gap.

Xi’s message was far more nuanced than it may appear. That phrase was only the final part of a four-phrase piece of prose. The full message was, in order – cherish

the aspiration to serve the nation, comply with law, and as we know, order is important in official communication in China. Notably, the seating arrangements were just as important with Alibaba and Tencent at both ends of the first row, while the CEOs of BYD and Huawei right in front of the President. This gives you a better sense of the priorities of the nation.

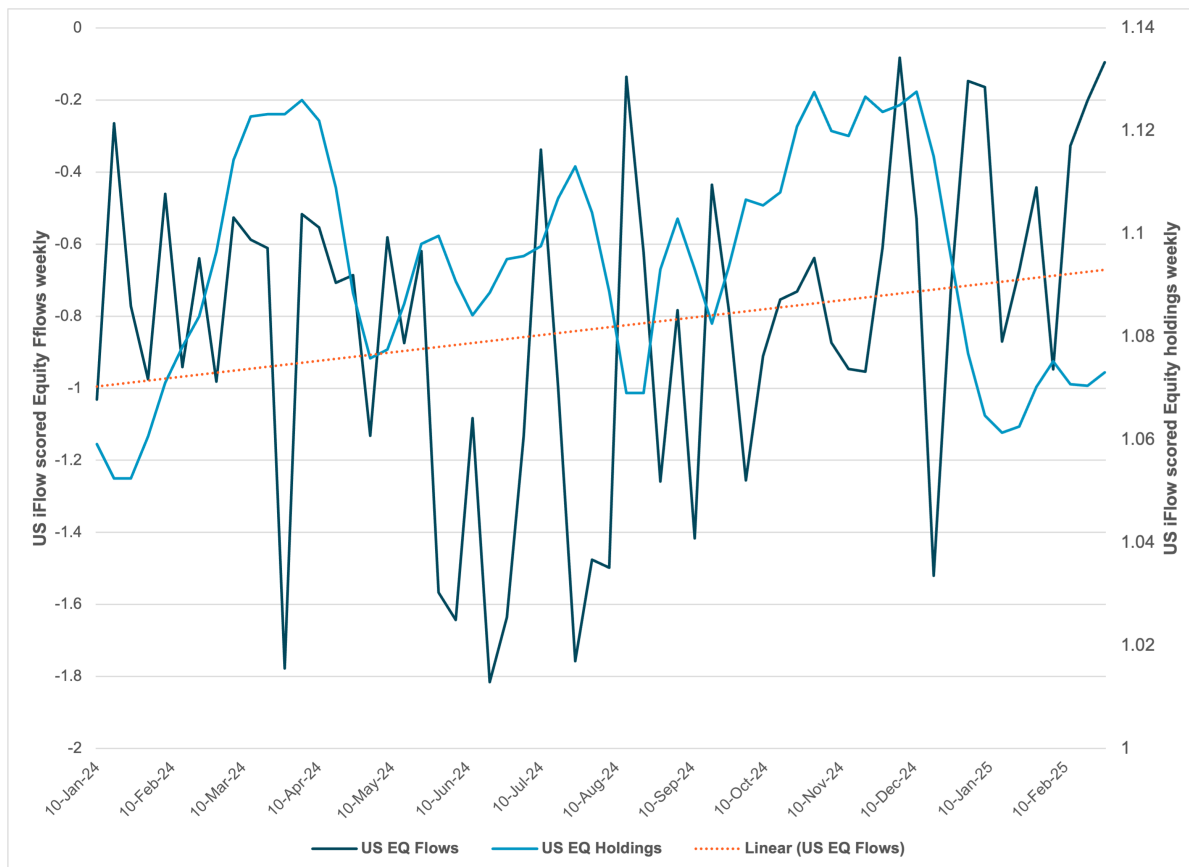
If we want to take the most market-friendly view of Xi's meeting and assume that company valuations can soar – the state will benefit as well. After all, China's National Social Security Fund was going to be one of Ant Group's top shareholders after the IPO. Having such important state-driven anchoring investors also helps encourage other private and foreign investors to join and boost corporate valuations. This is another form of "state spending" or "state investment" into technology – letting the sector fly to help pay for welfare and pensions.

- China's increase in research and development funding slowed for the third consecutive year in 2024 amid an uneven economic recovery. However investment intensity continued at a steady pace, led by the country's push for high-technology self-reliance. The China NBS reported R&D funding surpassed CNY3.6 trillion (US\$496 billion) in 2024, an 8.3% rise on the previous year, as China continued to dominate global research output. That growth in expenditure was down from 8.4% in 2023, 10.1% 2022 and 14.6% in 2021.
- China created a new AI fund with CNY60bn (\$8.2bn) after the US tightened export controls on advanced semi-conductors. The new AI fund's scope of business includes general equity investment and asset management. While the central government shores up its support for the nascent sector with favorable policies and mandates, China's AI market is expected to be worth 5.6 trillion yuan by 2030, according to state-backed investment vehicle China International Capital Corp.
- Hong Kong Financial Secretary Paul Chan Mo-po on Wednesday announced that HK\$1 billion (US\$128.6 million) had been set aside to establish the Hong Kong AI Research and Development Institute. According to the SCMP, the government aims to open the institute by the 2026-27 financial year, with the funding allocated for the first five years of operational expenses.

**Our Take:** China started the year putting technology investments first. Many of the EV companies have now added in AI efforts. The AI approach in China is to add it to the industrial base for productivity gains and for faster investment wins. The role of

the state in driving AI efforts is complicated but clear as China, even with current spending plans, remains behind the capital spending of US big technology efforts and the Trump \$500bn AI hub plan. China is clearly using the success of Deep Seek to boost confidence and drive further foreign interest in a China private sector.

**Exhibit #3: US Equity Flows and Holdings**



Source: BNY

US efforts in AI and technology are led by the private sector. Big technology companies are spending more than \$330bn in 2025 on AI development. Meta, Amazon, Alphabet and Microsoft have confirmed such in their investment calls. In contrast, the US Government spending is centered around defense. In 2022, the US government spent \$3.3bn (mostly through the DoD and DARPA) while 2025 budgets pencil in \$3.316bn. US President Trump on January 21 announced a private sector plan to invest \$500bn over the next 5 years on AI with Open AI, Softbank and Oracle in a joint venture called Stargate.

**Our Take:** The comparison of US to China investments into technology and AI suggest this is a race that isn't going to end with tariffs or trade restrictions on semiconductors. It is likely that investors will want to find some other factors to drive

flows in an uncertain environment. As we close out February, US holdings are still about 4% over the long-term average in equities. However for IT holdings are down sharply from 2023 highs and currently below the long-term average by 2%. This suggests that US asset allocation rebalancing has been in play in 2025 and has done significant work.

**Bottom Line:** Asset allocation rebalancing is done in the US, leaving markets open to chasing growth, inflation and policy. The advent of the March 4th tariffs on Mexico, Canada and China are likely a bigger driver for equity risk mood than other factors. If the US AI effort is dependent on the private sector, there is a dependency on stock market stability to keep spending to plan. Current volatility and uncertainty could matter to the short-term narrative for growth.

Please direct questions or comments to: [iFlow@bny.com](mailto:iFlow@bny.com)

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