Yardeni Research

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Morning Briefing

On China's Woes
& SoftBank's U-Turn

Check out the accompanying chart collection.

Executive Summary: China's economy has been surprisingly resilient this year in the face of external headwinds. But it's internal headwinds that pose the greater threat to GDP growth, William opines, and President Xi's policies are perpetuating them. … Also: William explores the questions raised by SoftBank's abrupt sale of its huge stake in Nvidia. Does the sudden stock dump say more about the future of Nvidia and AI, the ambitions of SoftBank, or the personality of SoftBank's controversial leader Masayoshi Son?

Weekly Webcast. If you missed Monday's live webcast, you can view a replay *here*.

Chinese Economy I: Suddenly Taking Hits From All Sides. China's economy has held up surprisingly well in 2025 amid US tariffs, geopolitical surprises, and stock market turmoil. But there's growing evidence that headwinds are bearing down harder on the $19 trillion economy, the second biggest in the world.

The clearest signs of economic buckling include slowing exports, factory orders, retail sales, and auto purchases, as well as the weakest fixed-asset investment in more than five years. China's real retail sales growth declined to 3.1% y/y, compared with around 10.0% from 2002 to 2018 (*Fig. 1*). HSBC's Frederic Neumann isn't exaggerating when he says China "is facing *pressures from all sides*."

Make that from the inside, too. In terms of its GDP, China's $19 trillion economy is still *a distant second* to the US's $31 trillion one. But it's not the policies of US President Donald Trump that might widen the gap but those of China's own leader, Xi Jinping.

Let's explore how President Xi's fingerprints are all over China's troubles:

(1) *Manufacturing is stumbling*. To be sure, the trade war is hitting China's all-important

manufacturing engine. Though the *1.1% y/y drop* in October's exports isn't spectacular, the slowdown in manufacturing investment (*up just 2.7%* in the first 10 months of 2025) augurs poorly for 2026.

But China's preexisting conditions are doing more to cloud the outlook than external headwinds. Exhibit A: China is on the cusp of a fourth year of deflation, a problem that began on President Joe Biden's watch. Even as prices weaken, the People's Bank of China has been slow to ease monetary policy more assertively.

(2) *Ignoring deflation risks*. President Xi's Communist Party isn't taking sufficient steps to address the underlying causes of deflation. China's PPI fell by 2.1% y/y in October, while the CPI barely edged above zero (*Fig. 2*). China's wealth-destroying property crisis is fueling fears of a Japan-like lost decade. A fast-aging population also draws Japan comparisons. High *youth unemployment* remains largely unaddressed. Local governments' finances are in tatters. Team Xi is acting glacially on devising robust social safety nets to encourage households to save less and spend more.

Then there are Xi's erratic tech policies. Global investors are still in a whirl over Xi's late 2020 crackdown on Alibaba Group and other *Internet juggernauts* at the height of the pandemic. As the fallout from Xi's "zero Covid" policies continues to undermine consumer spending, uncertainty about Beijing's tolerance for tech disruption gives investors pause.

(3) *Draconian tech crackdown*. Now comes news that Beijing's market regulator aims to *hit Internet platforms anew* to avoid unfair competition. This, however, overlooks the real problem: unfair subsidies to inefficient state-owned enterprises that fuel overcapacity.

As Xi's missteps hit confidence from both ends, worries about another trade clash with the US are a big area of uncertainty as 2026 approaches.

(4) *Buying time on tariffs*. Last month, Xi and Trump agreed to a one-year ceasefire on trade hostilities. It's part of Xi's strategy of delay. The longer Beijing and Washington can avoid draconian tariffs, the more time everyone has to find and develop new sources of vital goods. Delaying the US tariffs affords China more time to pivot even more of its trade to Europe, *Southeast Asia*, and "Global South" nations (*Fig. 3* and *Fig. 4*). It buys time, too, for the Supreme Court to save Asia from Trump's import taxes should justices declare them unconstitutional.

Chinese Economy II: Costs of Xi Jinping's Own Goals Growing. In the interim, though, Xi is failing to raise China's economic game. For a dozen years now, Xi has pledged to reduce the role of the *state sector* and level playing fields so that private enterprises could thrive and shrink the role of exports. There's been limited progress on all fronts.

This means that, so far, the Xi era has left China with a bifurcated economy. For all the "new economy" successes, such as electric vehicle maker BYD and artificial intelligence startup DeepSeek, troubles in the "old economy," particularly among giant property developers, are intensifying the economic headwinds at home. Starry eyed optimism about the former—the same AI dreams boosting bourses everywhere—is blinding stock investors to the latter (*Fig. 5*).

Here's more:

(1) *Property still reeling*. In October, home sales in *more than 90%* of China's 70 biggest cities fell despite Xi's constant pledges to stabilize the sector over the last year (*Fig. 6*). This doesn't bode well for household confidence (*Fig. 7*). On Friday, Lou Jiwei, China's finance minister from 2013 to 2016, *warned* that "households have poor expectations for the future because homes are losing value. This will drag on the growth of consumption and amplify the deflation trend." It's a rare admission of concern from a prominent party member.

(2) *Long reform to-do list.* Lou also advocates for a more expansionary fiscal policy to provide more latitude for implementing structural reforms, such as removing bad assets from property developers' balance sheets.

The bursting of China's property bubble in 2021 also had a significant impact on local governments. Until then, leaders of China's 22 provinces had funded spending through land sales and property taxes. With *local governments' finances* very strained now, current Finance Minister Lan Foan's hopes of strengthening *China's fiscal position* will be hard to realize.

(3) *Local government debt*. Many economists worry that local officials spending more on repaying money owed to companies instead of investment projects is making it hard for municipal leaders to meet this year's *5% GDP growth target*.

That's not to say that Wall Street is backing off from China. Citigroup, for one, is growing "*rapidly*" in China, CEO Jane Fraser told Bloomberg last week. As she put it: "We have had huge interest and a large number of investors and companies coming to China to understand what's happening here, as well as the Chinese companies and investors that are looking much more externally now. So that really feels like a sea-change here, that's pretty exciting."

(4) *Xi's overhaul stuck in first gear*. It's an observation heard from investment banks often in the past, though—i.e., in 2013 when Xi took the reins, 2018 when his second five-year term began, and 2023 when term No. 3 started with talk of "*far-reaching*" overhaul of China's lopsided economy.

As 2026 beckons, it remains an open question whether Team Xi will accelerate the pace of reforms to capitalize on the US-China tariff ceasefire. But if the first 12 years of the Xi era are any indication, China's economy won't be overtaking the US economy in size anytime soon.

SoftBank: Nvidia Exit Raises More Questions Than Answers. Suddenly, that November 2024 *on-stage hug* in Tokyo between SoftBank's Masayoshi Son and Nvidia's Jensen Huang feels like a lifetime ago. One reason is the warp-speed arrival of the artificial intelligence boom that seemed somewhat unlikely 12 months ago. Another: the tsunami of AI-related news since then—from the "DeepSeek shock," to Nvidia's becoming the *first $5 trillion company*, to fears of a 1999-like bubble in tech stocks.

Fast-forward to November 11, 2025, when Son announced that SoftBank had dumped its entire *$5.8 billion stake* in the tech juggernaut that CEO Jensen co-founded in 1993. Single-handedly, Son, who founded SoftBank in 1981, added to fears that AI valuations are well into irrational exuberance territory.

News of Son's U-turn erased hundreds of billions of dollars of Nvidia's market capitalization overnight. Son's Vision Fund is the globe's biggest venture capital fund. As recently as the quarter ended in March, it was *buying up* Nvidia's shares. Son's pivoting away now raises more questions than answers.

Let's look at what's next for SoftBank as it cuts ties with Nvidia:

(1) *SoftBank's constraints*. The conventional wisdom is that Son is merely rearming his Vision Fund to bankroll other investments in the next phase of AI capital cycle. But the move raised as many questions about SoftBank's constraints as Nvidia's prospects—if not more. It's doubtful that Son envisioned SoftBank's stock losing more than 10% of its value since the Nvidia sale.

(2*) The 'Nasdaq whale.'* The decision reminded investors that Son has some daunting financing needs, partly due to several botched investment decisions. The ghosts of his *perplexing enthusiasm* for WeWork, Uber, Coupang, *Wirecard*, and other frothy startups still haunt Son.

In fact, Son's penchant for overpaying for stakes in undeserving wannabe unicorns earned him the nickname of "*Nasdaq whale*." He figured prominently in "*WeCrashed*," a 2022 Apple TV biopic about the failure of WeWork starring Jared Leto and Anne Hathaway. It aired the same year that Son's Vision Fund posted a *$32 billion loss*.

The series' depiction of Son as an easy mark was at sharp variance to the "*Warren Buffett of Japan*" reputation in which he reveled. This moniker stemmed from Son's role in effectively discovering Jack Ma. That happened in 2000, when Son handed $20 million to an unknown English teacher in the eastern Chinese city of Hangzhou. When Ma took Alibaba Group public in 2014, Son's stake was *worth $58 billion*.

When SoftBank launched its $100 billion Vision Fund in 2017, the strategy was to replicate its Alibaba windfall. That's proving much easier said than done.

(3) *Big wager in AI*. Wall Street analysts figure that Son's Nvidia sale frees up nearly $6 billion that he can use to support his "*all-in*" wager on OpenAI's ChatGPT offering. Also in October, SoftBank sold a chunk of its T-Mobile stake for more than $9 billion.

CNBC reports that the Nvidia and T-Mobile sales, paired with a margin loan on SoftBank's stake in semiconductor company Arm Holdings, will help Son fund his *$22.5 billion bet* on OpenAI.

As such, it's hard to argue that Son is now an AI skeptic—or an investor who sees a lane for *shorting AI*, like "The Big Short" trader Michael Burry. As the co-chief investment officers at Bridgewater Associates argue: "The growth expectations discounted today are about as optimistic as they've been in *nearly 100 years*, with the brief exception of the dot-com bubble."

(4) *"Singular" vision for AI's future.* Son likes to refer to himself as the "*crazy guy who bet on the future*," and with a 300-year time horizon. He's also arguably among the first household-name investors to gush about the "singularity," or the moment when technology outthinks humans. In 2016, Son said his decision to pay a *50% premium* for Britain's ARM was in preparation for the moment that science fiction became tech industry fact.

(5) *SoftBank's Nvidia exit: prudent or misstep?* Notably, this isn't the first time that Son exited Nvidia. He did just that *in 2019*, only to buy back into Nvidia in 2020. That was as solid a bet as Son had made since Alibaba, as Nvidia's *market cap surged* roughly by $2 trillion. It enabled Son to reclaim the title of *Japan's richest man*, albeit briefly. He has since slid back to the *No. 2 spot*.

So, where to now for SoftBank's Vision Fund? Posterity will decide whether this latest Nvidia sale was a big win or a colossal loss. But SoftBank's overall strategy can often seem more scattershot than logical.

One big missed opportunity was Son's failure to take a *$9.8 billion stake* in Swiss Re AG. It would've been a Buffett-like quest for stability. No matter what bets the sprawling Berkshire Hathaway makes, it can always rely on steady income from General Re.

Swiss Re would've helped Son reconcile the gap between a decidedly eclectic balance sheet and SoftBank's global ambitions. Talks with Swiss Re ultimately failed. Unfortunately, Son hasn't found a way to build cash-flow stability into his empire. And bets on a disparate constellation of possible AI winners are hardly that.

(6) *SoftBank as AI microcosm*. This makes SoftBank as good a microcosm of the AI era as any, as their fates at this juncture seem one and the same: If the AI investment boom is validated by reliable profits over time, Son will out-Buffett the Oracle of Omaha. If it flops, dot-com-style, SoftBank will fight for its life. Crazy, indeed.

Calendars

US: Tues: NAHB Housing Market Index 36; Barr. **Wed:** Philadelphia Fed Manufacturing Index 3.0; MBA Mortgage Applications; Atlanta Fed GDPNow; Minutes of Fed's October FOMC Meeting. (Source: FX Street)

Global: Tues: Japan Core Machinery Orders 2.4%m/m, 5.4%y/y; Canada Housing Starts 275k; Dhingra; Tuominen; Elderson; Pill. **Wed:** Eurozone Headline & Core CPI 0.2%m/m, 2.2%y/y & 0.3%m/m, 2.4%y/y; ECB Central Bank Non-monetary Policy Meeting; UK Headline & Core CPI 3.6%, 3.4%y/y; UK Input PPI 0.0%; Buch; PBOC Loan Prime Rate 3.00%-3.50%. (Source: FX Street)

Strategy Indicators

S&P 500/400/600 Forward Earnings (*link*): During the November 14 week, forward earnings rose simultaneously for all three of these indexes for the 21st time in 25 weeks. LargeCap's forward earnings rose for a 26th straight week, its longest winning streak since it did so for 38 weeks through the September 13, 2024 week. MidCap's recovery has slow-walked at times, rising in 22 of the 26 weeks since it bottomed during the May 16 week. SmallCap's has risen in 24 of the 25 weeks since it bottomed during the May 23 week. LargeCap's forward earnings rose 0.6% w/w to its 24th straight weekly record high. MidCap's rose 0.2% w/w to its third straight record high, but only its ninth of the year. SmallCap's soared 1.1% w/w to a 36-month high and improved to 6.5% below its June 2022 record. Forward earnings had bottomed in early 2023 for these three indexes following 2022's year of cost-cutting. Since then, LargeCap's forward earnings has soared 34.8% from its 54-week low during the week of February 1, 2023; MidCap's has slowly gained 11.2% from its 55-week low during the week of March 10, 2023; and SmallCap's has rebounded 9.5% from a very recent 42-month low during the May 23 week. These three indexes' forward earnings downtrends from mid-2022 to early 2023 and again during Trump's Tariff Turmoil were relatively modest compared to their deep double-digit percentage declines during the Great Virus Crisis and the Great Financial Crisis. Here are the latest consensus earnings growth rates for 2024, 2025, and 2026: LargeCap (9.7%, 12.0%, 13.7%), MidCap (0.4, 1.5, 16.2), and SmallCap (-10.2, 5.9, 16.2).

S&P 500/400/600 Valuation (*link*): Valuations were lower for these three indexes during the November 14 week, but more so for LargeCap. LargeCap's forward P/E dropped 0.1pt w/w to 22.1 and is down from a 25-year high of 22.8 during the October 31 week. It's now 5.1pts above the seven-month low of 17.0 during the October 27, 2023 week. That compares to a 30-month low of 15.1 at the end of September 2022 and an 11-year low of 11.1 during March 2020. MidCap's forward P/E fell 0.2pt w/w to 15.7, and is now 0.7pt below its 32-week high of 16.4 during the September 5 week. It's also 1.4pts below its 40-month high of 17.1 during the November 29 week and 3.5pts above the 12-month low of 12.2 in October 2023. That compares to a record high of 22.9 in June 2020 when forward earnings was depressed and an 11-year low of 10.7 in March 2020. SmallCap's forward P/E fell 0.3pt w/w to 14.9, and is down 0.9pt from a nine-month high of 15.8 the week before that. It's 2.0pts above its 17-month low of 12.9 during the April 4 week and 4.4pts above its 14-year low of 10.6 in September 2022, but remains 2.1pts below its 41-month high of 17.1 during the November 29, 2024 week. That compares to a record high of 26.7 in early June 2020 when forward earnings was depressed and a record low of 10.2 in November 2009 during the

Great Financial Crisis. The forward P/Es for the SMidCaps have been mostly below LargeCap's since August 2018. MidCap's P/E was steady at a 29% discount to LargeCap's P/E, up from a 26-year low 30% discount during the October 31 week. That compares to a 19% discount during the March 2, 2023 week, which matched its best reading since October 14, 2021. SmallCap's P/E fell 1ppt w/w to a 16-month low 33% discount to LargeCap's P/E. That compares to a 23% discount during the November 29, 2025 week, which was its best reading since the March 2, 2023 week. It's now just 1ppt above its 24-year-low 34% discount during the July 5, 2024 week. SmallCap's P/E weakened to a 5% discount to MidCap's, but that's up from a 13-month low 6% discount at the end of July and a 20-year-low 10% discount in late 2021. Prior to that, from 2003 to 2018, SmallCap's P/E had been mostly above MidCap's, and both were above LargeCap's.

US Economic Indicators

Empire State M-PMI (*link*): Business activity in the New York region accelerated this month, posting its fourth positive reading in the past five months—to its highest reading since last November. The headline *general business conditions index* climbed 8.0 points (to 18.7 from 10.7) as both the new orders (to 15.9 from 3.7) and shipments (16.8 from 14.4) measures continued to accelerate, with new orders posting an impressive 12.2-point increase during the month. *Turning to the labor market*, the *employment* (6.6 from 6.2) gauge recorded a small increase, while the *average workweek* (7.7 from -4.1) moved from contraction to expansion—climbing to a multi-year high. *As for pricing*, both the *prices-paid* (49.0 from 52.4) and *prices-received* (24.0 from 27.2) measures eased this month, though remain elevated. Looking ahead, while firms continue to expect *future general business conditions* (19.1 from 30.3) to improve in the months ahead, November's level was down 11.2 points from its recent high in October. Both *new orders* (23.3 from 34.9) and *shipments* (23.3 from 31.6) are expected to increase, though at a slower pace. *As for future pricing*, the forward-looking indicators for *prices-paid* (62.5 from 65.0) and *prices-received* (41.3 to 43.7) eased a bit, but still show significant price increases ahead.

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