

MONTHLY REVIEW – SEPTEMBER 2026

Dear Clients, Colleagues and Partners

OUR PERSPECTIVE

“In a country well governed, poverty is something to be ashamed of. In a country badly governed, wealth is something to be ashamed of.” ~ Confucius (551–479 BC)

Travelling through China reveals a profound paradox.

At the micro level, society is vibrant: warm, welcoming citizens and ambitious technology leaders pushing the boundaries of science and innovation.

At the macro level, however, China is drowning in debt and sinking into a dangerous deflationary trap.

For a long time, the world assumed China's authoritarian growth model was invincible. Today, domestic growth has quietly abandoned the mainland. China's seemingly sole remaining pulse comes from flooding global markets with cheap export volume. Onshore, domestic prices are flatlining, consumer demand are faltering and animal spirits have seemingly turned to ice.

One can also observe the stark two-speed economy. While the affluent continue spending on luxury and outbound travel, the middle class is trading down, triggering price wars that erode corporate profits. The numbers paint a clear picture: retail sales grew a meagre 1.1% in the first eight months of the year, whereas exports surged nearly 15%. Most alarming is fixed asset investment, which fell -7.7%. Even when stripping out the real estate sector, it remains down over -4%.

In a capitalist system, zero inflation brings paralysis rather than stability. Growth requires converting dormant savings into higher risk, productive investments. China is not short of capital; it is drowning in cash that refuses to circulate. Expecting lower prices tomorrow, consumers defer spending today. Lacking pricing power, businesses freeze expansion. Capital retreats into safe-haven savings accounts, causing the velocity of money to drop toward zero.

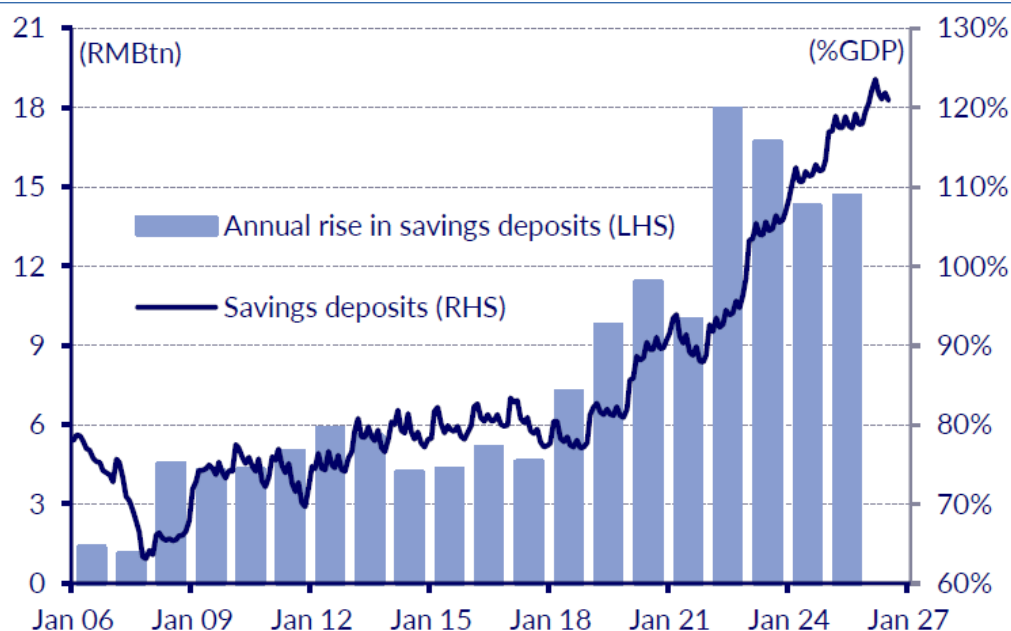
Japan's Lost Decades refers to the prolonged economic stagnation that began in the early 1990s following the collapse of the nation's massive real estate and stock market bubbles. Characterized by persistent deflation, sluggish GDP growth, near-zero interest rates, and mounting public debt, this period deeply restructured Japan's financial ecosystem.

If Beijing hopes to avert a multi-decade stagnation that could make Japan's "Lost Decades" look mild, Beijing must pivot away from supply-side industrial subsidies and aggressively reignite demand. Below are three options we might see on the table:

1. **Direct Demand Stimulus:** Aka 'Helicopter Money'. One option is to replace factory subsidies with direct cash transfers and high-expiry consumption vouchers issued directly to households.
2. **Social Safety Net Overhaul:** The CCP could also expand healthcare, education, and pension coverage to permanently unlock trillions held in precautionary defensive savings.
3. **Explicit Monetary Reflation:** The People's Bank of China (PBOC) could adopt explicit inflation or nominal GDP targets backed by direct asset purchases, signalling that idle capital will lose purchasing power over time.

China's economic engine is not merely slowing down; it is freezing from within. Unless Beijing forces capital out of bank vaults and back into the marketplace, its reign as the world's growth engine will end with a quiet whimper.

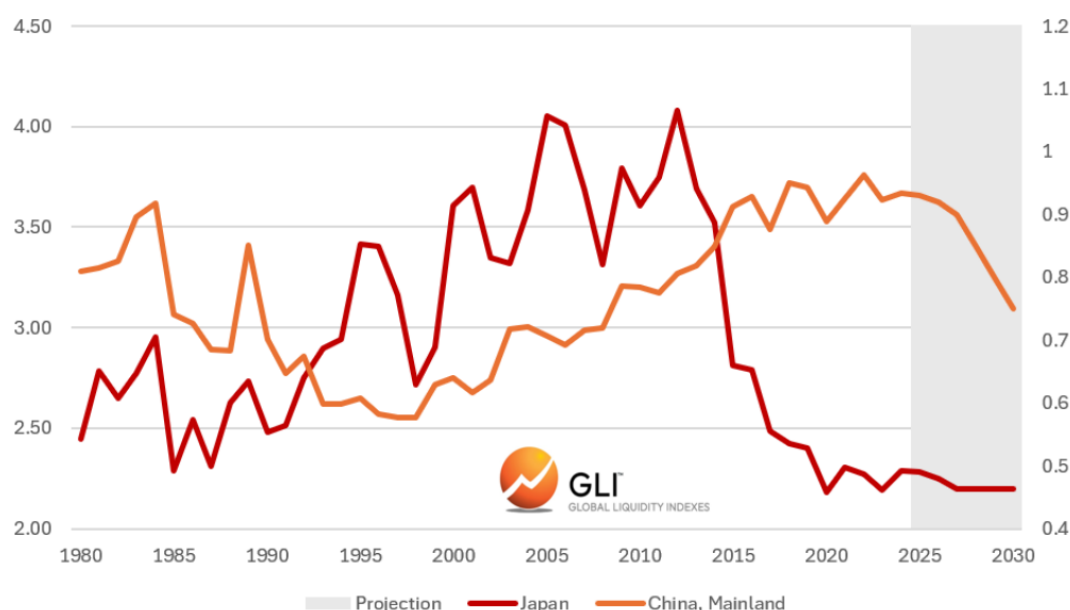
Exhibit 1: The task is convincing households to dispense with savings that shifted from precautionary in nature to excessive (121% of GDP or US\$45,600 per household)



Source: CLSA, PBOC, CITIC Securities 33rd Annual Investors Forum, September 2026

Exhibit 2: China is in dire need of a liquidity injection into the system. As shown below, the market is expecting liquidity to rise relative to debt outstanding, but Chinese authorities have not announced any measures yet.

Debt/ Liquidity Ratios: China & Japan



Source: Michael Howell, GLIndexes, CITIC Securities 33rd Annual Investors Forum, September 2026

MARKET REVIEW

Deflationary Boom Assets

September delivered mixed performance across growth assets as renewed inflation pressures and central bank rate hikes put pressure on equity valuations. Japan (+1.7%, USD) were the top performing market, buoyed by structural corporate reforms. Conversely, Europe lagged significantly following European Central Bank monetary tightening and fell almost 5% in USD terms, while the S&P 500 (-0.35%) and Emerging Markets (-0.54%, USD) recorded mild pullbacks as rising Treasury yields capped risk sentiment.

Inflationary Boom Assets

Trend-following strategies outperformed as systematic models captured multi-asset momentum driven by volatile energy markets and rising yields in government bond markets. Our basket of Managed Futures gained +3.5% in USD terms in September, extending strong Q3 (+10.9%) and YTD (+15.7%) performance. Surging medium- and long-term government bond rates and

commodity price swings provided fertile positioning ground for CTAs across FX and yield curves.

Inflationary Bust Assets

Rising real interest rates and dollar firmness exerted heavy pressure on precious metals. Silver was the worst performer across all assets, plunging -13% in September, whilst Gold declined c. -8%, eroding prior gains during the quarter. Despite the decline, gold still finished Q3 up 3.7%. Inflation-linked securities also struggled, with the iShares 0-5 Year TIPS Bond ETF falling c. 1% as short-dated nominal yields rose faster than near-term inflation expectations.

Deflationary Bust Assets

Long-duration sovereign bonds suffered significant losses as market expectations adjusted to higher-for-longer interest rates. The Vanguard Long-Term Treasury ETF tumbled as much as 5% for the month, worsening its Q3 drawdown (-8% USD), as Treasury yields pushed higher across the curve.

CONTACT US

For further information on any of our services, or if you would like to arrange a meeting with an investment manager to see how we can work with you, please get in touch.

Shard Capital Partners
Floor 6, 51 Lime Street,
London, EC3M 7DQ
United Kingdom

Telephone: +44(0)20 3971 7000
Email: info@shardcapital.com
Web: www.shardcapital.com

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