Emerging Markets Insights

Opportunities in China's Consumer Market

August 2026
Perspective from Templeton Global Investments

China Consumer: Finding Opportunities Beneath the Slowdown

Recent economic data pegged China's second-quarter economic growth at 4.3%. This was also the weakest pace since the fourth quarter of 2022. Soft domestic consumption was a weak spot. The release of this data coincided with our Chinese consumer analyst's research trip to China. He found that the weakness was not uniform, and a brighter outlook could be on the horizon for some companies.

The quick-serve restaurant segment in China weathered a negative operating environment in 2025. Delivery platforms offered massive subsidies, which ate into profits of the quick-serve restaurants that utilize the services of the delivery platforms. While some costs related to subsidies were borne by delivery platforms, quick-serve restaurants incurred additional delivery costs and marketing expenses to secure top-tier visibility spots on these platforms. These were on top of compressed profit margins from offering highly discounted meals for users of food delivery applications.

Despite this competitive environment, the management of a large quick-serve restaurant chain revealed that larger operators like his were gaining market share from smaller players. He was also upbeat on margin improvement in the second half of 2026. He sees room for this as subsidy expenses decline.

Another company that the analyst identified as an opportunity is a dairy company. At the industry level, supply-demand dynamics have improved. He met with two companies that affirmed that channel inventory has returned to a very low level. The analyst then visited several supermarkets and hypermarkets as part of his channel checks. He found that two important metrics, product freshness and production dates, suggested that inventory turnover was indeed healthy. Most importantly, this corroborated both industry data of supply-demand normalization and management views. This gave him a level of comfort that industry conditions are stabilizing.

Overall, while data suggests that the China consumer environment remains challenging, industry consolidation, easing subsidy intensity and improving conditions in selected sectors such as dairy suggest that opportunities may remain available for companies with strong execution and market-leading positions.

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Market Review

Emerging market equities stocks fell in July 2026 as tensions in the Middle East ramped up and technology stocks came under pressure amid concerns over stretched valuations and large-scale investment plans. A tightening of rules governing single stock leveraged exchange-traded funds in South Korea and subsequent margin calls weighed heavily on the semiconductor industry group. .

Outlook

Emerging market equities weathered market swings in July. Much of the market's recent focus has been on AI. We still see AI as a strong long-term theme. This means that hyperscaler spending is likely to remain elevated, but the risk of delayed returns exists. The growth story of EMs extends past AI. Energy transition is another theme. Other long-term secular drivers include digitalisation and consumption.

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