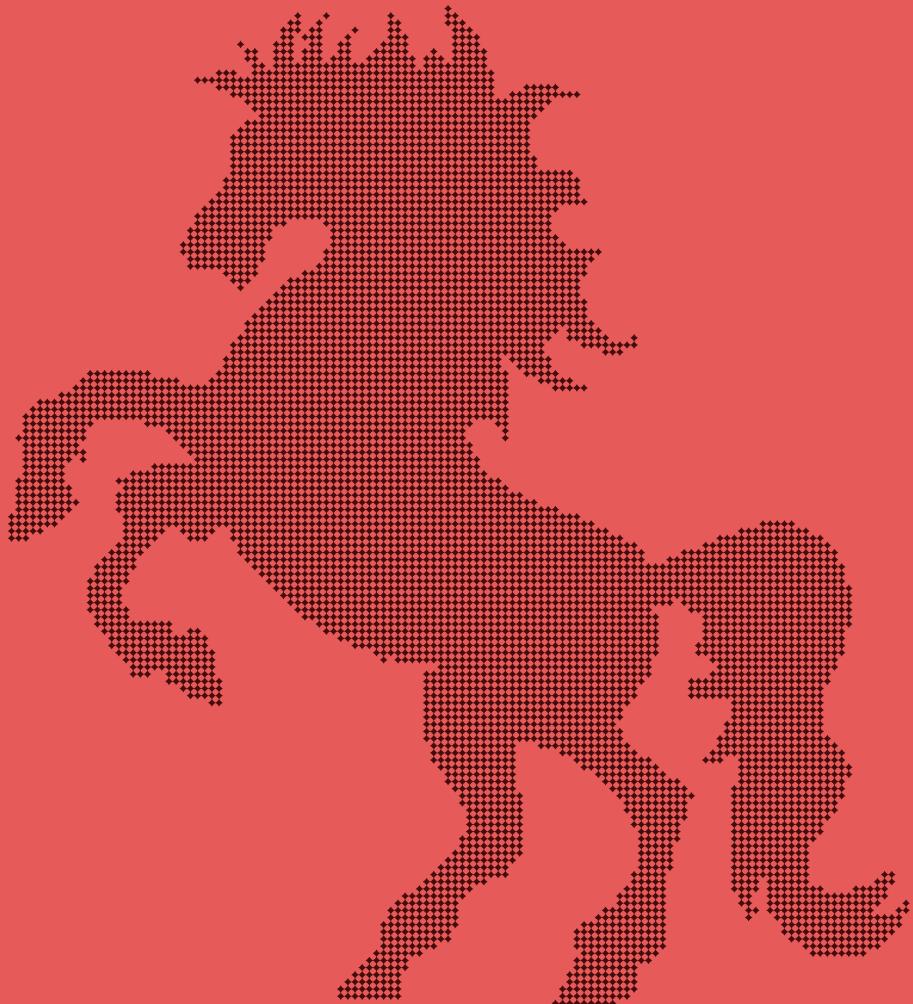


Saddle up for CHINESE political UNCERTAINTY in Year of the Horse

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As China approaches the Year of the Horse, an animal associated with speed, unpredictability and powerful surges of energy, President Xi Jinping is finding that the political terrain at home is becoming just as difficult to rein in. The year is meant to usher in momentum and vitality, yet for Xi it has opened with turbulence, as though the new lunar cycle has begun with a horse breaking into an unruly gallop.

Indeed, following a failed alleged coup in January, General Zhang Youxia, China's most senior military officer after President Xi Jinping, together with senior-ranking General Liu Zhenli were placed under investigation. This marks one of the most dramatic ruptures in China's political system in decades. The speed is unprecedented in the context of Chinese elite politics, where purged leaders typically vanish for months before any explanation is offered.

The language used by state media made the episode more striking. An editorial in the People's Liberation Army's (PLA) Daily accused Zhang and Liu of creating political and corruption issues that undermined the party's absolute leadership over the military and threatened its ruling foundation. These accusations went beyond routine claims of graft, indicating deeper concerns about loyalty. Crucially, the suggestion that the two generals posed a direct challenge to party authority over the armed forces marked a red line that the leadership could not tolerate.

Factional fractures

For decades, China's elite politics rested on an informal balance between the Shanghai faction under former president Jiang Zemin in the 1990s and the Communist Youth League (CYL) faction under former president Hu Jintao through the 2000s. This arrangement embodied Deng Xiaoping's concept of collective leadership, in which alternating factional influence prevented any single leader from fully centralising authority.

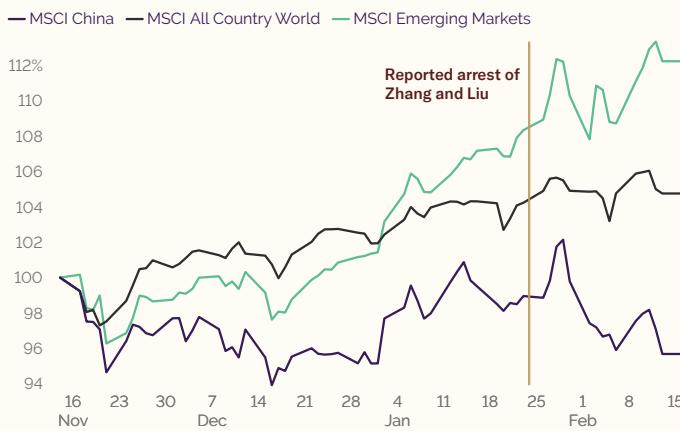
When Xi Jinping (from the Shanghai faction) took office as president in 2013, he was initially viewed as another product of this rotation. Instead, Xi moved to end it. Through a sweeping anti-corruption campaign and the systematic elevation of loyalists from his various career postings, Xi dismantled the decades-old balance between factions. By his second term, the previous model of "one party, two factions" had effectively dissolved.

Zhang's abrupt removal crystallises this shift. Long regarded as a trusted loyalist with personal ties to Xi, his downfall underscores how thoroughly the old factional safeguards have been swept aside. What once functioned as an internal check on power now gives way to a single dominant bloc under Xi.

Chinese and Emerging Market stocks have largely shrug off domestic political risk

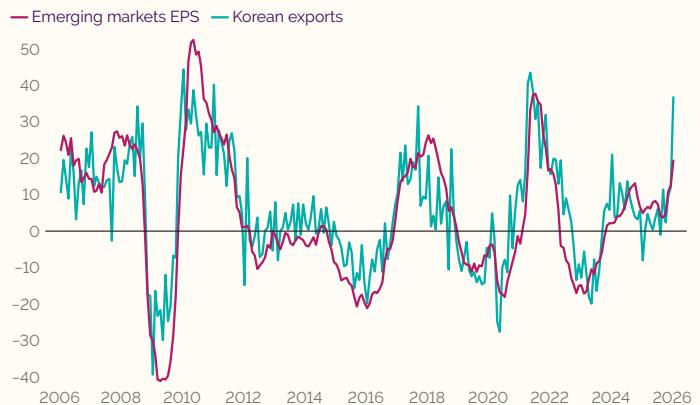
Given China's political opaqueness, with no clear line of succession to President Xi, this political uncertainty raises concerns over governance and could weigh on investor sentiment. However, so far there has been limited impact on Chinese equities and Emerging Markets (EM) since the purge of the military high command.

Chinese political upheaval has little impact on markets



The risk for investors is that that domestic political uncertainty could depress regional equity market valuations and returns. Yet, total returns this year for China and Emerging Markets are largely being driven by company earnings growth, with a supportive global economic outlook. This is already visible in Korea, a manufacturing hub for global technology products, where, in January, its exports surged 36% from a year earlier, the fastest pace since the pandemic. Korean exports have a tight relationship with EM EPS.¹

Korean exports are a leading indicator for emerging markets EPS growth



Source: LSEG Datastream / Evelyn Partners. Percentage year on year change. As at 16 Feb 2026

A potential easing in geopolitical tensions over Taiwan

There is, however, a stabilising effect for global markets. With Xi now compelled to focus his attention inward, the near-term likelihood of external escalation (particularly regarding Taiwan) diminishes. The purge leaves the Central Military Commission (CMC) with only two active members, Xi Jinping and Zhang Shengmin, a career political commissar with limited operational command experience, resulting in an unprecedented contraction of China's top military leadership.

The CMC is the supreme party body that commands the entire Chinese armed forces, making it the key institution through which the party exerts direct control over the military. This upheaval has weakened the CMC's operational capacity and indicates significant turmoil within the PLA high command. On balance, this could lower the risk of a blockade or invasion of Taiwan in the near term.

President Xi may be more hesitant to deploy China's export restrictions on rare earths as leverage in his upcoming April meeting with President Trump in Beijing. A less confrontational China could encourage Trump to reciprocate by lowering tariffs if both leaders find common ground on trade and natural resources. Ultimately, the prospect of easing US-China tensions in the Year of the Horse could provide a supportive backdrop for risk assets, both in emerging markets and globally.

Speak to us

Source

¹ LSEG Datastream / Evelyn Partners

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