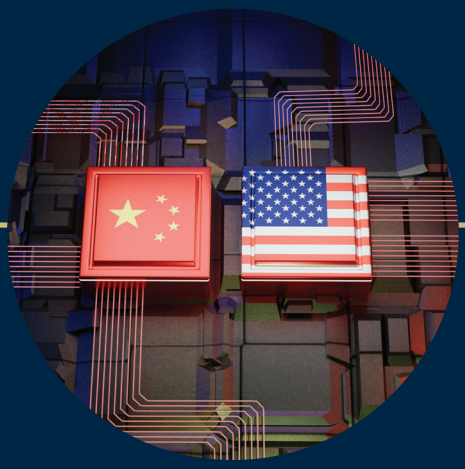
MARKET SIGHT*LINES*



Productive Competition: A Next Chapter for the U.S. and China?

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The CIO Office's **long-term investment themes** look out to the forces that may shape the economy and markets for years to come. One theme, Productive Competition, reflects our view that rivalry can drive innovation and economic progress, with U.S. and China competition an important example. In **Outlook 2026: Rewiring Growth** and our discussion of **geopolitical risk as a new normal**, we explored how this competition influences trade, technology, supply chains, and investment decisions. This week's meetings between Presidents Trump and Xi, along with a separate meeting including Russian President Putin, bring that relationship back into focus. Trade negotiations continue even as the U.S. tightens restrictions on China's access to advanced artificial intelligence computing. In this Sight|Lines, we examine these developments, how they fit within our longer-term themes, and what they may mean for investors.

THE TAKEAWAY: TRADE TALKS AND TECH RESTRICTIONS SHAPE U.S.-CHINA COMPETITION

Trade negotiations and technology restrictions are shaping the next chapter of U.S.-China competition, with implications for innovation, economic growth, and investment opportunities. In summary:

- Our Productive Competition theme recognizes that U.S.-China rivalry can encourage productive innovation while creating economic and investment risks.
- This week's meetings addressed trade, technology, and broader security concerns.
- Trade negotiations can reduce some barriers even as national security priorities may tighten technology restrictions.
- At present, Chinese companies can access advanced computing through overseas data centers without importing the chips themselves.
- But the new U.S. rule targets that offshore access through licensing requirements, customer checks, and limits tied to computing capacity.
- The effects extend beyond the U.S. and China, potentially influencing overseas data center investment plans and which customers those facilities can serve.
- Nvidia's results point to continued AI infrastructure demand but do not yet settle the longer-term effects of the restrictions.
- Investors should consider the impact on customers and related access going forward.

IN-DEPTH: TRADE NEGOTIATIONS AND TECHNOLOGY RESTRICTIONS ARE SHAPING THE NEXT CHAPTER OF U.S.-CHINA COMPETITION

Trade negotiations and restrictions on access to advanced technology are shaping the next chapter of U.S.-China competition, influencing where companies invest, how innovation develops, and the opportunities and risks for investors. Going deeper:

- U.S.-China competition includes the pursuit of innovation with efforts to protect economic and national security interests:
  - Our **long-term themes** identify advanced computing, defense modernization, and strategic resources as key areas.
  - Our **2026 Outlook** highlights how trade restrictions can challenge companies dependent on China.
- The bilateral and three-way meetings provided separate settings for economic negotiations and broader security discussions:
  - Trump and Xi agreed to form a plan for a more stable relationship and to further discussions on economic and trade concerns.
  - The three-way meeting produced a declaration supporting stable energy flows and further dialogue on nuclear risks.
- Progress on trade does not necessarily mean broader access to strategically important technology:
  - The two countries are working toward reciprocal tariff reductions covering about $30 billion of each other's goods.
  - Separately, a new Commerce Department rule seeks to prevent advanced computing from supporting military and/or intelligence activities that threaten U.S. security.
- China can rent overseas computing capacity, gaining access to advanced chips without bringing the equipment on shore:
  - The chips remain in a foreign data center, while customers access their processing power remotely through cloud services.
  - So, restrictions based only on where equipment is shipped may not prevent Chinese companies from using that equipment.
- The new rule adds licensing and customer qualification requirements for covered overseas computing relationships:
  - The licensing threshold is more than 12 million in aggregate total processing performance (TPP), measured across a single data center or linked facilities; commercial recommendation-focused systems may qualify for an exemption, subject to reporting.
  - Operators must examine customer ownership, and data centers already providing covered services have 90 days from November 19 to obtain a license.
- Additional licensing requirements may affect overseas data center projects differently depending on ownership and customers:
  - The rule adds chip-export licensing requirements for Indonesia, Malaysia, Singapore, Thailand, and Brazil, aiming to prevent chips from being rerouted to restricted destinations or users.
  - U.S. companies can qualify for an exception for shipments to their operations in those countries, with proper reporting.
- Nvidia's results and outlook suggest continued infrastructure demand, while leaving questions about the restrictions' effects:
  - Quarterly revenue rose 103% to $115.8 billion, and management raised its next-fiscal-year revenue growth outlook from approximately 70% to 75%.
  - Next-quarter guidance excludes data center compute revenue from China, but it is unclear if demand linked to Chinese customers using offshore facilities is excluded.
- For investors, one question is whether restrictions reduce a business's revenue while spending commitments remain:
  - A data center may lose some customers or face delays obtaining advanced chips, reducing revenue or postponing operations.
  - Loan payments, leases, and equipment commitments may still come due, so investors must try to gauge whether the business can meet those obligations if revenue falls short.

WHAT WE THINK

Our long-term investment themes help us put developments like this week's meetings and technology restrictions in a broader context. U.S.-China competition continues to influence trade, innovation, and investment, even as both countries seek areas of agreement. We believe this rivalry can encourage economic progress, but restrictions and the changing relationship also create risks. For investors, a key question is how these developments may affect a business – access to customers and technology, costs, and the ability to earn attractive returns. We will strive to continue to assess these opportunities and the related risks going forward.

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