

China Equity Strategy

Gauging market styles: Incremental fund inflow perspective

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Why is it important to gauge market styles in A-share investing?

Although corporate fundamentals and earnings revisions are key drivers of sector and individual stock performance, sometimes, stock prices do not fully reflect earnings estimates changes within a short time span. The performance of stocks that share one feature (ie, market style) may depend on investor sentiment, macro conditions or other factors. Generally, higher inter-sector correlation indicates macro or non-corporate factors contribute more to stock returns.

Which traditional indicators help determine market styles?

Notably, the outperformance of one particular style historically has come with improvement in select indicators: 1) The extent of growth outperformance is correlated with market beta. 2) Cyclical outperformance over defensive usually comes with accelerating industrial profit. 3) Small caps typically outperform large caps amid abundant liquidity, improved market activity and stronger retail participation.

New framework for style allocation: Incremental fund inflow perspective

Since the aforementioned indicators are complex and the factors dictating market styles may shift sometimes, we find that net marginal capital inflow offers insight into market styles. We examine and recap the investment theses of five rounds of long-lasting style shifts from the perspective of incremental capital inflow from 2014 to date – that is, the style and sector preferences of incremental funds that determine the overall A-share market style. [Recap 1](#): From mid-2014 to end-2015, leveraged funds drove a market rally and pullback. [Recap 2](#): An influx of foreign capital drove "white horse" style (high-quality growth) stock prices in 2017-19. [Recap 3](#): Mutual funds (MFs) pursued earnings compounders in 2019-21, forming a positive cycle between significant fund product issuance and stock rises of earnings compounders. [Recap 4](#): During a market downturn between 2022-24 (before the 24 Sept 2024 policy pivot), the entry of insurance funds and the national team drove defensive outperformance. [Recap 5](#): Since the 24 Sept 2024 policy pivot, the net inflow of margin financing, ETFs and hedge fund investors has driven small cap and growth outperformance.

Which market styles do we prefer now?

Within the classic style allocation framework, we think investors should balance allocation between growth and value, as well as large and small caps, as the market faces notable uncertainty from geopolitical risks in the near term. After the market stabilises (see [A replay of April 2025 or a new cycle into stagflation?](#)), we would prefer growth and cyclical in the medium term, as a "slow bull" market benefits growth. A narrower PPI decline and turnaround, coupled with an industrial profit growth recovery, could drive cyclical outperformance. In terms of incremental capital inflow, we think ETFs, leveraged funds, hedge funds and insurance funds could be top incremental sources in the next stage. Further expansion of sector ETFs could boost the performance of sector leaders, limiting small-cap outperformance. The balance of margin financing has not declined in the same proportion as the market's declines recently, pointing to a positive stance for leveraged money. Also, increased new issuance of hedge funds provides further support for growth. The continued entry of insurance funds (as a slow variable) may have a limited impact on stock prices in the near term. For 2026, as government bond yields rebound, insurers' strategies could shift from a high-dividend focus in the past two years to more diversified positions.

Which A-share market styles should fundamental investors watch?

Stock style refers to a class of stocks with certain common attributes, and the correlation of returns is strong for stocks within one class but weak for stocks in different classes. Since stock styles often involve completely different or even opposite characteristics, many stock styles often appear in pairs. For fundamental investors, we believe major A-share market styles include, but are not limited to, growth vs. value, large caps vs. small caps and cyclical vs. defensive.

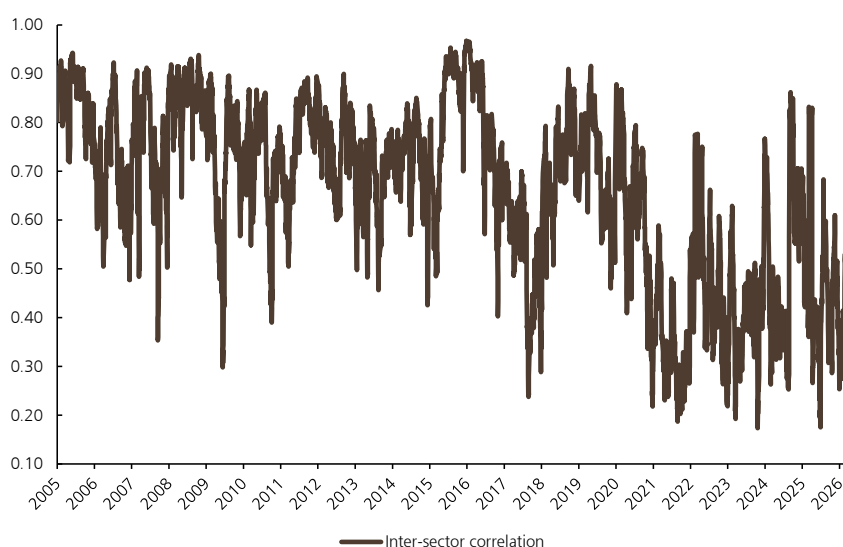
Quantitative investors consider more market styles, including momentum vs. reversal, high quality vs. low quality, etc. For example, within momentum, UBS-S's quant team constructs a momentum factor based on cumulative stock returns over the past 12 months. The team grouped the momentum factor scores of each stock, with the top one-third defined as a high-momentum portfolio and the bottom third as low momentum.

Why is it important to gauge market styles in A-share investing?

Fundamentals and earnings revisions are key drivers behind the performance of sectors and individual stocks. However, stocks (styles) with certain common attributes are sometimes subject to the impact of investor sentiment, macro or other factors. We believe examining such factors supplements bottom-up fundamental research on sector earnings revisions. Indeed, identifying outperforming styles and stock portfolios is critical for MFs, as style allocation contributes significantly to a portfolio's total returns and affects the ranking of fund managers' performance. Hedge fund investors' returns may come from style pairings. Investors who are good stock pickers can also be inspired by relative style performance and the macro context.

Tracking corporate earnings changes is a go-to tactic for fundamental investors, although sometimes, stock prices do not fully reflect earnings changes. We identify a number of factors why the classic profit analysis framework does not always work in the short term. Generally, higher inter-sector correlation indicates macro or non-corporate factors contribute more to stock returns. However, once inter-sector correlation dips below 0.5, structural investment opportunities emerge on the micro or sector level. When inter-sector correlation is above 0.5, looking for sector ideas and gauging the market style are sometimes even more important than assessing individual stock trends, in our view.

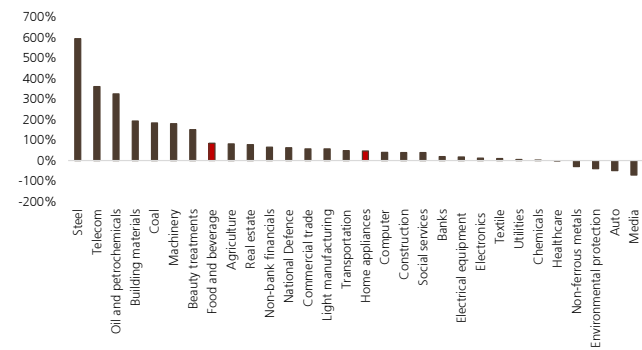
Figure 1: Correlation of movement of all A-share sectors (trailing one month)



Source: Wind, UBS-S; Note: Data as of 3 April 2026.

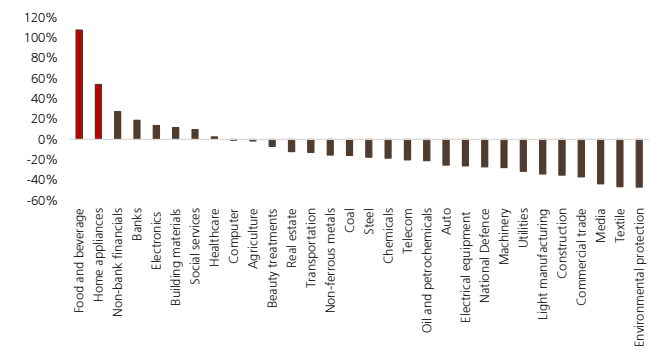
A particular market style sometimes dominates the A-share market and lasts for years. For example, between 2017-19, high-quality blue-chip consumer leaders with steady earnings growth significantly outperformed the market, driven by the consumption upgrade theme. During a market downturn caused by US-China trade friction, investors favoured companies with solid earnings growth and commanding a premium for high-end brands. The two most representative industries were food and beverages (mainly baijiu) and home appliances (mainly white goods). While their earnings growth was not outstanding between 2017-19 (ranking eighth and 16th among the 30 level 1 industries), their price performance led the pack by a wide margin during that period. The steel, telecom, and oil and petrochemical sectors, the top three in terms of earnings growth, had stock pullbacks.

Figure 2: Cumulative earnings growth of all level 1 industries (2017-19)



Source: Wind, UBS-S

Figure 3: Cumulative stock price change of all level 1 industries (2017-19)



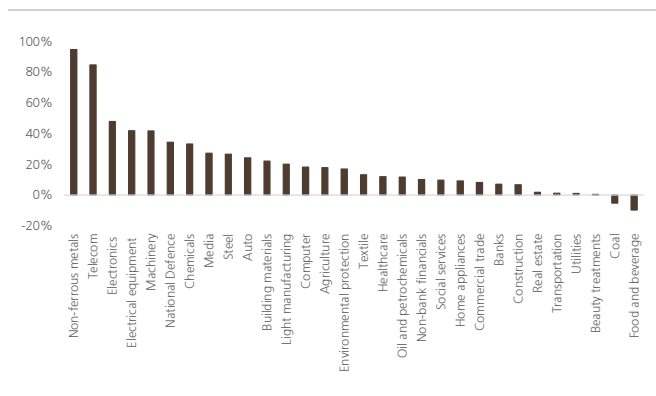
Source: Wind, UBS-S. Note: All sector indices re-based to 1,000 on 30 Dec 2016.

In our [Frame your thinking on A-share sector allocations \(Part II\)](#) report, we pointed out that market patterns sometimes look like random walks in the short term. However, when we excluded the long-term trend line and simplified or smoothed the ups and downs, we got three risk stages for each equity market cycle: risk-on, risk-off and risk aversion.

Among the seven biggest A-share market cycles (comprising rallies and subsequent falls) between 2000 and Oct 2022, non-ferrous metals ranked at the top in average returns in the risk-on stage (see [report](#)). During the A-share market rally in 2025, the high-beta non-ferrous metal sector led the pack again, with a 95% return. On the other hand, with AI and hard tech advancing rapidly, the electronics and telecom sectors, proxies for the high-beta greater tech sector, followed closely behind.

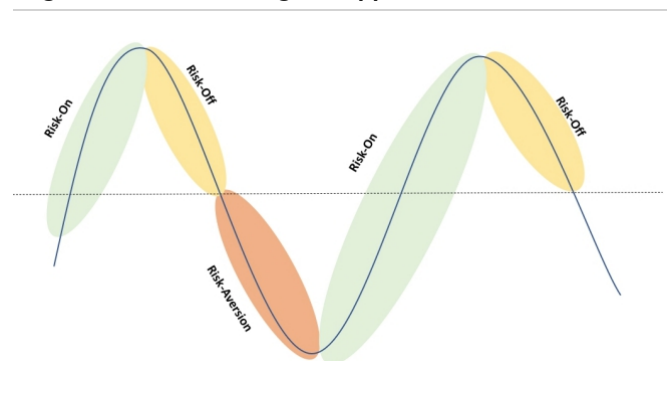
Notably, while the 9M25 cumulative earnings growth of non-ferrous metals and electronics ranked high among all level 1 industries, telecom's cumulative earnings growth was only 9%, close to the 10% level of home appliances and 11% of agriculture. However, the 9M25 return of telecom was several times that of home appliances and agriculture. We think that reflects investors' preference for growth in the risk-on stage, making them pay more attention to the earnings growth estimates and growth outlook of the earnings-compounder segments of some sectors.

Figure 4: Stock price changes of all level 1 industries in 2025



Source: Wind, UBS-S

Figure 5: The evolution of equity market cycles plays a large role in determining risk appetite



Source: UBS-S

Select conventional indicators that may help gauge market styles

Notably, the significant outperformance of a particular style often has been accompanied by improvement in some conventional indicators.

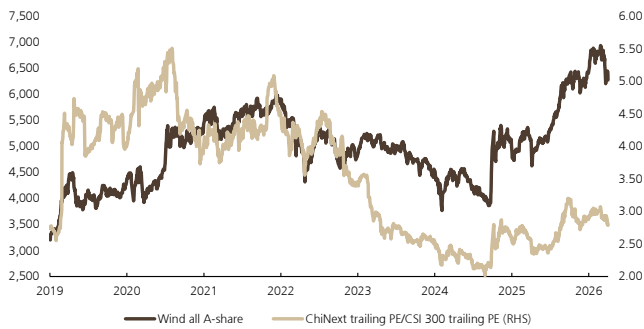
Specifically, the extent of growth outperformance is correlated with market movement. When the market trends up, investors typically pursue growth stocks, which are known for higher beta, to capture potential excess returns. In such cases, growth tends to outperform value, defensive and cyclical styles significantly. During a downturn, investors usually turn to value to accumulate defensive positions, reducing the losses of absolute returns.

The outperformance of cyclical over defensive often happens when China's economy recovers and industrial enterprises' profit margins improve. Historically, the rolling-six-month outperformance of value over the Wind All A-share Index has been correlated with the YoY growth of industrial profit. In years of economic upturns, the improving PPI and growth of industrial profit would lead to significant improvement in the profitability of cyclical sectors.

Historically, the outperformance of small caps over large caps has been driven in part by loose liquidity and falling risk-free rates. Although investors may not necessarily allocate more assets to equities in a falling-rate environment, past experience and popular belief that abundant liquidity benefits small caps naturally leads investors to view that as a good opportunity and increase allocations in small caps. Also, the outperformance of small caps has been partly driven by jumps in market turnover. Notably, from 2014 to today, in years when average daily turnover exceeded Rmb1trn, small caps (CSI 1000 as a proxy) outperformed large caps (CSI 300 as a proxy).

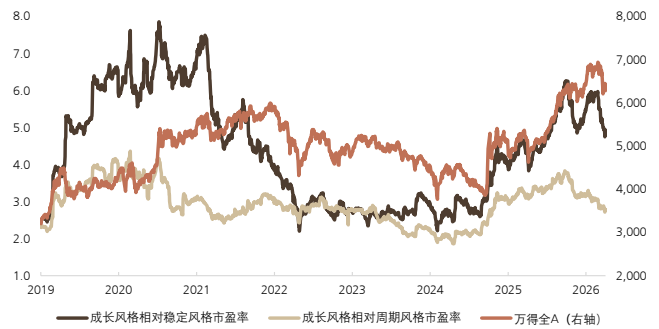
Increased market activity has drawn in retail investors en masse. We believe retail investors' preference for small caps with higher beta is a key reason for small caps' outperformance amid abundant liquidity. Incremental retail funds push up market turnover and stock prices, and the stronger money-making effect draws in more retail investors, forming a positive cycle.

Figure 6: Relative valuation of ChiNext Index to CSI 300 and Wind All A-share Index



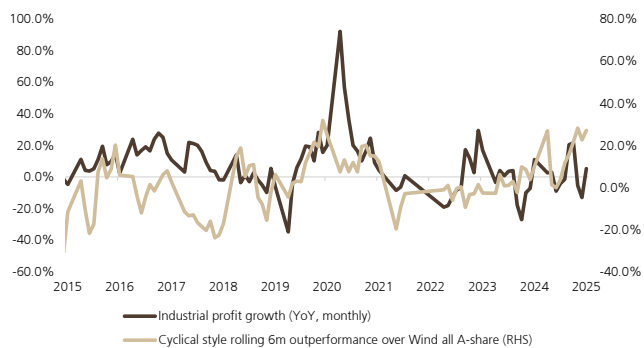
Source: Wind, UBS-S. Note: Data as of 3 April 2026.

Figure 7: Relative valuation of growth vs. stable and cyclical styles and Wind All A-share Index



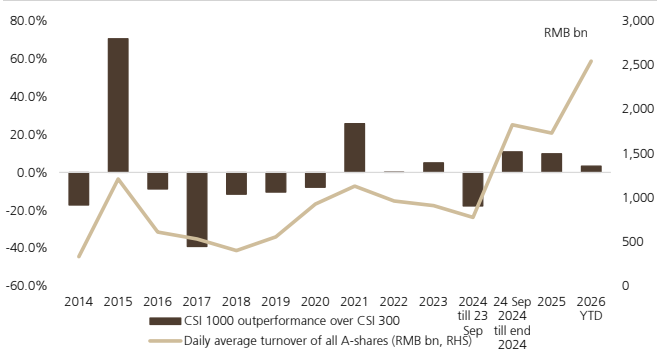
Source: Wind, UBS-S. Note: Data as of 3 April 2026.

Figure 8: Extent of cyclicals' outperformance over Wind All A-share Index in 6-month timeframe vs. YoY profit growth of China's industrial enterprises above designated size



Source: Wind, UBS-S

Figure 9: CSI 1000 outperformance over CSI 300 vs. A-share average daily turnover



Source: Wind, UBS-S. Note: Data as of 3 April 2026.

New framework for style allocation: From the perspective of incremental fund inflow

Given the complexity and diversity of the aforementioned indicators, the key factors influencing market style can change from time to time. Therefore, we reconstruct the framework of style analysis. We find that the perspective of incremental capital inflow helps systematically gauge market style – the style and sector preferences of incremental capital determine the overall operating style of the A-share market.

In the following sections, we recap the investment logic behind five extended style shifts since 2014 from the perspective of incremental capital inflow.

Recap 1: Leveraged money drove market rally and pullback from mid-2014 to end-2015

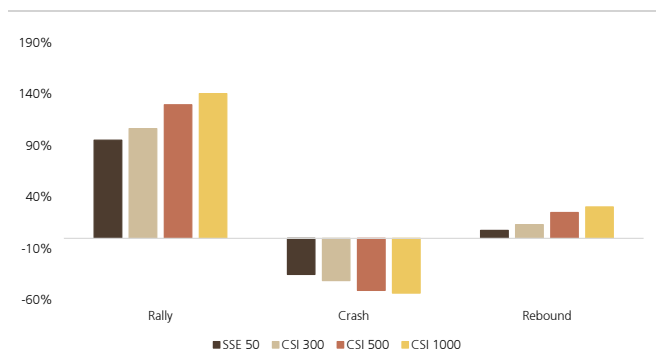
The rise and fall of this growth style bull market spanned from end-2014 to end-2015. From 22 Nov 2014 (the first rate cut of this round) to 24 Oct 2015 (the last RRR and rate cuts of the round), the central bank implemented six rate cuts and five RRR cuts. Abundant liquidity was ignited by a series of landmark events, such as the merger of CNR and CSR, implementation of shantytown renovation and introduction of "Internet +" during the Two Sessions in 2015, resulting in the rise of speculative sentiment in the A-share market in H115. The balance of margin financing as a percentage of A-share free-float market cap reached a historical high of 9.6% in mid-2015. Meanwhile, the margin trading turnover of the A-share market increased rapidly in H115, even exceeding 40%. Along with the rapid increase in margin financing, a large amount of off-market leveraged funds poured into the market, which eventually led to A-share market overvaluation.

Given the inherently higher risk appetite of leveraged funds, high-beta growth styles were favoured by leveraged funds, while the outperformance of the growth style was correlated with market performance. We divide this round of rally and crash of the A-share market into three stages: 1) the rapid market rally driven by hot money inflow (22 Nov 2014 to 12 June 2015); 2) the rapid market downturn driven by the unwinding of non-compliant funds (13 June to 15 Sept 2015); 3) and the subsequent market rebound (16 Sept to 24 Oct 2015).

In terms of large vs. small cap styles, during the rapid market rally, small caps (CSI 1000 as a proxy) significantly outperformed large caps (SSE 50 and CSI 300 as a proxy), while during the rapid market downturn, small caps fell more sharply due to higher beta. In the subsequent market rebound, small caps outperformed again.

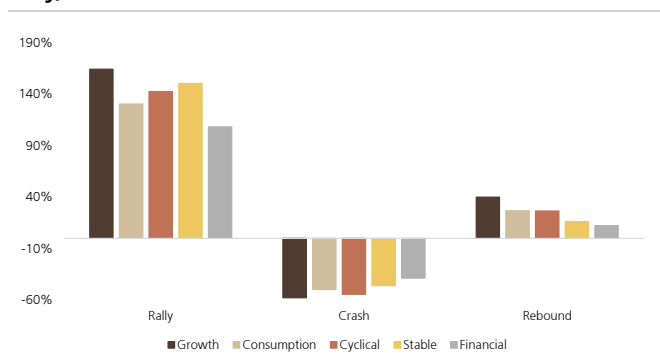
During the rapid market rally, all five major styles had gains of over 100%, although the growth style still led, with a 164% increase, while the financial style ranked last, with a 108% increase. During the rapid market downturn, the growth style, which rose the most in the early stage, fell the most among all styles, declining 58%, while the financial style fell the least, at 39%. As the market gradually stabilised, growth again became the best-performing style during the rebound.

Figure 10: Major index performances during market rally, downturn and rebound



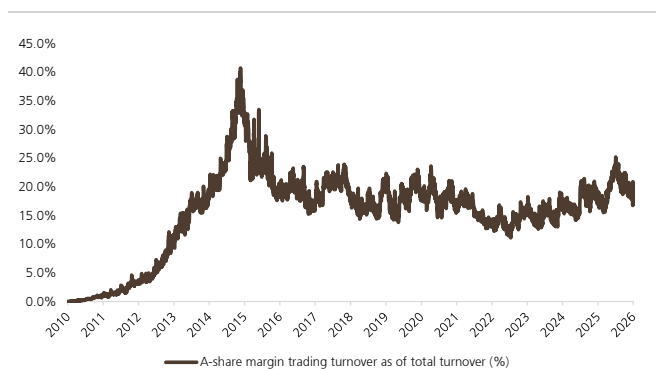
Source: Wind, UBS-S. Note: Market rally: from 22 Nov 2014 to 12 June 2015. Market downturn: from 13 June to 15 Sept 2015. Market rebound: from 16 Sept to 24 Oct 2015.

Figure 11: Major style index performances during market rally, downturn and rebound



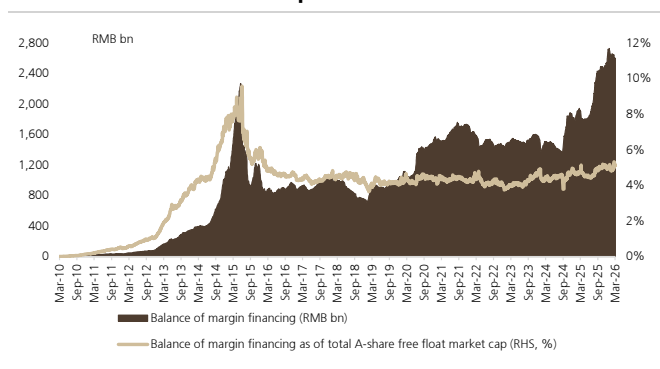
Source: Wind, UBS-S. Note: Market rally: from 22 Nov 2014 to 12 June 2015. Market downturn: from 13 June to 15 Sept 2015. Market rebound: from 16 Sept to 24 Oct 2015.

Figure 12: Margin trading turnover as % of total A-share turnover



Source: Wind, UBS-S. Notes: Data as of 2 April 2026. Margin trading turnover = margin purchase + margin repayment.

Figure 13: Balance of margin financing as % of total A-share free-float market cap



Source: Wind, UBS-S. Note: Data as of 2 April 2026.

Recap 2: Influx of foreign capital drove "white horse" style stock prices in 2017-19

With the launch of Stock Connect programs between Mainland China and Hong Kong (Shanghai-Hong Kong Stock Connect launched on 17 Nov 2014 and Shenzhen-Hong Kong Stock Connect launched on 5 Dec 2016), foreign investors gained more

convenient access to the Mainland China stock market. On 21 June 2017, MSCI announced A-shares would be included in the Emerging Market Index as of June 2018. After that went into official effect on 1 June 2018, the inclusion factor for A-shares was set at 2.5%, then was increased to 5% in Sept 2018, 10% in May 2019, 15% in Aug 2019 and finally 20% in Nov 2019.

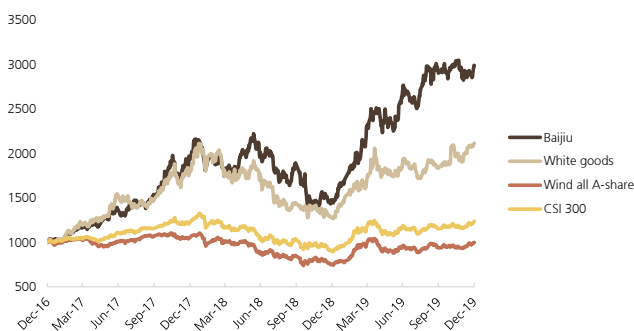
The launch and improvement of this series of mechanisms led to an influx of foreign investors into the A-share market during 2017-19. According to the PBoC, the value of A-shares held by foreign investors and their share as a percentage of the total market cap rose rapidly during 2017-19. Over this three-year period, the value of A-shares held by foreign investors increased sharply from Rmb0.65trn at end-2016 to Rmb2.1trn at end-2019, while their share of the total A-share market cap rose from 1.3% to 3.6%.

As one of the most important sources of new capital during that period, foreign investors generally prefer companies with the following characteristics: 1) high-quality leaders in the industry; 2) unique brand value (such as ultra-high-end baijiu); 3) valuations below or close to those of overseas peers, but with significantly higher earnings growth vs. the latter (such as home appliances); and 4) sound corporate governance and compliant ESG.

Stocks with such characteristics were defined by investors as "white horse" style (high-quality growth). Among them, the two most prominent sectors were baijiu and white goods. Supported by substantial new capital inflow, baijiu and white goods surged 199% and 111%, respectively, during this period, while the CSI 300 climbed only 24% and the Wind All A-share Index was flat.

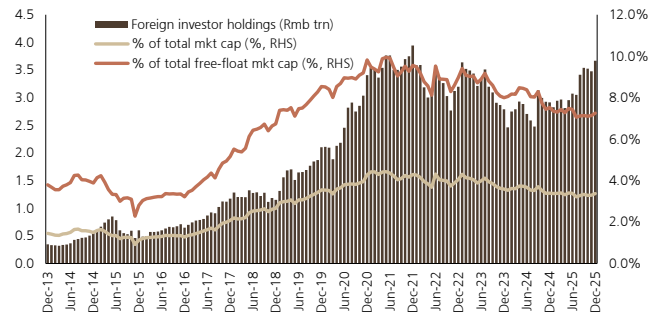
By sector, healthcare, home appliances, banks, food and beverages, and non-banking financials were the most favoured by northbound funds. Northbound funds accumulated net inflow of Rmb460.1bn across those five sectors over the three-year period, roughly equivalent to the net inflow of the remaining 25 level 1 sectors combined.

Figure 14: "White horse" style (represented by baijiu and white goods) outperformed Wind all A-share Index during 2017-19



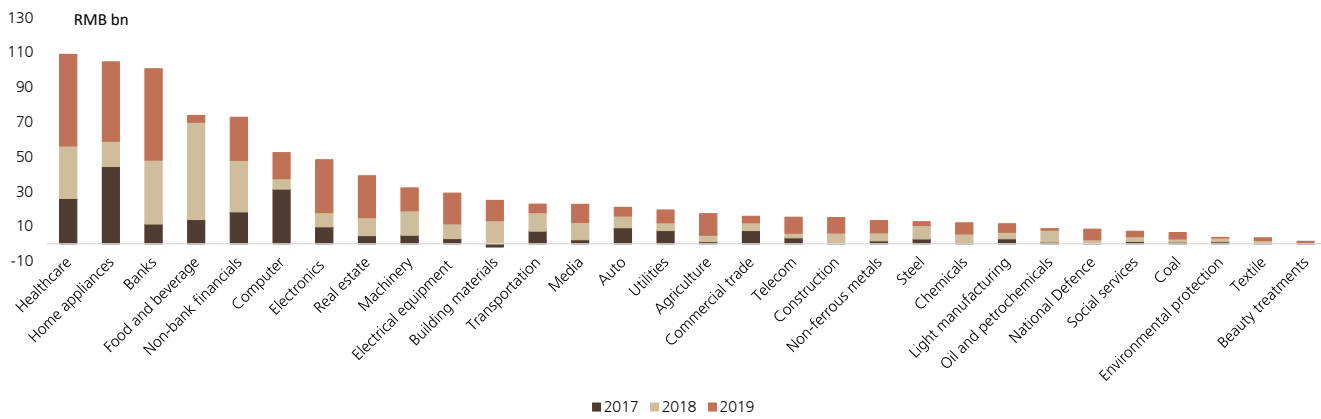
Source: Wind, UBS-S. Note: All indices re-based to 1000 on 30 Dec 2016.

Figure 15: Foreign investor holdings as % of total market cap of A-share market



Source: Wind, UBS-S

Figure 16: Northbound net inflow by sector during 2017-19



Source: Wind, UBS-S

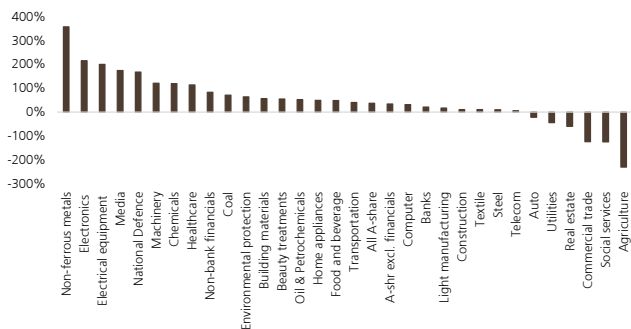
Recap 3: Mutual funds pursued earnings compounders in 2019-21

Earnings compounders were pursued by MFs in 2019-21, when the electrical equipment, electronics and non-ferrous metal sectors with superior earnings growth had stronger rallies. During that period, China's three new export drivers – NEVs, lithium-ion batteries (LiB) and photovoltaic (PV) – shot up concurrently with rapid earnings growth. Meanwhile, riding on consumption upgrades, the baijiu sector delivered robust earnings growth with much higher industry concentration. Earning compounders represented by PV, LiB and baijiu attracted large amounts of MF inflow. The PV equipment, LiB and baijiu indices gained 549%, 677% and 288% in 2019-21, significantly outperforming the Wind All A-share Index (+84%) and the CSI 300 Index (+66%).

We highlight a symbiosis between the share prices of the aforementioned earnings compounders and increased new MF issuance during this period. Historically, MF performance has led fund-raising. Of 3,717 actively managed MFs that were benchmarked against the CSI 300 Index, 73.8% outperformed the benchmark in 2019-21. In the same period, MFs that overweighted PV, LiB and baijiu generally outperformed the benchmark substantially. Thus, those fund managers were praised by the many MF investors who gained substantially.

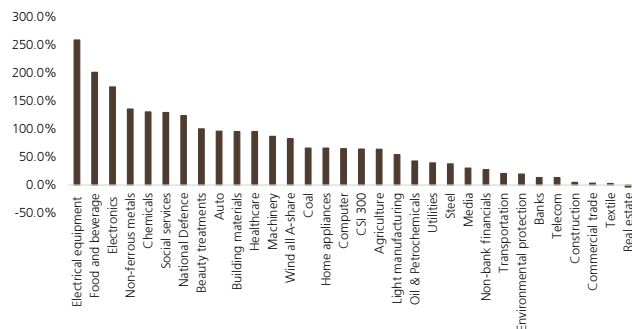
Given those MFs' good results, the new issuance of actively managed MFs (stock and hybrid funds) expanded considerably since June 2020, exceeding 100bn units for 10 consecutive months and hitting a record of 354.7bn units in Jan 2021 (larger than the combined issuance amounts in 2022 and 2023). Sizeable new MF issuance further boosted the share prices of earnings compounders (eg, PV equipment, LiB and baijiu), forming a positive feedback loop.

Figure 17: Cumulative earnings growth of level 1 industries (2019-21)



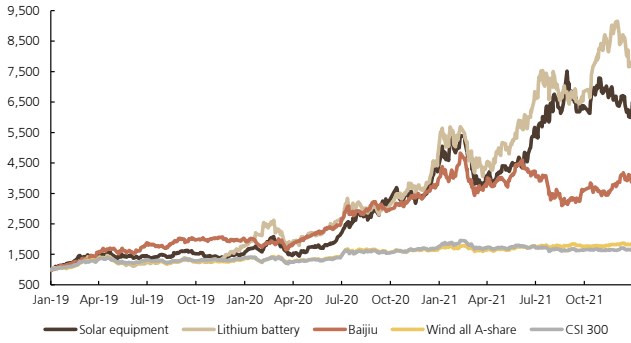
Source: Wind, UBS-S

Figure 18: Cumulative share price gains of level 1 industries (2019-21)



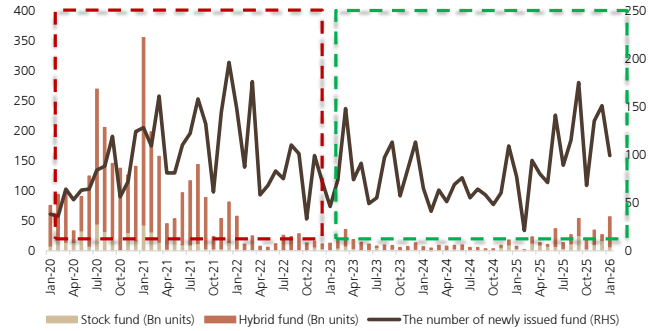
Source: Wind, UBS-S

Figure 19: Crowded earnings compounders significantly outperformed the market in 2019-21



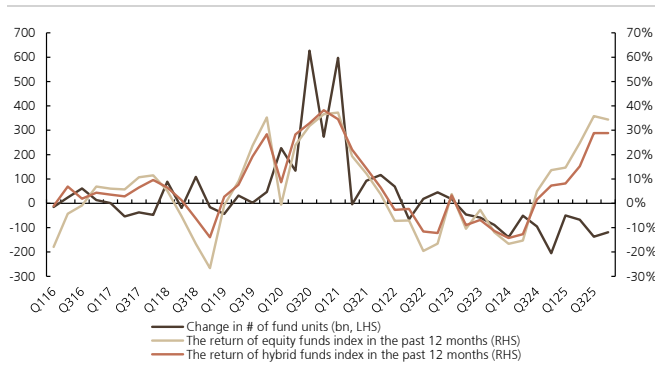
Source: Wind, UBS-S. Note: All indices re-based to 1000 as of 31 Dec 2018.

Figure 20: Monthly issuance of actively managed MFs remained robust in 2019-21



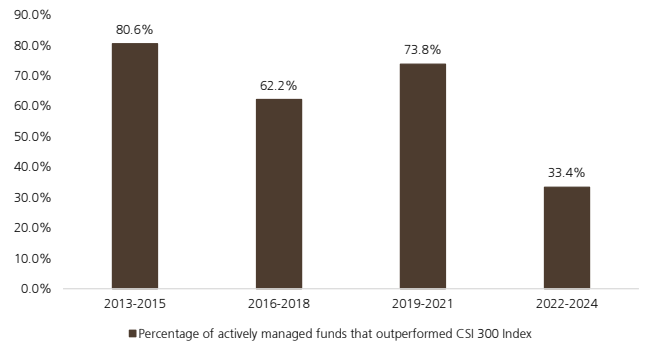
Source: Wind, UBS-S

Figure 21: MF performance has led fund-raising



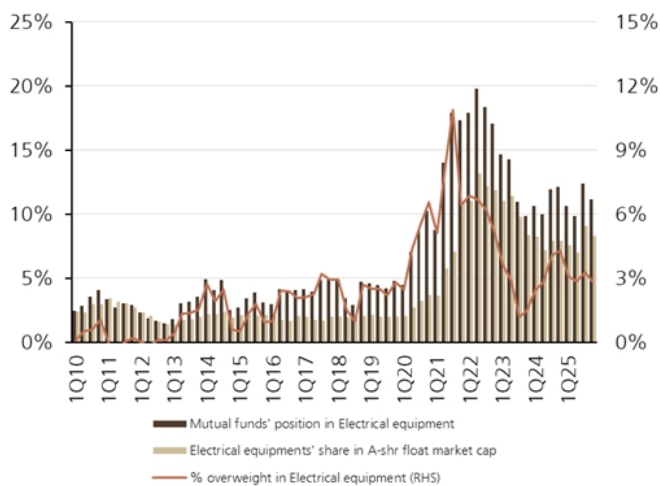
Source: Wind, UBS-S

Figure 22: Portion of outperforming funds among 3,717 actively managed MFs benchmarked against CSI 300 Index (2013-25)



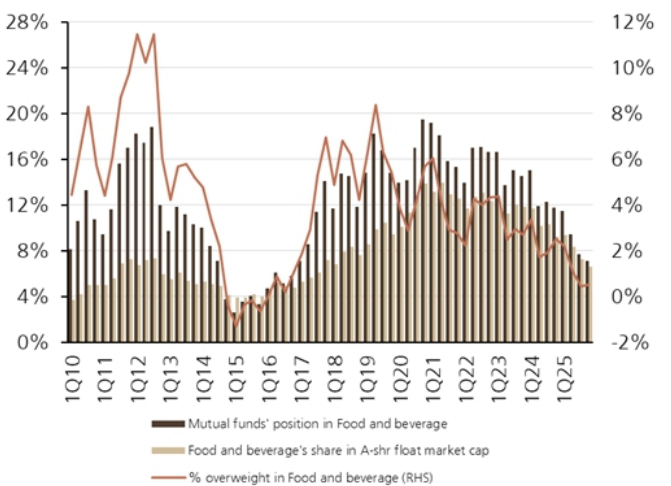
Source: Wind, UBS-S. Note: For funds established after the three-year starting period, we compare the total return from their inception to the end of the corresponding three-year period. Class A and C funds are treated as separate funds.

Figure 23: MFs' position and overweight ratio in electrical equipment



Source: Wind, UBS-S

Figure 24: MFs' position and overweight ratio in food and beverages



Source: Wind, UBS-S

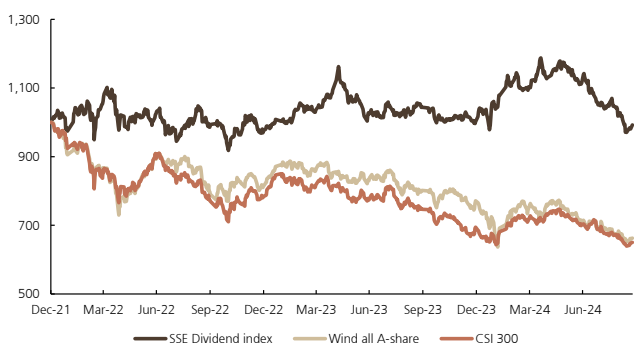
Recap 4: Insurers and national team's entry drove "dividend/defensive" outperformance in 2022-24 (before 24 Sept 2024 policy pivot)

The A-share market underwent a prolonged downturn from 2022 to 23 Sept 2024, during which the Wind All A-share Index/CSI 300 shed 34%/35% respectively, whereas the dividend style outperformed the market significantly. During this period, the SSE Dividend Index cumulatively outperformed the Wind All A-share Index/CSI 300 by 33/34ppt. We attribute that to long-term investors' (led by insurers and the national team) pursuit of dividend stocks featuring resilience and high dividend yields, in the absence of new fund inflow led by institutional investors in the A-share market.

Facing the risk of negative spreads and reinvestment, insurance funds naturally prefer high-dividend sectors in the equity market when the yields of high-yield bonds (eg, AA-rated 10-year corporate bonds and LGFV bonds) fall rapidly. We estimate the net inflow of insurance funds at Rmb528.1/274.5/732.1bn in 2022/2023/2024, as one of the few new sources of funds in a market with dried-up liquidity.

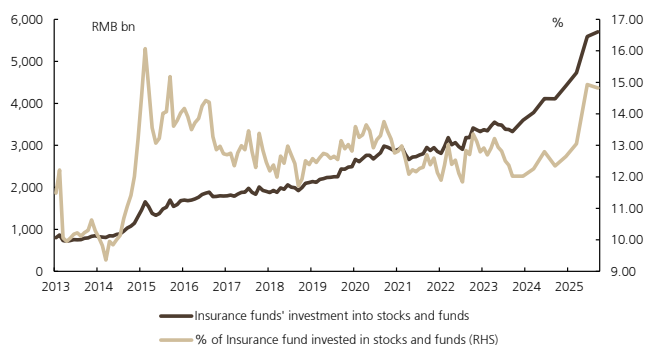
Amid an irrational pullback, the A-share market needs decisive forces to reverse the trajectory and investors' expectations. The A-share market kicked off 2024 with a sharp fall, during which [the national team](#) bought a large amount of broad-based ETFs (mainly CSI 300 ETFs) to stabilise the capital market. After the market close on 6 Feb 2024, Central Huijin announced that it would continuously increase its ETF holdings and expand their scope, safeguarding the stable operation of the capital market. We estimate Central Huijin's A-share ETF purchases reached Rmb777.5bn in 9M24, with CSI 300 ETFs accounting for 69%. There is a considerable overlap between the CSI 300 and SSE Dividend indices. As of end-H124, the weighting of CSI 300 constituents in the SSE Dividend Index was around 42%.

Figure 25: SSE Dividend Index notably outperformed the market from 2022 to 23 Sept 2024



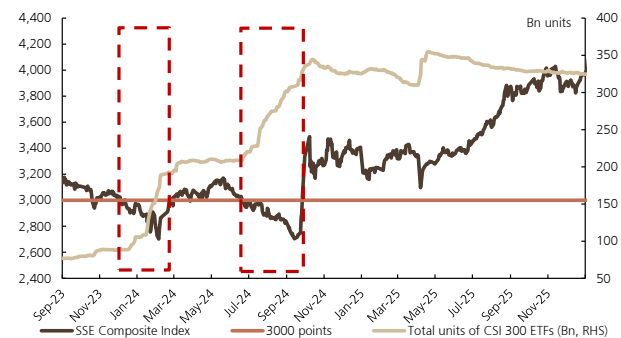
Source: Wind, UBS-S. Note: All indexes re-based at 1000 on 31 Dec 2021.

Figure 26: Insurance funds' increasing investment in stocks and funds



Source: Wind, UBS-S

Figure 27: SSE Composite Index and total units of CSI 300 ETFs



Source: Wind, UBS-S. Note: Data as of 2025.

Figure 28: We estimate net purchases of A-share ETFs by Central Huijin reached Rmb777.6bn in 9M24

Central Huijin's net inflows into ETFs (RMB bn)	Q124	Q224	Q324	Q424	Q125	Q225	Q325	Q425
SSE 50	38	1	29	-	(0)	22	-	-
CSI 300	281	29	228	-	4	134	-	-
CSI 500	39	5	12	7	-	19	-	-
CSI 800	-	-	-	-	-	-	-	-
CSI 1000	40	-	35	-	-	31	-	-
SSE 180	-	-	-	-	-	-	-	-
ChiNext	21	(1)	5	-	-	4	-	-
STAR 50	10	-	4	-	-	4	-	-
Total	430	35	313	7	4	215	-	-

Source: Wind, UBS-S estimates. Note: Net inflow estimates based on average closing price of an ETF for the current quarter.

Recap 5: Small cap and growth outperformance amid net inflow of margin financing, ETFs and hedge fund investors since 24 Sept 2024

Amid recovering sentiment as of 24 Sept 2024, the inflow of leveraged funds (led by margin financing, ETFs and newly issued hedge funds) into the A-share market generated a liquidity-driven bull market. With a higher risk appetite, leveraged funds and hedge funds naturally prefer investing in high-beta sectors, driving small caps and growth to significantly outperform the market. ETFs are skewed toward industry leaders with robust fundamentals, further pushing up growth stocks.

Out of the woods in 2022-24, the A-share market had a significant rally with the debut of DeepSeek (a domestic LLM) around Chinese New Year in 2025. Market activity indicators improved meaningfully in H225. Among them, the tepid margin financing balance of the past few years rose from below Rmb1.8trn in mid-June 2025 and hit Rmb2.7trn for the first time on 15 Jan 2026. Meanwhile, A-share margin trading turnover as a percentage of overall A-share turnover has had a structural pickup in the past three years, from below 13% in early 2023 to above 22% in early 2026.

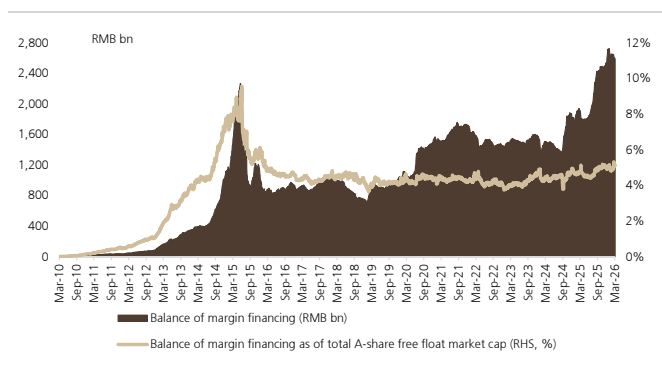
The structural development of ETFs has been an essential force in the A-share market in recent years. With expanding AUM of broad-based, industry and thematic ETFs from 24 Sept 2024 to early Jan 2026, there was large flow from active MFs to passive stock funds. AUM of broad-based, industry and thematic ETFs grew Rmb1.86trn from 24 Sept 2024 to 9 Jan 2026. Since the allocation of ETFs is based on index weighting, selective industry leaders with strong growth attributes can attract more fund inflow.

Another force that cannot be overlooked is hedge funds, with new issuance recovering remarkably in 2025. Registration of hedge funds by scale amounted to Rmb487.9bn in 2025, a sharp YoY rise of 241%, in stark contrast to the lackluster new issuance of MFs.

Notably, from July to Sept 2025, when the A-share market had its steepest upward slope of the year, there were outliers in the new issuance of hedge funds and the YoY growth difference between new margin trading accounts and new SSE accounts. For the former, the registration scale reached Rmb79.3bn in July 2025, a record since 2022; for the latter, the growth difference averaged 219% in July to Sept 2025.

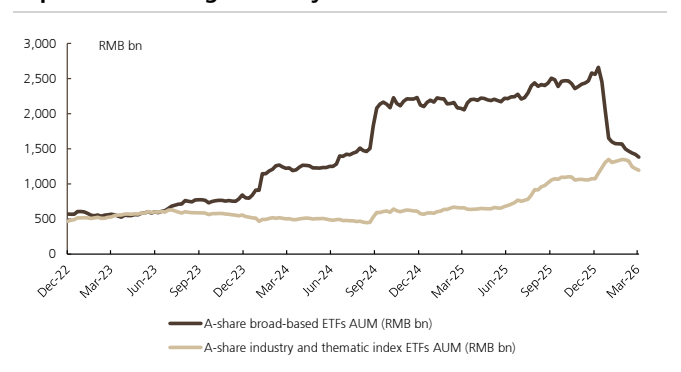
The rapid inflow of massive hot money drove up stock prices in a short period, leading to a partially overhyped market and the rise of speculative sentiment, which attracted regulators' attention. Before trading resumed on the afternoon of 14 Jan, with the approval of the CSRC, the Shanghai, Shenzhen and Beijing stock exchanges issued a notice to adjust the margin requirements for margin trading, raising the minimum margin ratio from 80% to 100%. Indicators related to A-share margin financing and issuance of hedge funds retreated.

Figure 29: A-share margin financing balance and as % of A-share market free float



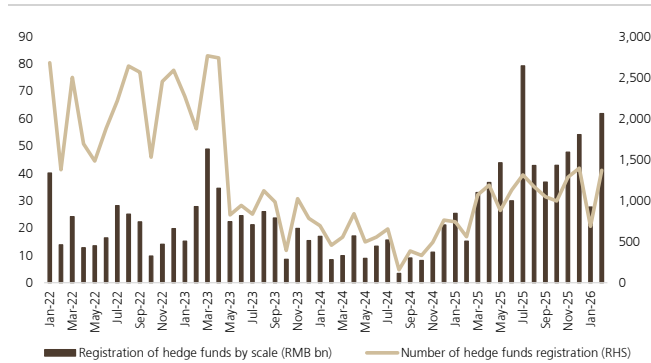
Source: Wind, UBS-S. Note: Data as of 2 April 2026.

Figure 30: Broad-based, industry and thematic ETFs have expanded NAV significantly since 2023



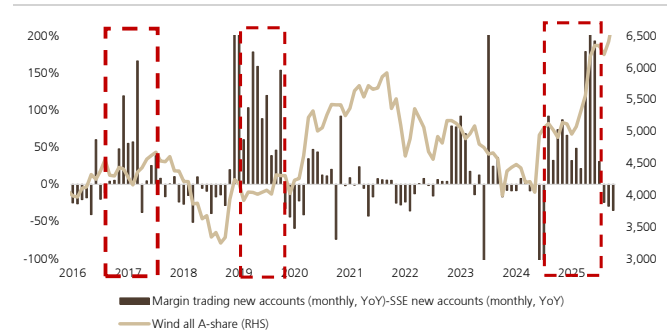
Source: Wind, UBS-S. Note: Data as of 3 April 2026.

Figure 31: Hedge funds – number of registrations and scale



Source: Wind, UBS-S

Figure 32: Margin trading accounts have been much more active than retail investors since 2025



Source: Wind, UBS-S

Which market styles do we prefer now?

Within the classic style allocation framework, we think investors should balance allocation between growth and value, as well as large and small caps, as the market faces notable uncertainty from geopolitical risks in the near term. After the market stabilises (see [A replay of April 2025 or a new cycle into stagflation?](#)), we would prefer growth and cyclical styles in the medium term. Within the classic framework, we anticipate a structural **"slow bull"** for the A-share market that could benefit growth. A narrower PPI decline and turnaround, coupled with an industrial profit growth recovery, could drive cyclical outperformance.

In terms of incremental capital inflow, we think ETFs, leveraged funds, hedge funds and insurance funds could be the top incremental sources for A-shares in the next stage. Investors need to watch their marginal changes closely.

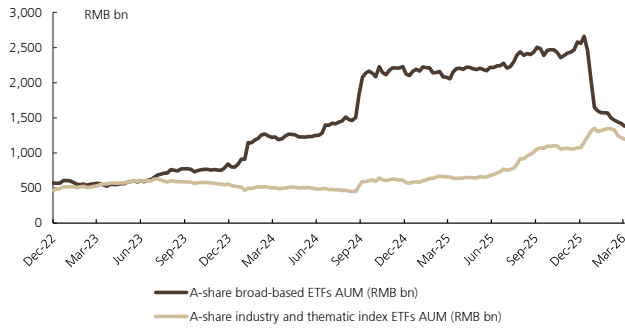
The highly-sought-after growth style has consolidated due to the pullback of overseas tech sectors and geopolitical risk, causing the A-share balance of margin financing to retreat from a high. As of 2 April 2026, the balance of margin financing of the A-share market stood at Rmb2.58trn, down Rmb145.1bn from a high on 28 Jan and roughly on par with the Rmb2.57trn before Chinese New Year.

Liquidity remains ample in the market. Registration of hedge funds by scale amounted to Rmb61.9bn, the second-highest since 2022 and second only to Rmb79.3bn in July 2025. We believe short-term market corrections may present opportunities for leveraged funds and hedge funds to buy the dip in growth.

For large and small caps, we see limited potential for further significant turnover expansion throughout the year, despite the notably higher A-share market turnover YTD. A-share turnover and the balance of margin financing has contracted markedly from mid-Jan. Also, the rapid increase in AUM of industry and thematic ETFs is beneficial for industry leaders. All A-share industry and thematic ETFs have expanded AUM by Rmb119.3bn YTD. We view the development of ETFs as a major medium- and long-term trend, and the long-term growth potential is not likely to be reversed by short-term disruptions. Therefore, the performance of large and small caps could be relatively balanced this year. Small caps are likely to slightly outperform amid a market rally due to higher beta.

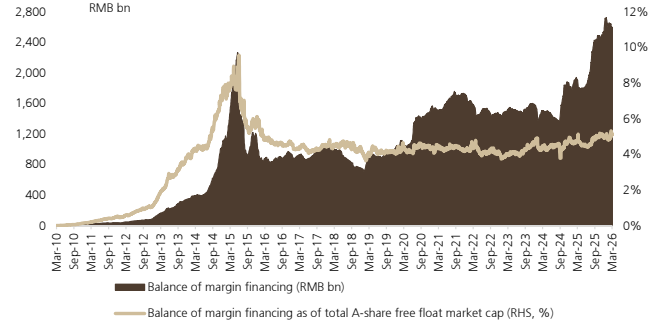
The continuing net inflow of insurance funds should not be ignored either, although they are more of a slow variable, given their relatively smaller net inflow vs. other types of investors in the short term. For 2026, insurers may shift their investing strategy from focusing on high-dividend names in the past two years to more diversified positions, given rebounding bond yields.

Figure 33: Significant AUM expansion of industry and thematic ETFs YTD



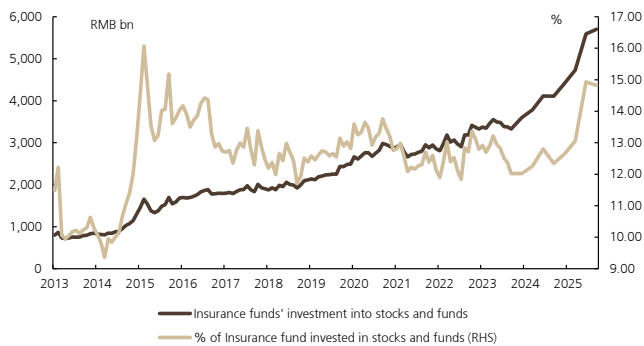
Source: Wind, UBS-S. Note: Data as of 3 April 2026.

Figure 34: A-share balance of margin financing fell recently



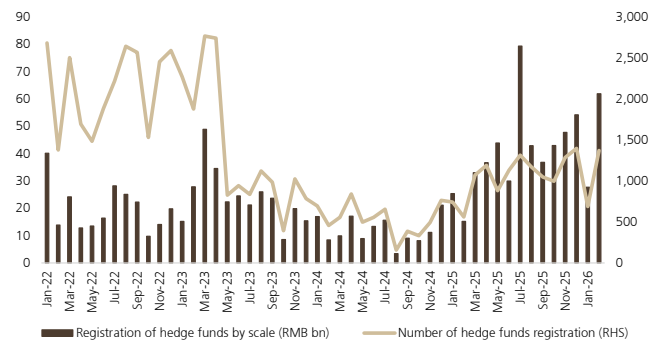
Source: Wind, UBS-S. Note: Data as of 2 April 2026.

Figure 35: Insurance funds' increasing investment in stocks and funds



Source: Wind, UBS-S

Figure 36: Hedge funds – number of registrations and scale



Source: Wind, UBS-S

Valuation Method and Risk Statement

For various stocks across the industries we cover in the Hong Kong and mainland China stock markets, we use a variety of valuation approaches, including DCF models, Gordon growth model analysis and relative valuation analysis using various multiples such as PE, EV/EBITDA and P/BV.

We think the risks facing China's equities include a hard landing for the property market, a capital exodus associated with currency depreciation and slow structural reform progress. In our view, any government policies that do not adequately address these risks could result in a shock to the market. For example, an excess of stimulus policies could pose a risk to the transition from an investment-driven to a consumption-driven economy and increase the debt of government and state-owned enterprises.

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Neutral	FSR is between -6% and 6% of the MRA.	40%	21%
Sell	FSR is > 6% below the MRA.	6%	21%
Short-Term Rating	Definition	Coverage ³	IB Services ⁴
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 31 March 2026.

1:Percentage of companies under coverage globally within the 12-month rating category.

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