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China Equity Strategy | Asia Pacific

1Q26 Earnings: Final Cut for MSCI China – Net Miss Persists, Upstream Earnings Hold, Price Leadership Shifts to Semis

Chloe Liu
Equity Strategist
Chloe.Liu1@morganstanley.com +852 2848-5497

Laura Wang
Equity Strategist
Laura.Wang@morganstanley.com +852 2848-6853

Vicky Wu
Equity Strategist
Vicky.Wu@morganstanley.com +852 3963-3928

MSCI China's 1Q26 earnings missed by company count but were broadly in line on weighted surprise, improving slightly from 4Q25. 1Q26 earnings strength was concentrated in Energy, Financials, Industrials and Healthcare, while share price performance was led by Semis, Energy and Capital Goods.

MSCI China's 1Q26 earnings continue to showed a net miss by number of companies but remained broadly in line on weighted surprise, improving slightly from 4Q25: Reported earnings missed consensus forecasts by number of companies (-8.7%) while showing in-line results by weighted surprise (-3.0%), vs. -11.2% and -2.4% in 4Q25 (Exhibit 1 , Exhibit 2).

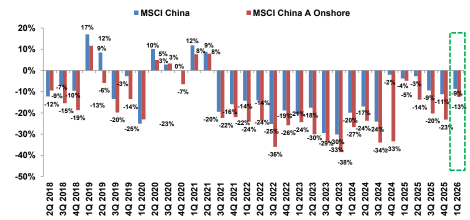
Revenue trends: MSCI China's reported revenue deteriorated vs. 4Q25, with a broader miss by company count (-11.8%) but broadly in line on a weighted basis (+0.5%), compared with in-line results in 4Q25, pointing to still-soft demand despite stable large-cap contribution. (Exhibit 8).

Sector observations: Sector divergence remains pronounced. Energy, Industrials, Financials, and Healthcare delivered solid earnings. In contrast, Consumer Discretionary, Consumer Staples, and Real Estate continued to face earnings pressure (Exhibit 5).

Price reaction: Earnings remain a key driver of price action, with clear asymmetry. Companies that beat earnings made ~3% T+3 gains, while misses declined ~1%. Breadth was healthy, with 67% of beaters rising on T+1 and 58% of missers falling, indicating a disciplined market response (Exhibit 10).

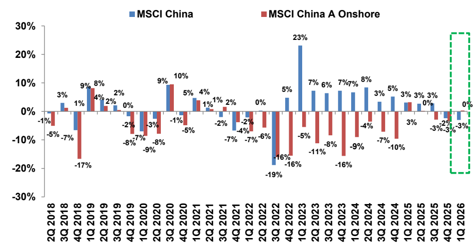
Reconciling industry performance with earnings estimate revision: In 2026 YTD, MSCI China declined ~2% alongside a ~2% cut to 2026e EPS. Share price performance leadership was concentrated in Semiconductors, Energy, Capital Goods, while weakness was concentrated in services and consumption (Media & Entertainment, Consumer Services, Consumer Discretionary Retail), with continued estimates cuts highlighting persistent demand weakness (Exhibit 3).

Exhibit 1 : History of Chinese equity market quarterly earnings surprises by number of companies (MSCI China and A-shares) – MSCI China recorded 9% net miss in 1Q26, slightly improved from 4Q25



2026.

Exhibit 2 : History of Chinese equity market quarterly earnings surprises by weighted surprise (MSCI China and A-share) – MSCI China recorded in-line results at -3% in 1Q26, similar to 4Q25 trend



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Reconciling Industry Performance with Earnings Estimate Revision: Upstream and Semiconductor Strength vs. Consumption-led Earnings Downgrades

MSCI China fell 2% in 2026 YTD, alongside a 2% cut to 2026E EPS, highlighting weak fundamentals behind the lackluster performance. (*Exhibit 3*).

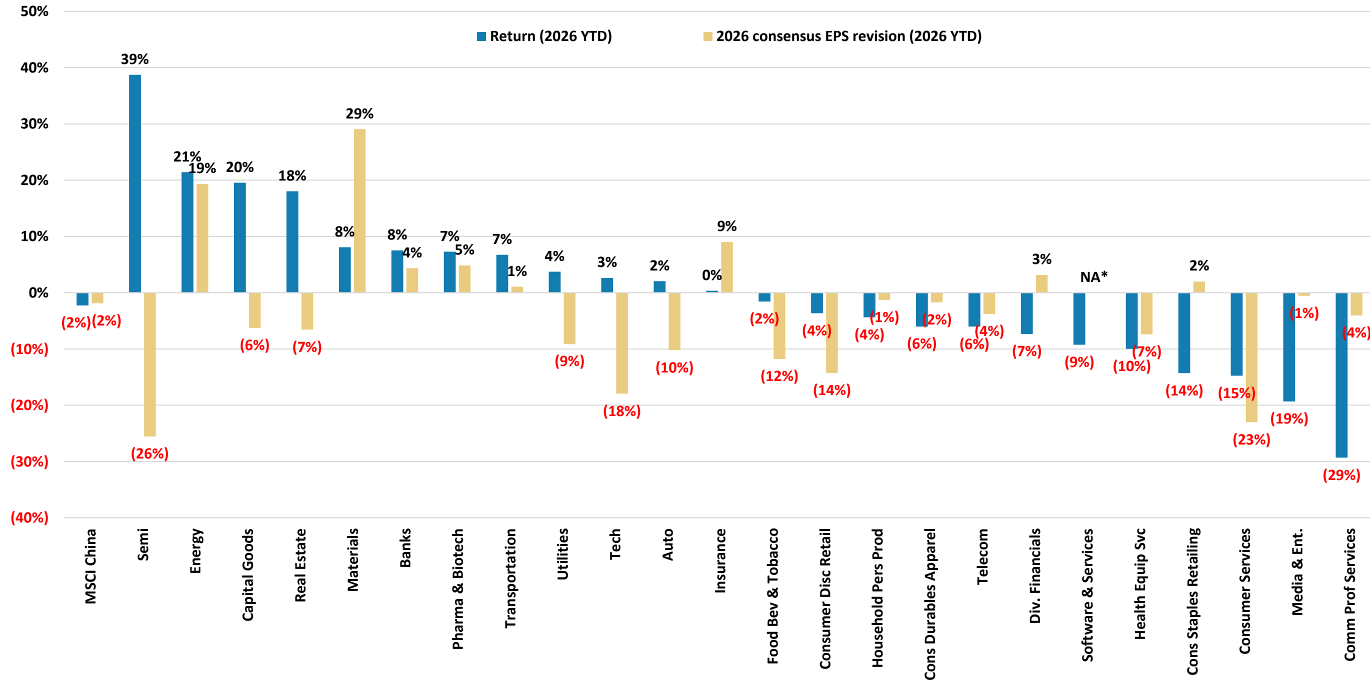
At the sector level, outperformance is clearly driven by upstream real-asset sectors and Semiconductors.

- **Semiconductors is the standout performer, rising 39% YTD**, driven by AI and hard-tech conviction, despite a sharp -26% EPS downgrade, the widest price-earnings divergence across MSCI China.
- **Energy and Capital Goods also posted robust returns of +21% and +20%**, with Energy backed by the strongest EPS upgrade (+19%), consistent with our preference for upstream exposure. Capital Goods saw modest estimate downgrades despite strong price action.
- **Real Estate emerged as a notable mover (+18%)**, given the emerging early stabilization signals on Beijing and Shanghai secondary market, though estimates remain in negative territory.
- **Materials presented a striking disconnect**, it saw the largest EPS upgrade across the index (+29%) yet returned only ~8%, suggesting the strong USD and a hawkish Fed rate expectation weighed on share price performance.

On the downside, weakness is concentrated in services and consumption, but with more nuanced earnings signals.

- **Media & Entertainment and Consumer Services** delivered weak performance, down 19% and 15%, respectively, Consumer Services show deep earnings downgrades of -23%, while Media & Entertainment earnings downgrades are more moderate at -1%;
- Within consumption, **Consumer Discretionary Retail** (-4% return) saw one of the sharper EPS cuts (-14%), while **Food, Beverage & Tobacco** (-2% return) also faced estimate downgrades of -12%.

Exhibit 3: MSCI China by GICS industry group: 2026 consensus EPS revisions vs. price performance (2026 YTD)



Note: NA* reflects Software 2026 EPS turning from positive to negative, implying an effective decline of ~347%.

MSCI China Earnings Surprises – 1Q26 Final Review: Net Miss Persists by Company Count, Weighted Results In Line

Note: As of May 25, 2026, 298 companies in MSCI China have reported 1Q26 results. Our analysis of MSCI China earnings surprises is based on constituent companies that have reasonable quality data for consensus estimates, comprising 288 companies in MSCI China, representing 50% of the index by number of companies and 68% by index weight.

Key observations

1) At the aggregate index level, reported earnings missed consensus by number of companies (-8.7%) but were broadly in line on a weighted basis (-3.0%) (Exhibit 5): This marks a slight improvement from 4Q25, at -11.2% and -2.4%, respectively.

2) Sectors with earnings beats:

- Energy and Financials registered a net beat by number of companies and in-line results by weighted surprise. Key contributors include Bank of Ningbo, Ping An Insurance, and New China Life Insurance.
- Healthcare and Utilities registered a net beat by weighted surprise and in-line results by number of companies. Key contributors include BeOne Medicines, and China Yangtze Power.

3) Sectors with earnings misses:

- Consumer Staples registered a net miss by both number of companies and weighted surprise. Key contributors include Muyuan Foodstuff, and Wuliangye Yibin.
- Communication Services, Information Technology, Materials registered a net miss by number of companies, and in-line results by weighted surprise. Key contributors include Focus Media, Lens Technology, Foxconn Industrial Internet, Wanhua Chemical, and Zhaojin Mining.
- Consumer Discretionary and Real Estate registered a net miss by weighted surprise, and in-line results by number of companies. Key contributors include Alibaba, and BYD.

Exhibit 4: MSCI China sector-level earnings surprises for 1Q26 by number of companies, final review – 9% net miss at the aggregate level, with three sectors posting a net beat by number of companies

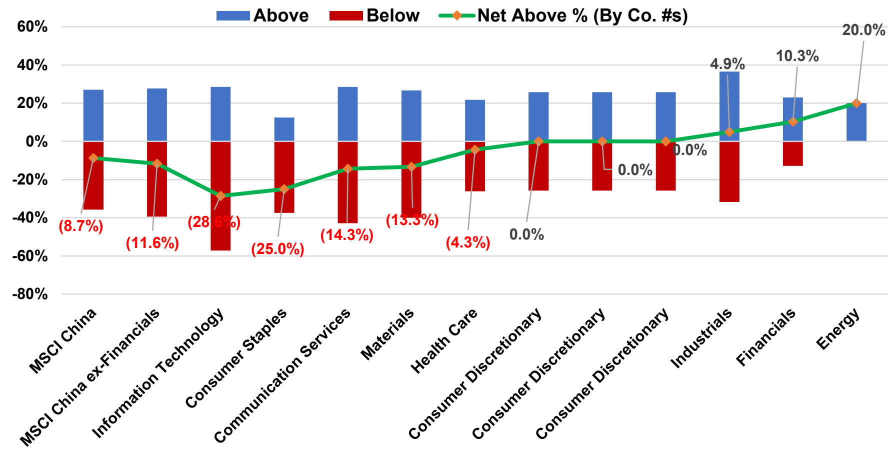
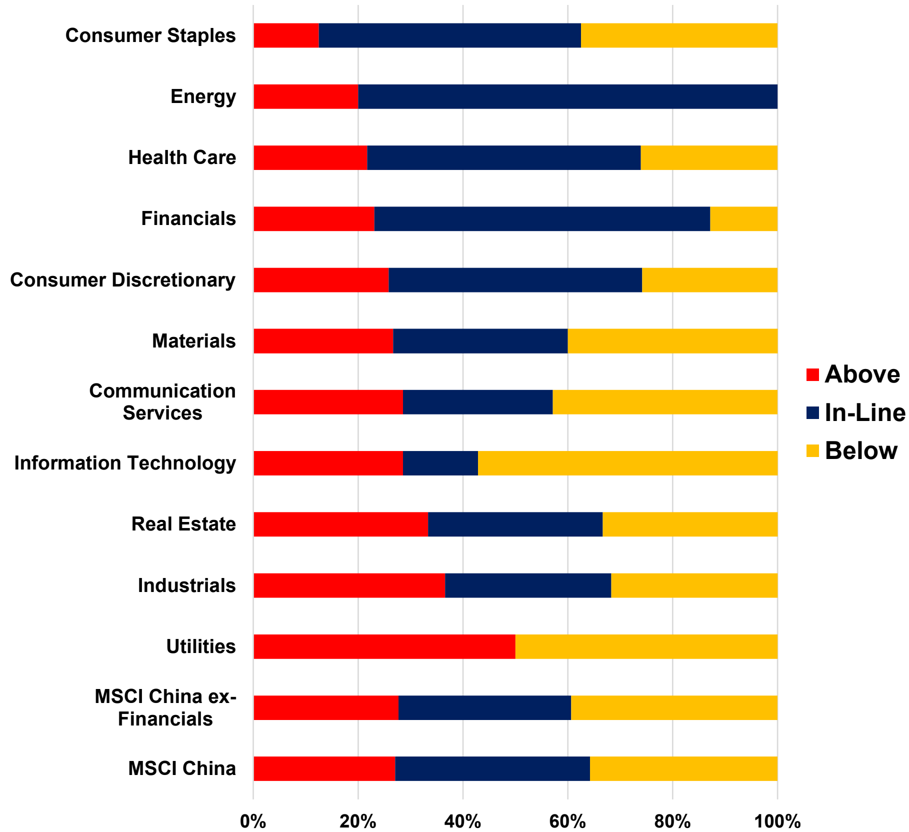


Exhibit 5: MSCI China detailed sector- and industry-level 1Q26 earnings final review – Net miss by number of companies and in-line results by weighted surprise

	Earnings			Surprise Ratios				
Sector/ Industry Group	# of Cos. Reported	% of Cos. Reported	% Mkt Cap reported	Above	In-Line	Below	Net +ve	Market Cap Wtd Surprise (%)
China	**288**	**50%**	**68%**	**27%**	**37%**	**36%**	**(8.7%)**	**(3.0%)**
China ex-Financials	**249**	**51%**	**67%**	**28%**	**33%**	**39%**	**(11.6%)**	**(3.8%)**
Communication Services	**14**	**61%**	**93%**	**29%**	**29%**	**43%**	**(14.3%)**	**1.3%**
Media & Entertainment	13	62%	94%	31%	31%	38%	(7.7%)	1.5%
Telecommunication Services	1	50%	50%	0%	0%	100%	(100.0%)	(15.0%)
Consumer Discretionary	**31**	**54%**	**68%**	**26%**	**48%**	**26%**	**0.0%**	**(23.3%)**
Automobiles & Components	15	58%	77%	20%	33%	47%	(26.7%)	(8.3%)
Consumer Durables & Apparel	7	54%	55%	43%	57%	0%	42.9%	1.6%
Consumer Services	5	63%	33%	20%	80%	0%	20.0%	32.1%
Consumer Discretionary Distribution & Retail	4	40%	77%	25%	50%	25%	0.0%	(40.9%)
Consumer Staples	**16**	**53%**	**74%**	**13%**	**50%**	**38%**	**(25.0%)**	**(8.6%)**
Consumer Staples Distribution & Retail	1	33%	29%	0%	100%	0%	0.0%	0.0%
Food Beverage & Tobacco	15	60%	78%	13%	47%	40%	(26.7%)	(8.8%)
Household & Personal Products	0	0%	0%	-	-	-	-	-
Energy	**10**	**56%**	**90%**	**20%**	**80%**	**0%**	**20.0%**	**0.6%**
Coal & Consumable Fuels	6	60%	90%	33%	67%	0%	33.3%	2.8%
Integrated Oil & Gas	2	50%	100%	0%	100%	0%	0.0%	(1.5%)
Oil & Gas Exploration & Production	2	67%	66%	0%	100%	0%	0.0%	(0.8%)
Oil & Gas Refining & Marketing	0	-	-	-	-	-	-	-
Others	0	0%	0%	-	-	-	-	-
Financials	**39**	**44%**	**72%**	**23%**	**64%**	**13%**	**10.3%**	**(0.1%)**
Banks	21	57%	76%	0%	100%	0%	0.0%	(0.2%)
Financial Services	13	33%	51%	62%	8%	31%	30.8%	3.2%
Insurance	5	42%	79%	20%	60%	20%	0.0%	(1.5%)
Health Care	**23**	**50%**	**49%**	**22%**	**52%**	**26%**	**(4.3%)**	**19.6%**
Pharmaceuticals Biotechnology & Life Science	15	43%	43%	27%	47%	27%	0.0%	25.7%
Health Care Equipment & Services	8	73%	81%	13%	63%	25%	(12.5%)	2.4%
Industrials	**41**	**51%**	**68%**	**37%**	**32%**	**32%**	**4.9%**	**2.8%**
Capital Goods	32	54%	71%	31%	34%	34%	(3.1%)	2.2%
Commercial & Professional Services	1	50%	73%	100%	0%	0%	100.0%	6.9%
Transportation	8	42%	55%	50%	25%	25%	25.0%	5.4%
Information Technology	**77**	**60%**	**64%**	**29%**	**14%**	**57%**	**(28.6%)**	**4.0%**
Semiconductors & Semiconductor Equipment	35	67%	71%	34%	6%	60%	(25.7%)	24.9%
Software & Services	6	32%	36%	33%	17%	50%	(16.7%)	(12.0%)
Technology Hardware & Equipment	36	63%	65%	22%	22%	56%	(33.3%)	(6.9%)
Materials	**30**	**42%**	**38%**	**27%**	**33%**	**40%**	**(13.3%)**	**(2.1%)**
Chemicals	14	56%	67%	29%	29%	43%	(14.3%)	1.6%
Construction Materials	2	50%	31%	50%	50%	0%	50.0%	0.0%
Metals & Mining	14	33%	26%	21%	36%	43%	(21.4%)	(6.7%)
Others	0	-	-	-	-	-	-	-
Paper & Forest Products	0	0%	0%	-	-	-	-	-
Real Estate	**3**	**27%**	**35%**	**33%**	**33%**	**33%**	**0.0%**	**(11.6%)**
Utilities	**4**	**16%**	**39%**	**50%**	**0%**	**50%**	**0.0%**	**13.8%**

index weight of the stock in MSCI China divided by % of market cap reported within the given sector/industry group.

Exhibit 6: MSCI China 1Q26 earnings surprises final review by sector, measured by number of companies



MSCI China Revenue Surprises 1Q26 Final Review: Net Miss by Number of Companies, and In-Line by Weighted Surprise

Note: As of May 25, 2026, 270 companies in MSCI China have reported 1Q26 results. Our analysis of MSCI China revenue surprises is based on non-financial constituent companies that have reasonable quality data for consensus estimates, comprising 220 companies in MSCI China, representing 45% of the index by number of companies and 50% by index weight.

Key observations

1) At the aggregate index level, reported revenue was a net miss by company count (-11.8%) but broadly in line on a weighted basis (+0.5%): a deterioration from 4Q25, which showed in-line results at -1.2% by company count and -0.3% on a weighted basis. (Exhibit 8).

2) Sector-level beats:

- Communication Services and Energy posted a net beat by number of companies.
- Real Estate posted a double beat by both number of companies and weighted surprise.

3) Sector-level misses:

- Consumer Discretionary, Consumer Staples, Industrials, Information Technology, Materials posted a net miss by number of companies.
- Utilities posted a net miss by both number of companies and weighted surprise.

Exhibit 7: MSCI China sector-level (ex-financials) revenue surprises for 1Q26 by number of companies final review – three sectors out of 11 reporting a net beat

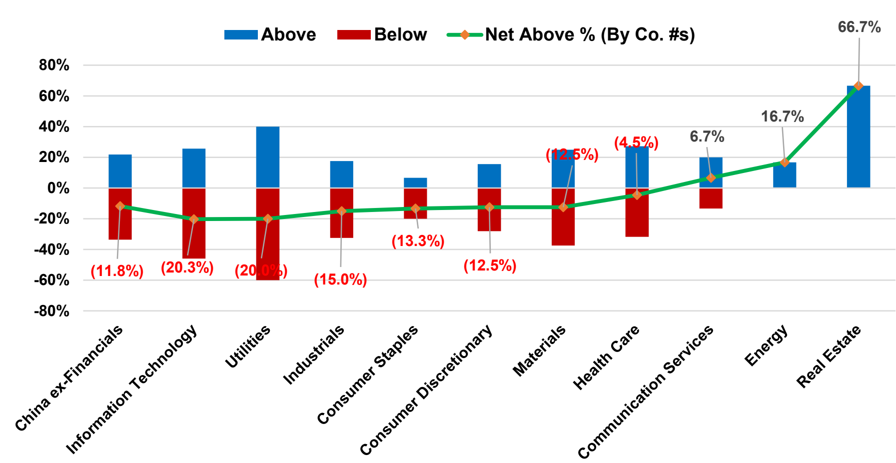
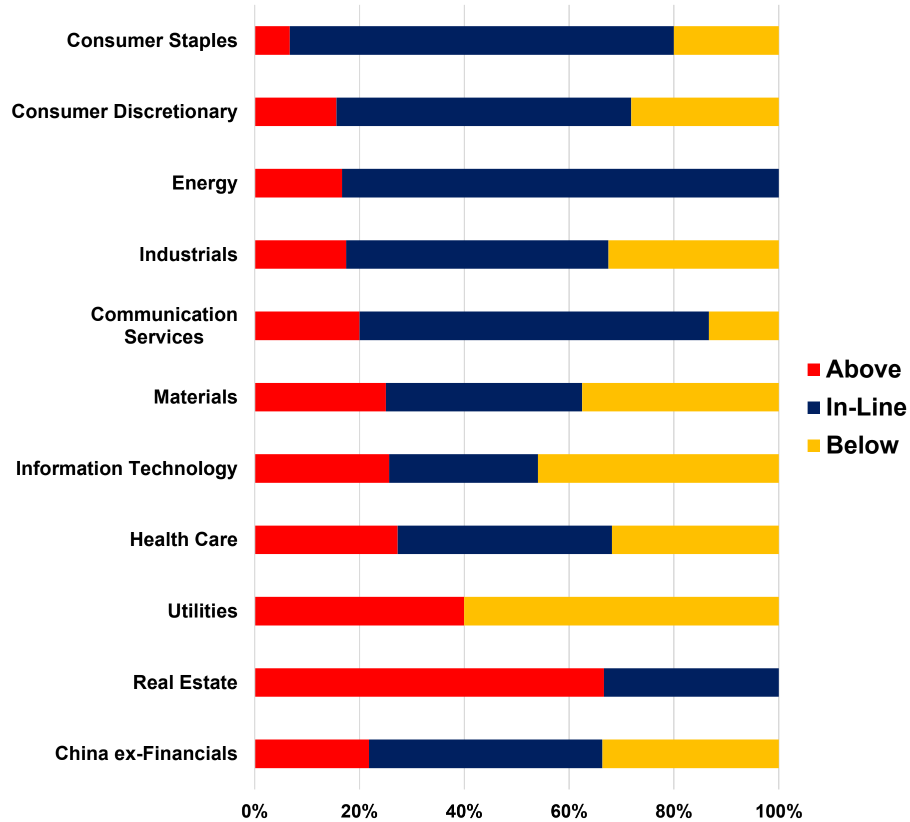


Exhibit 8: MSCI China: Detailed sector- and industry-level (ex-financials) 1Q26 revenue final review – net miss by number of companies and in-line by weighted surprise

Revenue				Surprise Ratios				
Sector/ Industry Group	# of Cos. Reported	% of Cos. Reported	% Mkt Cap reported	Above	In-Line	Below	Net +ve	Market Cap Wtd Surprise (%)
China ex-Financials	**220**	**45%**	**50%**	**22%**	**45%**	**34%**	**(11.8%)**	**0.5%**
Communication Services	**15**	**65%**	**95%**	**20%**	**67%**	**13%**	**6.7%**	**(0.7%)**
Media & Entertainment	13	62%	94%	23%	62%	15%	7.7%	(0.8%)
Telecommunication Services	2	100%	100%	0%	100%	0%	0.0%	0.1%
Consumer Discretionary	**32**	**56%**	**68%**	**16%**	**56%**	**28%**	**(12.5%)**	**0.1%**
Automobiles & Components	16	62%	77%	13%	44%	44%	(31.3%)	1.1%
Consumer Durables & Apparel	7	54%	55%	29%	43%	29%	0.0%	0.9%
Consumer Services	5	63%	33%	0%	100%	0%	0.0%	2.8%
Consumer Discretionary Distribution & Retail	4	40%	77%	25%	75%	0%	25.0%	(0.9%)
Consumer Staples	**15**	**50%**	**70%**	**7%**	**73%**	**20%**	**(13.3%)**	**(1.5%)**
Consumer Staples Distribution & Retail	1	33%	29%	0%	100%	0%	0.0%	(4.9%)
Food Beverage & Tobacco	14	56%	73%	7%	71%	21%	(14.3%)	(1.5%)
Household & Personal Products	0	0%	0%	-	-	-	-	-
Energy	**6**	**33%**	**45%**	**17%**	**83%**	**0%**	**16.7%**	**2.2%**
Coal & Consumable Fuels	2	20%	50%	0%	100%	0%	0.0%	0.0%
Integrated Oil & Gas	2	50%	34%	0%	100%	0%	0.0%	1.2%
Oil & Gas Exploration & Production	2	67%	82%	50%	50%	0%	50.0%	12.2%
Oil & Gas Refining & Marketing	0	-	-	-	-	-	-	-
Others	0	0%	0%	-	-	-	-	-
Health Care	**22**	**48%**	**48%**	**27%**	**41%**	**32%**	**(4.5%)**	**2.1%**
Pharmaceuticals Biotechnology & Life Sciences	14	40%	42%	43%	29%	29%	14.3%	3.7%
Health Care Equipment & Services	8	73%	81%	0%	63%	38%	(37.5%)	(2.6%)
Industrials	**40**	**50%**	**68%**	**18%**	**50%**	**33%**	**(15.0%)**	**1.1%**
Capital Goods	29	49%	68%	17%	41%	41%	(24.1%)	0.1%
Commercial & Professional Services	1	50%	73%	0%	100%	0%	0.0%	(0.3%)
Transportation	10	53%	70%	20%	70%	10%	10.0%	5.2%
Information Technology	**74**	**58%**	**63%**	**26%**	**28%**	**46%**	**(20.3%)**	**2.7%**
Semiconductors & Semiconductor Equipment	32	62%	68%	31%	28%	41%	(9.4%)	8.3%
Software & Services	7	37%	40%	29%	14%	57%	(28.6%)	(1.6%)
Technology Hardware & Equipment	35	61%	64%	20%	31%	49%	(28.6%)	(0.1%)
Materials	**8**	**11%**	**24%**	**25%**	**38%**	**38%**	**(12.5%)**	**(2.3%)**
Chemicals	6	24%	29%	33%	17%	50%	(16.7%)	(6.6%)
Construction Materials	0	0%	0%	-	-	-	-	-
Metals & Mining	2	5%	24%	0%	100%	0%	0.0%	0.0%
Others	0	-	-	-	-	-	-	-
Paper & Forest Products	0	0%	0%	-	-	-	-	-
Real Estate	**3**	**27%**	**35%**	**67%**	**33%**	**0%**	**66.7%**	**15.7%**
Utilities	**5**	**20%**	**20%**	**40%**	**0%**	**60%**	**(20.0%)**	**(6.8%)**

index weight of the stock in MSCI China divided by % of market cap reported within the given sector/industry group.

Exhibit 9: MSCI China 1Q26 revenue surprise final review by sector, measured by number of companies



Price Reaction: Earnings remain the key driver, validated by breadth

For MSCI China:

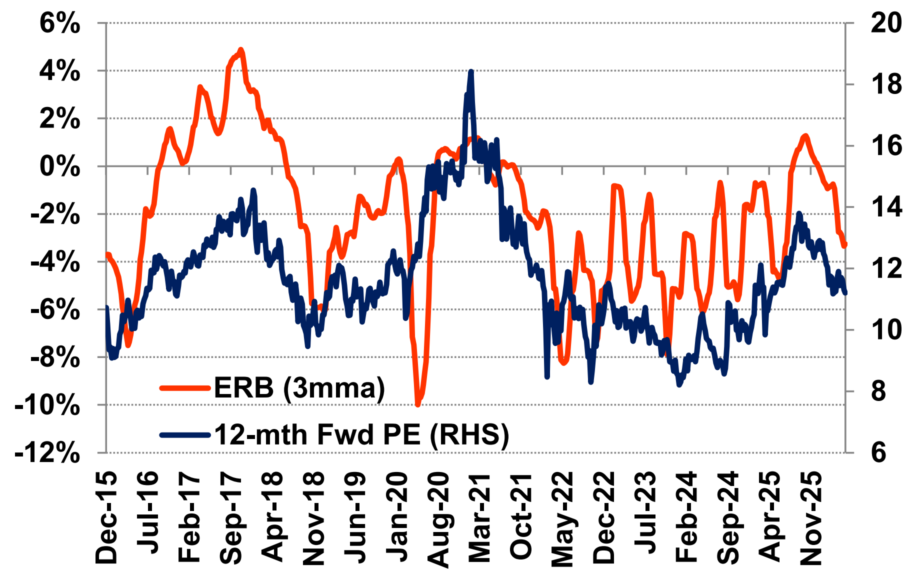
1) Earnings still drive price action: Companies with 1Q26 earnings beats have shown 3.2% and 3.6% T+3 price reaction, on an absolute basis and relative basis; while companies with 1Q26 earnings miss have had -1.0% and -0.4% T+3 price reaction, respectively. (Exhibit 17).

2) Breadth confirms the signal: 67% of companies that beat on earnings posted positive T+1 price reactions, while 58% of those that missed earnings had negative T+1 moves, pointing to a broadly healthy and disciplined market response to earnings outcomes.

Exhibit 10: MSCI China's price reaction to 4Q25 earnings

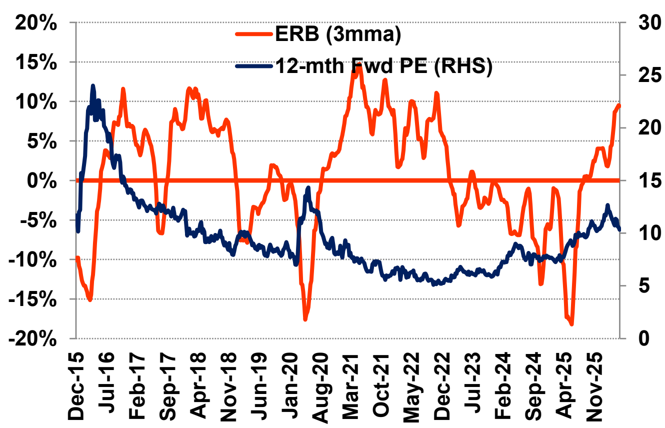
Earnings Estimate Revision Breadth – Long-term Trends

Exhibit 11: MSCI China earnings estimate revision breadth (ERB) vs. 12-month P/E trend – accelerated down-ward revision



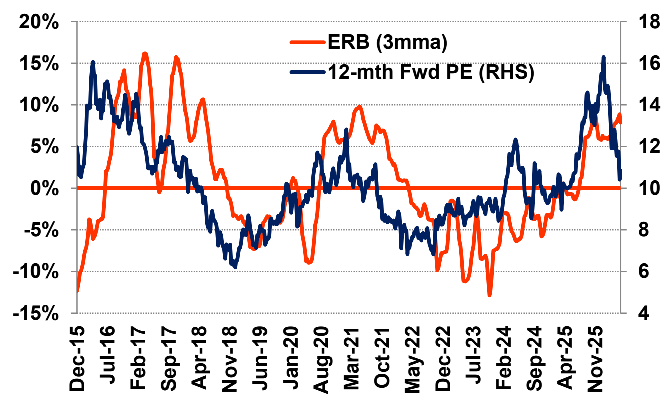
upward revisions - number of downward revisions) / total number of estimates.

Exhibit 12: Energy – Earnings estimate revision breadth (ERB) vs. 12-month P/E trend



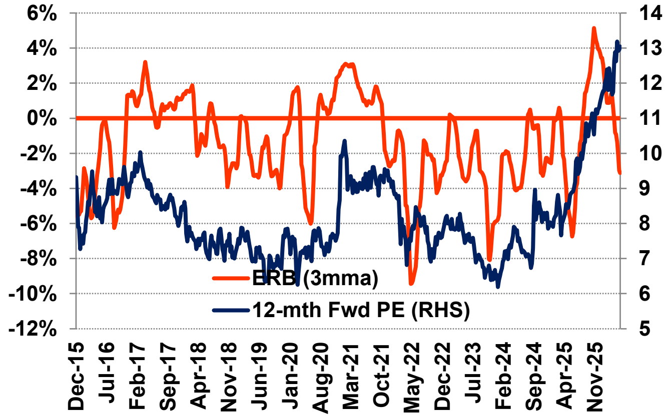
Revision Breadth (ERB) = (number of upward revisions - number of downward revisions) / total number of estimates.

Exhibit 13: Materials – Earnings estimate revision breadth (ERB) vs. 12-month P/E trend



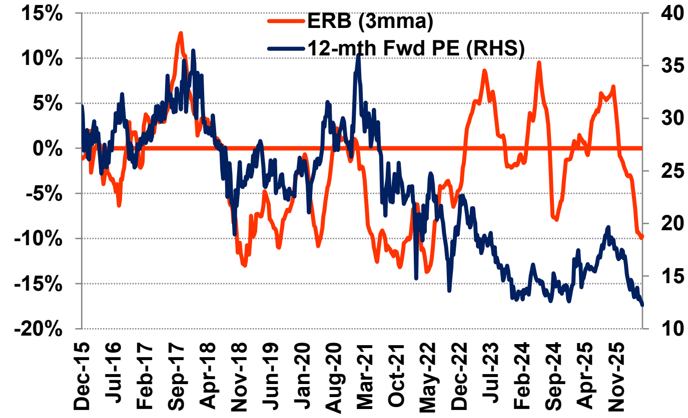
Revision Breadth (ERB) = (number of upward revisions - number of downward revisions) / total number of estimates.

Exhibit 14: Capital Goods – Earnings estimate revision breadth (ERB) vs. 12-month P/E trend



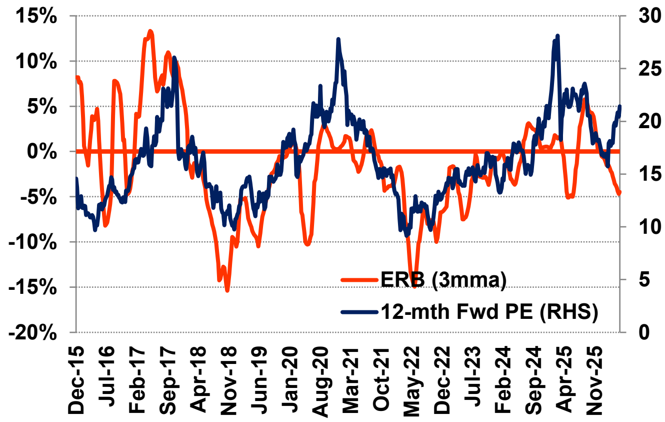
Revision Breadth (ERB) = (number of upward revisions - number of downward revisions) / total number of estimates.

Exhibit 15: Media & Entertainment – Earnings estimate revision breadth (ERB) vs. 12-month P/E trend



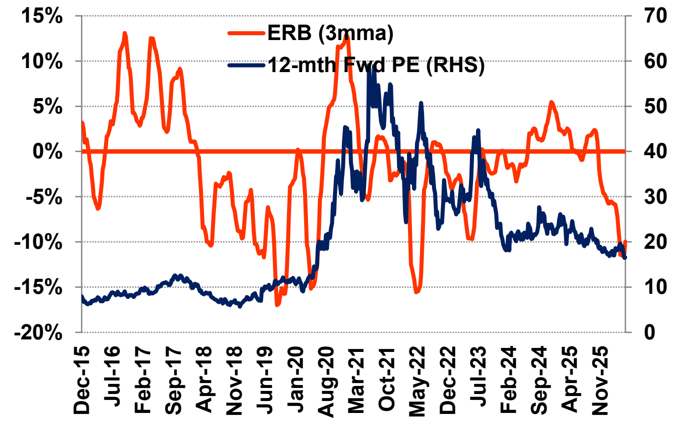
Revision Breadth (ERB) = (number of upward revisions - number of downward revisions) / total number of estimates.

Exhibit 16: Tech Hardware – Earnings estimate revision breadth (ERB) vs. 12-month P/E trend



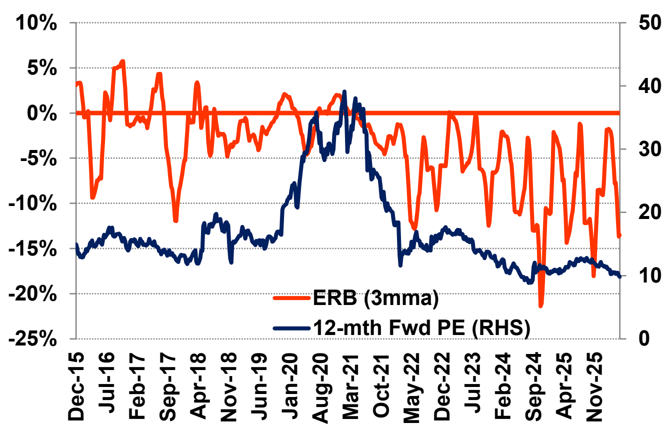
Revision Breadth (ERB) = (number of upward revisions - number of downward revisions) / total number of estimates.

Exhibit 17: Auto – Earnings estimate revision breadth (ERB) vs. 12-month P/E trend



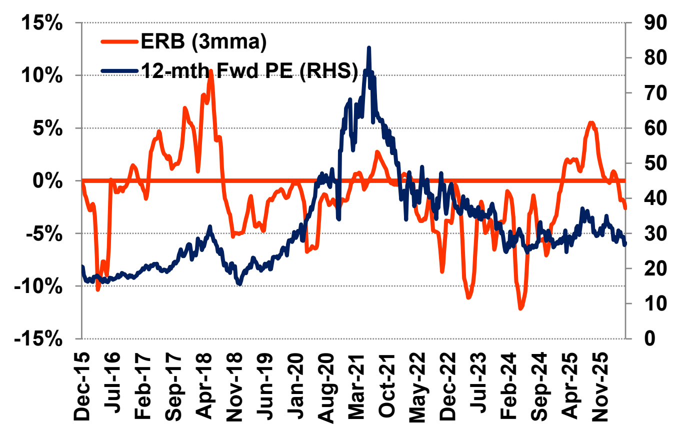
Revision Breadth (ERB) = (number of upward revisions - number of downward revisions) / total number of estimates.

Exhibit 18: Healthcare – Earnings estimate revision breadth (ERB) vs. 12-month P/E trend



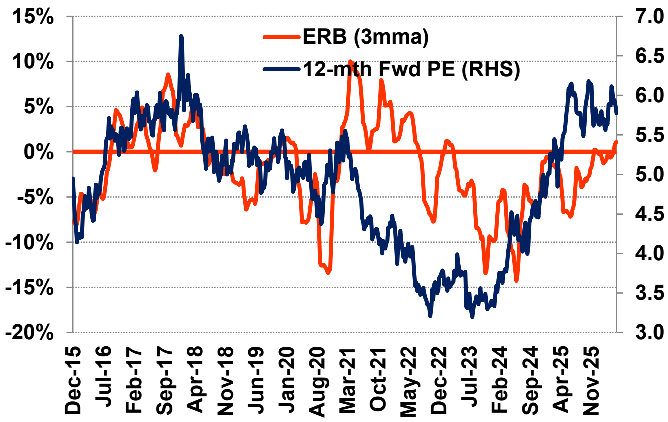
Revision Breadth (ERB) = (number of upward revisions - number of downward revisions) / total number of estimates.

Exhibit 19: Pharma – Earnings estimate revision breadth (ERB) vs. 12-month P/E trend



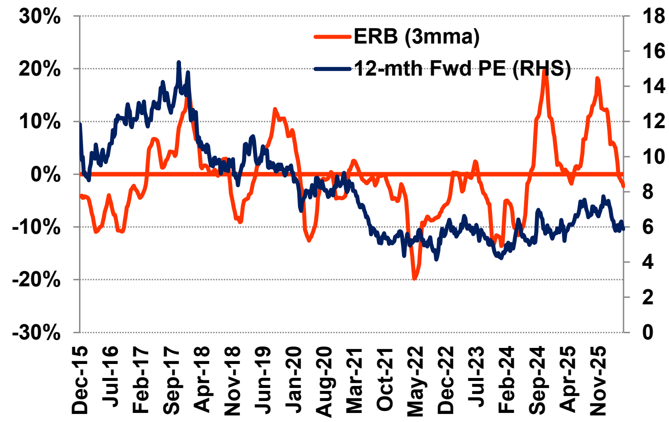
Revision Breadth (ERB) = (number of upward revisions - number of downward revisions) / total number of estimates.

Exhibit 20: Banks – Earnings estimate revision breadth (ERB) vs. 12-month P/E trend



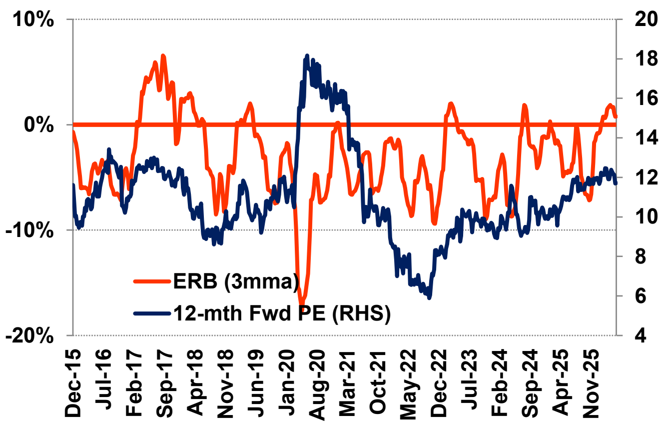
Revision Breadth (ERB) = (number of upward revisions - number of downward revisions) / total number of estimates.

Exhibit 21: Insurance – Earnings estimate revision breadth (ERB) vs. 12-month P/E trend



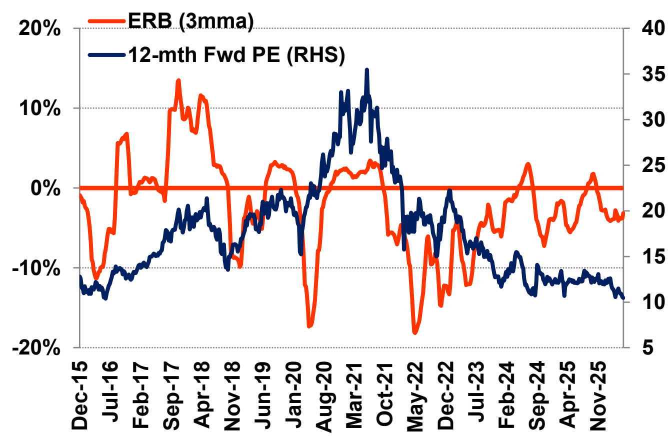
Revision Breadth (ERB) = (number of upward revisions - number of downward revisions) / total number of estimates.

Exhibit 22: Transportation – Earnings estimate revision breadth (ERB) vs. 12-month P/E trend



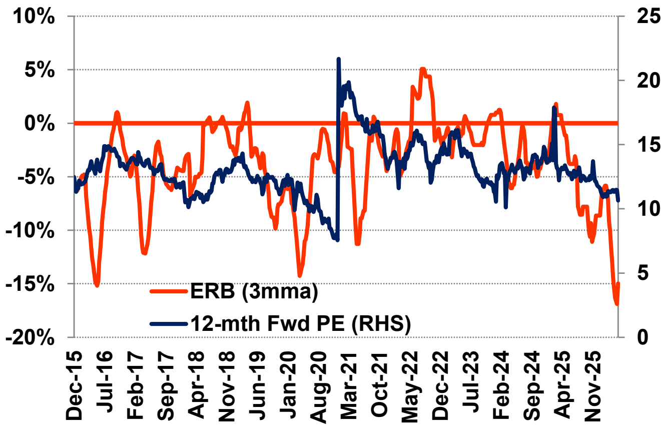
Revision Breadth (ERB) = (number of upward revisions - number of downward revisions) / total number of estimates.

Exhibit 23: Consumer Durables – Earnings estimate revision breadth (ERB) vs. 12-month P/E trend



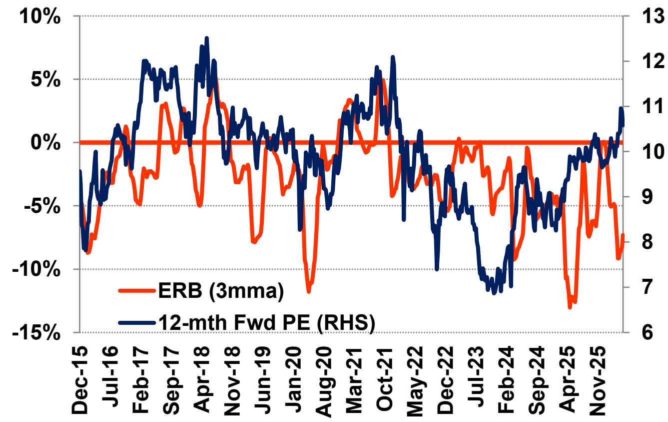
Revision Breadth (ERB) = (number of upward revisions - number of downward revisions) / total number of estimates.

Exhibit 24: Telecom – Earnings estimate revision breadth (ERB) vs. 12-month P/E trend



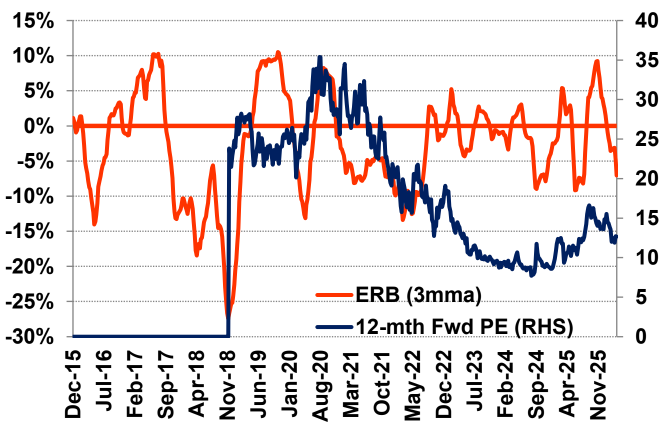
Revision Breadth (ERB) = (number of upward revisions - number of downward revisions) / total number of estimates.

Exhibit 25: Utilities – Earnings estimate revision breadth (ERB) vs. 12-month P/E trend



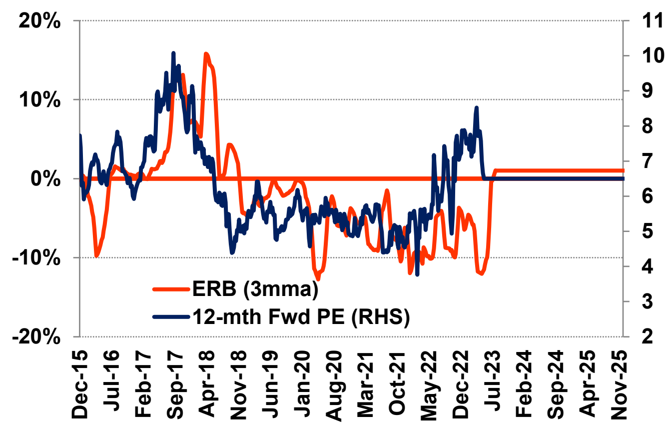
Revision Breadth (ERB) = (number of upward revisions - number of downward revisions) / total number of estimates.

Exhibit 26: Retailing – Earnings estimate revision breadth (ERB) vs. 12-month P/E trend



Revision Breadth (ERB) = (number of upward revisions - number of downward revisions) / total number of estimates.

Exhibit 27: Real Estate – Earnings estimate revision breadth (ERB) vs. 12-month P/E trend



Revision Breadth (ERB) = (number of upward revisions - number of downward revisions) / total number of estimates.