Equity Strategy - China

Light positioning, watching catalysts - Singapore investors' feedback

Equity Strategy

26 May 2026

Equity Strategy
China

Winnie Wu >>
Research Analyst
Merrill Lynch (Hong Kong)
+852 3508 3058
winnie.wu@bofa.com

Patrick Pan, CFA >>
Research Analyst
Merrill Lynch (Hong Kong)
+852 3508 4601
patrick.pan2@bofa.com

Gina Wu >>
Strategist
Merrill Lynch (Hong Kong)
+852 3508 8008
gina.wu@bofa.com

Light positioning in China, but watching for a turn

During our Singapore marketing last week, investors we spoke with are no longer complaining/debating about China's underperformance, suggesting that positioning is already quite light. Focus remains on AI, and even more narrowly on AI hardware/infrastructure as a "model agnostic" play. The view is that MSCI China/H-share may continue to lag unless the AI hardware rally fades. As such, discussions have shifted to potential catalysts for a "trend reversal", including: 1) higher cost of capital from rising rates/ bond yields, 2) potential liquidity drain from mega IPOs), and 3) sustainability of AI CAPEX/monetization amid an emerging social backlash – watch next earnings.

Focus sectors: metals, non-bank financials, consumers

Investors are frustrated by the underperformance of metals and non-bank financials. We think this is driven by: 1) relatively crowded positioning and foreign flow selling, as China's weighting in MSCI EM fell from 31% to 21% over the past 8mths; 2) earnings: fears that "the best is behind" and limited visibility ahead; and 3) concerns on policy tightening or "national team" selling (for non-banks). Investors are encouraged by "green shoots" in property markets and hope it could boost consumption. We are constructive that the top-tier cities' property markets are stabilizing at the bottom. However, it may take a couple more months to assess whether the recovery can continue, rather than fade like the previous rebounds. We remain cautious on the read-through to consumption, unless we see a more broad-based and significant rise in property prices.

Memory: positioning not stretched? Missing is career risk

As discussed in our China Conference feedback (link), market concerns about an AI bubble have declined. HFs adopting AI tools are seeing real productivity gains, with AUM rising much more than headcount. Tech specialists are more confident than generalists on memory supply shortage and pricing power. Has positioning become too crowded? SK Hynix, nearly USD1tn in market cap, still has risen 5-10% a day – suggesting continued sizeable inflow. Some LOs admit that they remain underweight, either reluctant to chase or sold too early – seasoned investors tend to be more cautious about the "cyclical/ commodity" nature of the space. Therefore, positioning may not be as stretched as feared. Anecdotally, some EM funds have shut down recently for underperformance – one HF client put it bluntly: "it is no longer just opportunity cost, it's a career risk".

Policy risk: less geopolitical, more domestic

With low expectations going into the Xi-Trump summit, investors were not disappointed either. "Strategic stability" in US-China relations should help contain tail risks for the market in the next 4-5mths. That said, China's crackdown on unlicensed cross-border brokerage has raised concerns. Investors are debating whether this signals another round of tightening on internet sectors (following FinTech, eCommerce, OTA), or is more targeted at cross-border capital flows (with implications for banks/insurers). Together with a busy HK IPO pipeline, the tightening may not bode well for HK market's liquidity.

Related report

China Conference feedback: bubble, rotation, and the A-share style, May 15th

Why has China underperformed – earnings and beyond, Apr 28th

Stay bullish on AI hardware & export growth: onshore investors' feedback, Apr 20th

2Q26: play defensive, awaiting for positive catalysts, Apr 2nd

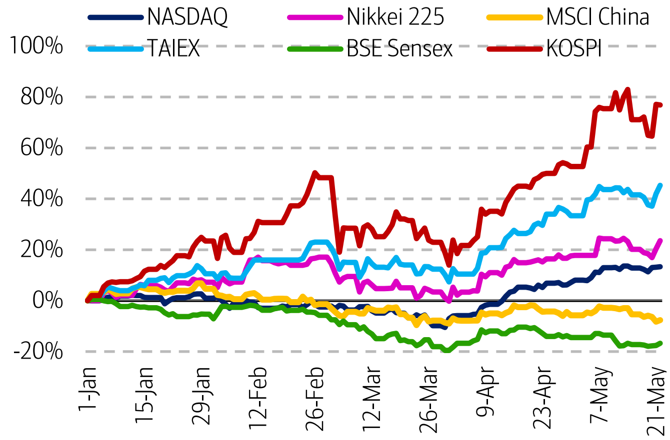
R.E.A.L. moats amid AI shockwaves, Mar 16th

Glossary:
EM: Emerging Market
OTA: Online Travel Agent
AUM: assets under management
HF: hedge fund
LO: long-only fund

Refer to important disclosures on page 3 to 4.

Light positioning, watching catalysts

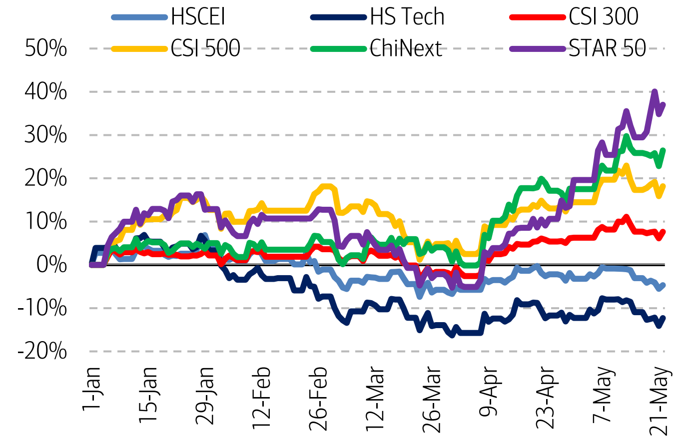
Exhibit 1: China underperformed YTD
Performance of US and major Asian markets YTD



Source: Bloomberg, MSCI

BofA GLOBAL RESEARCH

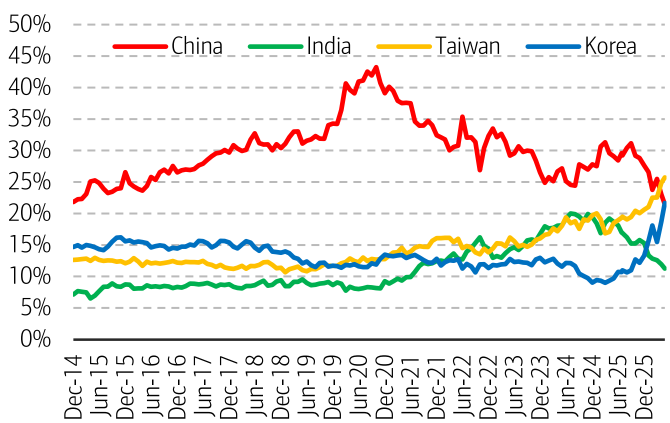
Exhibit 2: Within China, STAR 50/ChiNext outperformed
Performance of major China market indices YTD



Source: Bloomberg

BofA GLOBAL RESEARCH

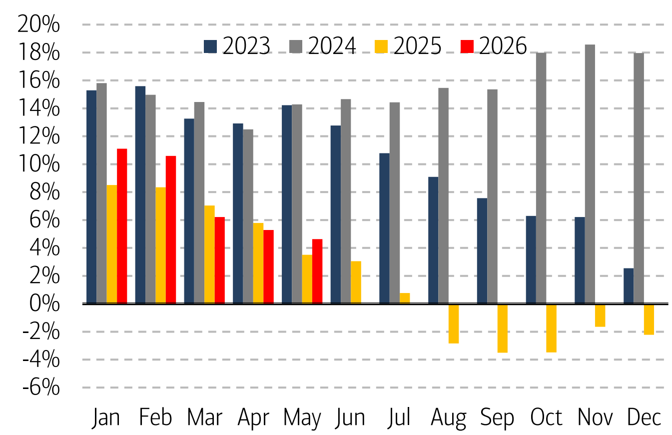
Exhibit 3: China's weighting fell to below Taiwan and Korea
Major EM markets' weighting in MSCI EM



Source: FactSet, MSCI

BofA GLOBAL RESEARCH

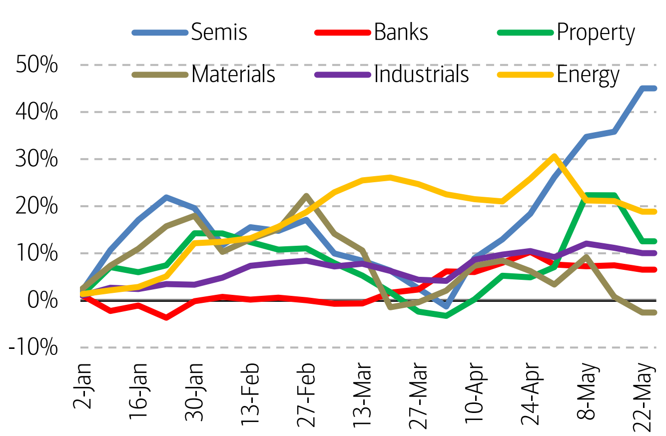
Exhibit 4: 2026E EPS growth was cut from 11% in Jan to 5% in May
Consensus forecast for MSCI China's earning growth



Source: Bloomberg, MSCI, FactSet

BofA GLOBAL RESEARCH

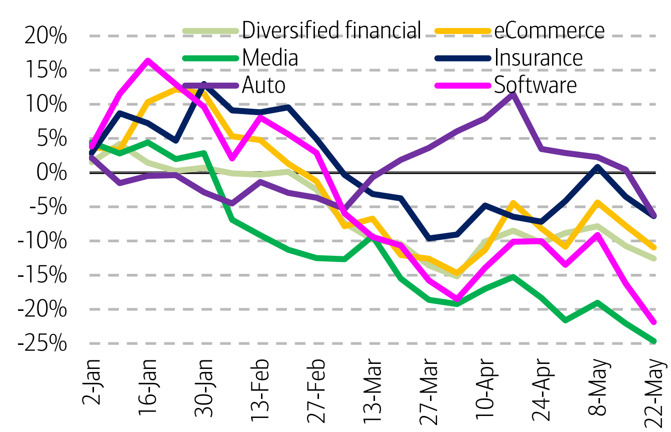
Exhibit 5: Semis and energy sectors outperformed YTD
MSCI China sector performance YTD



Source: MSCI

BofA GLOBAL RESEARCH

Exhibit 6: Media, software and diversified financials lagged YTD
MSCI China sector performance YTD



Source: MSCI

BofA GLOBAL RESEARCH

financial situation and the particular needs of, and is not directed to, any specific person(s). This document and its content do not constitute, and should not be considered to constitute, investment advice for purposes of ERISA, the US tax code, the Investment Advisers Act or otherwise. Investors should seek financial advice regarding the appropriateness of investing in financial instruments and implementing investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Any decision to purchase or subscribe for securities in any offering must be based solely on existing public information on such security or the information in the prospectus or other offering document issued in connection with such offering, and not on this document.

Securities and other financial instruments referred to herein, or recommended, offered or sold by BofA Securities, are not insured by the Federal Deposit Insurance Corporation and are not deposits or other obligations of any insured depository institution (including, Bank of America, N.A.). Investments in general and, derivatives, in particular, involve numerous risks, including, among others, market risk, counterparty default risk and liquidity risk. No security, financial instrument or derivative is suitable for all investors. Digital assets are extremely speculative, volatile and are largely unregulated. In some cases, securities and other financial instruments may be difficult to value or sell and reliable information about the value or risks related to the security or financial instrument may be difficult to obtain. Investors should note that income from such securities and other financial instruments, if any, may fluctuate and that price or value of such securities and instruments may rise or fall and, in some cases, investors may lose their entire principal investment. Past performance is not necessarily a guide to future performance. Levels and basis for taxation may change.

This report may contain a short-term trading idea or recommendation, which highlights a specific near-term catalyst or event impacting the issuer or the market that is anticipated to have a short-term price impact on the equity securities of the issuer. Short-term trading ideas and recommendations are different from and do not affect a stock's fundamental equity rating, which reflects both a longer term total return expectation and attractiveness for investment relative to other stocks within its Coverage Cluster. Short-term trading ideas and recommendations may be more or less positive than a stock's fundamental equity rating.

BofA Securities is aware that the implementation of the ideas expressed in this report may depend upon an investor's ability to "short" securities or other financial instruments and that such action may be limited by regulations prohibiting or restricting "shortselling" in many jurisdictions. Investors are urged to seek advice regarding the applicability of such regulations prior to executing any short idea contained in this report.

Foreign currency rates of exchange may adversely affect the value, price or income of any security or financial instrument mentioned herein. Investors in such securities and instruments, including ADRs, effectively assume currency risk.

BofAS or one of its affiliates is a regular issuer of traded financial instruments linked to securities that may have been recommended in this report. BofAS or one of its affiliates may, at any time, hold a trading position (long or short) in the securities and financial instruments discussed in this report.

BofA Securities, through business units other than BofA Global Research, may have issued and may in the future issue trading ideas or recommendations that are inconsistent with, and reach different conclusions from, the information presented herein. Such ideas or recommendations may reflect different time frames, assumptions, views and analytical methods of the persons who prepared them, and BofA Securities is under no obligation to ensure that such other trading ideas or recommendations are brought to the attention of any recipient of this information.

In the event that the recipient received this information pursuant to a contract between the recipient and BofAS for the provision of research services for a separate fee, and in connection therewith BofAS may be deemed to be acting as an investment adviser, such status relates, if at all, solely to the person with whom BofAS has contracted directly and does not extend beyond the delivery of this report (unless otherwise agreed specifically in writing by BofAS). If such recipient uses the services of BofAS in connection with the sale or purchase of a security referred to herein, BofAS may act as principal for its own account or as agent for another person. BofAS is and continues to act solely as a broker-dealer in connection with the execution of any transactions, including transactions in any securities referred to herein.

Copyright and General Information:

Materials prepared by BofA Global Research personnel are based on public information. Facts and views presented in this material have not been reviewed by, and may not reflect information known to, professionals in other business areas of BofA Securities, including investment banking personnel. BofA Securities has established information barriers between BofA Global Research and certain business groups. As a result, BofA Securities does not disclose certain client relationships with, or compensation received from, such issuers. To the extent this material discusses any legal proceeding or issues, it has not been prepared as nor is it intended to express any legal conclusion, opinion or advice. Investors should consult their own legal advisers as to issues of law relating to the subject matter of this material. BofA Global Research personnel's knowledge of legal proceedings in which any BofA Securities entity and/or its directors, officers and employees may be plaintiffs, defendants, co-defendants or co-plaintiffs with or involving issuers mentioned in this material is based on public information. Facts and views presented in this material that relate to any such proceedings have not been reviewed by, discussed with, and may not reflect information known to, professionals in other business areas of BofA Securities in connection with the legal proceedings or matters relevant to such proceedings.

This information has been prepared independently of any issuer of securities mentioned herein and not in connection with any proposed offering of securities or as agent of any issuer of any securities. None of BofAS any of its affiliates or their research analysts has any authority whatsoever to make any representation or warranty on behalf of the issuer(s). BofA Global Research policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer prior to the publication of a research report containing such rating, recommendation or investment thesis.

Any information relating to sustainability in this material is limited as discussed herein and is not intended to provide a comprehensive view on any sustainability claim with respect to any issuer or security.

Any information relating to the tax status of financial instruments discussed herein is not intended to provide tax advice or to be used by anyone to provide tax advice. Investors are urged to seek tax advice based on their particular circumstances from an independent tax professional.

The information herein (other than disclosure information relating to BofA Securities and its affiliates) was obtained from various sources and we do not guarantee its accuracy. This information may contain links to third-party websites. BofA Securities is not responsible for the content of any third-party website or any linked content contained in a third-party website. Content contained on such third-party websites is not part of this information and is not incorporated by reference. The inclusion of a link does not imply any endorsement by or any affiliation with BofA Securities. Access to any third-party website is at your own risk, and you should always review the terms and privacy policies at third-party websites before submitting any personal information to them. BofA Securities is not responsible for such terms and privacy policies and expressly disclaims any liability for them.

All opinions, projections and estimates constitute the judgment of the author as of the date of publication and are subject to change without notice. Prices also are subject to change without notice. BofA Securities is under no obligation to update this information and BofA Securities ability to publish information on the subject issuer(s) in the future is subject to applicable quiet periods. You should therefore assume that BofA Securities will not update any fact, circumstance or opinion contained herein.

Certain outstanding reports or investment opinions relating to securities, financial instruments and/or issuers may no longer be current. Always refer to the most recent research report relating to an issuer prior to making an investment decision.

In some cases, an issuer may be classified as Restricted or may be Under Review or Extended Review. In each case, investors should consider any investment o

its security and/or financial instruments) to be suspended or withdrawn and should not rely on the analyses and investment opinion(s) pertaining to such issu al instruments) nor should the analyses or opinion(s) be considered a solicitation of any kind. Sales persons and financial advisors affiliated with BofAS or any of i purchases of securities or financial instruments that are Restricted or Under Review and may only solicit securities under Extended Review in accordance with

Neither BofA Securities nor any officer or employee of BofA Securities accepts any liability whatsoever for any direct, indirect or consequential damages or loss information.