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Investor Presentation | Asia Pacific

Asia Summer School 2026: China Equity Strategy

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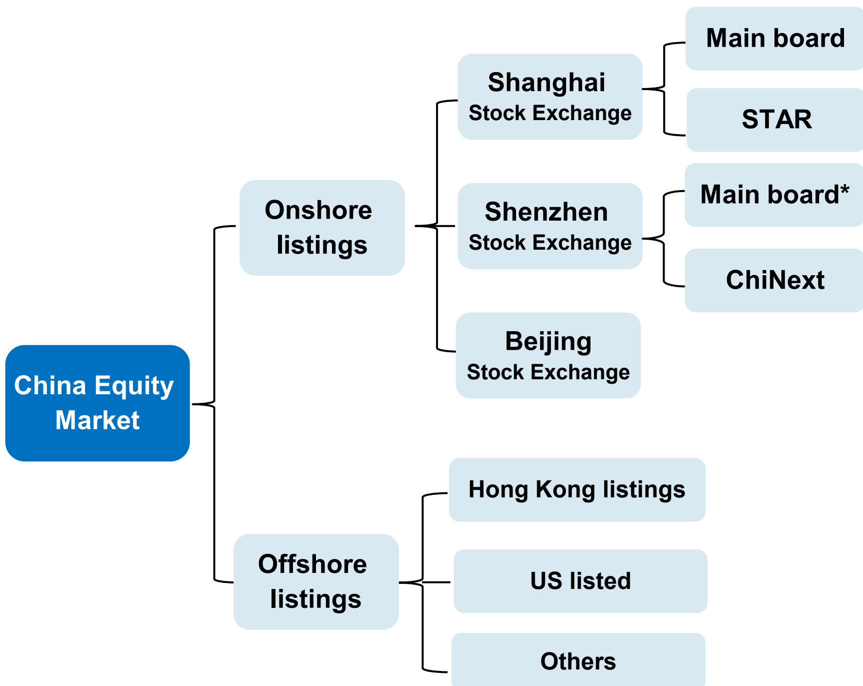
Asia Summer School 2026

Fact Sheet: Multiple listing and trading platforms around the globe

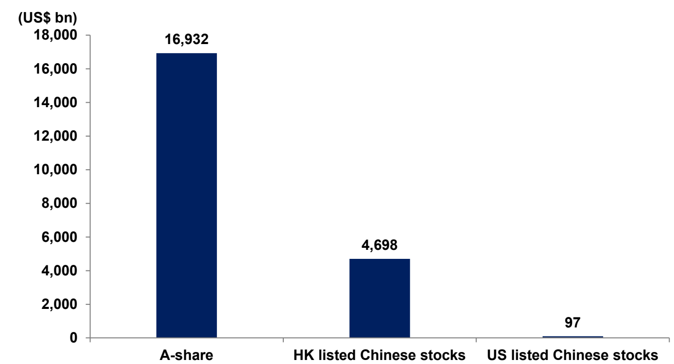
Structure of China equity market



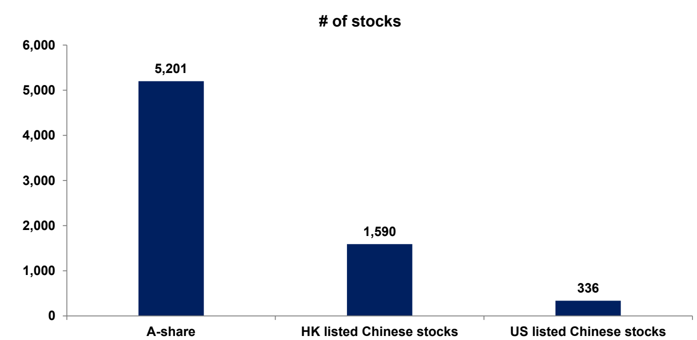
Shenzhen main board since April 2021.

Data as of end-April 2026. A-share stocks count Shanghai and Shenzhen listed stocks only. Only exchange-traded Chinese companies with primary listing in the US are counted under US-listed Chinese stocks (US traded market cap only). AH dual listings and primary & secondary listings are counted twice in # of stocks. Market cap is not double counted.

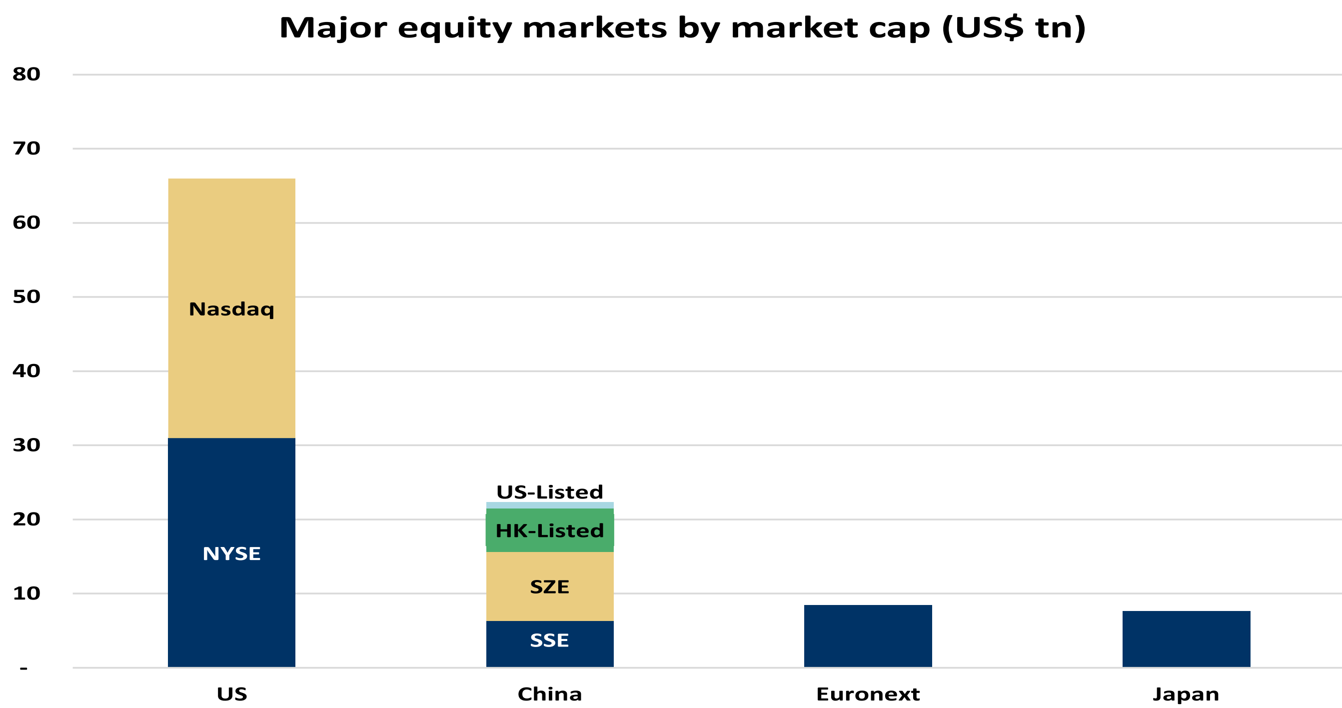
Listed Chinese equities, by market (market cap)



Listed Chinese equities, by market (# of stocks)

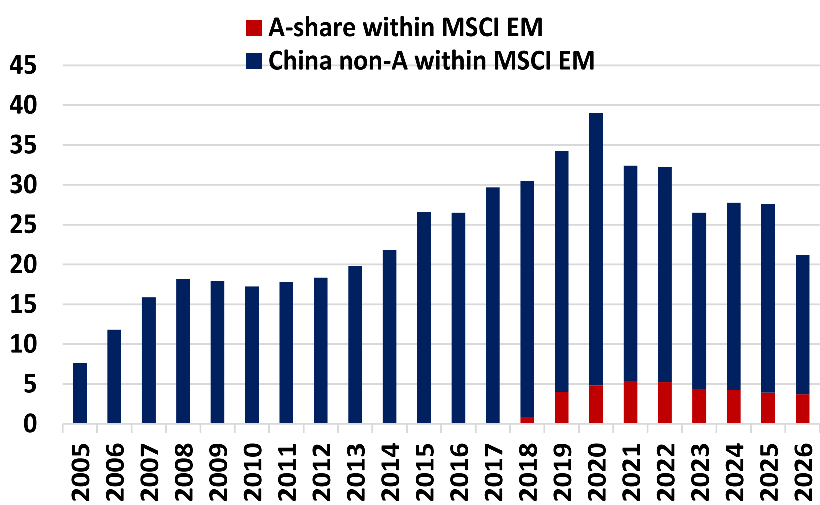


Chinese equities claim the second-largest aggregate market cap globally

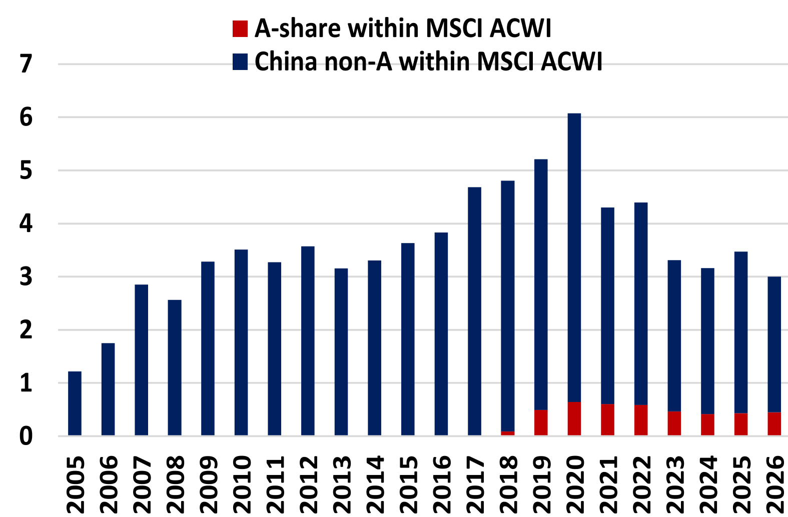


Chinese equities represent 21% and 3.5%, respectively, in MSCI EM and MSCI ACWI

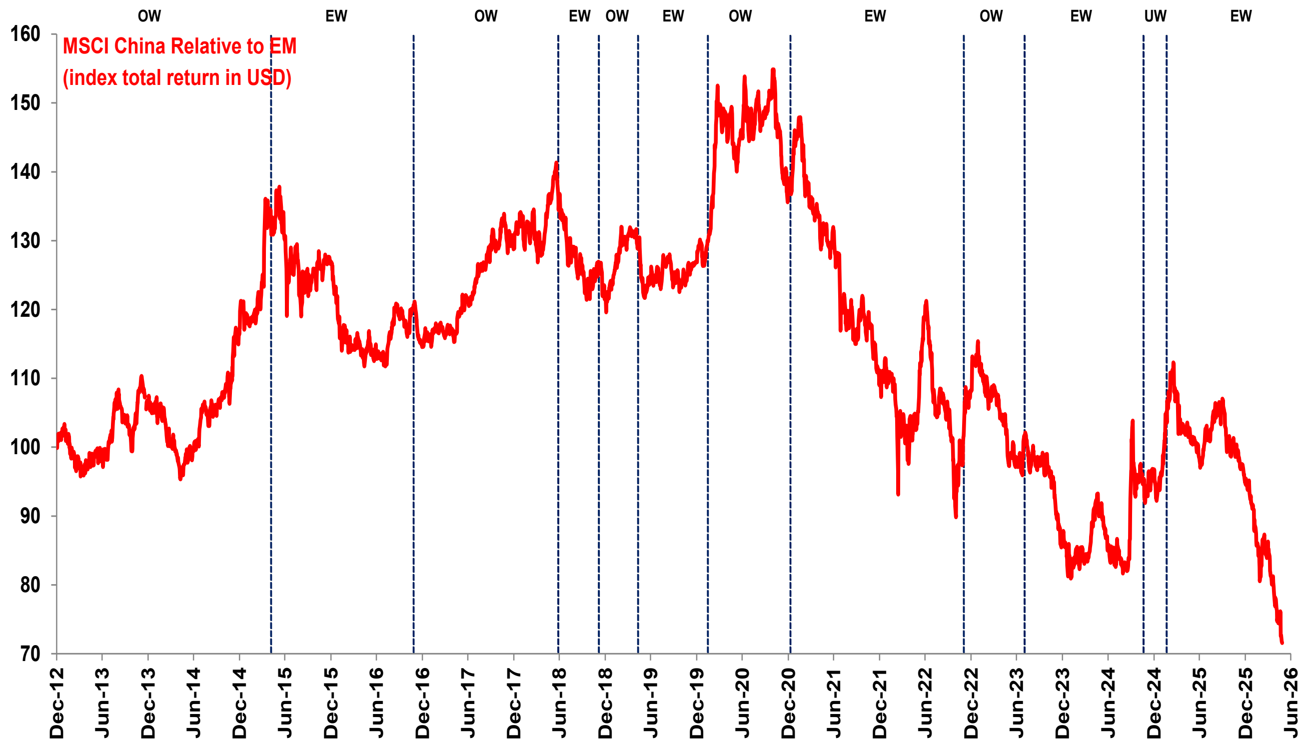
China's index weight within MSCI EM, breakdown by A-shares and non-A



China's index weight within MSCI ACWI, breakdown by A-shares and non-A



How to evaluate Chinese equities' performance in a global context – We remain equal-weight on MSCI China within our global EM/APxJ framework



1 Index targets

2 Market allocation preference

3 Sector allocation preference

4 China's long-term investibility

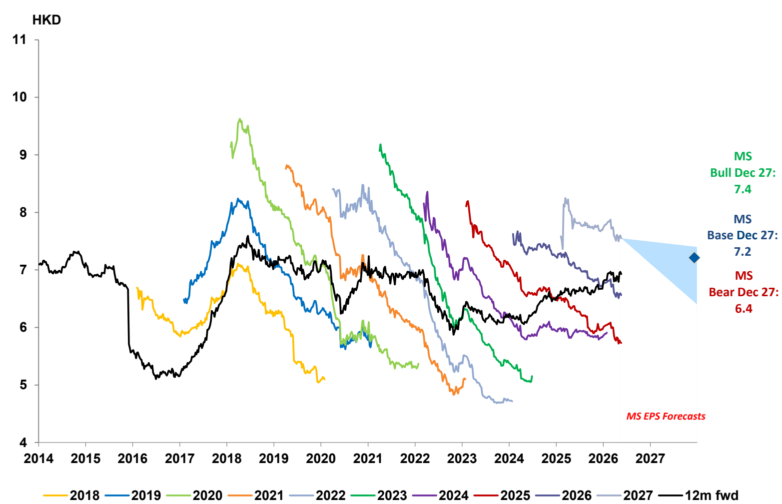
- Official price target revisit twice per year
  - New Year Outlook – usually takes place in November
  - Mid-year Outlook – usually takes place in May
- Price target setting process
  - Earnings outlook
  - Valuation forecast
  - Upside/downside vs. current market index level
- Examples
  - China Equity Strategy Mid-year Outlook | Asia Pacific: Forging New Horizons (13 May 2026)
  - Investor Presentation: China Equity Strategy: Forging New Horizons (17 May 2026)
- Price target changes outside the regular outlook publication cycle
  - When we expect significant changes in course for major market-influencing factors

earnings and currency

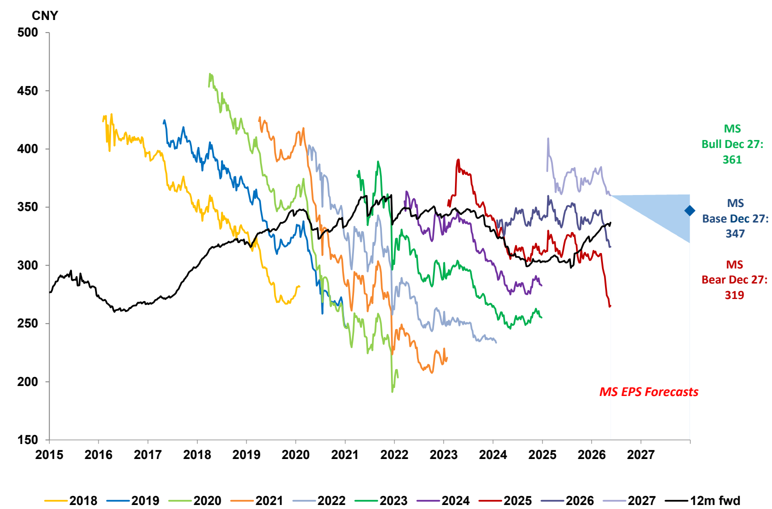
		2018	2020 Post Covid-19	2H 2021	Dec-22	Aug-23	Feb-25	2025 Year End	2026 Mid Year
1	Economic/Earnings Estimates	x	✓	Neutral	xx	xx	x	x	Neutral ↑
2	Valuation	x	✓	x	Neutral	Neutral	✓	Neutral	Neutral
3	Liquidity	x	✓	x	✓	x	✓	✓	Neutral ↓
4	Policy Cycle	x	✓	x	✓✓	✓	✓	✓	✓
5	USDCNY trend	x	✓	Neutral	✓	x	xx	x	✓ ↑
6	US/China & geopolitical tension	x	Neutral/ Slightly negative	Neutral/ Slightly negative	Neutral/ Slightly negative	Neutral/ Slightly negative	x	Interim truce	Interim truce
7	Regulatory/Policy priority	x	Neutral	x	✓	xx	✓	✓	✓
		Downgrade	Upgrade	Downgrade	Upgrade	Downgrade	Upgrade	PT increase	PT increase

Consensus earnings estimates – We expect further downward revisions for 2026 EPS but at decelerating speed

MS EPS base case forecasts for MSCI China at Dec-25 and Dec-26

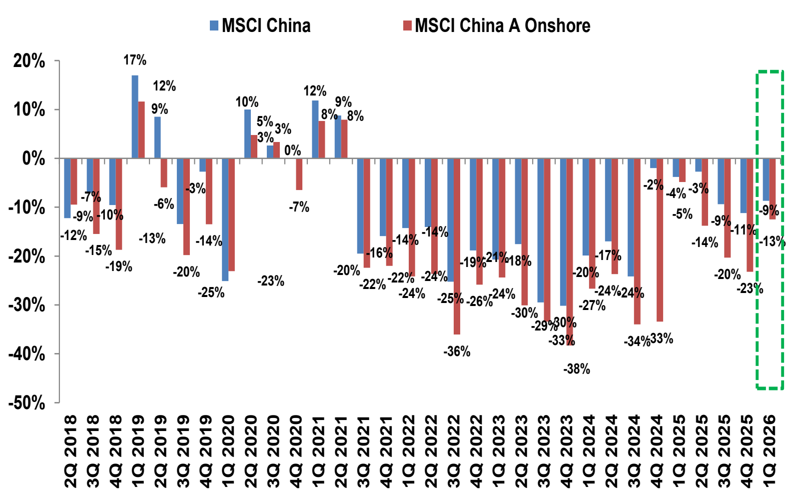


MS EPS base case forecasts for CSI 300 at Dec-25 and Dec-26

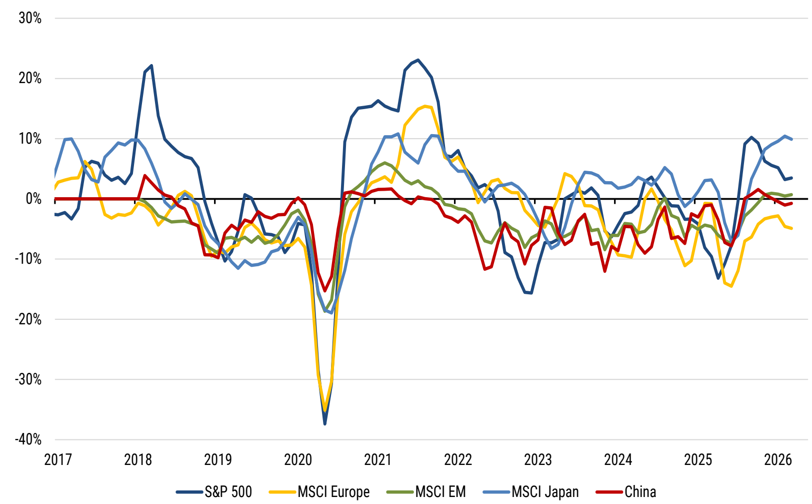


Downward earnings estimates revision pressure to peak out in 2Q and then improve

History of Chinese equity market quarterly earnings surprises, by number of companies



12-month forward consensus earnings estimate revision breadth (ERB, 3mma)



May 25, 2026.

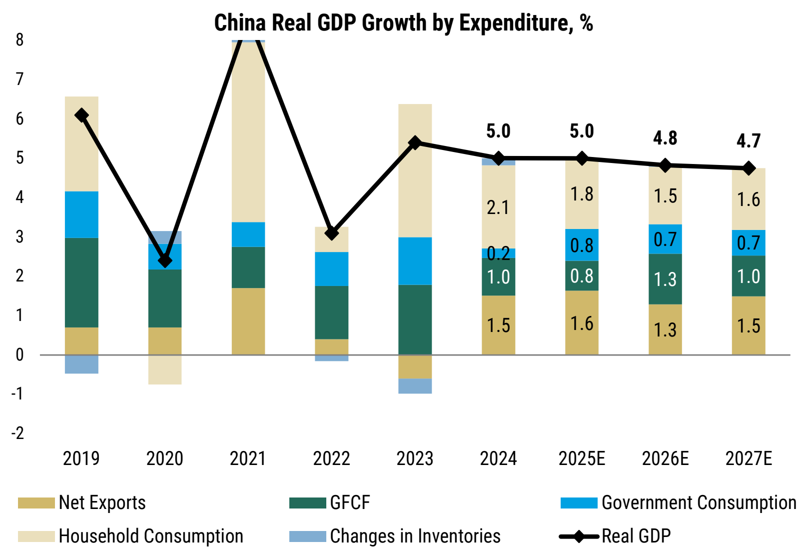
MSCI China index level earnings growth forecasts, by industry, based on MS bottom-up estimates

MSCI China Sectors EPS Growth Decomposition	Index weight*	2025E	2026E	2027E
Consumer Discretionary	24%	(33%)	16%	41%
Consumer Staples	3%	(0%)	25%	10%
Information Technology	7%	18%	1%	33%
Health Care	4%	44%	2%	17%
Communication Services	18%	9%	8%	14%
Utilities	1%	2%	(3%)	5%
Real Estate	1%	(42%)	31%	15%
Financials	18%	8%	(4%)	7%
Energy	3%	(12%)	29%	9%
Materials	4%	31%	78%	5%
Industrials	4%	0%	7%	13%
MS bottom up forecasts of EPS growth for MSCI China		(3%)	7%	16%
MS top down forecasts of EPS growth for MSCI China		5%	7%	10%
Consensus EPS growth for MSCI China		(2%)	14%	15%

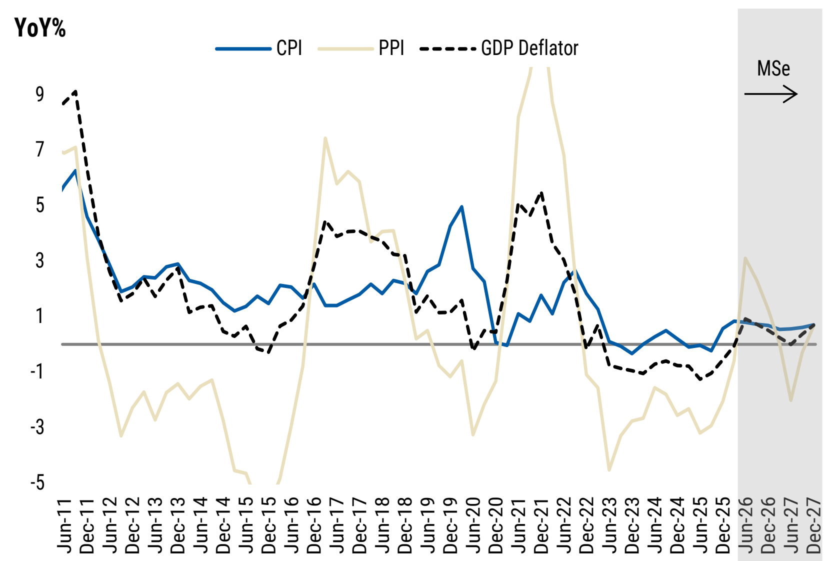
stocks that are MSCI China constituents are counted. Hence it may not sum to 100% due to coverage.

We see stronger exports growth benefiting from global AI/Energy capex supercycle; more clarity needs to be seen to call a sustainable reflation

Exports driving growth amid AI and energy capex supercycle

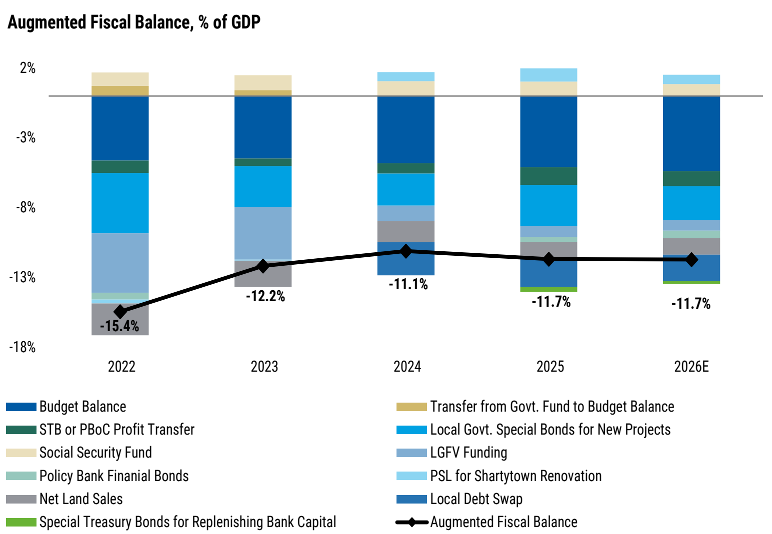


Inflation is rising, but reflation is narrow

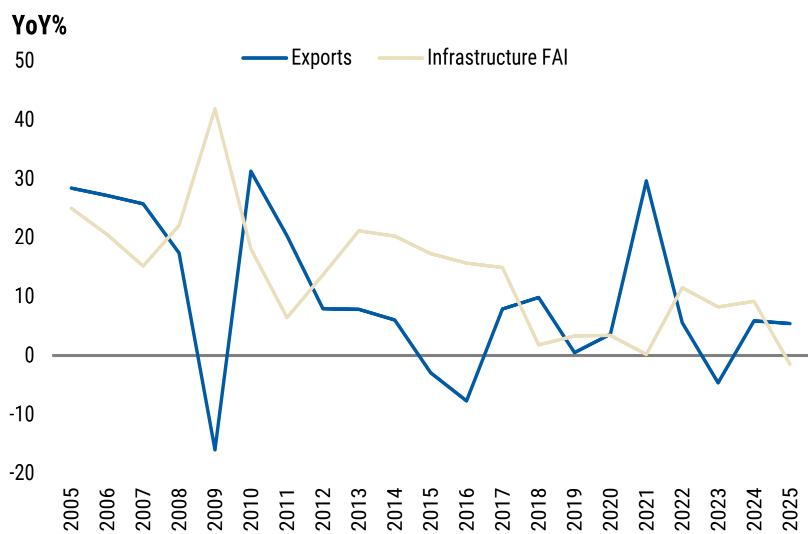


Policy to stay on cruise control given resilient organic growth and export strength

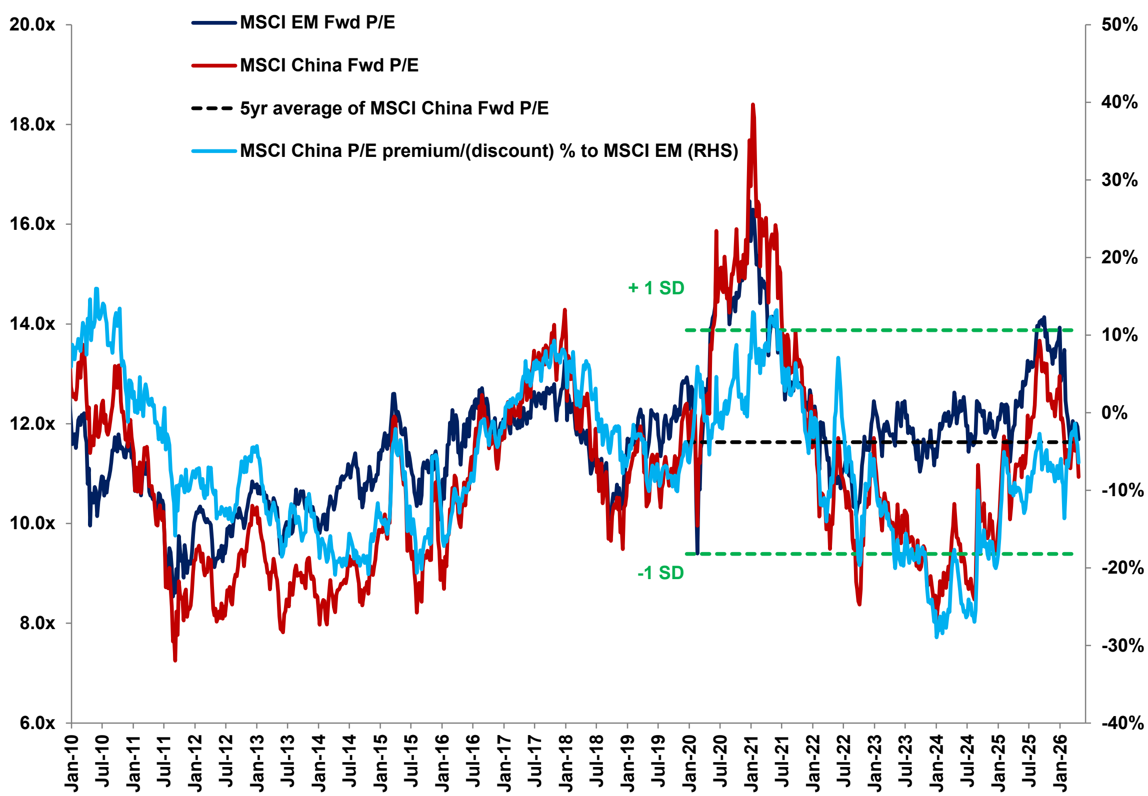
Augmented fiscal deficit will likely stay flat this year, with no supplementary budget in 2H



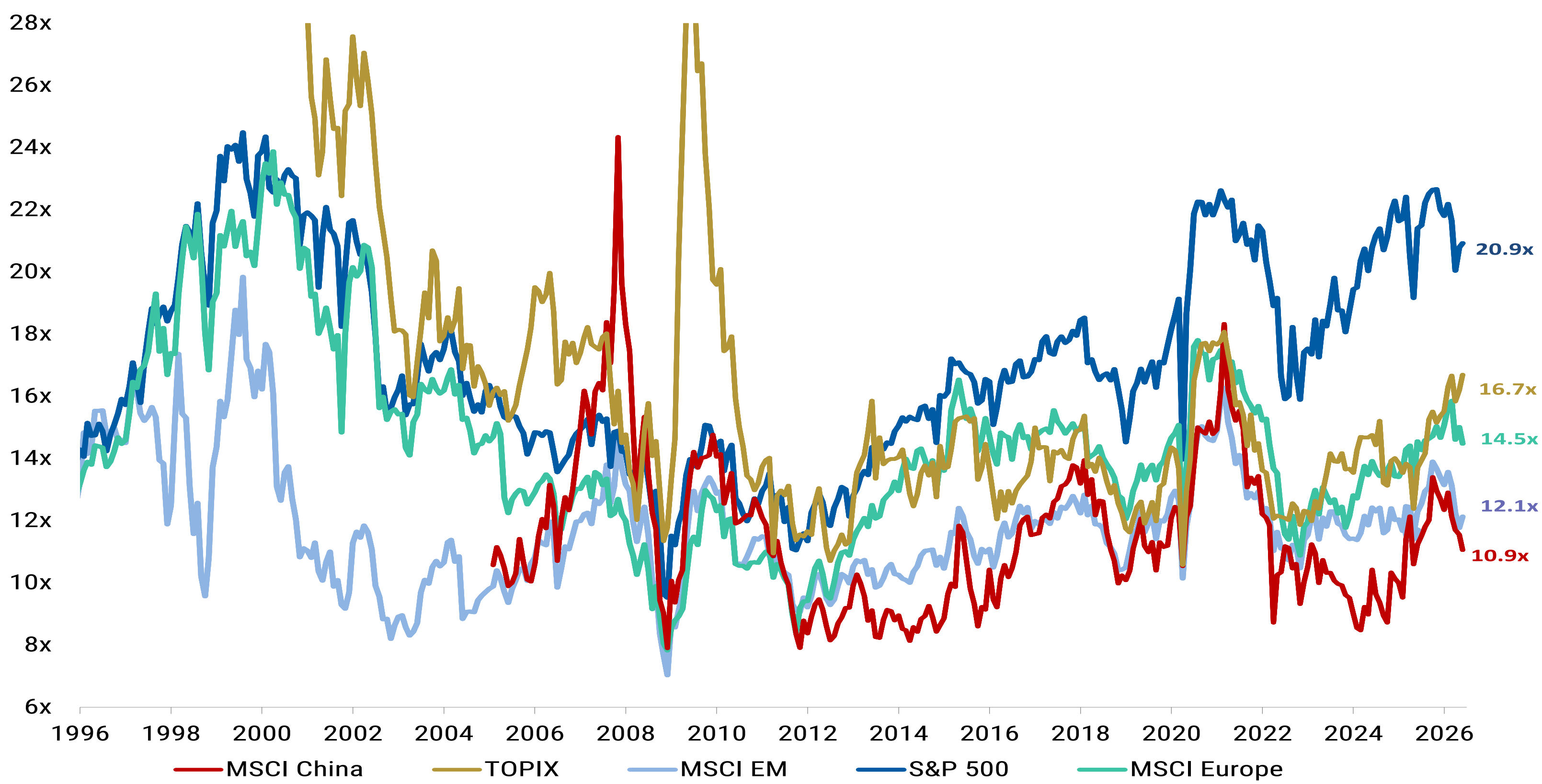
Export resilience reduces urgency for additional countercyclical easing



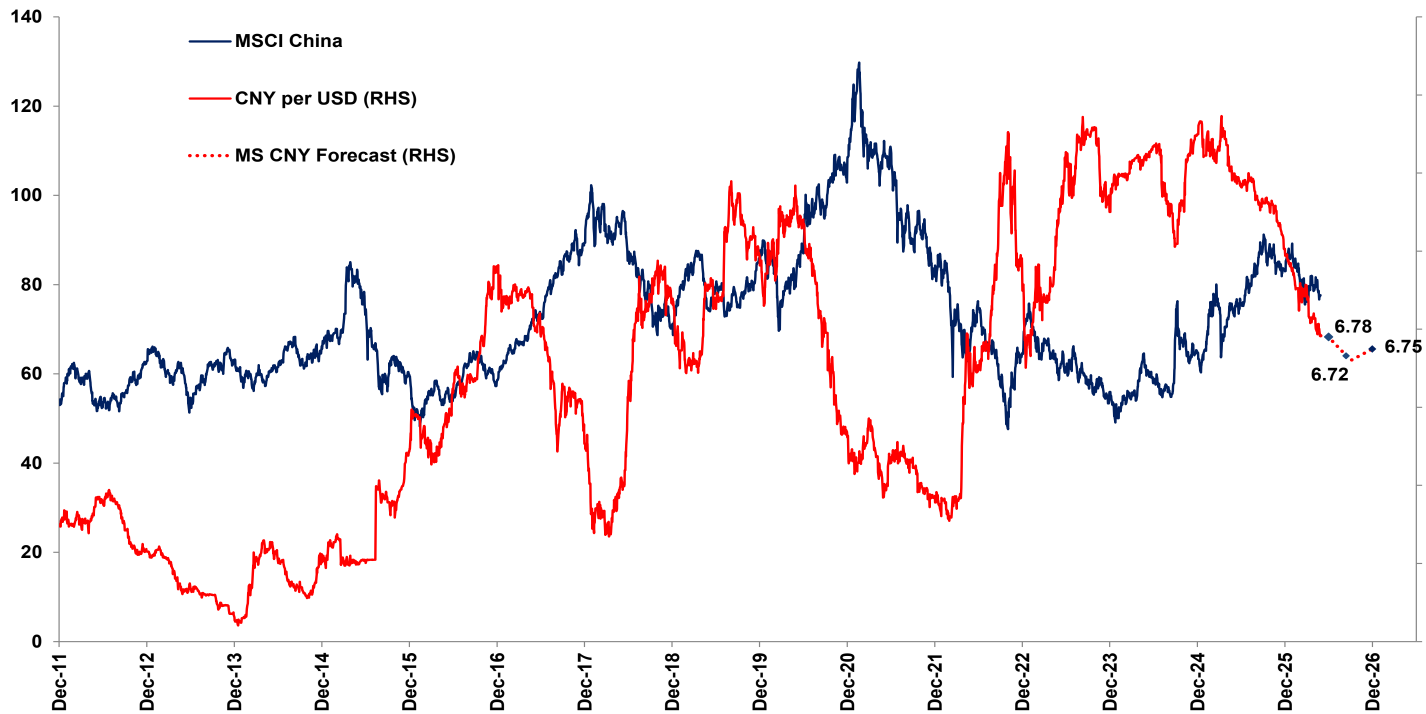
MSCI China trades at 10.9x 12-month forward P/E, at ~10% discount vs. MSCI EM



MSCI China still trades at discounts to other major global equity markets



MSCI China vs. USDCNY – We expect mild appreciation to continue; positive for equities



2026.

Long-term outlook for US-China relationship remains in the “Competitive Confrontation” state, as based on the MS framework of a multipolar world

High Offense Strategy

Low Defense Strategy

High Defense Strategy

Low Offense Strategy

Constructive Competition

Offense

- Federal investment in infrastructure and 'new economy,' partly funded by progressive tax reforms
- Enacts 'Buy American' and supply-chain security focused legislation and executive orders

Defense

- US focuses trade barriers on acute security risks, reducing tariffs in pursuit of trade and cooperative goals

Competitive Confrontation [Current]

Offense

- Incentives to build out innovation pipeline in foundational science and emerging industries
- Federal investment in infrastructure and 'new economy' partly funded by progressive tax reforms

Defense

- Continuation and expansion of non-tariff barrier arrangements and policies to protect technology
- Enacts 'Buy American' and supply-chain security focused legislation and executive orders

Passive Re-engagement

Offense

- Congressional gridlock hampers government investment in infrastructure and 'new economy' sectors

Defense

- US pursues parallel rollback of tariffs with China in perceived pragmatic self-interest
- Administration proves reluctant to incur economic costs of non-tariff barriers without clear end-goal

Fortress America

Offense

- Congressional gridlock hampers government investment in infrastructure and 'new economy' sectors

Defense

- Continuation of trade tariffs, with potential increase in frictions with other trade partners
- Security and ideological concerns see broader use of non-tariff barriers and export and investment controls

US-China relationship – We expect the truce to continue with selected relaxation re trade and tech restrictions

Trump-Xi Summit Scenarios

Summit cancelled or punted ahead of proposed meeting

Triggers:

- Escalation in US-Iran conflict (and China's possible more explicit role in the conflict).
- Deterioration in US-China relations.

Outcome:

- Existing trade tensions and tech restrictions persist or intensify.
- Potential planned concessions (e.g. expanded Chinese purchase of US agricultural products or limited tariff relief) would likely be deferred.
- Additional (and likely targeted) export controls or investment restrictions could emerge

Little change to the existing relationship, potential escalation following the summit

Outcome:

- Vague statements emphasizing dialogue without substance.
- Tariffs and export controls would remain largely unchanged.
- Renewed tensions of policy escalation might follow, particularly if domestic political pressures or geopolitical developments become a larger focus of the administration vs. these negotiations.

More durable stabilization of the bilateral agreement

Outcome:

- Large-scale Chinese commitments to purchasing US agricultural and energy products.
- Formal tariff rollbacks.
- Reciprocal market access commitments, and clearer frameworks addressing investment screening and supply-chain security.
- Possibly extended to fentanyl cooperation or financial market access.
- Advanced chip restrictions remain, but both sides establish clearer licensing for lower-end chips and commercial semi equipment.
- Stable and predictable rare earth exports from China

Our base case

Limited truce/cooperation with symbolic deliverables on either side

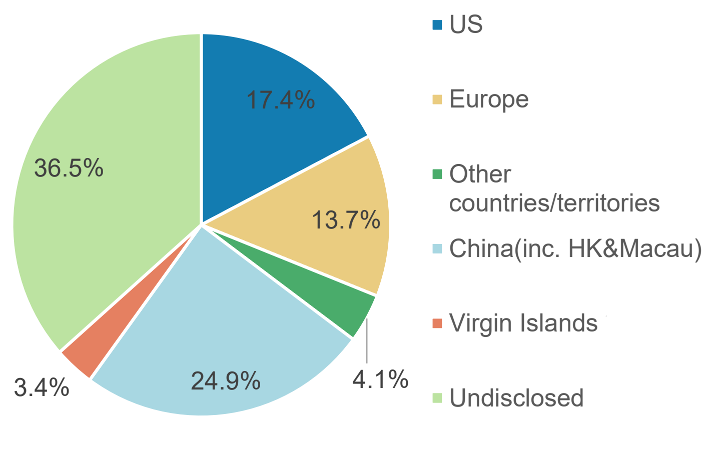
Outcome:

- China could agree to incremental purchases of US commodities (e.g. soybeans, aircraft and energy), signal greater openness to non-advanced US chips, ease regulatory pressure on certain US companies operating locally and offer more clarity on future exports of critical materials.
- US might offer modest tariff adjustments, exemptions or delays in additional trade restrictions.

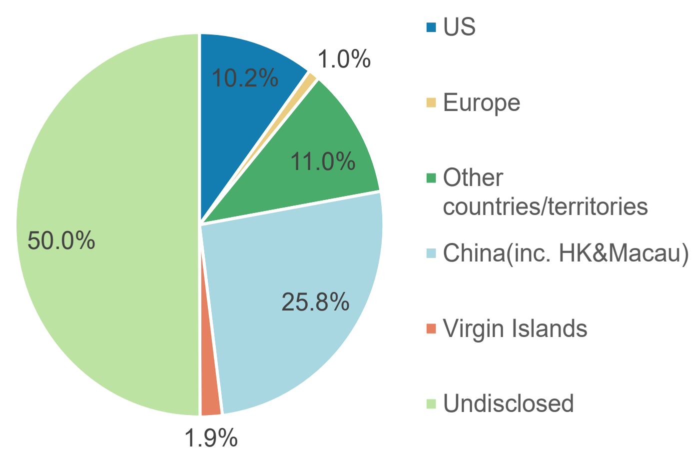
Overall, incremental commitments rather than structural change

US investor representation in total Chinese equity ownership has come down over the years

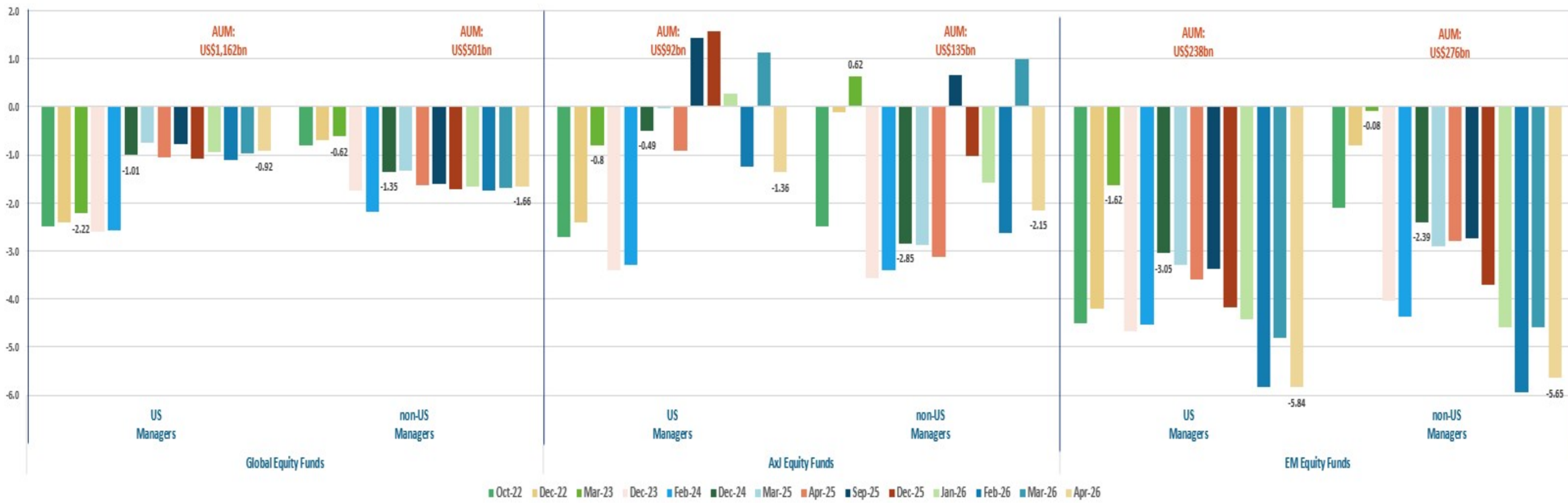
MSCI China constituent foreign ownership in 2018



MSCI China constituent foreign ownership in 2025

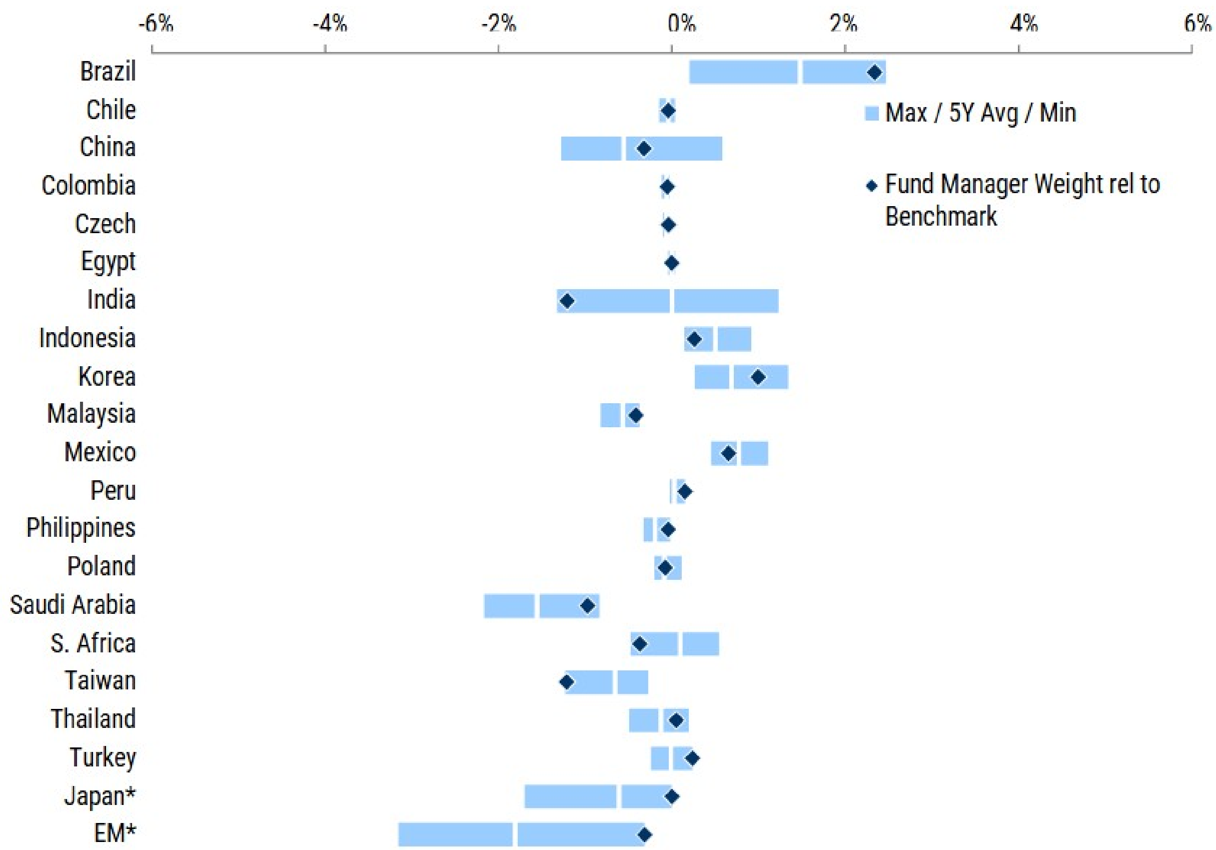


Active weights of China/HK equities, by regional fund category and manager domicile – Long-only positions in China have remained heavily underweight, suggesting room to add



formed by the largest 30 active mutual funds under MorningStar regional category. Funds under "non-US Managers" are mostly domiciled in Europe. We exclude ESG funds, income funds, and systematic funds. All the covered funds are benchmarking to either MSCI or FTSE standard regional indices of All Country World, Asia ex Japan, or Emerging Markets.

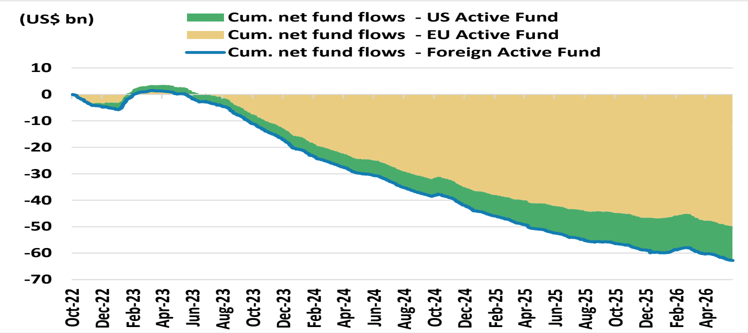
EM Fund Managers’ Relative Market Allocation vs. History – EM Funds are OW on Brazil and Korea, while UW on China, India and Taiwan



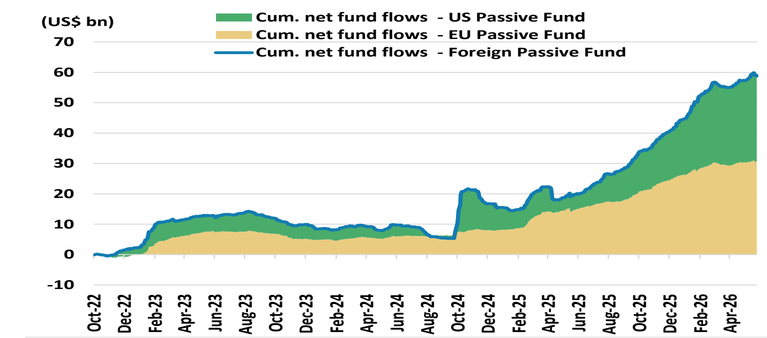
next month.

Foreign mutual fund flows strengthened further in 2026, YTD inflows reaching 80% of full-year 2025 level, though still largely driven by passive funds

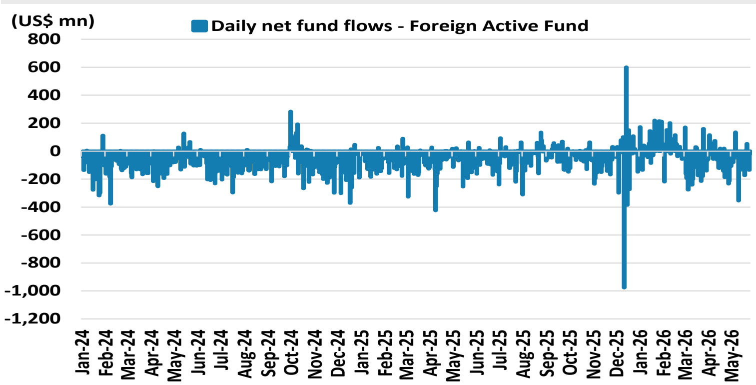
Daily cumulative fund flows – Foreign active funds



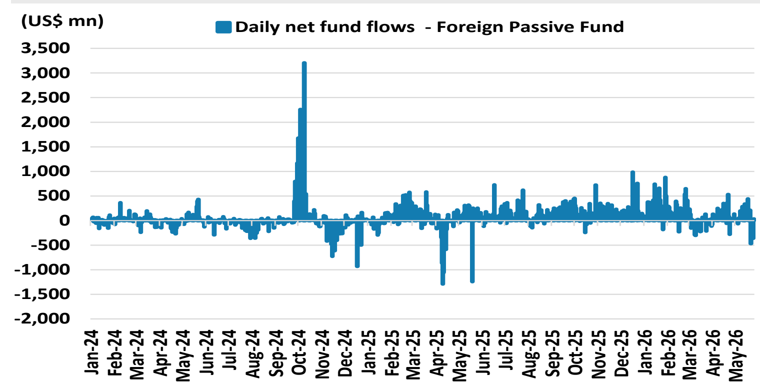
Daily cumulative fund flows – Foreign passive funds



Daily net fund flows – Foreign active funds

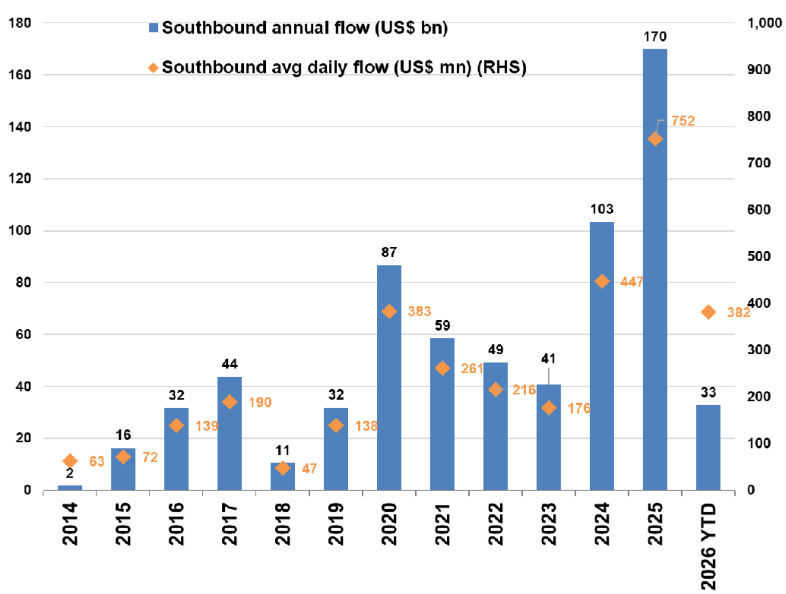


Daily net fund flows – Foreign passive funds

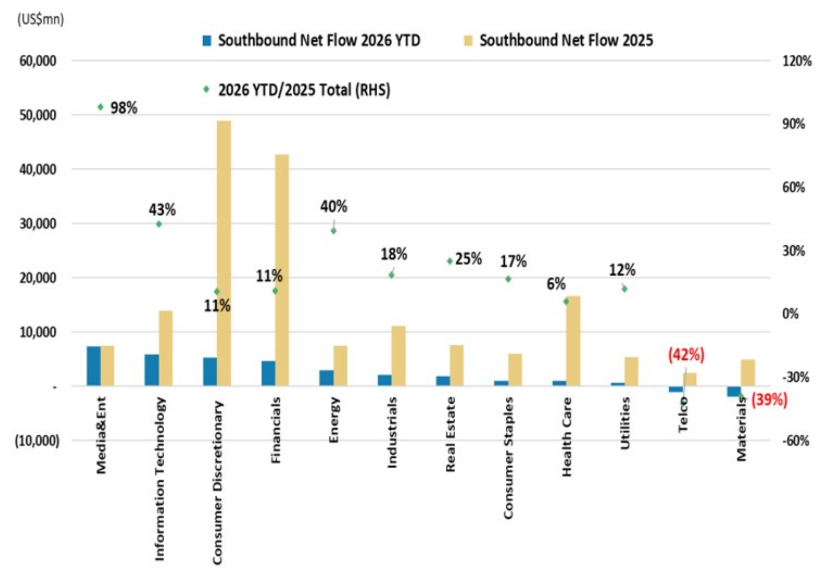


Southbound inflows still positive, but cooling from 2025's record pace, with a skew toward Media & Entertainment, IT, and Consumer Discretionary

Annual Southbound net inflows



Southbound net inflow, by sector

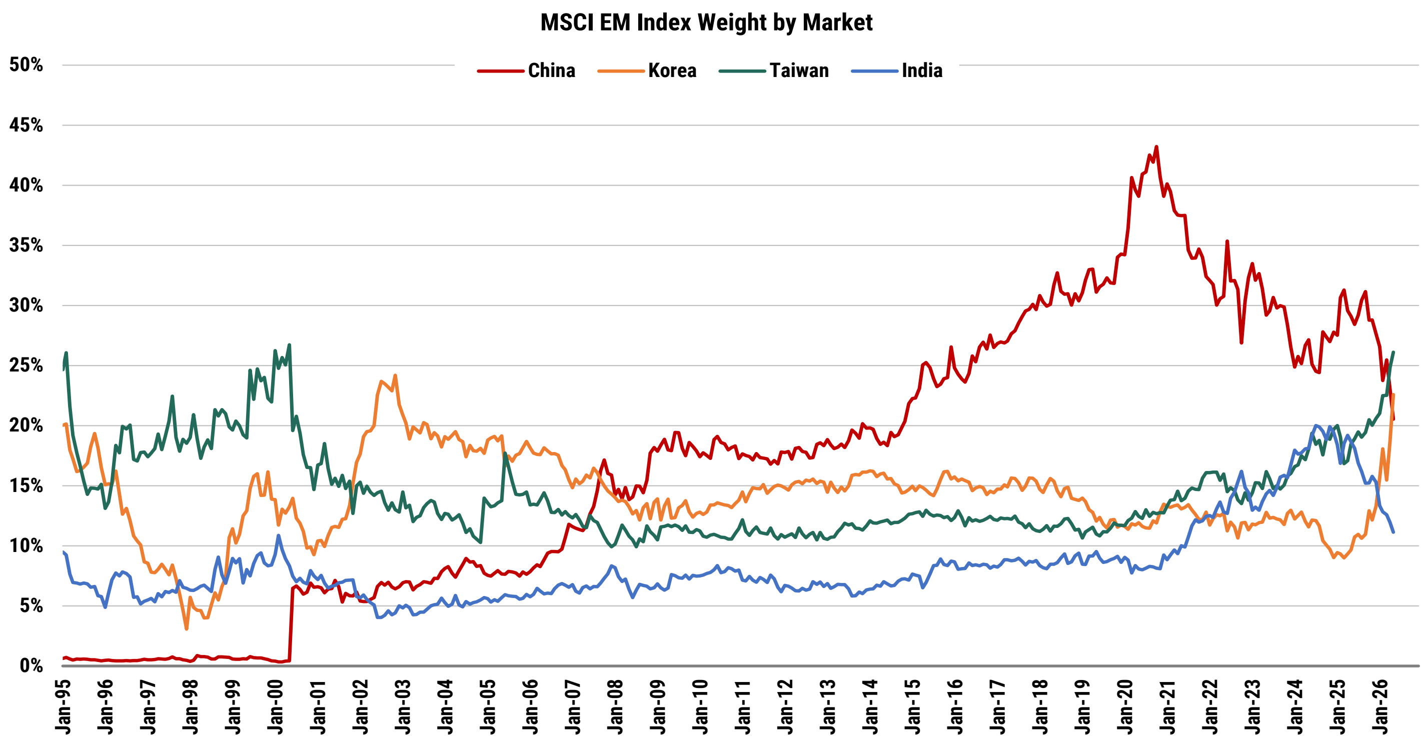


Index performance and Sharpe Ratio (MSCI China, CSI 300, MSCI EM, S&P 500) – CSI 300 demonstrating superior risk-adjusted returns in 2025 and 2026 YTD

	Total return in USD			2025		2026 YTD		
	24 Sep 2024 - Now	2025	2026 YTD	Standard deviation (Annualized)	Sharpe ratio (Annualized)	Annualized return	Standard deviation (Annualized)	Sharpe ratio (Annualized)
MSCI China	30%	27%	-10%	24%	0.95	-24%	20%	-1.41
CSI 300	59%	23%	9%	15%	1.44	28%	15%	1.74
Hang Seng	36%	28%	-3%	23%	1.00	-8%	19%	-0.65
MSCI EM	55%	31%	23%	15%	1.70	76%	24%	2.94
S&P 500	32%	16%	10%	18%	0.66	31%	13%	2.05

Note: Data as of May 28, 2026. Past performance is no guarantee of future results. Results do not include transaction costs/fees. 10-year Chinese government bond yield is used in CSI300 related calculations, compared to US treasury 10-year yield for other cases.

Historical MSCI EM weight decomposition by market – Taiwan and Korea overtaking China and India in EM index

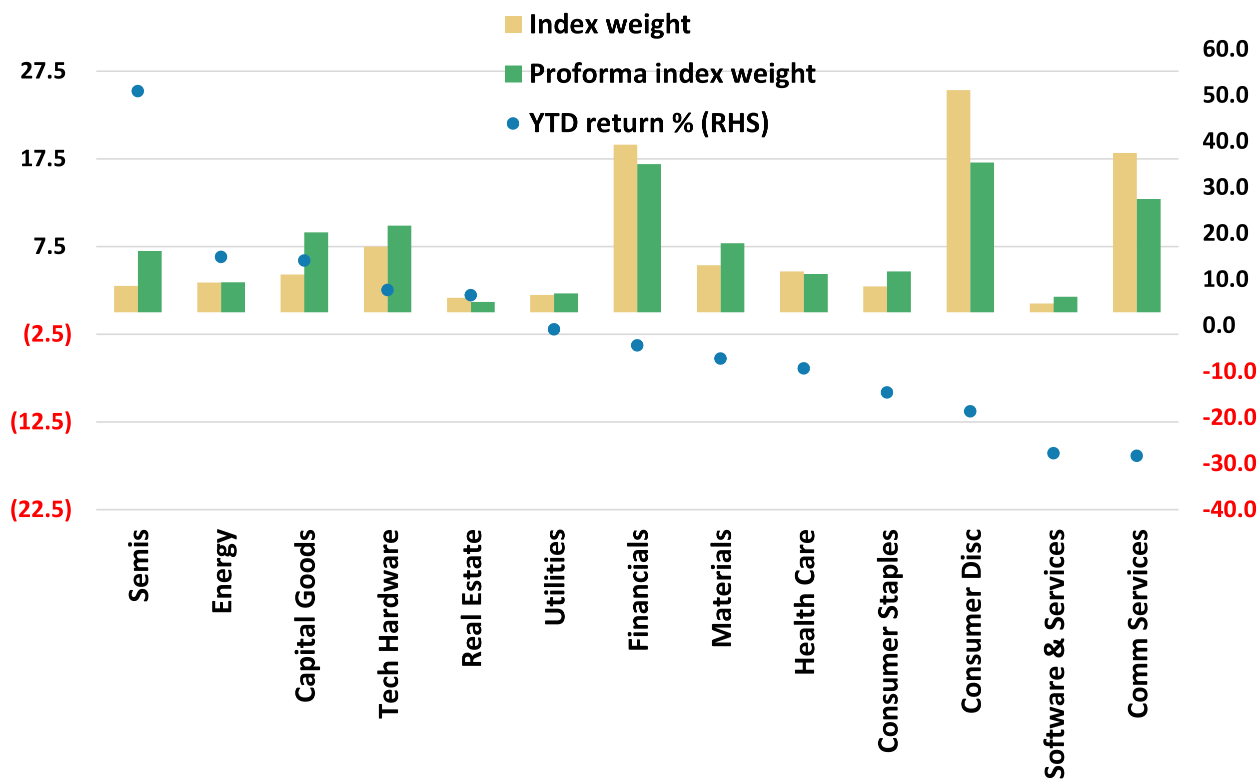


APxJ/EM Market Allocation – We recommend being equal-weight MSCI China; overweight Japan, Singapore, Brazil, and Saudi Arabia

	MSCI Indices	Japan	China	Hong Kong	Taiwan	Korea	India	Australia	Singapore	Malaysia	Thailand	Indonesia	Philippines	Brazil	Mexico	South Africa	Saudi Arabia	UAE	MSCI EM	MSCI APxJ	USA	Europe
MS Rating	vs Asia/EM	OW	EW	EW	EW	EW	EW	EW	OW	EW	EW	UW	UW	OW	EW	EW	OW	EW	EW	-	-	-
Index Weight	% of APAC-EM	25.8%	13.5%	2.2%	15.9%	13.8%	7.0%	7.2%	1.9%	0.7%	0.6%	0.4%	0.2%	2.6%	1.1%	1.9%	1.6%	0.7%	12.1% (ACWI)	12.2% (ACWI)	63.6% (ACWI)	13.8% (ACWI)
Earnings Revisions & Growth	CY2 EPS Rev Breadth (3ma)	17%	-7%	-7%	51%	20%	-9%	-7%	1%	2%	5%	-17%	-12%	-2%	-18%	-5%	-4%	-14%	-1%	-1%	17%	0%
	3m Δ of 12mf EPS	3%	0%	0%	12%	56%	1%	2%	1%	2%	5%	-4%	-1%	9%	1%	3%	3%	-1%	18%	18%	7%	6%
	12mf EPS growth	9%	15%	11%	32%	92%	15%	9%	9%	10%	8%	4%	5%	21%	11%	29%	12%	5%	36%	37%	20%	14%
ROE	Level	9.5%	10.9%	7.3%	17.2%	11.1%	14.0%	12.8%	11.6%	10.2%	11.1%	14.4%	14.8%	18.8%	15.7%	18.2%	14.0%	18.2%	13.1%	11.9%	20.1%	14.1%
	10yr %'ile	67%	30%	56%	79%	87%	45%	68%	84%	86%	62%	43%	97%	69%	98%	97%	92%	91%	91%	84%	96%	98%
12mf PE	Level	17.2x	10.8x	14.5x	22.1x	8.2x	20.6x	17.5x	15.8x	14.2x	18.2x	9.1x	9.8x	8.2x	12.9x	8.6x	13.8x	8.7x	12.0x	13.1x	21.7x	14.8x
	10yr %'ile	93%	32%	51%	99%	9%	51%	70%	93%	40%	87%	1%	3%	40%	43%	6%	1%	8%	39%	31%	73%	64%
P/Book	Level	2.0x	1.5x	1.2x	5.8x	3.5x	3.5x	2.5x	2.0x	1.6x	2.2x	1.7x	1.6x	1.9x	2.5x	2.4x	2.2x	1.7x	2.6x	2.6x	5.9x	2.5x
	10yr %'ile	98%	27%	59%	99%	99%	58%	89%	93%	57%	95%	1%	6%	64%	89%	83%	56%	74%	99%	99%	99%	98%
P/Sales	Level	1.6x	1.4x	2.7x	3.6x	2.9x	2.4x	2.4x	2.9x	2.2x	1.4x	1.7x	1.9x	1.1x	1.2x	1.8x	3.1x	2.3x	2.1x	2.4x	3.6x	1.7x
	10yr %'ile	98%	59%	60%	99%	99%	65%	78%	93%	40%	87%	1%	12%	45%	74%	57%	24%	13%	99%	99%	99%	99%
Div Yield	Level	1.9%	2.2%	3.5%	1.5%	0.9%	1.2%	3.4%	3.5%	3.9%	3.2%	6.1%	3.5%	5.3%	3.7%	3.3%	3.7%	5.0%	2.1%	2.0%	1.1%	2.9%
	10yr %'ile	3%	57%	68%	1%	1%	40%	15%	23%	68%	80%	98%	98%	54%	77%	64%	70%	70%	9%	7%	1%	23%
Technicals	30 day RSI	58	40	43	71	75	52	37	50	52	57	15	45	22	48	42	27	40	67	67	72	53
	50/200d MA	8%	-6%	5%	24%	43%	-4%	0%	0%	3%	13%	-16%	-1%	9%	6%	2%	2%	-5%	10%	9%	3%	3%
Rel. Pos.	vs MSCI EM	NA	-0.3%	0.1%	-1.2%	1.0%	-1.2%	-1.0%	-0.1%	-0.4%	0.1%	0.3%	0.0%	2.3%	0.7%	-0.4%	-1.0%	NA	NA	NA	NA	NA
Perf.	Since Feb 28	-2%	-8%	-7%	24%	34%	-7%	-6%	-1%	-3%	-3%	-33%	-16%	-7%	-4%	-16%	2%	-15%	7%	7%	10%	-3%
	3m	-2%	-8%	-7%	24%	34%	-7%	-6%	-1%	-3%	-3%	-33%	-16%	-7%	-4%	-16%	2%	-15%	7%	7%	10%	-3%
	YTD	13%	-10%	6%	56%	109%	-11%	8%	3%	3%	23%	-37%	-5%	13%	13%	0%	6%	-7%	23%	23%	10%	5%

Data as of May 28, 2026.

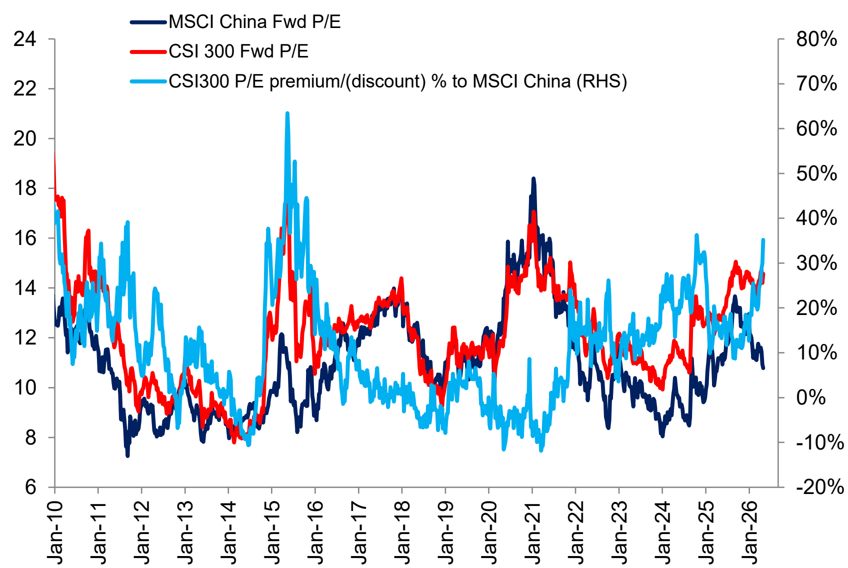
Underneath the lackluster performance – A more thematic, growth-focused, and better-performing market masked by the index composition



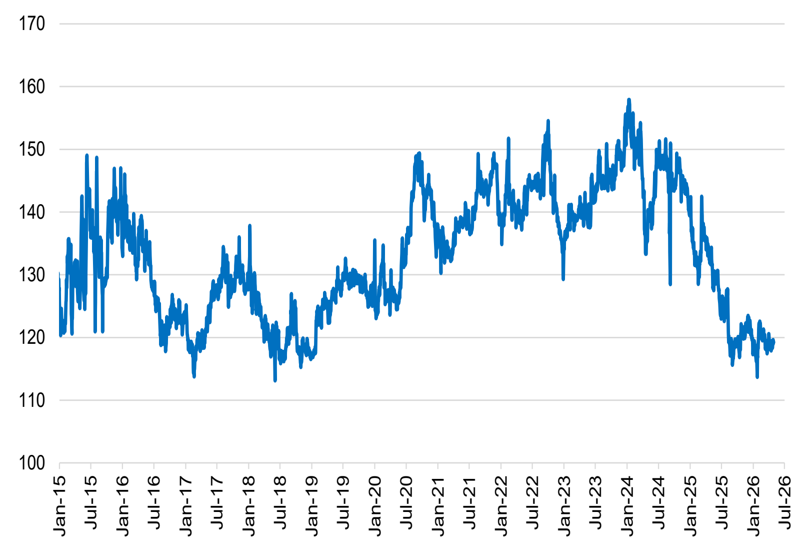
28, 2026.

CSI 300 trades at 14.6x forward P/E, ~35% valuation premium to MSCI China

Valuation of CSI 300 absolute and relative to MSCI China

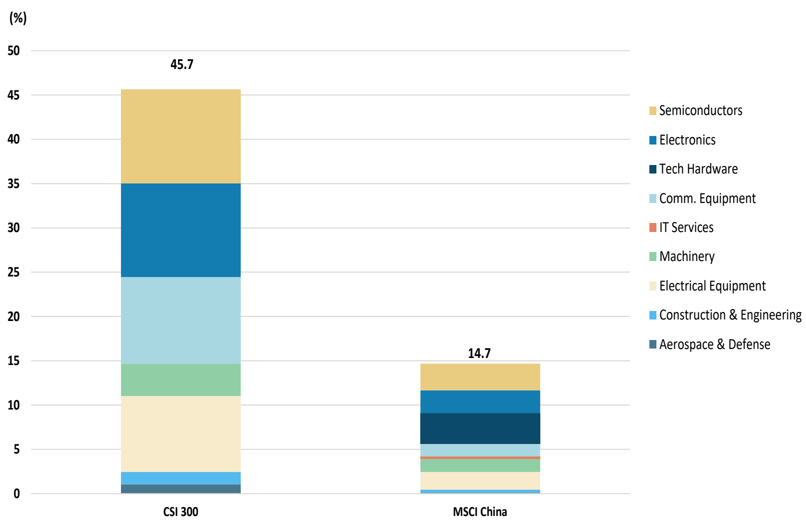


Hang Seng A-H Premium index

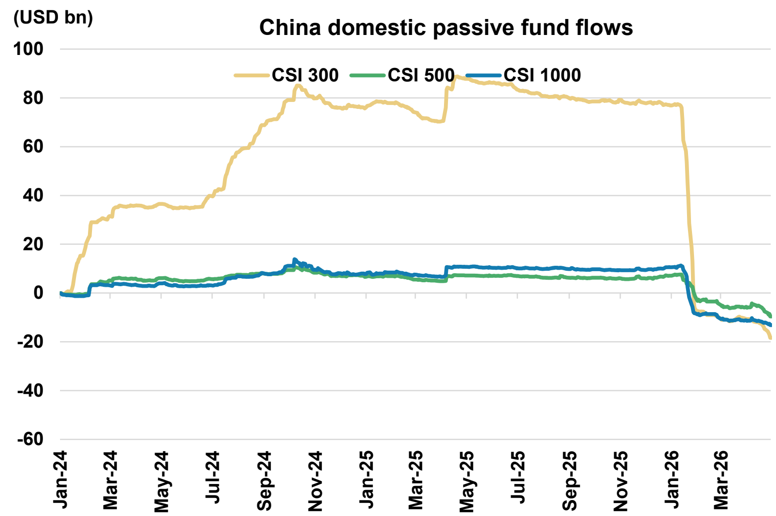


We stay OW on A-shares vs. offshore China – Bigger concentration in high-end upstream and deep tech space, while National Team stands by with deep pocket

Bigger concentration in high-end manufacturing and hard-tech companies in onshore China

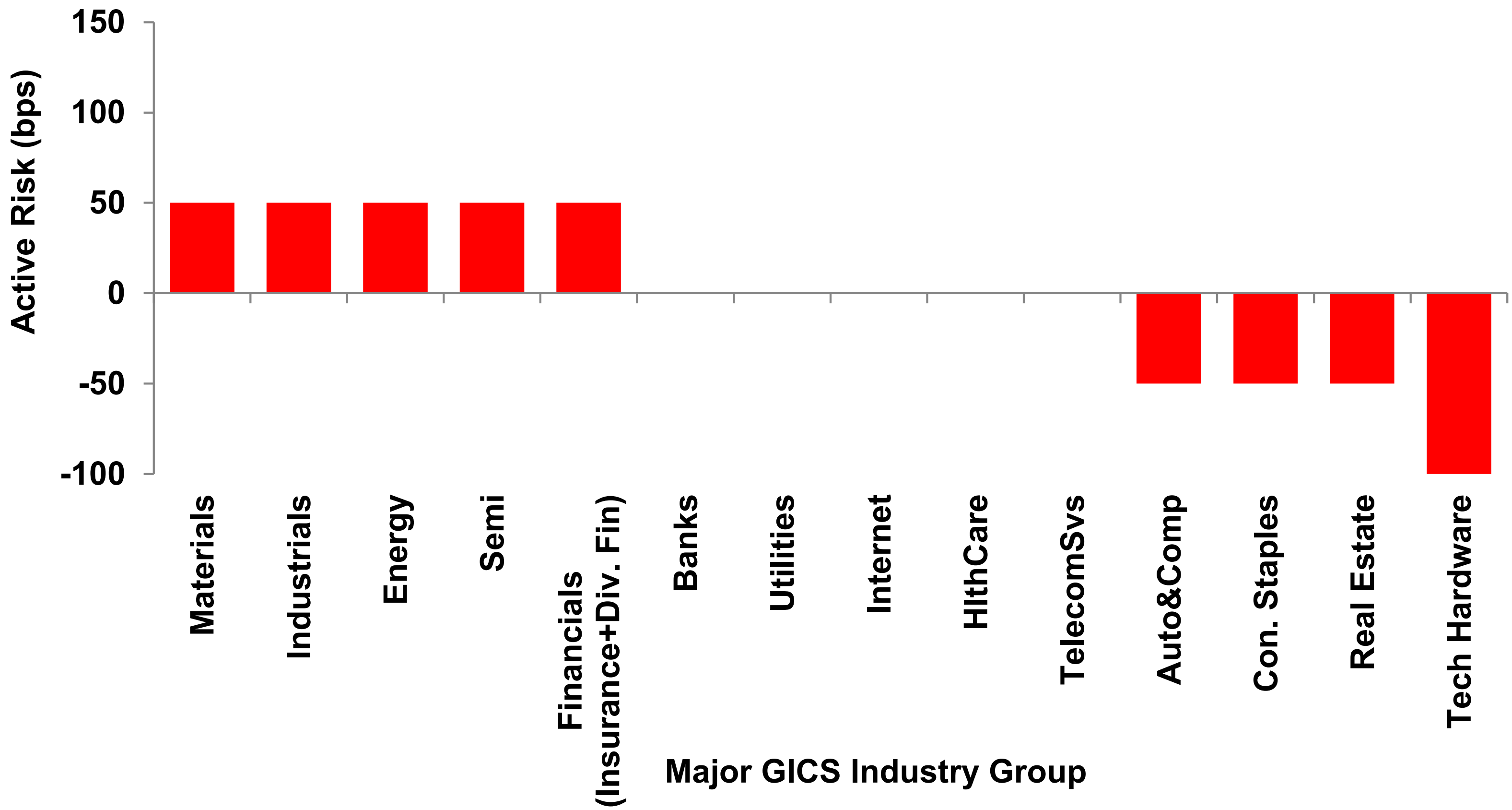


National team retains significant dry powder after selling ~US$116bn in Jan-May 2026



1	Index targets
2	Market allocation preference
3	Sector allocation preference
4	China's long-term investibility

MS China top-down sector allocation for China market – We strongly prefer upstream sectors positioned to benefit from AI/Energy capex supercycle



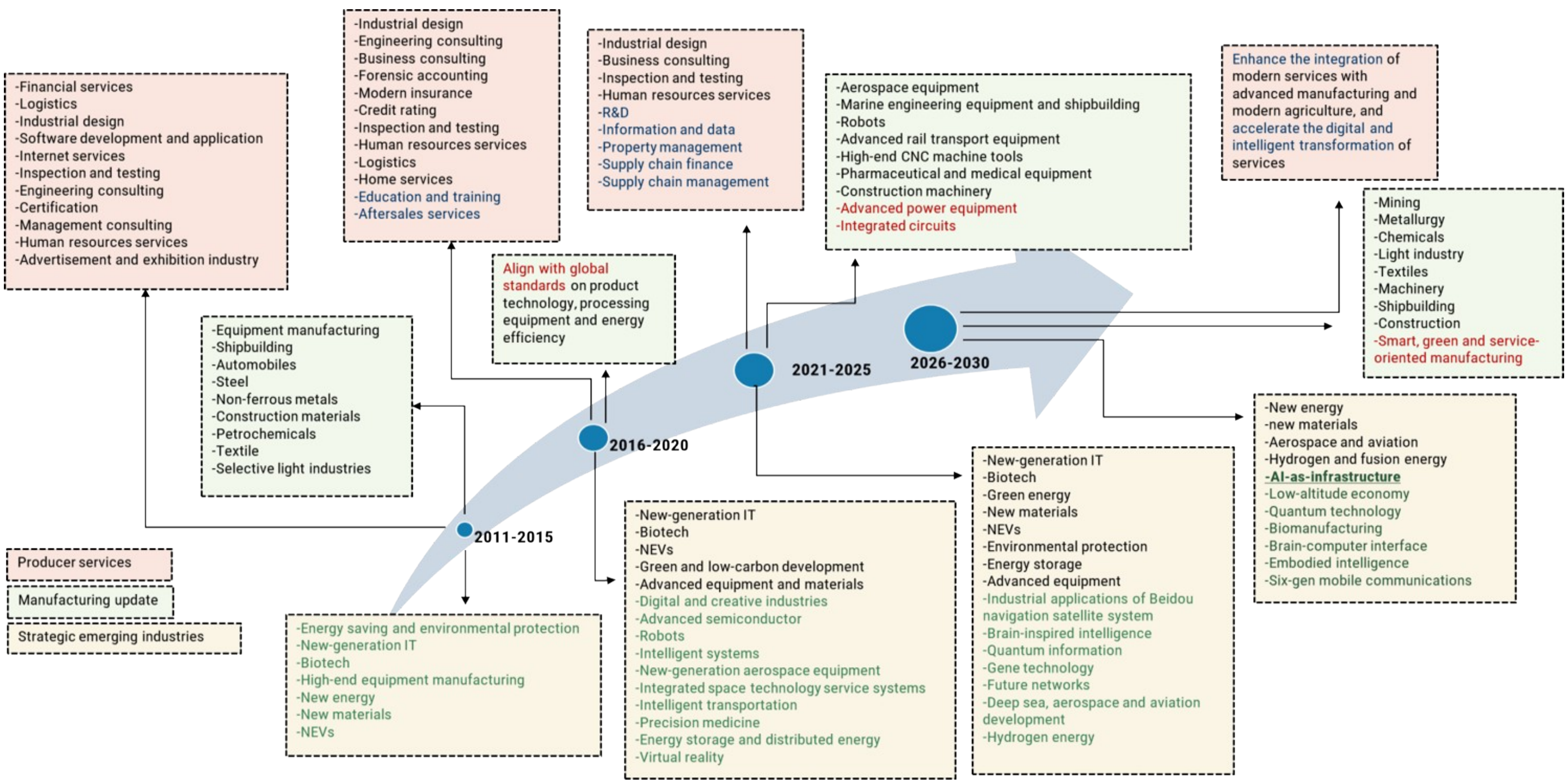
1 Index targets

2 Market allocation preference

3 Sector allocation preference

4 China's long-term investibility

China has implemented a systemic framework on industrial upgrade and innovation

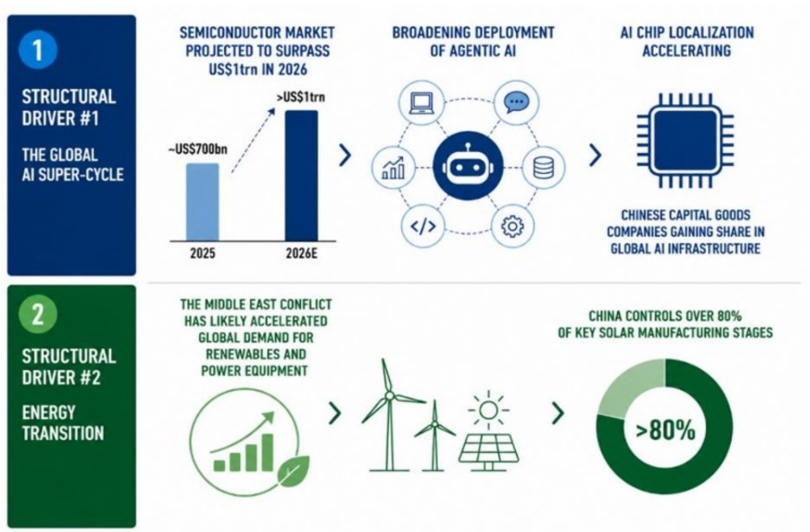


Evolution of recent Five-Year Plans – A clear focus on quality growth and tech innovation

	2011-2015	2016-2020	2021-2025	2026-2030
Growth: From Quantity to Quality				
Real GDP	CAGR: 7%	CAGR: >6.5%	Specific Target Dropped	
Core Driver: Technology Innovation				
R&D Spending	CAGR: 12%	CAGR: 10.3%	CAGR: >7.0%	CAGR: >7.0%
Sustainability: Green Transition				
CO_2 Emissions/GDP	Cumulative Decline: 17%	Cumulative Decline: 18%	Cumulative Decline: 18%	Cumulative Decline: 17%

Exports continue to anchor cyclical growth, positioning China's electronics and renewable supply chains as direct beneficiaries

Two structural drivers for export growth



China's deep electronics and renewable supply chains will be direct beneficiary