China/Hong Kong Monthly Wrap

May 2026: AI narrative holds, breadth narrows

Equity Macro Research

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Risk appetite softened in May across China and HK equities, with offshore markets under pressure, while onshore continued to outperform. MSCI China / MSCI HK / HSI / HSCEI declined -3.4% / -2.2% / -2.3% / -3.0%, while CSI300/500/1000 rose +2.7% / +1.0% /+1.3%, in USD terms. **The market remained firmly anchored by the AI narrative**, though the leadership became increasingly narrow and concentrated. Strong earnings revision momentum across US and regional tech—particularly in memory, AI servers, and chips —alongside domestic advancements (e.g., Huawei's "Tau Law", DeepSeek V4 launch, and local AI chip adoption), underpinned sustained outperformance in AI infra names. In contrast, **platform internet struggled to gain traction**, with sentiment capped by uncertain AI monetization, mixed 1Q26 earnings (esp. e-commerce and ads), and intense competition within the ecosystem (fast delivery, LLMs). Beyond tech, the market failed to see the **anticipated liquidity spillover into broader cyclicals**, as softening domestic activity and lackluster earnings delivery weighed on investor confidence. That said, the property market has shown early signs of stabilization—with firmer secondary home prices and a surge in secondary transaction volumes in tier-1 cities—but the recovery remains partial and uneven, with consensus still centered on a K-shaped stabilization rather than a full-cycle rebound. **Macro**: April domestic activity surprised on the downside across credit, FAI, retail sales and IP. By contrast, exports continued to outperform domestic demand, but gains have been concentrated in high-end value-added manufacturing, rather than the broad-based, volume-driven tailwind seen previously. The Trump-Xi summit (May 14-15) delivered a constructive strategic framing, but no joint statement has been released, and no large-scale, concrete trade agreements were announced. **Valuation & consensus estimates**: By month-end, MXCN traded at 10.7x FTM P/E (-0.5SD vs 10-yr mean), with IBES consensus estimating 14%/15% EPS growth y-y for 2026/27. MXHK traded at 14.3 FTM P/E (-0.2SD vs 10-yr mean) with IBES consensus estimating 16%/5% EPS growth y-y for 2026/27. HK equity short sale ratio eased to 15.8% in May vs 16.8% in April.

MXCN: AI exuberance sustained; property rose on early green shoots. The top-3 performing MXCN sectors were IT (+14.4%), Real Estate (+5.0%) and Utilities (+2.4%), while Materials (-8.4%), Consumer Discretionary (-7.7%), and Energy (-7.7%) lagged the most. 1) **IT: AI leadership intact.** Outperformers were concentrated in AI-adjacent supply chain winners, led by AI server (Lenovo +105%), PCB (Shengyi +84%), OSAT (JCET +80%), MLCC (Three-Circle Group +50%) and memory (GigaDevicee +49%). 2) **Real Estate** saw early green shoots from secondary sales volume growth in top-tier cities, with rising hopes towards a reflection point to occur this year. Higher-quality developers (COLI, CRL) led the move. 3) **Utilities** were mainly driven by Datang Power (+107%) on its power-computing synergy project (the 1st nationwide), the Mengsu UHV project, and falling coal prices.

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Earnings tracker: Further into 1Q26 results, 82% of MXCN index market cap had reported by end-May, with a beat/miss ratio of 34%/62%. The reported universe recorded growth of -7.8% in EPS y-y, led by Materials (+82%), Healthcare (+28%) and IT (+17%), but lagged by Discretionary (-56%), Staples (-12%), and Utilities (-10%). IBES consensus is calling for MXCN's FY26 EPS growth to rebound to 14.2% in FY26 from -3.4% in FY25. The upgrade cycle is centered on three main inflection points: **Discretionary** turning on reduced price wars among quick commerce platforms (26E:+36%y-y vs 25: -37%), **Real Estate** bottoming out from its cyclical trough (26E:+17% vs 25: -24%), and **Staples** recovering amid reflation (26E: +19% vs 25: -13%). The baked-in assumptions are continued macro growth in the expansion zone, stabilizing physical property and consumption.

MXHK: tightened cross-border capital regulation weighed on sentiment. Within MXHK, Industrials (+3.2%) led, while Discretionary (-5.8%) and Staples (-5.0%) lagged. **1) HK property**: JPM's Karl Chan raised HK's residential price forecast for 2026 growth from 5-7% to 10-15% y-y, and another 5% y-y in 2027. Implied inventory months (based on 12M rolling sales) fell to 9 months (4Q25: 10.9M), the lowest level since 4Q21. The secondary home price rose another 1.5% in May. **2) HK financials:** Introduced on May 22, the tightened cross-border capital controls raise growth concerns for HK financials. However, JPM's assessment showed the fundamental impact is likely to be limited. 3) **HK retail sales** came in stronger than expected in March, rising 9.8%y-y or 0.3%m-m. 4) **MXHK's FTM EPS** has risen by 3.8% YTD, with consensus 2026 EPS growth calling for 16% y-y. **2026 outlook:** Our base case end-2026 target for MXHK stands at16,500, representing 13% potential upside. Top picks: SHKP is considered the best proxy for the HK housing market, with earnings growth likely to be revised up to MSD% amid the housing market upcycle; Tectronic offers AI-adjacent upside optionality and resilient US demand (link).

Figure 1: Indices and sectors' USD returns over the past month (%)

Benchmarks		MXCN sectors		MXHK sectors	
MSCI China	(3.4)	Information Technology	14.4	Industrials	3.2
MSCI HK	(2.2)	Real Estate	5.0	Real Estate	(2.4)
HSI	(2.3)	Utilities	2.4	Utilities	(2.6)
HSTECH	0.2	Industrials	0.5	Financials	(3.4)
HSCEI	(3.0)	Financials	(3.0)	Communication Services	(4.7)
		Communication Services	(5.7)	Consumer Staples	(5.0)
		Health Care	(6.4)	Consumer Discretionary	(5.8)
		Consumer Staples	(7.4)		
		Energy	(7.7)		
		Consumer Discretionary	(7.7)		
		Materials	(8.4)		

Source: Bloomberg Finance L.P., J.P. Morgan. Note: Past performance is not an indicator of future results

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JPM's China & Hong Kong QMIs

Based on the framework of JPM's Quantitative Macro Indicator (QMI), we introduced the China and Hong Kong QMI to monitor innate macro strength. Figure 2 and Figure 4 exhibit the visible correlations between the QMI and MSCI China & HK y-y returns. Through the lens of the business cycle, HK QMI eased to Slowdown in April, while China remained solid in Expansion.

Connect flows, turnover and short sales

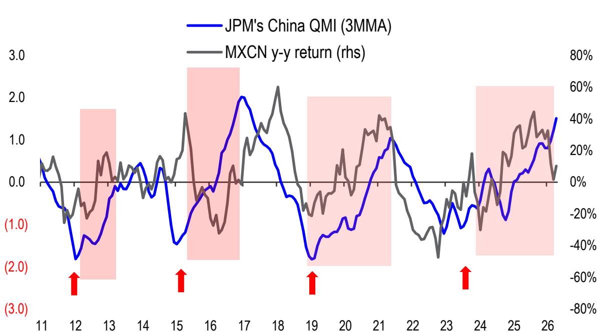
Stock Connect: Southbound recorded HK$4bn net outflows in May (vs HK$57bn net inflows in Apr), accounting for ~22% of HK turnover (15% since 2023). SB's share of HK turnover rose from 6% in 2018 to 6%/9%/12%/12%/15%/18%/24% over 2019/2020/2021/2022/2023/2024/2025, respectively (Figure 8).

Ranked by the dollar amount of monthly SB net flows, IT, Energy, and Financials were the top three, while Materials, Health Care, and Discretionary were the bottom three.

Daily average turnover of Hong Kong was HK$250bn in May (Apr: HK$254bn) vs A-shares at Rmb3,206bn (Apr: Rmb2,360bn).

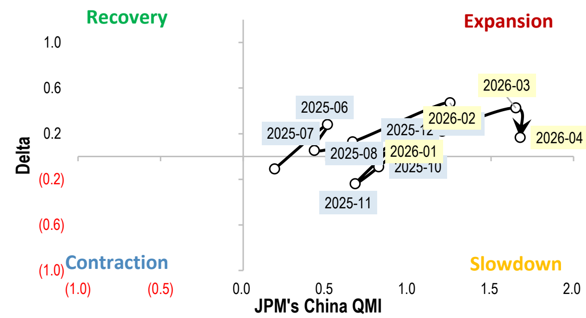
Equity short sale ratio eased to 15.9% in May vs 16.8% in Apr (+0.6SD vs average of 14.5% since 2014).

Figure 2: JPM's China QMI vs. MXCN y-y return



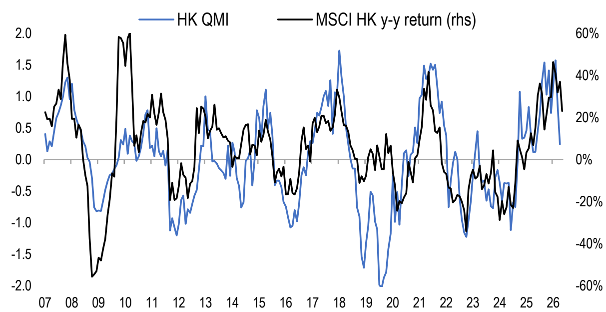
Source: Wind, J.P. Morgan

Figure 3: Monthly business cycle based on China QMI



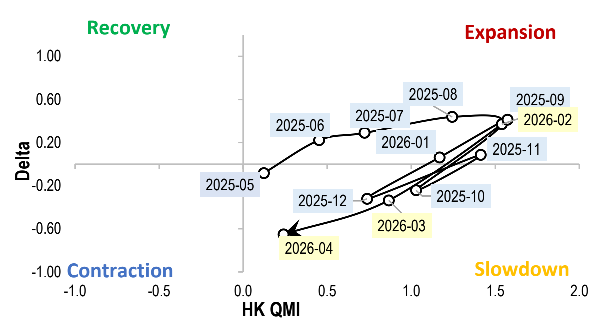
Source: Wind, J.P. Morgan

Figure 4: JPM's HK QMI vs MSCI HK y-y return



Source: Wind, J.P. Morgan.

Figure 5: Monthly business cycle based on the HK QMI



Source: Wind, J.P. Morgan.

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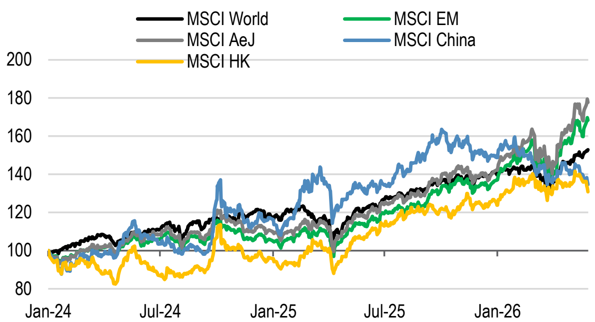
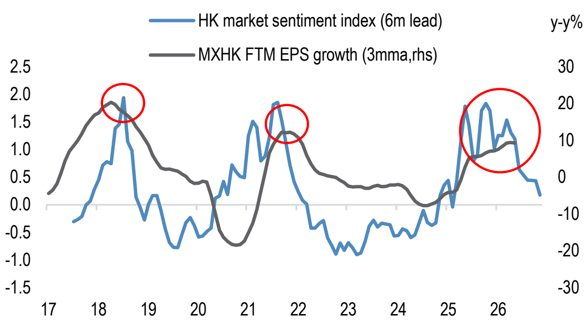
Figure 6: Indices' performance since 2024

1/1/2014=100



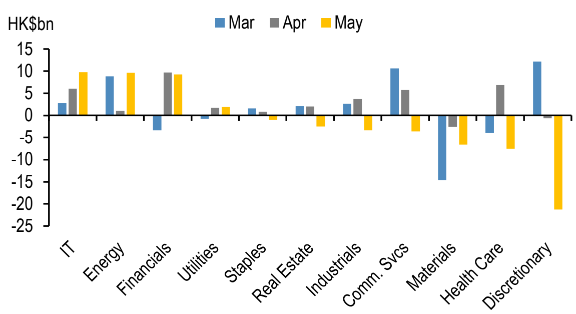
Source: Eikon, J.P. Morgan. Note: Past performance is not an indicator of future results

Figure 7: JPM's HK Market Sentiment Index as a leading indicator for MXHK's EPS momentum



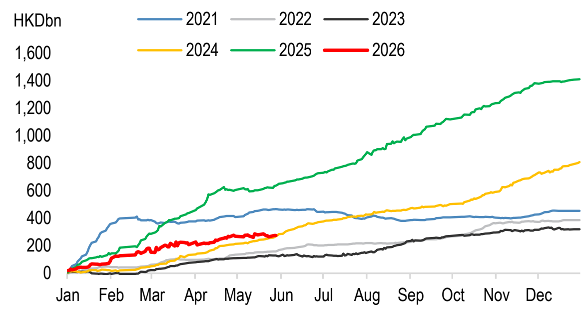
Source: MSCI, Wind, J.P. Morgan.

Figure 8: Southbound net inflows by sector



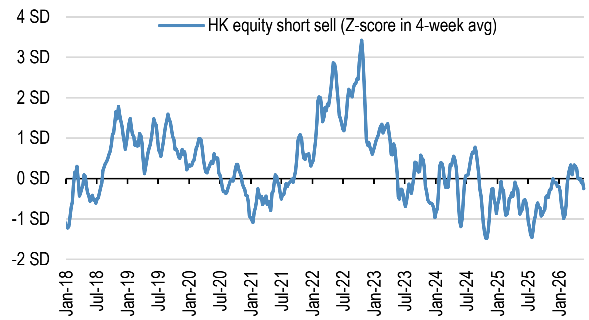
Source: Wind, J.P. Morgan.

Figure 9: Southbound net inflow per year



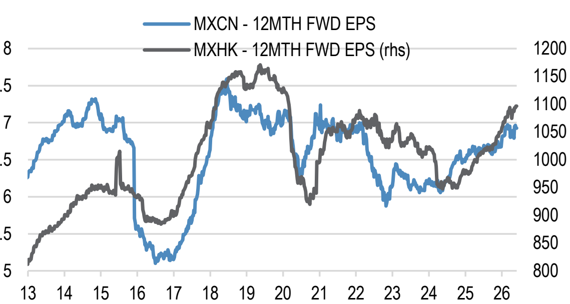
Source: Wind, J.P. Morgan

Figure 10: HK equity short sell ratio



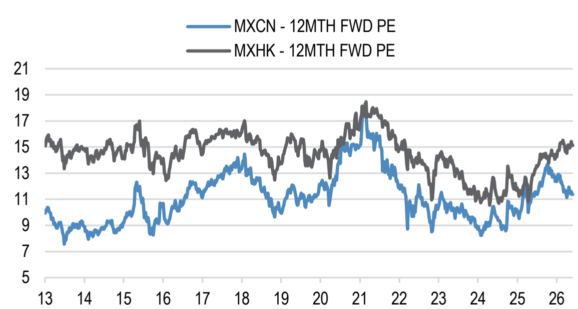
Source: Wind, J.P. Morgan

Figure 11: MSCI China and HK: 12M forward EPS



Source: IBES, J.P. Morgan.

Figure 12: MSCI China and HK: 12M forward P/E



Source: IBES, J.P. Morgan.

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Hong Kong economic review

- **Exports** surprised to the upside, rising 42.9%oya (JPM forecast: 30.5%; consensus: 31.0%), echoing the strength in regional tech trade. Seasonally adjusted, exports rose for the eighth consecutive month, up 5.0%m/m sa, lifting the trend pace to 82.7%3m/3m saar. Imports rose another 2.6%m/m sa on top of the 9.5% gain in March, pushing the annual rate to a multi-year high at 44.4%oya. April's trade deficit narrowed sharply to HK$29.5bn, or 0.9% of 2025 nominal GDP (vs 2.7% in March), on stronger-than-expected exports.
- **Unemployment rate** held steady at 3.7% sa in April, the same as last month and in line with our expectations. Both employment and the labor force shrank marginally. The under-employment rate improved, ticking down to 1.5%. Performance by sector was mixed. The construction unemployment rate ticked down by 0.4%pt, marking the third consecutive decline after reaching a recent peak of 7.3%.
- **CPI** stayed unchanged at 1.7%oya in April, slightly below our expectations (JPM: 1.8%; consensus: 1.9%). Seasonally adjusted, headline CPI posted a sixth consecutive gain, rising 0.3%m/m sa. Excluding the impact of government one-off relief measures, underlying CPI rose 1.6%oya or 0.26%m/m sa.
- **Retail sales** came in stronger than expected in March, rising 9.8%oya or 0.3%m/m sa, despite a fading lift from LNY seasonality. The three consecutive sequential gains at the start of the year have lifted the trend pace up to 6.7%3m/3m saar from -2.0% in February, pointing to signs of a further demand recovery. In value terms, sales moderated to a still strong 12.7%oya, or -1.0%m/m sa after a 5.2% spike in February. Retail unit value increased 2.7%oya, as value increased by more than volume, likely reflecting the outperformance of high unit-value products, i.e. auto, jewelry and luxury goods. For 1Q as a whole, retail sales volume accelerated to 9.8%oya (vs 4.9% in 4Q25), and value grew12.1% (vs 6.7% in 4Q25), the highest in around two years.

Figure 13: Hong Kong economic indicator forecasts

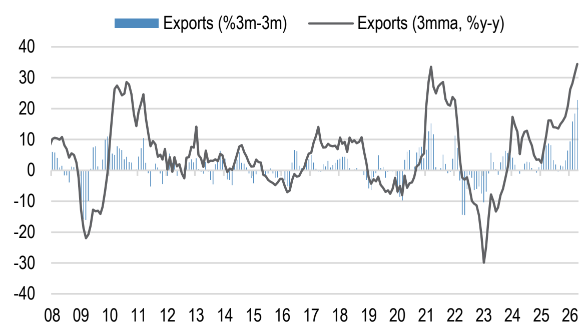
%

Hong Kong: economic indicators	Average 2019-23	2024	2025f	2026f	2027f
Real GDP, % change	-0.6	2.6	3.5	3.3	2.9
Consumption[1]	0.2	0.0	1.3	2.5	1.9
Investment[1]	-0.9	0.5	2.5	0.6	0.7
Net trade[1]	0.1	2.1	-0.3	0.3	0.3
Consumer prices, %oya	1.7	1.7	1.4	1.6	1.6
% Dec/Dec	1.7	1.4	1.4	1.7	1.4
Government balance, % of GDP	-3.1	-2.7	-2.0	-0.6	-1.0
Merchandise trade balance (US$bn)	-7.8	-2.0	1.1	1.2	-0.9
Exports	589.7	631.1	675.7	689.3	708.6
Imports	597.5	633.1	674.6	688.0	709.5
Current account balance	31.6	52.5	54.7	50.1	46.0
% of GDP	8.7	12.9	12.7	11.0	9.6
International reserves, (US$ bn)	456	421	426	428	421

1. Contribution to growth of GDP.

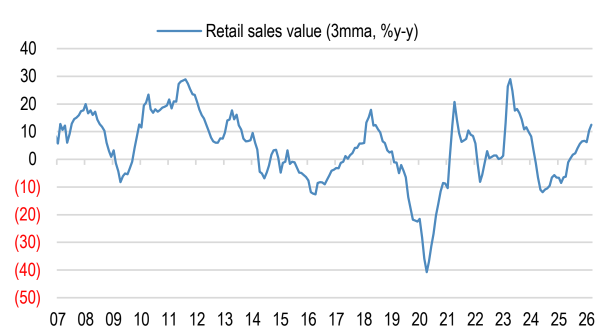
Source: Hong Kong C&SD, J.P. Morgan.

Figure 14: Hong Kong's merchandise trade



Source: Hong Kong C&SD, J.P. Morgan.

Figure 15: Hong Kong retail sales value



Source: HK C&SD, J.P. Morgan.

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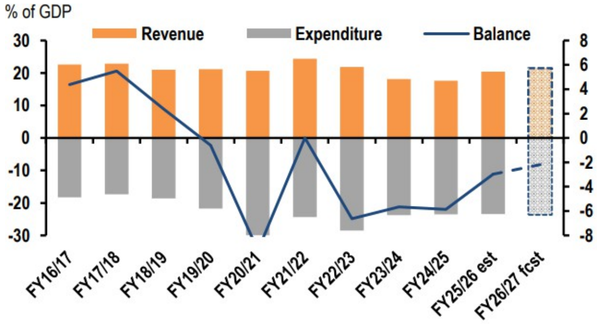
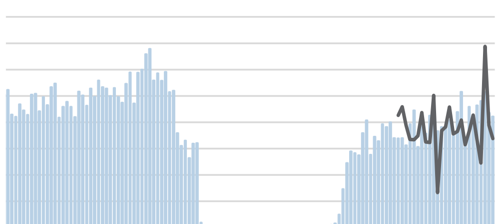
Figure 16: Hong Kong fiscal balance



Source: HK Government, J.P. Morgan.

Figure 17: Hong Kong's inbound tourists



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Companies Discussed in This Report (all prices in this report as of market close on 29 May 2026, unless otherwise indicated)
Sun Hung Kai Properties (0016)(0016.HK/HK$131.70/OW), Techtronic Industries (0669)(0669.HK/HK$116.30/OW)

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Sun Hung Kai Properties (0016) (0016.HK, 16 HK) Price Chart

Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Jan 16, 2000. All share prices are as of market close on the previous business day.

Date	Rating	Price (HK$)	Price Target (HK$)
24-Oct-23	N	81.50	80
29-Feb-24	N	78.00	72
30-Jul-24	N	69.90	68
06-Sep-24	N	75.15	70
01-Apr-25	N	73.90	73
15-Jul-25	N	89.40	92
21-Jan-26	N	110.20	109
22-Feb-26	OW	135.70	162

Techtronic Industries (0669) (0669.HK, 669 HK) Price Chart

Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Jan 25, 2006. All share prices are as of market close on the previous business day.

Date	Rating	Price (HK$)	Price Target (HK$)
10-Aug-23	N	95.15	88
26-Oct-23	OW	70.35	80
15-Nov-23	OW	74.00	96
09-Jan-24	OW	85.15	107
07-Mar-24	OW	92.25	120
09-Apr-24	OW	105.90	126
07-Aug-24	OW	91.55	135
05-Mar-25	OW	112.10	138
16-May-25	OW	91.60	126
14-Jul-25	OW	88.15	127
07-Aug-25	OW	95.20	129
30-Aug-25	OW	100.40	135
28-Nov-25	OW	90.00	136
25-Feb-26	OW	123.40	154
04-Mar-26	OW	123.50	162
06-May-26	OW	110.70	176

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