China Quant Strategy

Calm Surface, Violent Undercurrents

APAC Quantitative Strategy

Evan Hu [AC]
(852) 2800-8508
evan.hu@jpmorgan.com
J.P. Morgan Securities (Asia Pacific) Limited/ J.P. Morgan Broking (Hong Kong) Limited

Robert Smith, PhD [AC]
(61-2) 9003-8808
robert.z.smith@jpmorgan.com
J.P. Morgan Securities Australia Limited

Arpan Singh
(91-22) 6157-3301
arpan.singh@jpmchase.com
J.P. Morgan India Private Limited

Chris Chi
chris.chi@jpmorgan.com
J.P. Morgan Securities Australia Limited

Global Head of Quant Strategy

Khuram Chaudhry
(44-20) 7134-6297
khuram.chaudhry@jpmorgan.com
J.P. Morgan Securities plc

MSCI China's headline realized volatility sits at the 29th percentile of its 10-year range (17% annualized vs. 22% avg) - the index looks calm. But beneath the surface, **cross-sectional volatility has surged to the 98th percentile** (16% vs. 10% avg). Individual stocks are diverging from each other at nearly the widest spread in a decade.

This divergence of low index vol vs. extreme stock-level vol signals a **collapse in intra-stock correlation**. The market appears not moving as individual stock moves are canceling each other out, not because nothing is happening (obviously).

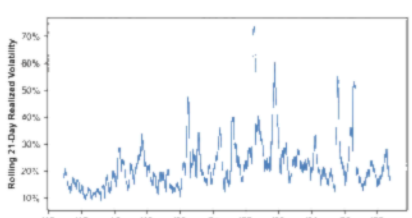
The return dispersion is not only extremely large but also highly asymmetric. The distribution of stock returns in May was **highly right-skewed** (skewness = 2.56). The median stock fell 3.6%, but a handful of outsized winners pulled the mean to just -0.6%. Data on market participation and extremes breadth also show that most stocks declined, but the winners won big (Figure 1, 3, 4).

Who are the winners? A factor perspective is through the *size*: large caps are dominating. The large vs. small cap return spread was +6.1% in May, nearly the highest level in the last two years (Figure 2).

Our Multifactor Blend benefited directly from this dispersion regime. In May, the **long book returned +3.0%** while MSCI China fell 3.0%. With the shorts down 4.2%, the long/short combination delivered +7.2% on the month. With dispersion at decade-wide levels, a handful of stocks did most of the work. On the long side in particular, two outliers were responsible for the bulk of the alpha: Datang International Power (+109%) and Lenovo (+105%), followed by a cluster of A-share semis (Giga Device +51%, Suzhou TFC +49%, Montage Tech +47%).

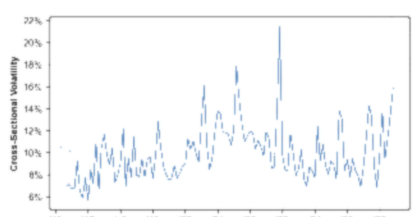
To position for June, the Blend adds to the longs the H-shares of **China Construction Bank** and **ICBC**, alongside several A-share regional banks and IT supply-chain names (**Suzhou Dongshan**, **Shengyi Tech**, **Shenzhen Longsys**), etc.; it cuts some consumer/internet names (**JD.com**, **Midea**, **Pop Mart**) and parts of the commodity/cyclical bucket (**Shaanxi Coal**, **China Hongqiao**, **Qinghai Salt Lake**, **COSCO Shipping**), etc. See inside sections for more details.

MSCI China Realized Vol



Source: J.P. Morgan; MSCI, FactSet; As of May 31

MSCI China Cross-Sectional Vol

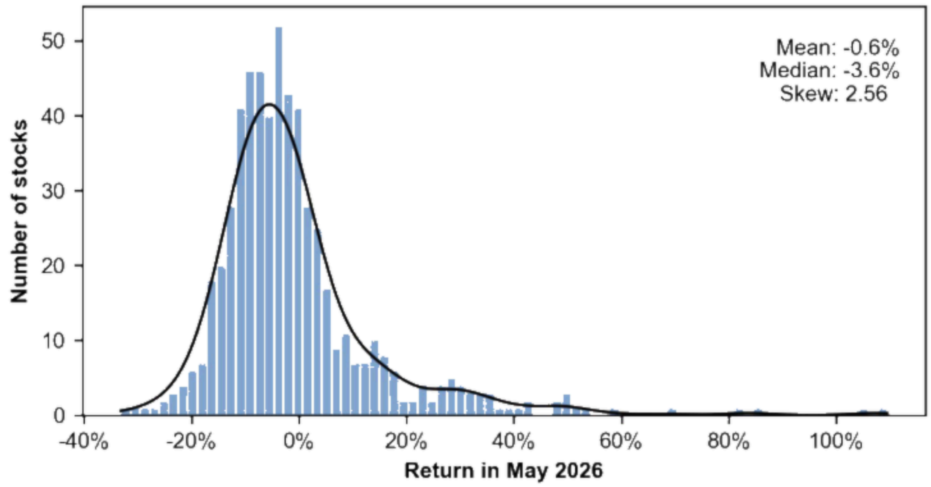


Source: J.P. Morgan; MSCI, FactSet; As of May 31

See page 6 for analyst certification and important disclosures.

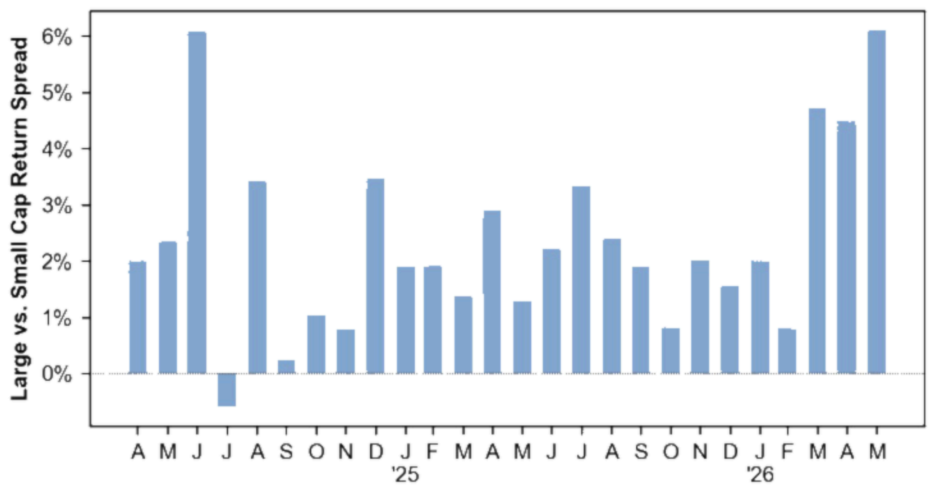
Evan Hu AC
(852) 2800-8508
evan.hu@jpmorgan.com

Figure 1: MSCI China Monthly Return Distribution of May



Source: J.P. Morgan; MSCI, FactSet

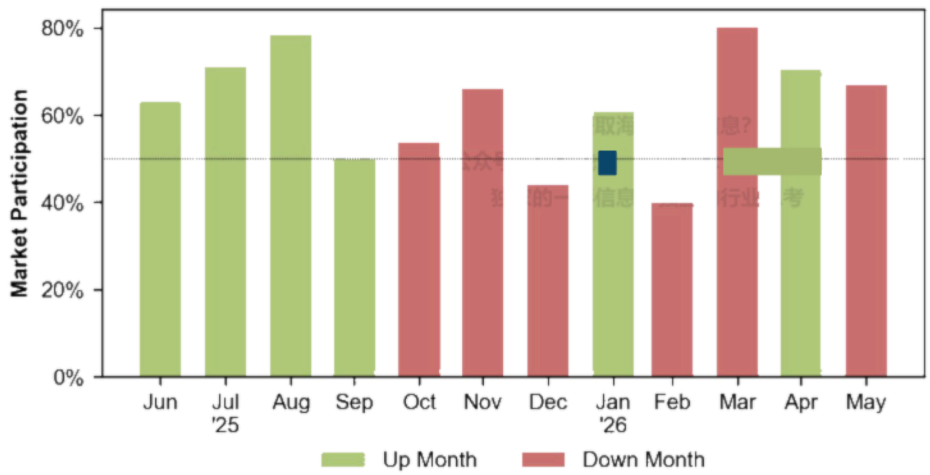
Figure 2: Large vs. Small Cap Return Spread



Source: J.P. Morgan; MSCI, FactSet; Large = top 50% by free float market cap.

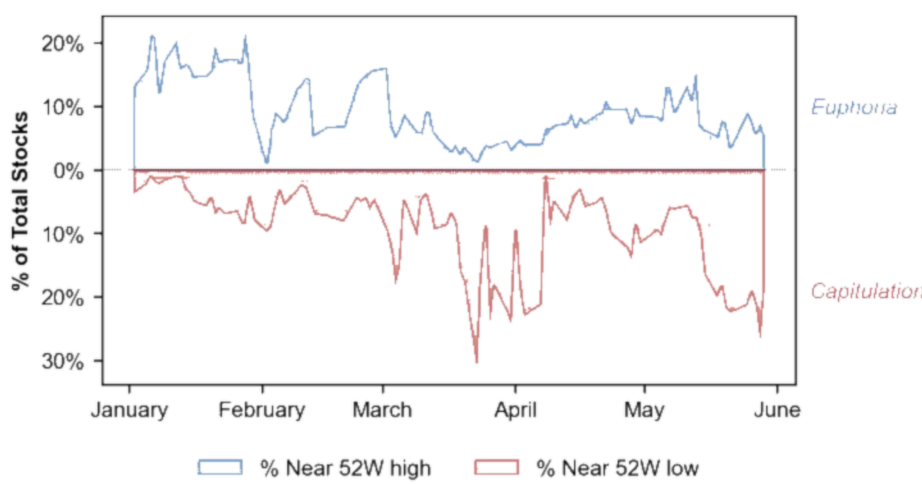
Evan Hu AC
(852) 2800-8508
evan.hu@jpmorgan.com

Figure 3: Stocks Matching the Direction of the Market



Source: J.P. Morgan; MSCI, FactSet

Figure 4: Stocks Near 52-Week Extremes



Source: J.P. Morgan; MSCI, FactSet

Evan Hu AC
(852) 2800-8508
evan.hu@jpmorgan.com

Figure 5: Multifactor Blend: Long-Only vs. Market

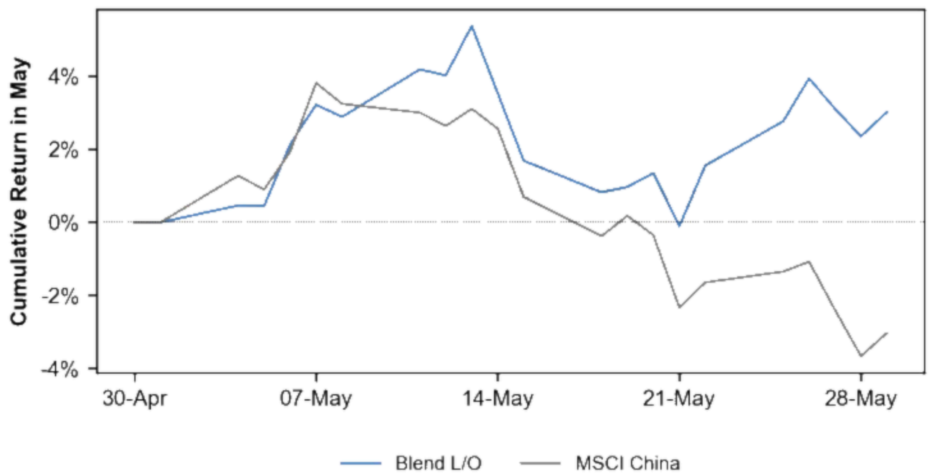
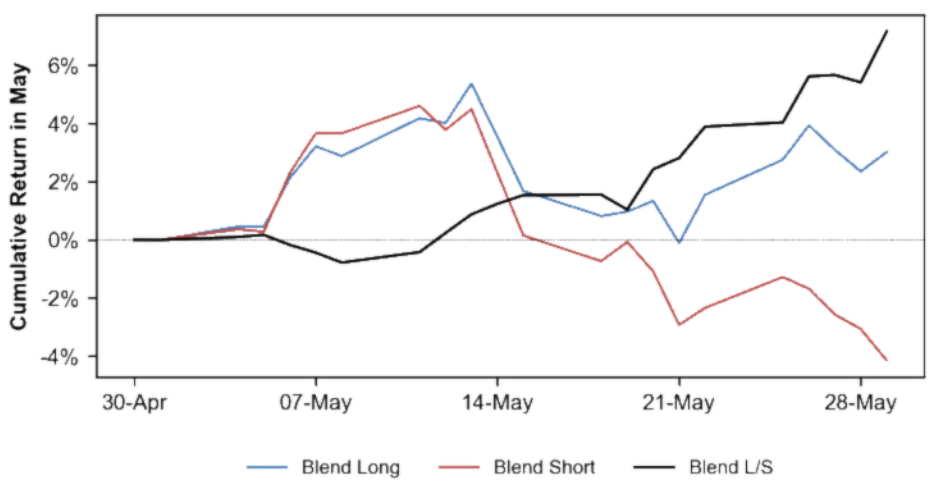


Figure 6: Multifactor Blend: Long/Short



Evan Hu AC
(852) 2800-8508
evan.hu@jpmorgan.com

Table 1: Multifactor Blend: Long Positions for June

Top Longs				
SEDOL	**Company**	**Sector**	**Rank**	**1M Return**
BD5CG58	ZHEJIANG CENTURY A(HK-C)	Comm Svcs	15	-7.7%
BD6QVW1	GIANT NETWORK A (HK-C)	Comm Svcs	20	-19.8%
6531827	GEELY AUTOMOBILE HLDGS	Cons Disc	23	-17.9%
BN4MKV3	NEW ORIENTAL EDUCATION	Cons Disc	49	-12.3%
B4MGD82	TAL EDUCATION GROUP ADR	Cons Disc	26	-12.7%
BZ04KX9	YADEA GROUP HOLDINGS	Cons Disc	25	-6.4%
BP3R2D9	SAIC MOTOR CORP A (HK-C)	Cons Disc	33	-9.7%
BP3R4T9	HUAYU AUTO SYS A (HK-C)	Cons Disc	36	-9.6%
BMGWW30	NONGFU SPRING CO H	Cons Staples	32	-6.1%
B01B1L9	CHINA MENGNIU DAIRY CO	Cons Staples	39	-2.3%
BD5CMC7	YANTAI JEREH OIL A(HK-C)	Energy	14	3.5%
B0LMTQ3	CHINA CONSTRUCTION BK H	Financials	38	-3.3%
B1G1QD8	ICBC H	Financials	47	-3.0%
6718976	CHINA LIFE INSURANCE H	Financials	48	0.9%
B2Q5H56	CHINA PACIFIC INS GRP H	Financials	57	-7.7%
B1W0JF2	CHINA CITIC BANK H	Financials	44	-8.6%
B5730Z1	NEW CHINA LIFE INS H	Financials	19	-5.4%
6264048	CHINA TAIPING INSURANCE	Financials	3	-10.9%
BD5CN46	HITHINK ROYAL A (HK-C)	Financials	6	-2.1%
BGHH0L6	WUXI APPTEC CO H	Health Care	22	-3.0%
BY9D3L9	3SBIO	Health Care	9	-20.1%
B3ZVDV0	SINOPHARM GROUP CO H	Health Care	8	-8.4%
BHWLWV4	WUXI APPTEC A (HK-C)	Health Care	17	-4.9%
BP3R4Z5	SHANGHAI PHARMA A (HK-C)	Health Care	29	-2.6%
6218089	LENOVO GROUP	IT	31	105.4%
BSBND71	YANGTZE OPTICAL FIBRE H	IT	51	14.1%
BFFJRM7	ZHONGJI INNO A(HK-C)	IT	4	36.7%
BG20N99	FOXCONN INDL A (HK-C)	IT	35	17.9%
B1YBT08	SUNNY OPTICAL TECH	IT	46	31.5%
BNHPMD5	CAMBRICON TECH A (HK-C)	IT	13	16.0%
BD761B9	EOPTOLINK TECH A (HK-C)	IT	1	35.7%
BD5CF28	SUZHOU DONGSHAN A (HK-C)	IT	53	15.2%
BL5P4J3	SUZHOU TFC A (HK-C)	IT	21	49.5%
B29SHS5	BYD ELECTRONIC INTL	IT	16	10.2%
BD76164	VICTORY GIANT A (HK-C)	IT	10	13.3%
BD5C7Z5	WUS PRINTED A (HK-C)	IT	54	30.6%
BNHSQK9	SHENZHEN LONGSYS A(HK-C)	IT	59	38.8%
BPXYTJ5	YUANJIE SEMICON A (HK-C)	IT	2	5.6%
BQWRJD6	SHENGYI ELECTS A (HK-C)	IT	5	27.2%
BD5CLB9	INSPUR ELECTRS A (HK-C)	IT	30	-6.4%
BD5CP28	TCL TECHNOLOGY A (HK-C)	IT	18	1.2%
BD5CGD6	WUHAN GUIDE INF A (HK-C)	IT	56	-12.4%
BD5CNJ1	ZHEJIANG DAHUA A (HK-C)	IT	55	-7.0%
BK71BV3	SHANGHAI BOCHU A (HK-C)	IT	40	16.0%
BFCCR07	YEALINK NETWORK A (HK-C)	IT	42	3.5%
BT9QPW8	CONTEMPORARY H	Industrials	50	22.4%
BHQPSY7	CONTEMPORARY AMP A(HK-C)	Industrials	45	-1.8%
BP91NG5	NINGBO DEYE TECH A(HK-C)	Industrials	11	9.7%
BP3R5T6	YUTONG BUS CO A (HK-C)	Industrials	27	-2.3%
B60FNV8	CHINA GOLD INTL RES (CN)	Materials	7	-9.3%
BSD3B20	ZIJIN GOLD INTL	Materials	58	-14.0%
BQ3RQ45	ZANGGE MINING A (HK-C)	Materials	60	-12.7%
BP3R585	ZHONGJIN GOLD A (HK-C)	Materials	34	-12.8%
BSY22K1	SHANDONG HONGQIA A(HK-C)	Materials	12	-13.8%
BZ0D1S8	CHIFENG JILONG A (HK-C)	Materials	37	-10.5%
BMXWXT6	CHINA RESOURCES MIXC	Real Estate	41	-11.2%
6099671	HUANENG POWER INTL H	Utilities	52	16.3%
6340078	KUNLUN ENERGY	Utilities	43	-5.1%
6913168	GUANGDONG INVESTMENT	Utilities	24	2.0%
6081690	BEIJING ENTERPRISES HLDG	Utilities	28	-0.6%

Source: J.P. Morgan; MSCI, FactSet, I/B/E/S, Bloomberg Finance L.P.; As of May 31

Table 2: Multifactor Blend: Short Positions for June

Top Shorts				
SEDOL	**Company**	**Sector**	**Rank**	**1M Return**
BD5CN13	KUNLUN TECH CO A (HK-C)	Comm Svcs	16	-9.2%
BGJW376	MEITUAN B	Cons Disc	13	-11.8%
BP6FB33	XPENG (HK)	Cons Disc	33	4.6%
BMW5M00	LI AUTO (HK)	Cons Disc	42	-14.4%
BJLFLB4	BAIC BLUEPARK A (HK-C)	Cons Disc	47	-13.2%
BP3R477	GUANGZHOU AUTO A (HK-C)	Cons Disc	11	-12.8%
BD5CQP8	CCOOP GROUP A (HK-C)	Cons Disc	15	0.4%
BD5CPF1	JIANGSU YANGHE A (HK-C)	Cons Staples	12	-6.9%
BP3R5Q3	YONGHUI SUPERST A (HK-C)	Cons Staples	4	-2.7%
BP3R5S5	YANKUANG ENERGY A (HK-C)	Energy	54	-3.7%
BP3R682	SHANXI LUAN ENV A (HK-C)	Energy	46	0.0%
BD5CKB2	SHANXI COKING A(HK-C)	Energy	40	-2.3%
BD8P9J9	BANK OF SHANGHAI A(HK-C)	Financials	59	-2.8%
BZ0D003	ORIENT SEC CO A (HK-C)	Financials	48	0.6%
BD6QTV6	CNPC CAPITAL A (HK-C)	Financials	29	-16.6%
BK96BF0	CHINA ZHESHANG A (HK-C)	Financials	60	2.0%
BFB4KN8	ZHESHANG SEC A (HK-C)	Financials	26	-3.2%
BYYFJ78	SDIC CAPITAL CO A (HK-C)	Financials	52	-3.1%
BP3R6Z9	SOOCHOW SEC A (HK-C)	Financials	56	-1.5%
BFY9KS5	CAITONG SEC A (HK-C)	Financials	43	-4.2%
BK94886	TIANFENG SEC A(HK-C)	Financials	35	-5.5%
BD5CNY6	GUOYUAN SEC CO A (HK-C)	Financials	30	-2.1%
BLFJ7Y1	AKESO (CN)	Health Care	49	-13.1%
BP3R7Z6	ZHANGZHOU PIENTZ A(HK-C)	Health Care	51	-9.7%
BD5LWT1	HEBEI CHANGSHAN A (HK-C)	Health Care	9	0.7%
BL61WD0	CSPC INNOVATION A (HK-C)	Health Care	38	-11.0%
BMXTWX4	BEIJING WANTAI A (HK-C)	Health Care	2	-11.0%
BD5CJY8	CHONGQING ZHIFEI A(HK-C)	Health Care	1	-9.4%
BD5CDB3	CHANGCHUN HIGH A (HK-C)	Health Care	36	-12.4%
BS5YNY7	HORIZON ROBOTICS B	IT	58	-27.1%
B28XTR4	GCL TECHNOLOGY HOLDINGS	IT	8	-7.8%
BMDJ6Q5	PONY AI	IT	32	6.5%
BNR4NR3	NATIONAL SILICON A(HK-C)	IT	19	35.7%
BP3R3R0	SANAN OPTOELEC A (HK-C)	IT	25	15.5%
BD5M1Y2	ZHEJIANG JINGSH A (HK-C)	IT	57	20.7%
BP3RCK6	TONGWEI CO A (HK-C)	IT	7	-14.2%
BK4XS11	MAXSCEND A (HK-C)	IT	21	9.6%
BNHPM68	JINKO SOLAR A (HK-C)	IT	10	-11.0%
BNRLFT0	XINJIANG DAQO A (HK-C)	IT	18	-11.7%
BD5CMT4	TCL ZHONGHUAN A (HK-C)	IT	5	13.7%
BD5CM72	GUANGZHOU HAIGE A (HK-C)	IT	37	-0.3%
BP3R6C6	YONYOU NETWORK A (HK-C)	IT	23	-10.4%
BNHPNF4	EVERDISPLAY OPTR A(HK-C)	IT	22	5.0%
BMVB500	JA SOLAR TECH A (HK-C)	IT	31	-15.4%
BK4PZC7	WINGTECH TECH A (HK-C)	IT	20	-25.8%
BP3R518	AECC AVIATION A (HK-C)	Industrials	53	-9.4%
BNHPGJ9	ROBOTECHNIK INT A (HK-C)	Industrials	24	33.9%
BP3R4G6	AIR CHINA A (HK-C)	Industrials	28	2.2%
BP3R5X0	CHINA EAST AIR A (HK-C)	Industrials	27	2.6%
BP3R6G0	CHINA STH AIRL A (HK-C)	Industrials	55	2.5%
BP3R4K0	METALLURGICAL A (HK-C)	Industrials	44	-2.5%
BP3R488	INNER MONGOL BAO A(HK-C)	Materials	41	-11.8%
BP3R5D0	SHANDONG GOLD A (HK-C)	Materials	50	-15.2%
BFB4KH2	BAIYIN NONFER A (HK-C)	Materials	14	-17.0%
BFYQH85	HOSHINE SILICON A (HK-C)	Materials	6	-13.8%
BD5LS71	LB GROUP CO A (HK-C)	Materials	34	-14.6%
BD5CPW8	CHINA VANKE CO A (HK-C)	Real Estate	3	-8.3%
BP91P36	CHINA THREE GOR A (HK-C)	Utilities	17	2.9%
BP3R9L6	SHANGHAI ELECT A (HK-C)	Utilities	45	32.3%
BP3R1P4	WINTIME ENERGY A (HK-C)	Utilities	39	3.8%

Source: J.P. Morgan; MSCI, FactSet, I/B/E/S, Bloomberg Finance L.P.; As of May 31