

China Equity Strategy

Crowding and unwinding: Logic, features, current status and outlook

Equity Strategy

China

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The logic behind and three noteworthy features of crowding and unwinding

We view crowding as the result of asset managers' views, rather than an underlying cause. Significant upticks in a sector or theme's fundamentals or macro narratives attract sustained incremental inflow from certain types of funds, and rising share prices lead to notable excess returns on related fund products, thus attracting more investors off the sidelines and creating a self-reinforcing positive feedback loop of crowding (Figure 3). Reviewing the four rounds of crowding and unwinding in the A-share market since 2013, we summarise three features: 1) Crowding typically relies on distinctive sector and macro narratives, and tends to unwind amid substantial shifts in fundamentals or narratives. 2) Crowding is usually driven by sustained incremental inflow from a distinct investor base, and unwinds when this flow decelerates or reverses. 3) Historically, sector/thematic crowding typically has lasted for three years.

A-share tech crowding likely yet to peak in magnitude/duration

Amid a [slow bull](#) scenario (see [H226E A-share outlook](#)), we see growth tech style upside in magnitude/duration: 1) The AI-driven global tech wave is still unfolding around the globe. UBS's global equity strategy team highlights the strong profitability of global tech giants and sees no significant deviation of their valuations from the historical average relative to the broader market. 2) China is pursuing technological self-reliance. 3) In terms of incremental inflow, there is sustained inflow into tech from margin financing, ETFs and hedge funds with higher risk appetite (see [Gauging market styles: Incremental fund inflow perspective](#)). 4) In terms of the timeline, tech growth style outperformance since the 24 Sept 2024 policy pivot has lasted less than two years, much shorter than the historical average duration of specific themes. 5) Mutual funds' current overweight ratio in the greater tech sector is also far behind that of the consumer sector in 2019. However, the tech sector's liquidity is subject to the Fed's policy, the progress of major global tech companies' IPOs, as well as China's inflation and consumer recovery.

How to understand short-term trading crowdedness

We think investors can track the short-term trading crowdedness of the tech sector with these three technical indicators: 1) the weekly turnover of the greater tech sector as a percentage of the A-share market; 2) the greater tech sector's rolling four-week incremental balance of margin financing; and 3) turnover of the top 1%/5% and top 10 stocks (by turnover) as a percentage of all A-shares. In terms of the overview, in the short term, increased trading crowdedness may cause market consolidation, although in the medium term, the growth style outperformance trend is unchanged.

Our preferred UBS-S covered stocks exposed to technology-related themes

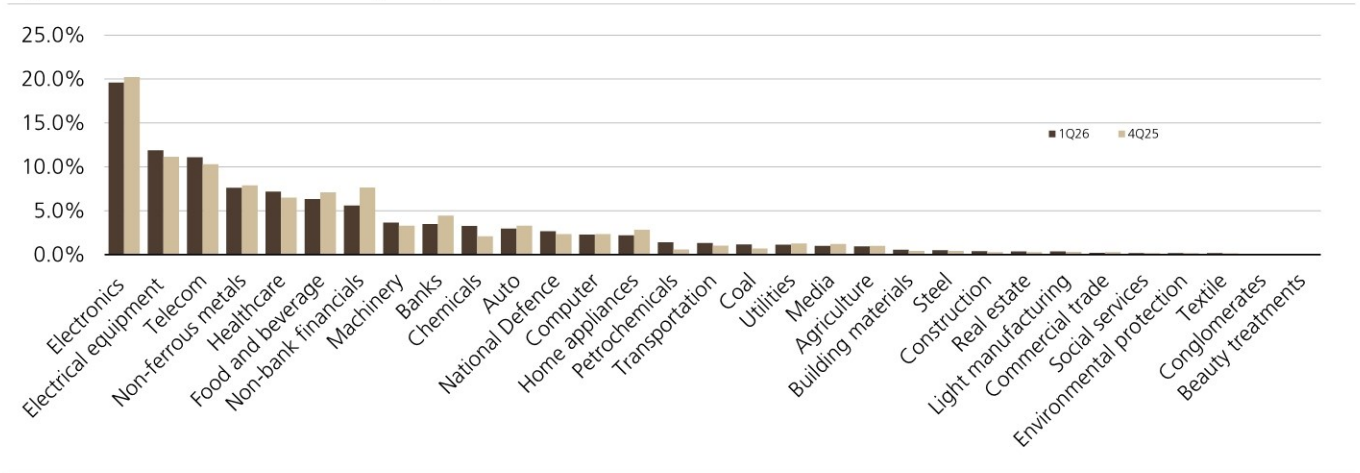
Stock code	Name	Rating	Mkt cap (Rmb 100mn)	Last price (Rmb)	Price Target (Rmb)	Upside	Avg. daily t/o (RMB 100mn)	EPS growth 2026E	EPS growth 2027E	PE 2026E	PB 2026E
002371.SZ	NAURA Technology	Buy	4,872	672.19	800.00	19%	65.22	23%	71%	71.85	11.08
300274.SZ	Sungrow	Buy	3,161	152.49	182.00	19%	120.66	13%	22%	20.82	5.26
688012.SS	AMEC	Buy	2,976	319.00	403.00	26%	67.00	73%	70%	80.82	11.26
300124.SZ	Inovance	Buy	1,902	70.24	86.00	22%	27.66	14%	25%	32.82	4.78
688396.SS	CR Micro	Buy	953	71.75	83.40	16%	18.98	92%	54%	75.08	3.94
601231.SS	Universal Scientific	Buy	880	36.85	51.50	40%	20.20	19%	41%	36.40	3.96
600460.SS	Silan Micro	Buy	637	38.28	46.20	21%	21.05	129%	49%	69.93	5.00
603659.SS	Putailai New Energy	Buy	635	29.68	43.00	45%	19.92	51%	28%	17.81	2.70
002850.SZ	Kedali	Buy	558	203.05	268.00	32%	11.91	40%	38%	22.63	3.68
002472.SZ	Shuanghuan	Buy	360	42.31	53.00	25%	10.81	16%	21%	24.47	3.13

Source: Wind, UBS-S estimates. Note: Data as of 16 June 2026.

From crowding to unwinding: What is position crowdedness?

We view crowding as the result of asset managers expressing their views, rather than the underlying cause. In our view, improving sector fundamentals or macro narratives, rather than lower institutional positions, are the prerequisites for investors to favour a sector. If a sector has strong growth prospects, the concentration of institutional positions can rise rapidly in a short period. While extremely high or record overweight ratios may suggest limited share price upside, that does not necessarily signify an inflection of a sector's short-term moves. Once fundamentals improve, sectors with historically low institutional positions may also have strong rebounds. We think crowdedness generally moves in tandem with sector valuation. We track domestic mutual funds' sector allocations in the A-share market quarterly (see [note](#)).

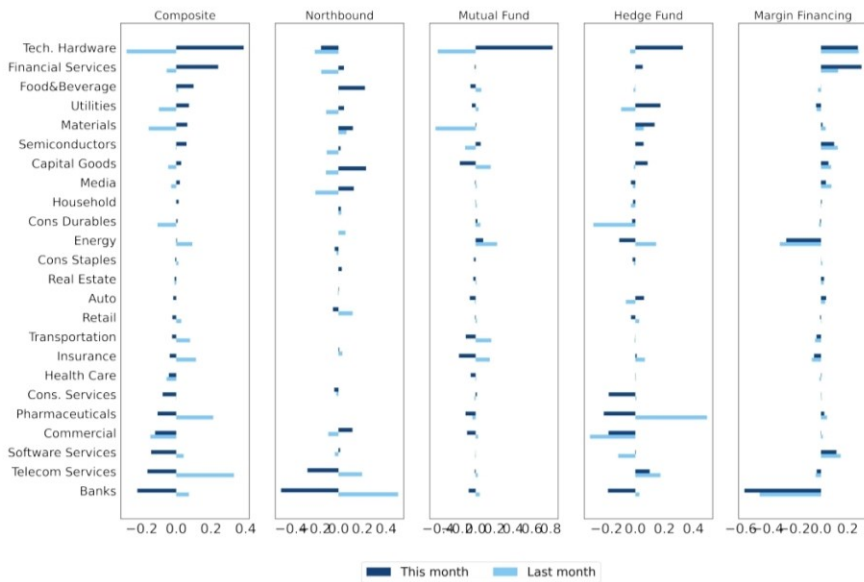
Figure 1: Mutual fund sector weightings



Source: Wind, UBS-S estimates

Also, UBS-S's quant research team collects data on positions and capital flow of various domestic and overseas investors to track market participants' allocations, crowdedness and sector preferences. Specifically, the team estimates sector allocations of hedge funds based on their NAV changes, tracks changes in the balances of margin financing and securities lending to reflect the risk appetite and trading sentiment of leveraged funds, and leverages northbound trading data to estimate daily positions of northbound investors and calculate crowdedness scores based on mutual fund investors with global allocations. For the latest data, please contact UBS-S's quant research team.

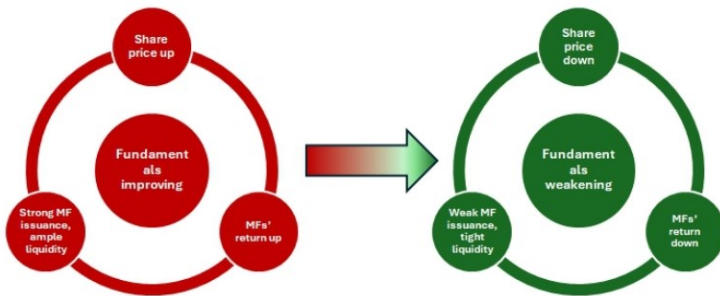
Figure 2: UBS-S quant research team's crowdedness scores across sectors



Source: DataYes, FactSet, Wind, UBS-S quant research. Note: Data as of March 2026.

No matter how strong a sector's fundamentals are, its earnings growth acceleration cannot be sustained for an extended period. Sooner or later, either fundamentals or macro narratives moderate marginally or even reverse, thus triggering the unwinding of crowded trades. As deteriorating sector fundamentals lead to stock pullbacks, returns and excess returns on funds and asset management products investing in such sectors retreat sharply, resulting in stalled new fund issuance. Net capital outflow from related sectors and themes further depresses share prices, creating a self-reinforcing negative feedback loop. Figure 4 illustrates the process of capital crowding and unwinding.

Figure 3: Sector and thematic crowding and unwinding



Source: UBS-S

Crowding and unwinding historically: Three noticeable features

In our [Gauging market styles: Incremental fund inflow perspective](#) note, we recapped the investment theses of five rounds of long-lasting style shifts from the perspective of incremental capital inflow from 2014 to date. Apart from the ongoing fifth investment wave, the four historical rounds of market style shifts have corresponded precisely to the four cases of crowding to unwinding.

We summarised three features from these four rounds of crowding to unwinding: 1) Crowding typically relies on distinctive sector and macro narratives, and tends to unwind amid substantial shifts in fundamentals or macro narratives. 2) Crowding is usually driven by sustained incremental inflow from a distinct investor base, and unwinds when this flow decelerates or reverses. 3) Historical sector/thematic crowding typically follows a three-year cycle.



Feature 1: Crowding typically relies on distinctive sector and macro narratives, and tends to unwind amid substantial shifts in fundamentals or macro narratives

Round 1 (2013-15): This round of crowding began with the continued upward earnings revisions and stellar stock performance of ChiNext. The ChiNext Index gained 82.7% in 2013, while the Wind All-China A Index gained only 5.4%. Some A-share listcos deeply rooted in Apple's supply chain led the tech sector gain, driven by earnings and narratives. The Internet+ initiative unveiled during the Two Sessions in 2015 made internet-related investments a trend, with earnings growth of internet-related sectors (eg, computers and media) significantly outgrowing that of A-share non-financials.

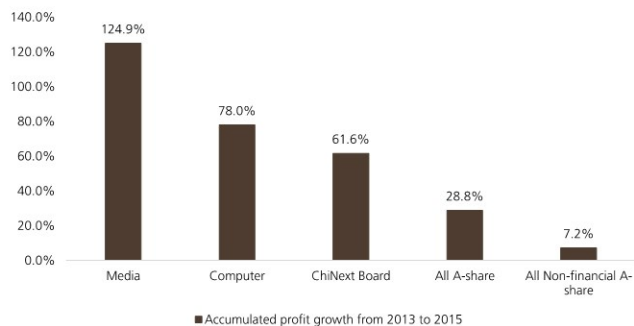
Unwinding of this round of crowding began in mid-2015, when regulators cleared out non-compliant leveraged funds. Meanwhile, massive private placements were frequently in the headlines in the previously overheated market. A total of 890 listcos announced private placement plans in 2015, and 586 of them completed private placements, topping Rmb1,217.4bn – a record. In early 2016, regulators tightened approval of cross-sector private placements under the guidelines of cracking down on concept speculation and guiding capital toward the real economy. Also, the Central Economic Work Conference at end-2015 proposed supply-side structural reform, shifting the capital market's focus to mid- and upstream sectors in 2016.

Round 2 (2017-19): The implementation of shantytown redevelopment and supply-side reform helped drive a Chinese economic recovery. Disposable income of Chinese households maintained high single-digit growth, while the wealth effect generated by rising housing prices led to a significant and persistent improvement in China's consumer confidence index. As a result, the consumption upgrade emerged as the core investment theme of this phase. Within the broader consumer sector, food and beverages and home appliances were among the most favoured segments in the capital market. With limited further upside revisions to the marginal growth of sector fundamentals, crowded trades briefly eased but did not unwind.

Round 3 (2019-21): China's new trio of exports – NEVs, lithium-ion batteries, and photovoltaic products delivered sustained and rapid earnings growth. The persistently robust fundamentals drove a structural re-rating across those sectors. However, excessive investment at the earlier stage ultimately led to price competition, resulting in widespread industry losses and unwinding of crowded trades.

Round 4 (2022 to before the 24 Sept 2024 policy pivot): The impact of COVID and a prolonged property downturn have exerted deflationary pressure on China's economy. Slowing household income growth and weakening expectations have weighed on consumer confidence, driving a continued rise in precautionary savings. Meanwhile, declining yields on traditionally high-yielding fixed-income products have pushed dividend/defensive styles to the center of investor focus. However, after the set of policy stimulus measures announced on 24 Sept 2024 and with DeepSeek's emergence into the mainstream, China's technological innovation has regained the attention of global investors. That, along with the progress in China's capital market reform, triggered an unwinding of crowded dividend/defensive positions.

Figure 4: Cumulative earnings growth of media, computer and ChiNext Board in 2013-15 notably outpaced overall A-share growth



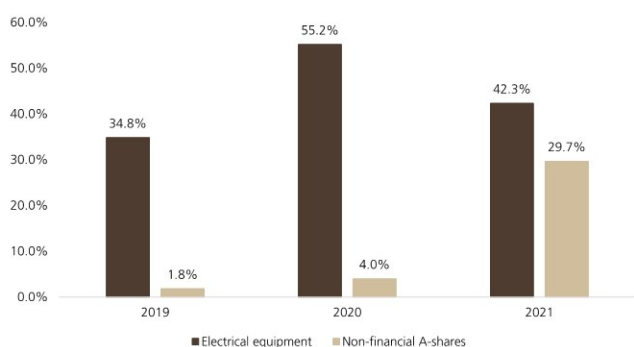
Source: Wind, UBS-S estimates

Figure 5: China's consumer confidence index had significant and sustained growth during 2017-19



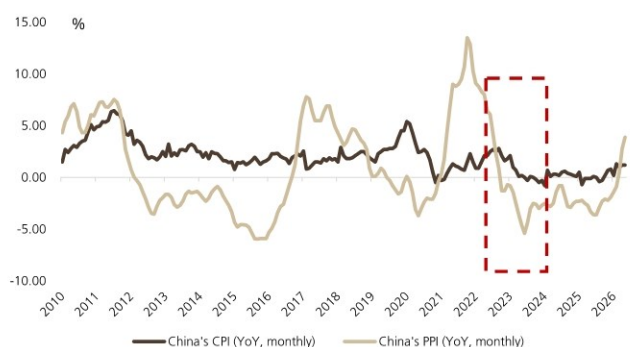
Source: Wind, National Bureau of Statistics (NBS), UBS-S

Figure 6: Electrical equipment had much faster earnings growth than non-financial A-shares during 2019-21



Source: Wind, UBS-S estimates

Figure 7: China remained under deflationary pressure between 2022-24



Source: Wind, NBS, UBS-S

Feature 2: Crowded positioning is driven by sustained incremental inflow from a distinct investor base, and unwinds when this flow decelerates or reverses

Round 1 (2013-15): The A-share market staged a rapid rally in 2015, mostly driven by sharp expansion in the balance of margin financing. The A-share margin financing balance increased a respective Rmb258bn, Rmb673.9bn and Rmb1,249.3bn in 2013, 2014, and from early in the year through 18 June 2015. From 22 Nov 2014 (the first rate cut in this round) to 24 Oct 2015 (the final rate and RRR cuts in this round), the PBOC delivered six interest rate cuts and five RRR cuts. Abundant liquidity was further catalyzed by a series of landmark events, including the CNR-CSR merger, the rollout of shantytown redevelopment and the launch of the Internet+ initiative, unveiled during the 2015 Two Sessions. That fuelled speculative A-share sentiment during 1H15. As a result, the balance of margin financing as a share of A-share free-float market cap reached a historical peak of 9.6% in mid-2015. Meanwhile, the share of margin trading volume in total A-share turnover surged rapidly in 1H15, at one point exceeding 40%.

Mutual funds also played a role in amplifying the rally. Supported by improving fundamentals and an evolving industry narrative, TMT sectors, particularly computers and media, became increasingly attractive for mutual fund allocations. Mutual funds' overweight in computers rose rapidly, from below 2% at end-2012 to 7.6% by end-3Q14, while their overweight in media surged from 0.1% at end-2012 to a peak of 5.8% by end-3Q13.

Along with rapid expansion in margin financing, substantial off-balance-sheet leveraged capital entered the market, ultimately leading to stretched A-share valuations. With the forced deleveraging of non-compliant leveraged funding, the previously crowded

sectors unwound, triggering a broad market correction mid-year.

Round 2 (2017-19): Global investors largely drove the crowding into white horse (high-quality growth) stocks during this phase. Following the launch of Stock Connect programs between mainland China and Hong Kong capital markets (the Shanghai-HK Stock Connect was launched on 17 Nov 2014 and the Shenzhen-HK Stock Connect on 5 Dec 2016), global investors gained more convenient access to mainland China's equity market. On 21 June 2017, MSCI announced that A-shares would be included in its Emerging Markets Index starting in June 2018. After its formal inclusion on 1 June 2018, the inclusion factor for A-shares was set at 2.5%, and was subsequently raised to 5% in Sept 2018, 10% in May 2019, 15% in Aug 2019 and ultimately 20% in Nov 2019. According to PBOC data, foreign holdings of A-shares increased rapidly, from Rmb0.65trn at end-2016 to Rmb2.1trn by end-2019, with their share of the total A-share market cap rising from 1.3% to 3.6%. However, after Nov 2019, MSCI did not further raise the inclusion factor for A-shares, and incremental net inflow from global capital began to slow.

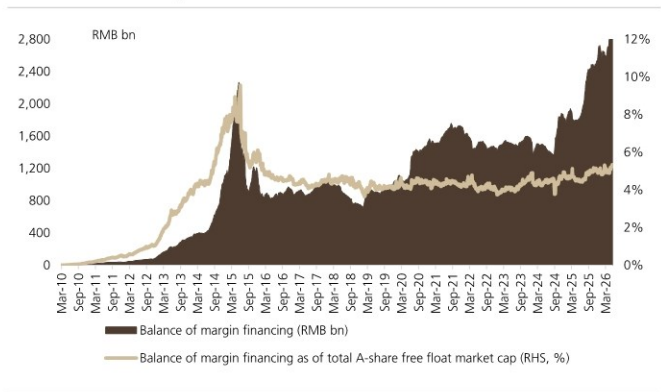
In addition, since 2021, rising geopolitical complexity has led to some degree of foreign outflow. According to PBOC data, foreign ownership of A-shares declined from a peak of 4.4% in May 2021 to a trough of 3.2% in July 2025. Importantly, while foreign-driven crowding in white horse stocks eased, it was not a structural unwind. That is because global investors and active mutual funds share largely the same sector and style preferences, with net inflow of active mutual funds into white horse stocks post-2019.

Round 3 (2019-21): Active mutual funds dominated crowding into high-growth sectors. This phase followed a textbook pattern: strong fundamental improvement in key sectors drove a share price rally; in turn, strong mutual fund product performance drew additional capital inflow, further pushing up stock prices and creating a self-reinforcing positive feedback loop. Historically, active mutual fund issuance has tended to lag their NAV performance. As high-growth sectors recorded much higher earnings than non-financial A-shares, a rapid stock rally led to strong outperformance of funds concentrated in these sectors, fuelling strong fund issuance. However, as "involutionary" competition gradually spread across these sectors, companies in NEVs, lithium-ion batteries and photovoltaics had widespread losses. Share prices began to decline, reversing the earlier positive feedback loop. Capital outflow, combined with a slowdown in fund issuance, led to unwinding of crowded trades. Mutual funds' overweight in electrical equipment declined from a peak of 10.8% in 3Q21 to 1.1% in 3Q23. Meanwhile, fund issuance data also slowed sharply: from 2022 to Sept 2024, average monthly new fund issuance was 13.7bn units, down 89% from a monthly average of 123bn units during 2020-21.

Round 4 (2022 to before the 24 Sept 2024 policy pivot): As the A-share market had a prolonged downturn from 2022 to 24 Sept 2024 and market liquidity weakened, mid-to long-term capital, including insurance funds and the [national team](#), drove crowding into dividend/defensive styles. Facing negative carry and reinvestment risks, insurance capital naturally favoured high-dividend equities over traditional high-yield fixed-income assets (such as AA-rated 10-year corporate bonds and LGFV bonds), especially as bond yields declined rapidly. We estimate insurance funds' net A-share inflow at Rmb528.1bn/Rmb274.5bn/Rmb732.1bn in 2022/2023/2024. During periods of irrational market declines, the A-share market required a more decisive force to stabilise market direction and investor expectations. We estimate Central Huijin may have purchased a total of Rmb777.5bn of A-share ETFs in 9M24, supporting the outperformance of large-cap value stocks.

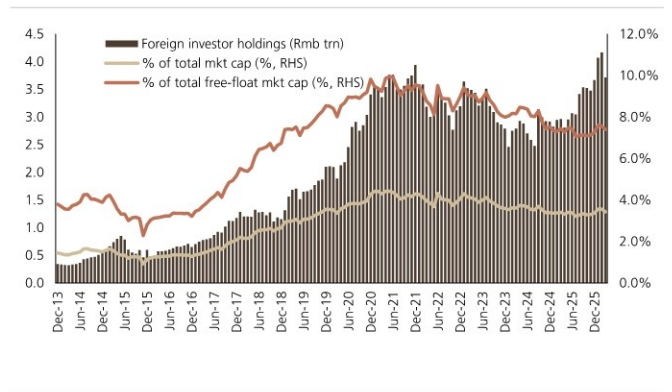
However, after the 24 Sept 2024 policy pivot, as the A-share market stabilised, market activity picked up notably. A-shares' average daily turnover rose sharply from Rmb1.06trn in 2024 to Rmb1.73trn in 2025, and further rose to Rmb2.65trn in 5M26. Meanwhile, the balance of margin financing climbed from Rmb1.36trn before the 24 Sept 2024 policy pivot to Rmb2.85trn as of 12 Jun 2026, indicating a clear return of retail participation. We estimate the monthly average A-share investor count increase at ~1.59m since the 24 Sept 2024 policy pivot, up 53% from a monthly average of 1.04m from 2022 to Sept 2024. Capital with higher risk appetite – including margin financing, ETFs and hedge funds – has replaced insurance funds as the main source of incremental inflow, driving a gradual shift in market style toward growth, while dividend/defensive styles have cooled.

Figure 8: A-share balance of margin financing as % of free float market cap



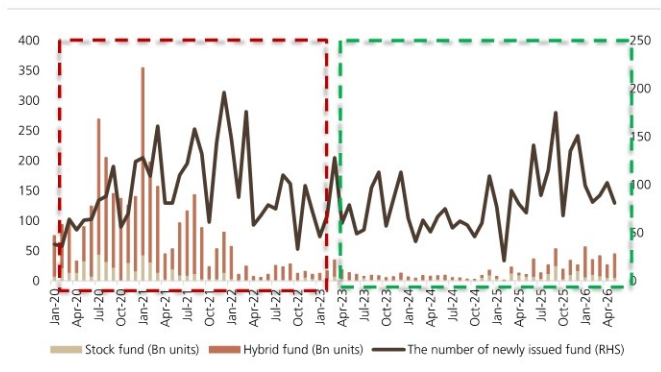
Source: Wind, UBS-S. Note: Data as of 12 June 2026.

Figure 9: Offshore investors' A-share holdings



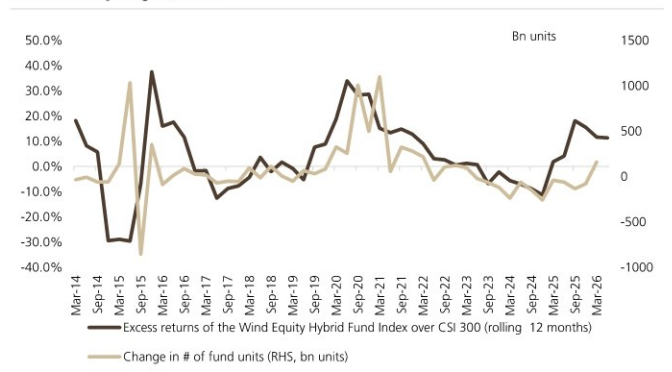
Source: Wind, PBOC, UBS-S

Figure 10: Mutual funds' new issuances remained robust during 2019-21



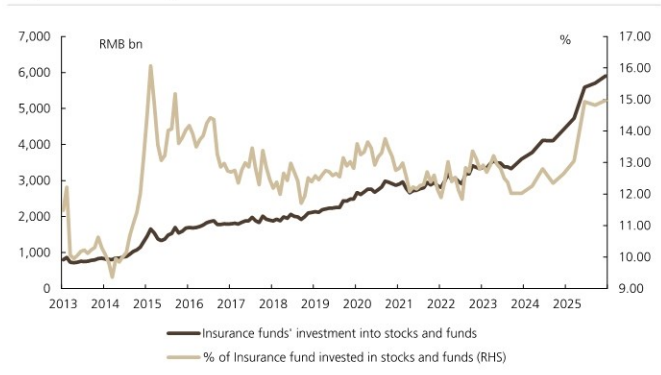
Source: Wind, UBS-S

Figure 11: Quarterly excess returns of Wind Equity Hybrid Fund Index relative to CSI 300 Index vs. changes in units of active equity funds



Source: Wind, UBS-S

Figure 12: Insurers' investments in stocks and funds have kept increasing



Source: Wind, UBS-S

Figure 13: We estimate Central Huijin's net inflow into A-share ETFs totalled Rmb777.6bn in 9M24

Central Huijin's net inflows into ETFs (RMB bn)	Q124	Q224	Q324	Q424	Q125	Q225	Q325	Q425
SSE 50	38	1	29	-	(0)	22	-	-
CSI 300	281	29	228	-	4	134	-	-
CSI 500	39	5	12	7	-	19	-	-
CSI 800	-	-	-	-	-	-	-	-
CSI 1000	40	-	35	-	-	31	-	-
SSE 180	-	-	-	-	-	-	-	-
ChiNext	21	(1)	5	-	-	4	-	-
STAR 50	10	-	4	-	-	4	-	-
Total	430	35	313	7	4	215	-	-

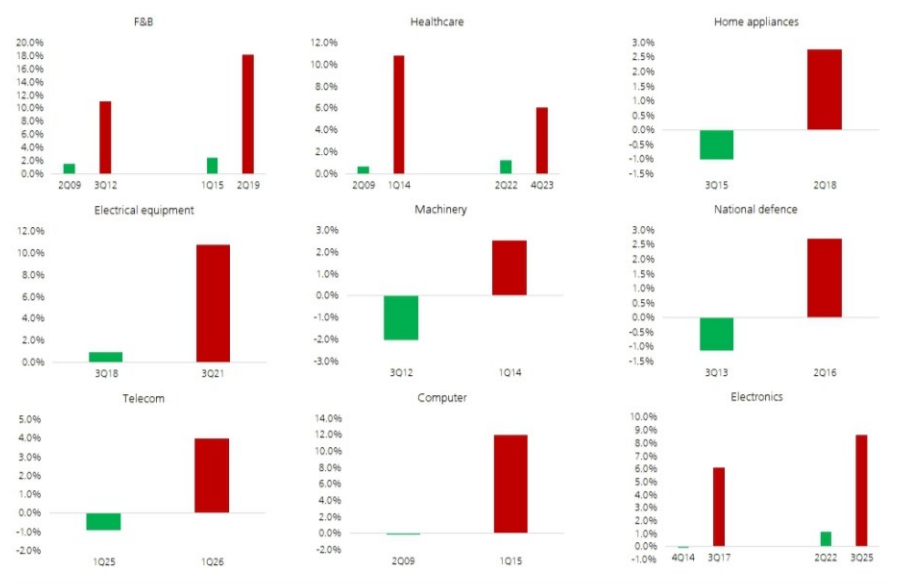
Source: Wind, UBS-S estimates. Note: Net inflow estimated based on the average trading price of ETFs for the quarter.

Feature 3: Historical sector/thematic crowding typically follows a three-year cycle

Analysing mutual funds' sector allocations since 2009, the duration for sector overweight positions to move from trough to peak generally has been around three years, followed by gradual rotation or unwinding of the crowded trade. That aligns with the duration of persistent incremental capital inflow identified in our previous recap.

We attribute this phenomenon to the following drivers: 1) A sector's high-growth cycle typically lasts around three years. Under the guidance of national industrial policies, capex in the sector tends to ramp up rapidly early in the cycle, significantly boosting the fundamentals of the sector's upstream and downstream. 2) Concentration of capital has its limits. Excess return from a certain style or sector tends to diminish significantly once reaching a peak. This triggers some investors to redeem funds heavily concentrated in such stocks, with redemption pressure transmitting to stock prices, in turn triggering a further sell-off until the crowding fully unwinds.

Figure 14: Mutual funds' overweight/underweight ratios – periodical peaks and time points



Source: Wind, UBS-S estimates. Note: For the telecom sector, the overweight ratio has yet to peak.

Where is this wave of tech crowding now? Is there still room to rise?

The rally in the greater tech sector (including electronics, telecom, computers and national defence) since 2025 has been principally driven by the rapid AI evolution globally in recent years. Whether from a perspective of fundamentals/global industries or in terms of incremental fund inflow, we think this wave of greater tech crowding remains some distance away from a peak. To gain insight into this, we think it is necessary to scan the global horizon, with tech stocks surging around the world amid the ongoing AI boom.

From the perspective of fundamentals/global industries, UBS's global equity strategy team believes the current AI-driven global tech wave is not at an end. In valuation terms, the semi sector has a ~17% PE premium over the broader market globally, relatively close to the historical average of 10%, meaning no significant overvaluation. Although the global semi sector has been well ahead of the MSCI ACWI, this outperformance notably has been sustained by continuous upward earnings revisions – just in the past three months, such revisions for the semi sector have exceeded those of the MSCI ACWI by 10ppt.

Figure 15: Global semi PE relative to broader market



Source: UBS, Refinitiv Datastream

Figure 16: Global semi earnings breadth/outperformance vs. broader market



Source: UBS, Refinitiv Datastream

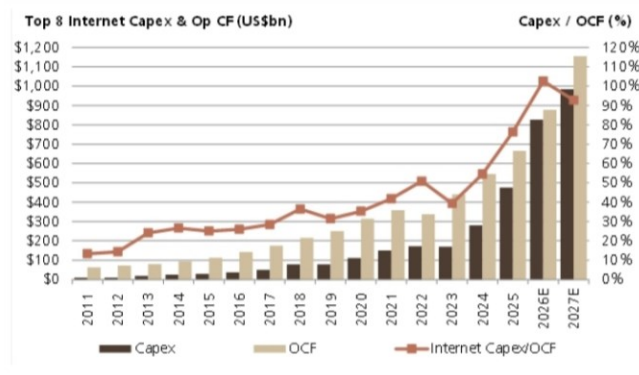
However, In Q126, US tech giants' share prices did not have a volatile ride despite continued substantial capex hikes. In other words, the market began to believe that scarce computing capacity, coupled with broadening application scenarios for agentic AI, would justify the capex. UBS's global equity strategy team thinks the world's 11 largest hyperscalers combined could have capex of US\$874bn this year, slightly below their operating cash flow, and their capex could rise further to US\$1.04trn in 2027.

Figure 17: US tech giants' capex remains robust

Company	Capex YoY % Change	FY26 Guidance vs Consensus (Absolute, %)
Meta	47%	+\$12B (+10%)
Microsoft	64%	+\$35B (+23%)
Amazon	77%	+\$54B (+37%)
Alphabet	107%	+\$6B (+3%)

Source: UBS, Refinitiv Datastream, Bloomberg

Figure 18: Top 8 internet companies' capex/OCF and capex-OCF ratios



Source: UBS, Refinitiv Datastream, Bloomberg

In China, tech self-reliance has become increasingly urgent, with the global geopolitical landscape getting ever more complex. The communique of the Fourth Plenary Session of the 20th Central Committee of the Communist Party of China, released on 23 Oct 2025, highlighted a significant rise in the level of tech self-reliance as one of the main objectives for economic and social development during the 15th Five-Year-Plan period. Given the intensifying geopolitical tension in recent years, we believe China could step up policy support for tech self-reliance in response to relevant US restrictions. In Figure 20, we summarise the central government's messages and policies regarding tech self-reliance YTD.

In recent years, the capital market has also strongly supported tech development. The latest nine-point guidelines, released on 12 April 2024, explicitly call for greater inclusiveness toward new industries, new business models and new technologies, improved services for technological innovation and increased effort to promote the development of new quality productive forces. On 18 June 2025, China Securities Regulatory Commission Chairman Wu Qing stated at the Lujiazui Forum that the demonstration effect of the STAR Market would be fully leveraged and effort would be stepped up to roll out a "1+6" policy package to further deepen STAR Market reform. In particular, the "1" refers to the addition of a new growth tier to the STAR Market and

the restart of the fifth set of listing rules for companies that are yet to be profitable. More recently, Mr. Wu indicated at the Fourth Member Representative Assembly of the Asset Management Association of China that the professional investment research system should be improved, with a focus on national strategies and key areas of the national economy, and an effort should be made to greatly enhance insight into industrial and technological development trends, strengthen the ability to support innovation in uncharted areas, and enhance long-term investment in early-stage, hard-technology startups.

Figure 19: Central government’s messages and policies on tech self-reliance YTD

1/26/2026	National Science and Technology Work Conference	Ding Xuexiang, member of the Standing Committee of the Political Bureau of the CPC Central Committee and Director of the Central Science and Technology Commission, emphasized at the National Science and Technology Work Conference the need to accelerate building China into a leading country in science and technology and achieve high-level self-reliance and strength in science and technology.
1/30/2026	The 24th Group Study Session of the Political Bureau of the CPC Central Committee	Xi Jinping, General Secretary of the CPC Central Committee, noted while presiding over the study session that China should cultivate and develop future industries, take the commanding heights of science, technology and industry, as well as the initiative in development.
3/5/2026	Government Work Report at the Two Sessions	The Government Work Report made clear that China should accelerate high-level self-reliance and strength in science and technology. By taking the historic opportunities presented by the new round of technological revolution and industrial transformation, China will comprehensively enhance its independent innovation capability, and provide scientific and technological support for high-quality development.
4/8/2026	Four Ministries and Commissions	The National Development and Reform Commission, the National Energy Administration, the Ministry of Industry and Information Technology, and the National Data Administration jointly formulated the Action Plan for Promoting Mutual Empowerment between Artificial Intelligence and Energy.
6/5/2026	State Council Executive Meeting	At the State Council Executive Meeting, Premier Li Qiang pointed out that, based on the characteristics of future industries, China should further strengthen forward-looking planning, intensify efforts to promote development, and firmly grasp the initiative in development. It is necessary to build a solid technological foundation, continuously increase investment in basic research, and systematically plan for breakthroughs in original and disruptive technologies. More startups and unicorn enterprises should be nurtured in key sectors. Supportive policies should be improved, the guiding role of government investment funds should be leveraged, and mechanisms for investment growth and risks sharing should be established.

Source: Government website, UBS-S

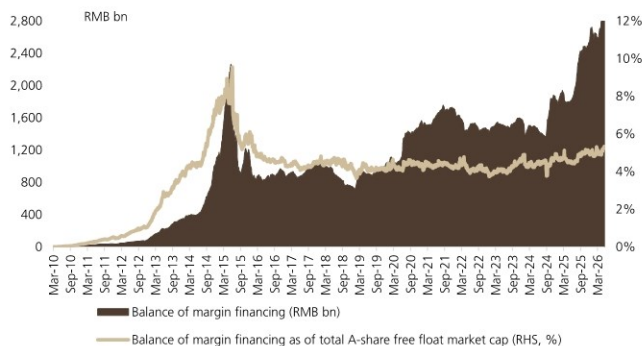
From the perspective of incremental fund inflow, [margin financing](#), [ETFs](#) and hedge funds remain strong in net inflow terms. Leveraged funds have proven to be one of the major drivers of the ongoing greater tech rally. As of 12 June 2026, the balance of margin financing for all A-shares hit Rmb2.85trn, a sharp rise of Rmb261.9bn from the end of March; despite its rapid rise, the balance made up just 5.3% of the total A-share free-float market cap, far below the historical peak of 9.6% in 2015. If growth-style and tech names continue to provide excess returns, the balance of margin financing may have further room to rise, in our view.

Aside from those leveraged funds, hedge funds have also formed a formidable force pushing up the broader market and the greater tech sector. Since last year, new registrations for hedge funds have grown significantly in size and number terms, with a full-year 2025 size of Rmb487.9bn, up a sharp 241% YoY. The registration momentum has remained strong YTD, with a YoY increase of 114% to Rmb236.3bn for 4M26, along with a new monthly record of Rmb82.3bn since 2022 in March. Also, the strong wealth effect in A-shares has drawn some high-net-worth investors back to the A-share market. Since March 2025, the differences between China banks’ FX settlement and sales stayed above US\$10bn for 12 months in a row. We expect new registrations for hedge funds to remain robust.

Meanwhile, the continuous scale-up of sector and thematic ETFs in recent years has brought a steady stream of liquidity to sector leaders. We estimate the total size of all-A-share sector and thematic ETFs has expanded to Rmb1.1796trn now from Rmb469.4bn at the end of Aug 2024. Although the equity market has recently recovered and most active mutual fund products have beaten their benchmarks, the scarring effect of the substantial losses of many investors in active mutual funds in 2022-24 has led some of those investors to turn to sector and thematic ETFs for more flexibility and lower fees. We expect the expansion of China’s ETF market to continue as a medium- to long-term trend.

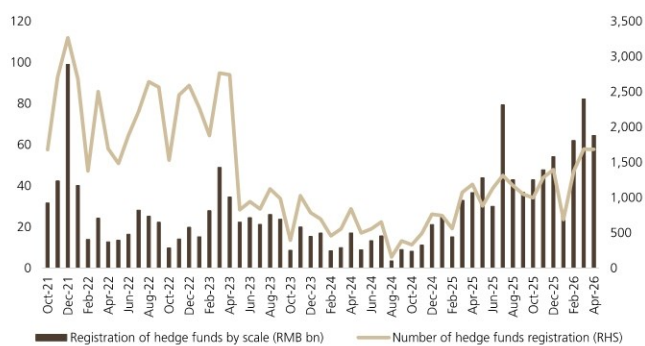
The continuing scale-up of sector and thematic ETFs may favour sector leaders, mainly as sector and thematic ETFs feature more concentrated holdings than active mutual funds. For example, AI ETFs track an index with 50 constituents, with the top 10 aggregating a ~60% weighting and each of the largest two in weighting terms accounting for around 10% of the NAV. On a net basis, flow from AI ETF buyers is concentrated in the relevant sector leaders, driving up their share prices.

Figure 20: Balance of margin financing and as % of free-float market cap for A-shares



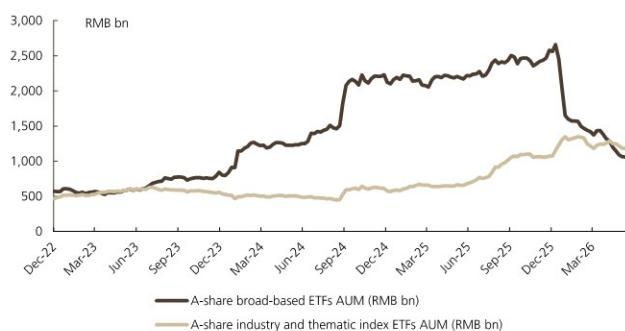
Source: Wind, UBS-S. Note: Data as of 12 June 2026.

Figure 21: New registrations for hedge funds in size and number



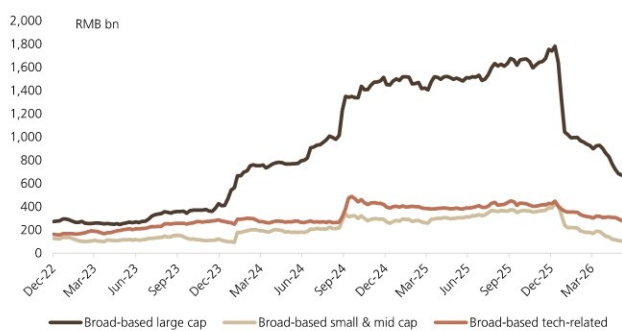
Source: Wind, UBS-S

Figure 22: Sector and thematic ETFs have grown significantly in size



Source: Wind, UBS-S estimates. Note: Data as of 12 June 2026.

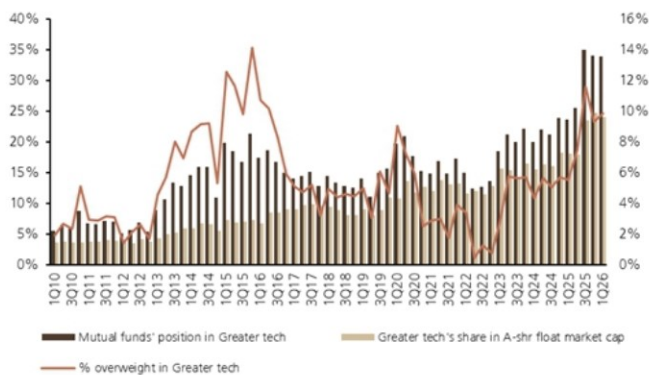
Figure 23: Various styles of broad-based ETF have had AUM declines of different degrees YTD



Source: Wind, UBS-S. Notes: Data as of 12 June 2026. Broad-based market indices include CSI 300, SSE 50 and CSI A500; broad-based small- and mid-cap indices include CSI 500, CSI 1000 and CSI 2000; broad-based ChiNext and STAR-related indexes include the ChiNext Index, STAR 50 and STAR 100.

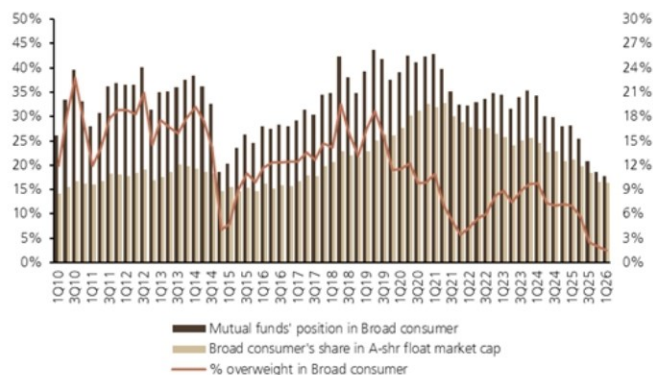
Even if measured from 24 Sept 2024, the current round of crowding in the greater tech sector by various types of funds has lasted less than two years. In fact, the outperformance of tech over the broader market only began in 2025, or specifically after June 2025. Additionally, in terms of mutual funds' overweighting in greater tech, the overweight ratio was 9.9% in Q126, lower than 11.6% in Q325 and far below the historical peak of 14.1% in Q415. Also, our cross-sector research shows the mutual fund overweight ratio for greater tech is currently well below the cyclical peaks for broad consumer in the past (22.8% in Q310, 21.0% in Q312, 19.2% in Q114 and 18.7% in Q219). Therefore, we still see plenty room and potential for mutual funds to add positions in the greater tech sector.

Figure 24: Mutual fund overweighting ratio in greater tech sector



Source: Wind, UBS-S estimates. Note: Greater tech sector includes electronics, telecom, computers and national defence.

Figure 25: Mutual funds overweight ratio in broad consumer sector



Source: Wind, UBS-S estimates. Note: The broad consumer sector consists of agriculture, food and beverage, healthcare, home appliances, textile, light manufacturing, social services, commercial trade, beauty treatments and conglomerates.

What could trigger greater tech sector unwinding?

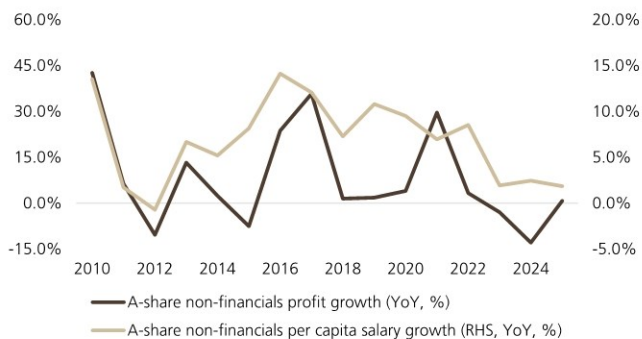
Besides the progress in AI development and the changing prospects of commercialisation globally, we identify other factors that could cause the current A-share greater tech crowding to unwind: 1) the geopolitical situation in the Middle East and its impact on global oil prices; 2) the Fed's monetary policy and its impact on global liquidity; and 3) whether China's recovering PPI can drive a broader pickup in the economy and consumer spending.

Since the geopolitical situation in the Middle East intensified on 28 Feb 2026, global oil prices have fluctuated at high levels. The persistently elevated oil prices have already been felt in recently-published US inflation data. According to data from the US Bureau of Labor Statistics, the US CPI rose 4.2% YoY in May, not just exceeding April's 3.8% but marking the highest level since April 2023. According to a report by Xinhua News Agency on 15 June, US President Trump stated that a US-Iran agreement is "now complete." The Secretariat of Iran's Supreme National Security Council also issued a statement officially announcing that Iran and the US have finalised the text of the memorandum of understanding on "negotiations to end the war" and plan to sign it on 19 June. We will closely monitor changes in the international geopolitical situation and their impact on global oil prices.

In the previous FOMC meeting in April, most participants expressed heavy concerns about the prospects of inflation staying high for an extended period. This week (16-17 June), the Fed will convene its June rates meeting under new Chairman Kevin Warsh, with potential rate hikes raising market concerns. Meanwhile, the notable ramp-up in global mega-cap IPOs recently has made some investors fear liquidity could be diverted away from the tech sector.

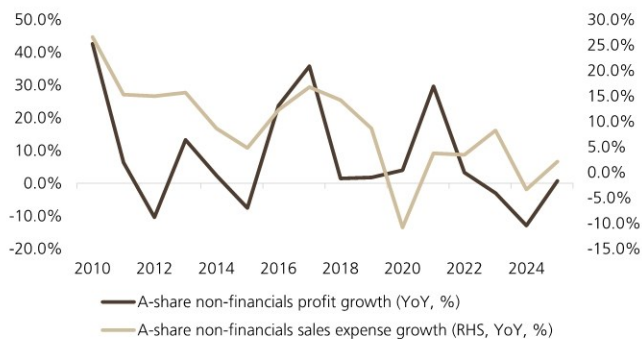
In China, with the economy gradually getting out of deflation, a potential consumer recovery may also take up some funds that would otherwise flow into greater tech. Notably, per-capita wage growth among A-share non-financials is closely linked to their profit growth, with a correlation of 0.68 for the past 16 years. Meanwhile, A-share non-financials' earnings growth is notably correlated with their selling expense growth. If A-share non-financials achieve 11% earnings growth in 2026 (our base-case expectation), it would likely drive a gradual growth pickup in wages and selling expenses, leading to a consumer spending recovery, which may divert some funds away from the crowded greater tech sector.

Figure 26: A-share non-financials' profit and per-capita salary growth



Source: Wind, UBS-S

Figure 27: A-share non-financials' profit and sales expense growth



Source: Wind, UBS-S

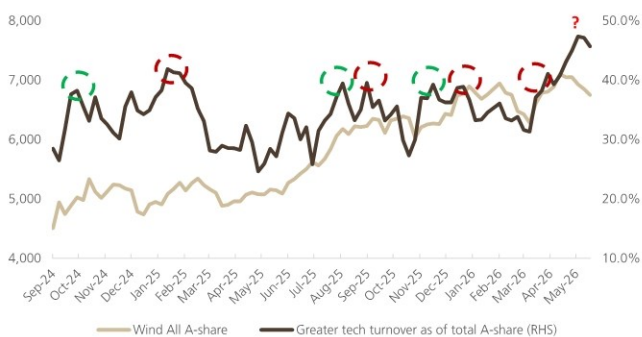
How to track crowdedness from a short-term trading perspective

We think investors can track the crowdedness of the greater tech sector in short-term trading with the following three technical indicators: 1) the weekly turnover of the greater tech sector as a percentage of the A-share market total; 2) the greater tech sector's rolling four-week incremental balance of margin financing; and 3) turnover of the top 1%/5% and top 10 stocks (by turnover) as a percentage of all A-shares.

1) We examine instances since 24 Sept 2024 when the greater tech sector's share of total A-share turnover exceeded 38% on a weekly basis to assess whether subsequent pullbacks from such peaks can help signal market direction. Our findings point to a seemingly faint connection between the two. In retrospect, as illustrated in [Figure 28](#), green circles mark instances where the Wind All A-share Index appeared to have reached a regional high after the greater tech sector's turnover share peaked and then pulled back, while red circles indicate that upward market momentum remained intact. In the week of 12 June 2026, although the greater tech sector's share of total A-share turnover retreated to 45.7% from 47.3% in the week of 29 May, the tech rally is still unfolding.

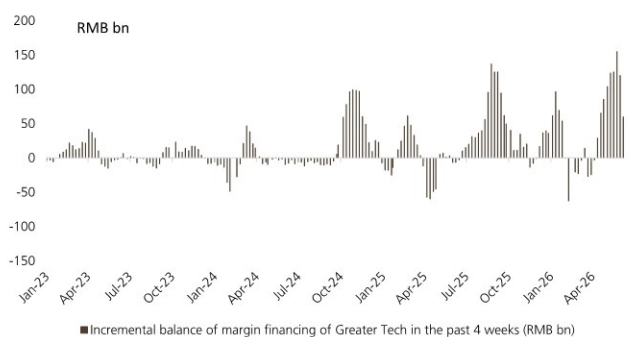
Notably, after instances when the greater tech sector's share of total A-share turnover exceeded 38%, major A-share indices delivered positive returns, on average, over the subsequent five to 40 trading days. Among them, the STAR 50 Index, with the largest exposure to the tech self-reliance theme, significantly outperformed the other indices over the subsequent 10-40 trading days, while the CSI 300 Index underperformed. In other words, while market performance may consolidate in the near term, the medium-term uptrend of growth remains intact.

Figure 28: Weekly turnover of greater tech sector as % of A-share market and Wind All A-share Index



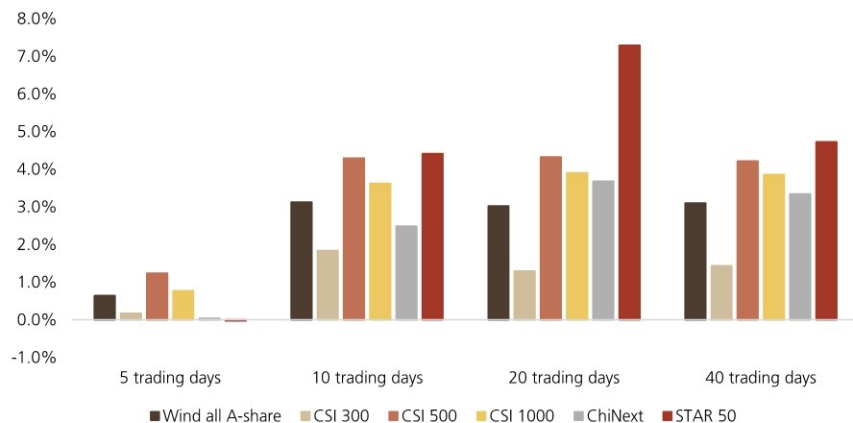
Source: Wind, UBS-S. Notes: Greater tech sector includes electronics, telecom, computers and national defence. Data as of 12 June 2026. [

Figure 29: Greater tech sector's rolling four-week incremental balance of margin financing



Source: Wind, UBS-S. Notes: Greater tech sector includes electronics, telecom, computers and national defence. Data as of 12 June 2026.

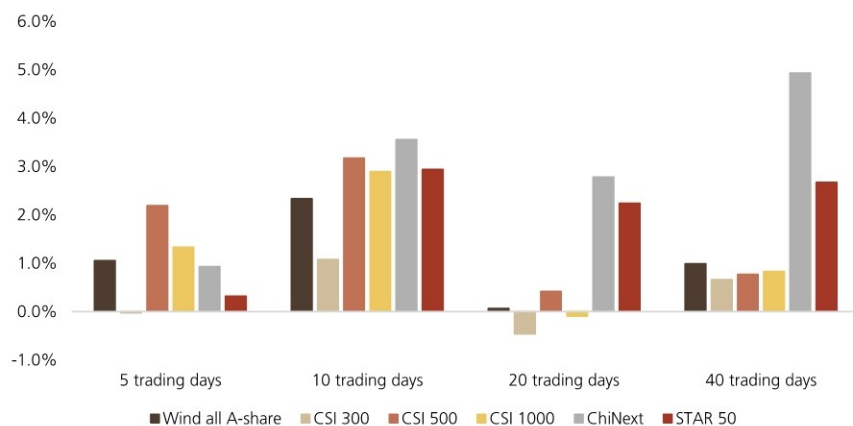
Figure 30: Average performance of major A-share indices in 5/10/20/40 trading days after greater tech sector's turnover as % of total A-shares exceeded 38% from 24 Sept 2024 to date



Source: Wind, UBS-S

2) The greater tech sector's rolling four-week incremental balance of margin financing is another short-term technical indicator that is worthy of close attention. Our key focus is the date when the greater tech sector's rolling four-week incremental balance of margin financing topped Rmb80bn. We found that from 24 Sept 2024 to date, the period when the greater tech sector's rolling four-week incremental balance of margin financing surpassed Rmb80bn and the period when the greater tech sector's turnover as a percentage of total A-shares exceeded 38% overlapped, to some degree. We consider that an indirect indication that margin financing is an essential driver of the greater tech rally. In addition, the ChiNext Index, which has quite high exposure to the global AI supply chain, outperformed all the other indices in the 10-40 trading days after the incremental balance of margin financing touched the threshold, while the CSI 300 Index trailed at the bottom. That also demonstrates margin financing prefers tech sectors with high growth and high beta.

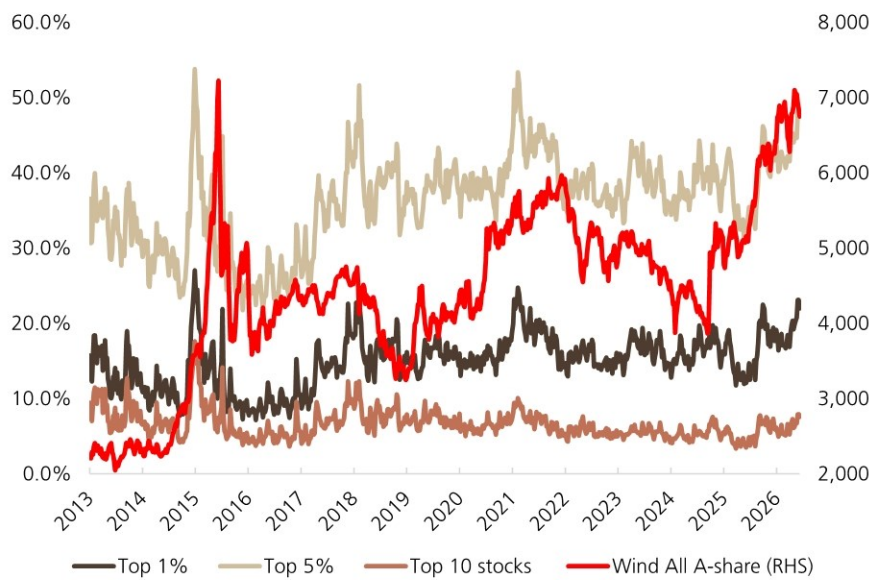
Figure 31: Average performance of major A-share indices in 5/10/20/40 trading days after greater tech sector's rolling four-week incremental balance of margin financing exceeded Rmb80bn from 24 Sept 2024 to date



Source: Wind, UBS-S. Notes: There are only 30 trading days since 30 April 2026, but they are counted in the 40 trading day calculation. Data as of 16 June 2026.

3) The turnover of the top 1%/5% and top 10 stocks (by turnover) as a percentage of all A-shares represents the trading activity of the most sought-after stocks. Historically, there were three instances when the turnover of the top 1%/5% and top 10 stocks as a percentage of all A-shares shot up quickly: July 2015, Feb 2018 and Feb 2021. Although this indicator had a rapid uptick recently, it remains some distance below the levels of the previous three instances.

Figure 32: Turnover of top 1%/5% and top 10 stocks (by turnover) as % of all A-shares and Wind All A-share Index



Source: Wind, UBS-S. Note: Data as of 12 June 2026.

Valuation Method and Risk Statement

For various stocks across the industries we cover in the Hong Kong and mainland China stock markets, we use a variety of valuation approaches, including DCF models, Gordon growth model analysis and relative valuation analysis using various multiples such as PE, EV/EBITDA and P/BV.

We think the risks facing China's equities include a hard landing for the property market, a capital exodus associated with currency depreciation and slow structural reform progress. In our view, any government policies that do not adequately address these risks could result in a shock to the market. For example, an excess of stimulus policies could pose a risk to the transition from an investment- to a consumption-driven economy and increase the debt of government and state-owned enterprises.

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Neutral	FSR is between -6% and 6% of the MRA.	40%	21%
Sell	FSR is > 6% below the MRA.	6%	21%

Source: UBS. Rating allocations are as of 31 March 2026.

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

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Company Disclosures

Company Name	Reuters	12-month rating	Price	Price date
Advanced Micro-Fabrication Equipment	688012.SS	Buy	Rmb319.00	16 Jun 2026
China Resources Microelectronics	688396.SS	Buy	Rmb71.75	16 Jun 2026
NAURA Technology Group	002371.SZ	Buy	Rmb672.19	16 Jun 2026
Shanghai Putailai New Energy Technology	603659.SS	Buy	Rmb29.68	16 Jun 2026
Shenzhen Inovance Technology	300124.SZ	Buy	Rmb70.24	16 Jun 2026
Shenzhen Kedali Industry	002850.SZ	Buy	Rmb203.05	16 Jun 2026
Silan Microelectronics	600460.SS	Buy	Rmb38.28	16 Jun 2026
Sungrow Power Supply	300274.SZ	Buy	Rmb152.49	16 Jun 2026
Universal Scientific Industrial	601231.SS	Buy	Rmb36.85	16 Jun 2026
Zhejiang Shuanghuan Driveline	002472.SZ	Buy	Rmb42.31	16 Jun 2026

Source: UBS Global Research; LSEG Eikon. All prices as of local market close. Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date.

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