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China Equity Strategy

Sustainability of AI trades and three themes beyond AI

Equity Strategy

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Tech could remain the main theme in H2 after short-term volatility

Global capital markets have recorded sharp volatility recently, with varying pullbacks for major Chinese/global indices and rising implied volatility. We believe the tech sector and AI trades will remain the main investment themes in H226E, despite crowded tech trades unwinding somewhat (see H226E A-share outlook: earnings recovery; micro liquidity; and tech crowdedness). 1) The tech sector should maintain robust earnings growth amid rapid AI advances globally/China's strong policy support. 2) Incremental net inflows to the tech sector from sector/thematic ETFs, actively managed tech tracking mutual funds (MFs), margin financing and hedge funds should continue. 3) We still expect upside for A-share tech crowding in magnitude/duration. Historically, it usually takes around three years for MFs' overweight ratio in a particular sector to rise from previous lows to regional peaks, which is consistent with the roughly three-year cycle from formation to shift of a market style (see note).

Three investment themes beyond AI

Some investors deem the tech sector's valuation as stretched and are rebalancing portfolios after taking profits on their tech holdings. While we expect AI to remain the main investment theme in H226E, we identify three other themes that warrant attention. 1) Sectors related to AI capex may benefit from spillover from narrowly-defined AI capital, including IDCs, electrical equipment (e.g. gas turbines), physical AI (e.g. robotics) and commercial space. 2) Multiple sectors are recording an earnings recovery while the market's focus is on the AI theme, including lithium batteries/ chemicals/brokerages/insurance/innovative drugs. If crowded AI trades continue to unwind, some capital pursuing incremental earnings growth may rotate. 3) Chinese companies going global: A-share companies' overseas revenue exposure is rising, with notably higher margins than domestic businesses.

When will market style rotate into the consumer sector?

The property market downturn and slowing household income have been major constraints on a consumption recovery over the past few years. We note recent signs of stabilising house prices or even mild upticks in some tier-1 cities. In addition, we think 11% earnings growth (our base case) for A-share non-financials in 2026E could drive faster per capita salary and sales expense growth, potentially driving a consumption recovery and marginally benefiting related consumer sectors. However, income growth, Chinese households partially repairing balance sheets and the property market stabilisation could take time. The headcount of ChiNext and STAR Board-listed companies, where per capita salaries are growing faster, accounted for only 15.4% of all A-share company employees in 2025, and thus should have a limited impact on overall employment and income.

Our preferred picks under the AI and three other 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
002475.SZ	Luxshare Precision	Buy	4,406	60.47	94.00	55%	140.44	35%	40%	19.79	4.17
600150.SS	CSSC	Buy	2,582	34.31	52.00	52%	44.96	139%	29%	13.26	1.61
600584.SS	JCET Group	Buy	1,654	92.46	135.00	46%	161.47	72%	53%	61.50	5.30
300124.SZ	Inovance	Buy	1,653	61.04	86.00	41%	32.97	14%	25%	28.52	4.16
002008.SZ	Han's Laser	Buy	1,177	114.36	193.30	69%	79.59	152%	90%	39.42	5.87
688396.SS	CR Micro	Buy	932	70.17	83.40	19%	27.88	92%	54%	73.42	3.85
002850.SZ	Kedali	Buy	530	192.88	268.00	39%	13.14	40%	38%	21.50	3.50
600885.SS	Hongfa Technology	Buy	509	32.92	44.00	34%	7.53	21%	23%	22.98	4.21
000951.SZ	Sinotruk Jinan Truck	Buy	252	21.48	28.00	30%	3.31	30%	12%	11.67	1.53
603290.SS	StarPower	Buy	251	104.71	166.60	59%	15.22	-1%	66%	67.27	3.48

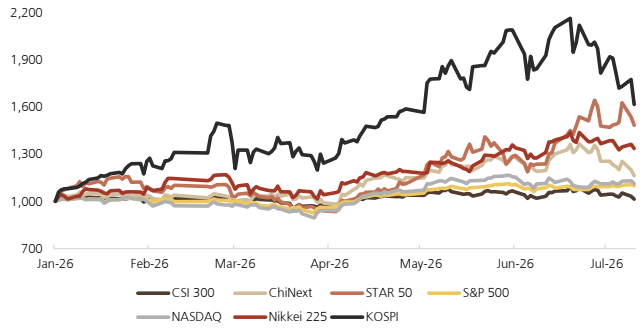
Source: Wind, UBS-S estimates. Note: Data as of 15 July 2026

This report has been prepared by UBS Securities Asia Limited. **ANALYST CERTIFICATION AND REQUIRED DISCLOSURES, INCLUDING INFORMATION ON THE QUANTITATIVE RESEARCH REVIEW PUBLISHED BY UBS, BEGIN ON PAGE 17.**

Tech to remain the main investment theme in H2 after short-term volatility

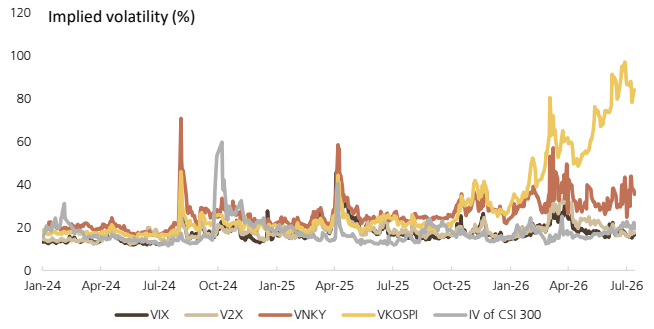
Global capital markets have recorded sharp volatility recently, with varying pullbacks for major Chinese/global indices and rising implied volatility. We see a strong correlation between China's tech sector and global AI trades. We mainly attribute the notably higher volatility in a short period to crowded short-term positioning in the tech sector with the need to unwind crowded trades and profit-taking. We continue to favour the A-share tech sector in H226 despite recent volatility, as 1) the sector's fundamentals remain robust; 2) incremental net inflows from sector/thematic ETFs, actively managed tech tracking MFs, and hedge funds could continue; 3) we flag potential upside to A-share tech crowding in magnitude/duration.

Figure 1: Performance of major stock indices YTD



Source: Bloomberg, UBS-S. Note: All indices were rebased at 1,000 on 31 Dec 2025. Data as of 14 July 2026.

Figure 2: Implied volatility of major global markets



Source: Wind, UBS-S. Note: Data as of 15 July 2026.

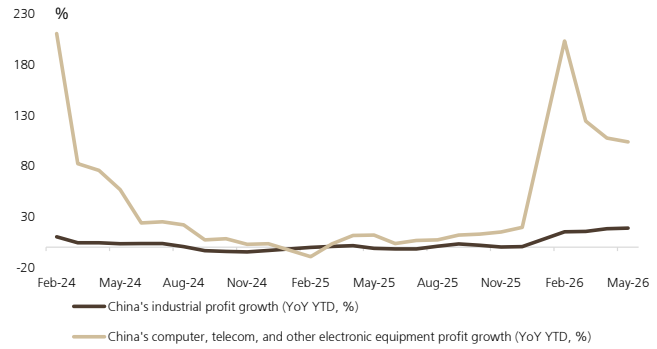
Reason 1: earnings growth in the tech sector remains strong

The most important reason we like the tech sector is that its earnings growth remains strong. Given that the ongoing AI boom is driving an uptrend in the global tech sector, we deem it necessary to analyse from a global perspective. Global investors' concerns over the outlook for AI mainly include: 1) decelerating capex of US tech giants; 2) potential challenges facing Chinese memory and LLM companies. UBS global equity strategy and tech teams believe investors need not be overconcerned. UBS tech team expects US tech giants' capex to sustain rapid growth. Besides, the team indicated the reported Apple's intention to partner with Chinese chipmakers seems to focus on its device supply chain targeting the China market, while several leading-edge chipmakers still keep a rein on HBM and DDR5.

As per the National Bureau of Statistics (NBS), profits for China industrial enterprises above the designated size grew 18.8% YoY in 5M26, with profits for computer, telecom and other electronic equipment manufacturers up 103.9% YoY. We also note that profits for computer, telecom and other electronic equipment manufacturers as a percentage of overall industrial profit has been on the rise in recent years, from 6.7% in 2015 to 10.1% in 2025, and further to 13.4% in 5M26. Moreover, market consensus on 2026 earnings growth for major tech-related indices have been revised up, including upward revisions of 32/108ppt for ChiNext/STAR 50 YTD.

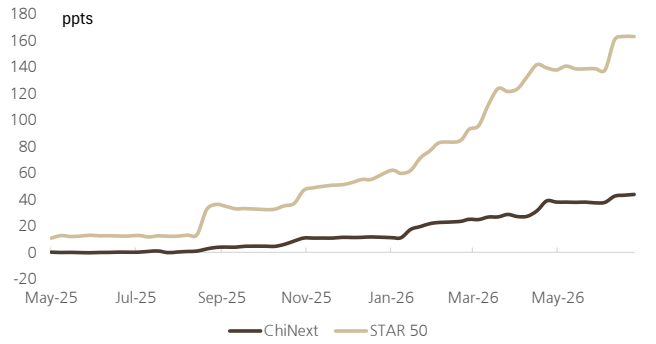
Besides, we foresee strong policy support for China's tech sector in the longer term. On the policy front, the Communique of the Fourth Plenary Session of the 20th Central Committee of the Communist Party of China, released on 23 October 2025, stated that significantly improving technological self-reliance is one of the main goals for economic and social development during the 15th Five-Year Plan period. Given escalating geopolitical tensions in recent years, we think China may step up policy support for technological self-reliance as a countermeasure against US tech restrictions. As technological advances become increasingly important for the economy, we think the greater tech sector as a percentage of total market cap and turnover could see further structural upticks.

Figure 3: YoY profit growth for computer/telecom/other electronic equipment manufacturers significantly outpacing overall industrial profit growth



Source: NBS, Wind, UBS-S

Figure 4: Upward revisions of consensus 2026 earnings growth for ChiNext/STAR 50

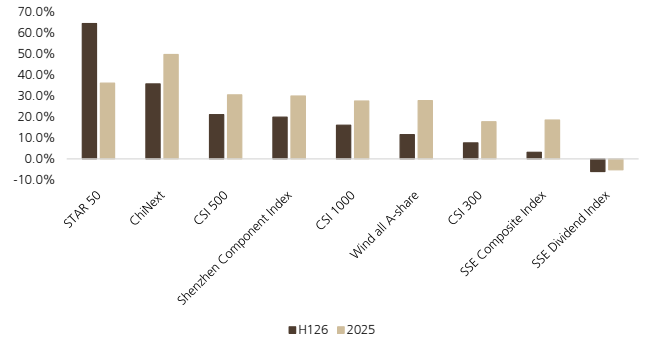


Source: Go-goal, UBS-S

Reason 2: incremental net inflows into the tech sector from various sources of funds could continue

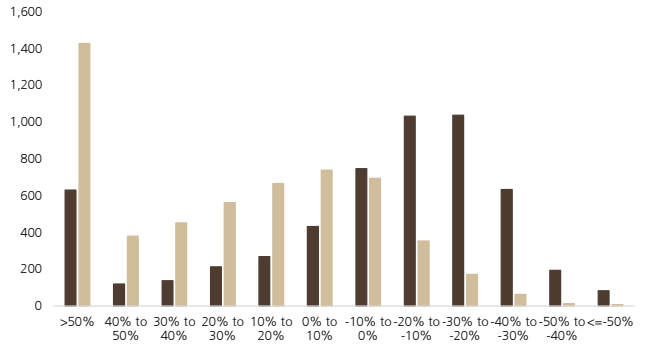
A-shares staged a broad-based bull market in 2025, with over 76% of stocks rising during the year and around 26% gaining 50%+. Although ChiNext and STAR 50 outperformed other major indices, the magnitude was not substantial. In stark contrast, sector and stock performance diverged notably in H126. Less than 33% of stocks gained in H126, while the median of gains/losses for all A-share was-15.4%. Meanwhile, tech-related indices led by ChiNext/STAR 50 rallied 35.6%/64.3%, vs CSI 300/Wind All A-share Index +7.5%/11.5%, and the SSE Dividend Index -6%. We mainly ascribe this divergence to limited improvement in overall liquidity and notably divergent micro liquidity YTD.

Figure 5: The performance of major A-share indices for H126 and 2025



Source: Wind, UBS-S

Figure 6: The distribution of performance for all A-share stocks in H126 and 2025



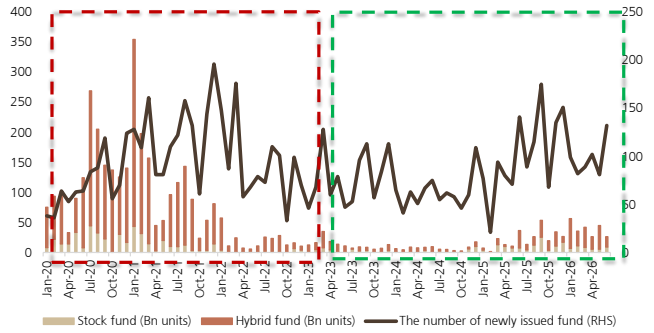
Source: Wind, UBS-S

Despite the ongoing A-share market rally, actively managed MFs' new issuance has remained sluggish recently. Despite a 152% YoY jump in H126 to 231.7bn units, actively managed MFs' new issuance remains 74% below the peak in the same period in 2021. Historically, new issuance of actively managed MFs tends to lag NAV performance. Although the CSI Partial Equity Funds Index outperformed the CSI 300 Index in 2025, the actively managed MFs shrank by over 300bn units. In our view, this is because many investors who experienced losses between H221 and 24 September 2024 used the market recovery to reduce positions or redeem holdings as they approached breakeven in the past year.

On the other hand, the overall ETF size has declined since the start of 2026, with a sharp contraction in the AUM of broad-based ETFs. Among broad-based ETFs, large-cap categories, mid- and small-cap ones and those focused on the STAR Market and ChiNext experienced varying degrees of AUM contractions

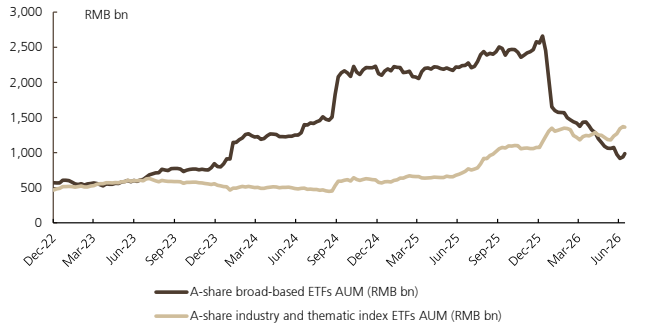
In contrast, sector and thematic ETFs have expanded significantly, amid strong investor demand. We estimate AUM of all A-share sector and thematic ETFs stood at Rmb1.3616trn as of 14 July 2026, up from Rmb469.4bn at end-August 2024 . In particular, tech-focused sector and thematic ETFs currently amount to around Rmb640.7bn, up around Rmb285.6bn from end-2025. Given their more concentrated holdings, the rapid rise of sector and thematic ETFs has driven the relative outperformance of sector leaders. For example, AI ETFs track an index with 50 constituents, with the top 10 aggregating a roughly 60% weighting and the two largest in weighting terms each accounting for about 10% of the NAV. On a net basis, flows from AI ETF buyers tend to concentrate in sector leaders, driving up their share prices

Figure 7: In 2026, the monthly new issuance of active MFs has remained sluggish



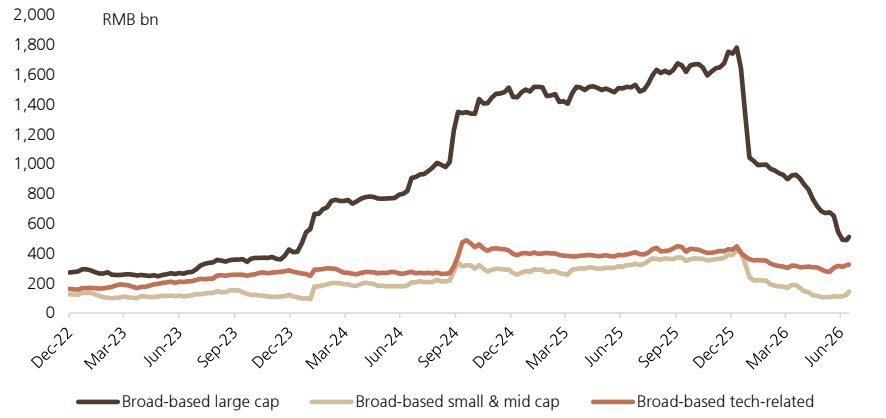
Source: Wind, UBS-S

Figure 8: Sector and thematic ETFs' AUM has increased notably, while the broad-based ETF scale has shrunk markedly



Source: Wind, UBS-S estimates. Note: Data as of 14 July 2026

Figure 9: Broad-based ETFs across different styles have recorded varying degrees of AUM decline YTD

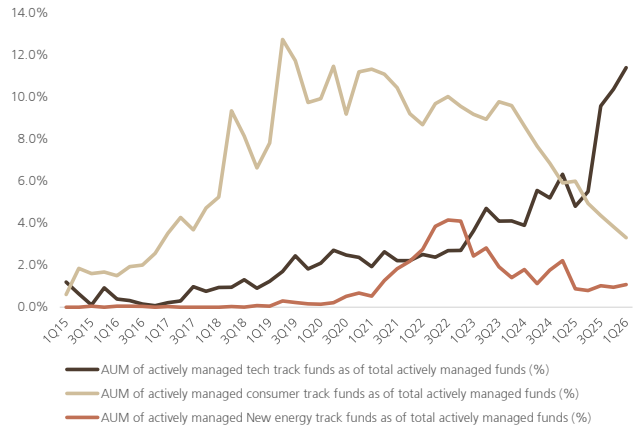


Source: Wind, UBS-S. Note: Data as of 14 July 2026. Among others, broad-based large-cap indices include CSI 300, SSE 50 and CSI A500; broad-based small and mid-cap indices include CSI 500, CSI 1000, and CSI 2000; broad-based ChiNext and STAR-related indices include the ChiNext Index, STAR 50, and STAR 100

Among broad-based ETFs, large-cap categories, mid- and small-cap ones and those focused on the STAR Market and ChiNext experienced varying degrees of AUM contractions.

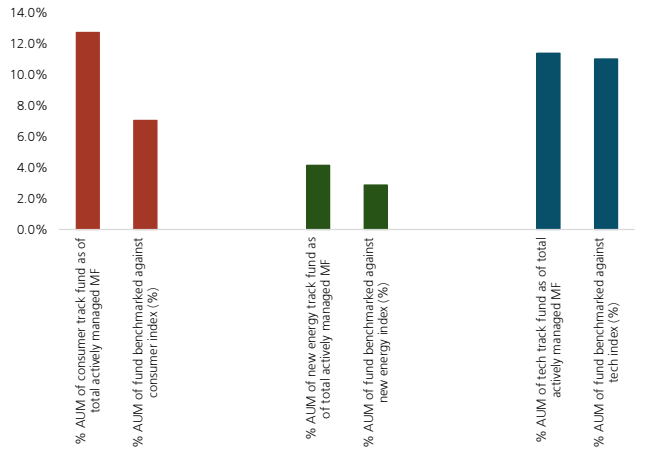
In our note, Closer look at sector and thematic ETFs and actively managed tech funds, we highlighted that some investors with stronger risk appetite are tapping actively managed tech-focused MFs for their concentrated leading tech stock holdings. We define actively managed sector-focused funds as those where at least seven of the ten largest holdings are from a specific sector and their combined weighting tops 50%. Since Q225, the size of tech-focused actively managed funds have increased rapidly as a share of total actively managed MF assets, to a record high of 11.4% in Q126. However, this remains below the 12.7% reached by actively managed consumer funds in Q219, our cross-sector comparison shows. We also note a high proportion of actively managed MFs benchmarked against tech-related indices now, suggesting the proportion of actively managed tech-focused funds may have further room to rise.

Figure 10: AUM of actively managed tech, consumer and new energy funds as % of total actively managed funds



Source: Wind, UBS-S estimates. Note: We define actively managed sector-focused funds as those where at least seven of the ten largest holdings are from a specific sector and their combined weighting tops 50%. Tech funds cover electronics, telecoms, computer and national defence. Consumer funds cover agriculture, food and beverage, healthcare, home appliances, textile, light manufacturing, social services, commercial trade, beauty treatments and conglomerates. New energy funds cover electrical equipment, utilities and autos

Figure 11: Potential upside to AUM of actively managed tech funds as % of total actively managed MFs

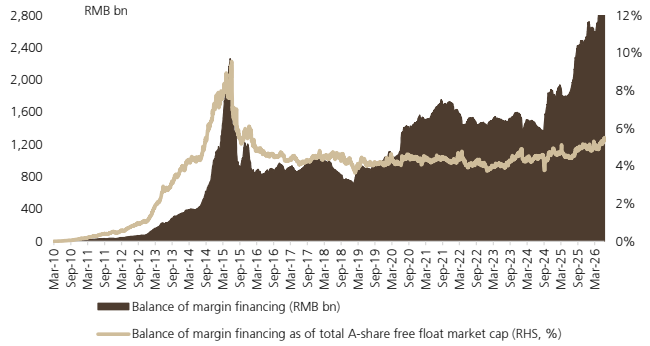


Source: Wind, UBS-S estimates. Note: Q219/Q322/Q126 data for consumer/new energy/tech sector comparisons

Leveraged funds have proven to be one of the major drivers of the ongoing greater tech rally. As of 14 July 2026, the balance of overall A-share margin financing stood at Rmb2.88trn, up Rmb287.6bn from the end of March. Despite its rapid rise, the balance made up just 5.4% of the total A-share free-float market cap, far below the historical peak of 9.6% in 2015. Structurally, the broader tech sector has accounted for 46% of all margin-financed buying in China's A-share market YTD, and over 50% in Q226. This suggests that leveraged investors favour the high-growth broader tech sector. 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.

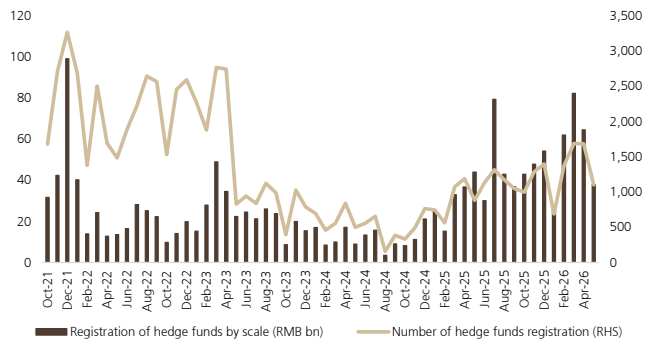
Aside from those leveraged funds, hedge funds have also formed a formidable force pushing up the broader market and the greater tech sector. Since last year, new registrations for hedge funds have grown significantly in size and number terms, with a full-year 2025 size of Rmb487.9bn, up a sharp 241% YoY. The registration momentum has remained strong YTD, with a YoY increase of 78% to Rmb274.1bn for 5M26, along with a new monthly record of Rmb82.3bn since 2022 in March. If the tech outperformance continues, we expect new registrations for hedge funds to remain robust in H226.

Figure 12: A-share balance of margin financing as % of free-float market cap



Source: Wind, UBS-S. Note: Data as of 14 July 2026.

Figure 13: New registrations for hedge funds in scale and number

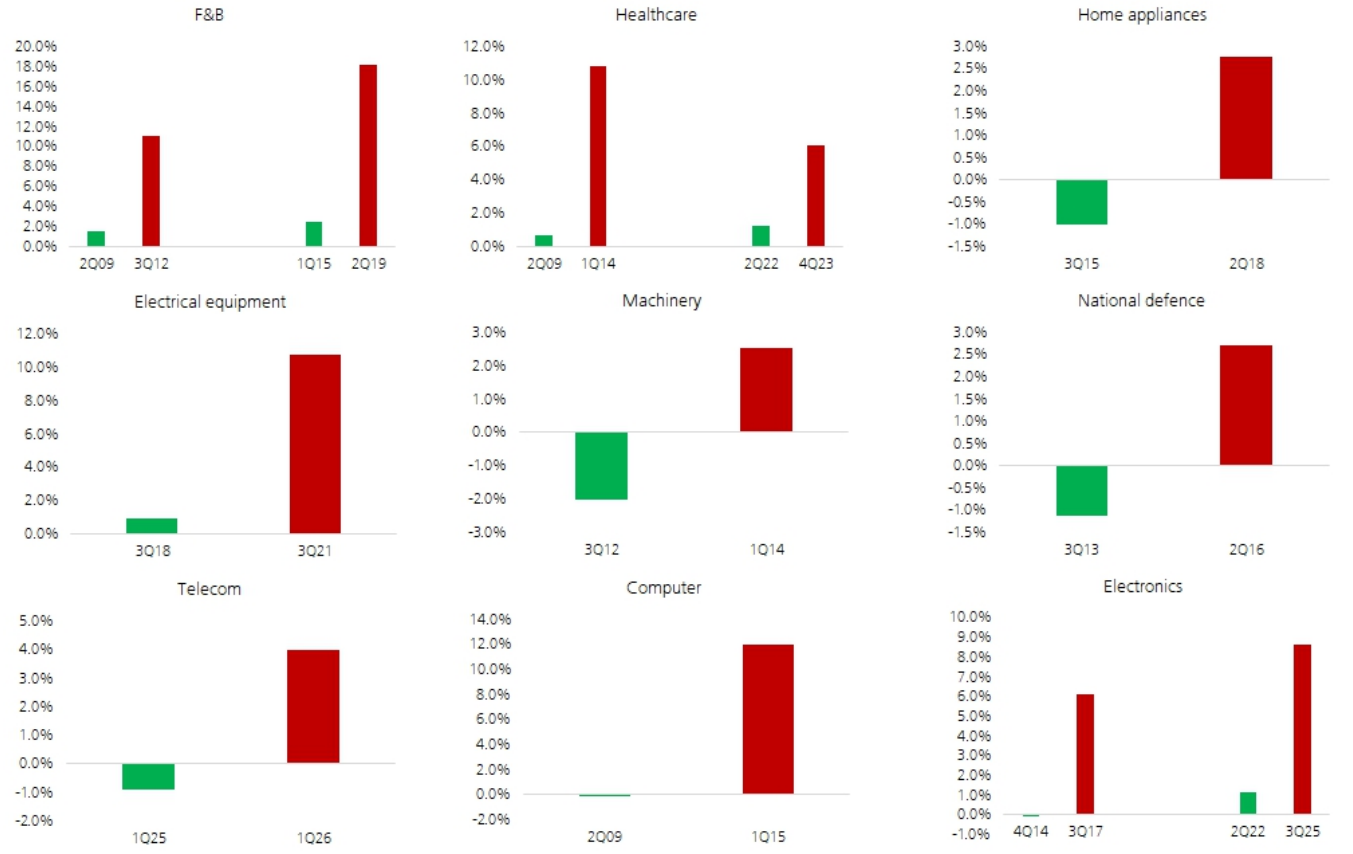


Source: Wind, UBS-S

Reason 3: We flag further room for greater tech sector crowding to run in both duration and positioning terms

In our note, Crowding and unwinding: Logic, features, current status and outlook, after analysing MFs' sector positioning since 2009, we found that the duration for sector overweight positions to move from trough to peak generally has been around three years, followed by gradual unwinding of the crowded trade. We attribute this phenomenon to the following drivers. 1) A sector's high-growth cycle typically lasts around three years. Likely 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 companies. 2) Concentration of capital has its limits. Excess return from a certain style or sector tends to diminish significantly once a peak is reached. This triggers some investors to redeem funds heavily concentrated in such stocks, with redemption pressure transmitting to stock prices, in turn leading to a further sell-off until the crowding fully unwinds. Even if measured from 24 September 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. Therefore, from a duration perspective, we think MFs' crowded positions in the greater tech sector still has further room to run.

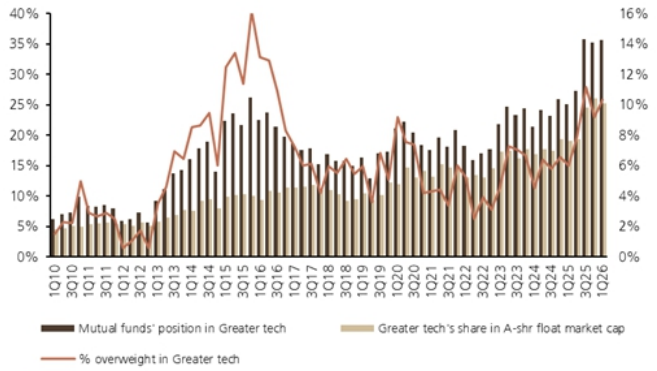
Figure 14: MFs' overweight/underweight positioning – periodical peaks and time points



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

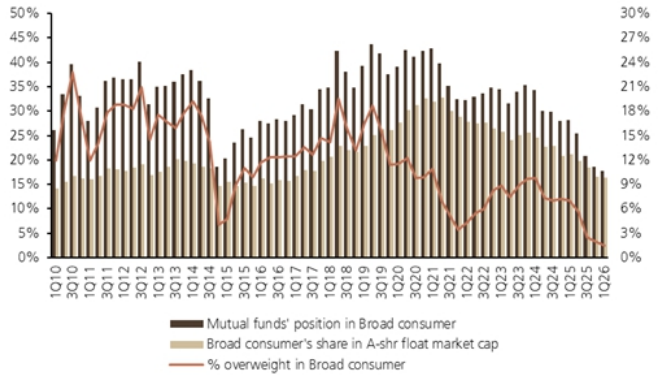
Additionally, in terms of MFs' overweighting in greater tech, the overweight ratio was 10.4% in Q126, lower than 11.2% in Q325 and far below the historical peak of 16.2% in Q415. Also, our cross-sector research shows the MFs' overweight ratio for greater tech is currently well below the cyclical peaks for the broader consumer sector 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 MFs to add positions in the greater tech sector.

Figure 15: MFs' overweight ratio in the greater tech sector



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

Figure 16: MFs' overweight ratio in the broader consumer sector



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

Potential risks for AI trades

In our report, "Crowding and unwinding: Logic, features, current status and outlook", we noted that historically unwinding has often been triggered by changes in industry narratives and fundamentals. In our view, the sustainability of the current tech sector run depends first on whether the global AI industry story remains intact and tech majors' capex can continue to grow.

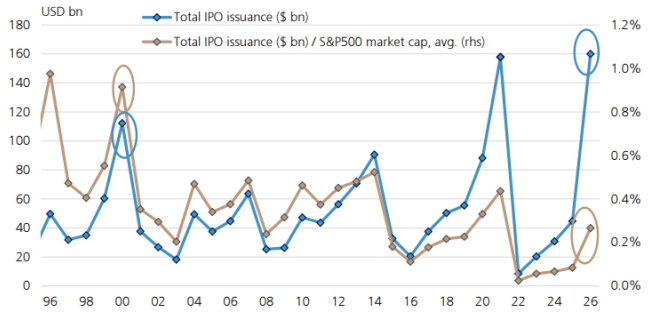
Recent dynamics regrading mega-cap tech IPOs have kept affecting the pulse of global secondary markets that are already sensitive. UBS's Global Equity Strategy team does not think investors should be overly concerned about the scale of US IPO fund raising this year. Despite their potential to approach US$160bn and hit a record high in 2026E, such proceeds could rank only in the second quintile in history after being adjusted for the larger market size currently. Also, the number of ongoing IPOs is largely in line with the 30-year trend, indicating the overall market is not overheated yet.

Figure 17: US tech majors' capex remains strong

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

Figure 18: Potential US IPO fund raising in 2026 still low relative to market size



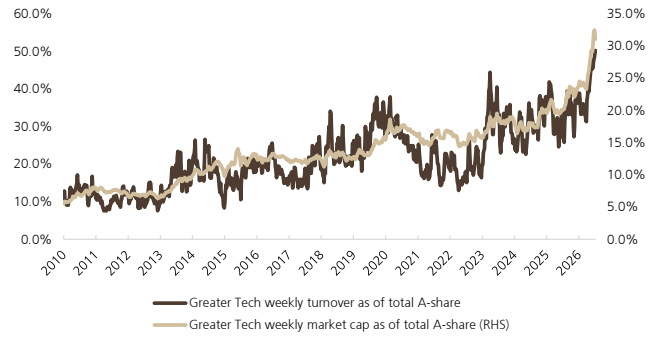
Source: FactSet, UBS. Note: Potential US IPO fund raising in 2026 based on consensus forecasts; S&P 500 market cap on a monthly average basis for a given year

Another risk lies in excessive crowding for tech sectors in the short term. Should the greater tech sector get too crowded, this may prompt rebalancing by some investors that may trigger a spike in near-term volatility, in our view. We note that in H126 the greater tech sector expanded rapidly as a share of all A-shares in both market cap and turnover terms. As of 15 July, this sector accounted for 50.2% of the trading value for all A-shares, a historical peak, while its portion by market cap reached 31.1%. Also, the margin financing balance for the greater tech sector is sharply up from end-April,

specifically increasing Rmb189.4bn as of 14 July.

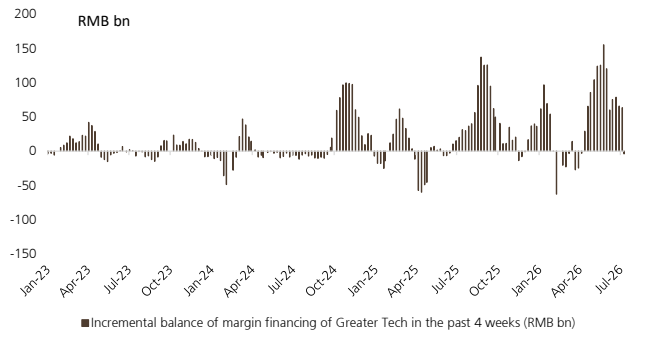
Meanwhile, the top 1%, 5% and top 10 stocks by turnover have risen rapidly as portions of all A-shares, although remaining below levels during the 2015 bull market. To be specific, as of 15 July 2026 the top 1%, 5% and top 10 stocks accounted for 26.2%, 51.9% and 9.3% of all-shares in turnover terms, respectively, below their historical peaks of 27.0%, 53.8% and 17.6% in 2015; in the US equity market (NYSE + Nasdaq), the corresponding proportions for the top 1%, 5% and top 10 stocks by turnover were 49.1%, 72.5% and 27.4%.

Figure 19: Greater tech sector as % of all A-shares in weekly turnover and market cap



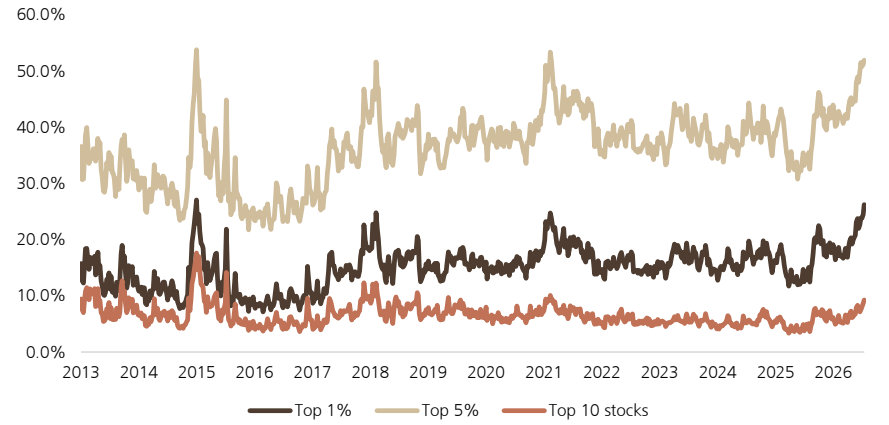
Source: Wind, UBS-S. Note: The greater tech sector includes electronics, telecom, computers and national defence. Data as of 15 July 2026

Figure 20: Trailing four-week increase in balance of margin financing for greater tech sector



Source: Wind, UBS-S. Note: The greater tech sector includes electronics, telecom, computers and national defence. Data as of 14 July 2026

Figure 21: Top 1%, 5% and top 10 stocks by turnover as % of all A-shares



Source: Wind, UBS-S. Data as of 15 July 2026.

Three investment themes beyond AI

Some investors may view the current valuation of the tech sector as stretched and therefore intend to take profit and rebalance portfolios. Beyond AI, which could remain a key play in H226E, we identify three investment themes for the second half that we believe warrant investor attention: 1) sectors benefiting from fund spillovers out of narrowly-defined AI trades; 2) sectors undergoing earnings recovery but having yet to receive market attention; and 3) Chinese companies going global.

Sectors benefiting from fund spillovers out of narrowly-defined AI trades

The rapid iteration of LLMs has driven explosive growth in global demand for computing power. We believe some AI/LLM-linked sectors, such as data centres, power equipment (e.g. gas turbines), physical AI (eg, robotics) and commercial space, could benefit from

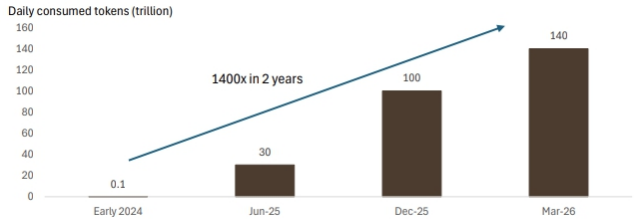
fund spillover out of AI trades in H226.

UBS-S's China utilities team believes that China's exponentially-growing demand for computing power, as a result of the country's AI demand hitting an inflection point, is greatly improving the AIDC outlook in western China. The team also expects AIDC to lift China's energy demand in the medium to long term; specifically, it projects 8-9% energy demand growth annually, of which the bulk could come from substantial AIDC-driven demand. Alongside the potentially strong energy demand growth in China, the team also identifies some subsectors as beneficiaries in global markets, such as gas turbines, whose annual demand could top 100GW by 2035, as per estimates by the International Energy Agency and other institutions. Citing power shortages in the US, the team believes China's gas turbine manufacturers have the opportunity to expand into the North American market, a prospect we think the market is broadly overlooking now.

In addition to the burgeoning demand for data centres and energy, physical AI such as robotics, albeit still in a budding stage from the industry lifecycle perspective, has emerged quickly as a 'fast lane' within the tech sphere in recent years. In the subarea of humanoids, for example, several Chinese listcos have secured favourable positions across key components including rotary joints, perception systems, batteries, dexterous hands and controllers. We suggest investors keep a close eye on humanoid robot industry developments, such as industry leaders' IPOs and next-generation product launches.

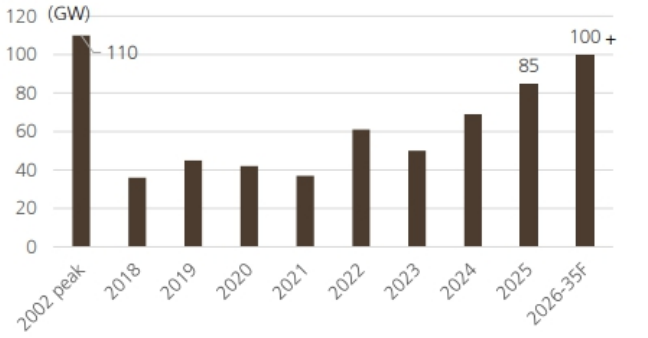
Commercial space is emerging as another potential beneficiary of fund spillovers out of narrowly-defined AI trades. UBS-S's analysts covering China's commercial space highlight that this industry is approaching an inflection point in commercialisation. Reusable rockets, deployment of low-earth-orbit satellite constellations and demand for space-based computing power could add up to significantly lower costs and much greater market potential in favour of rocket/satellite manufacturers and key supply-chain names.

Figure 22: China's daily average token usage



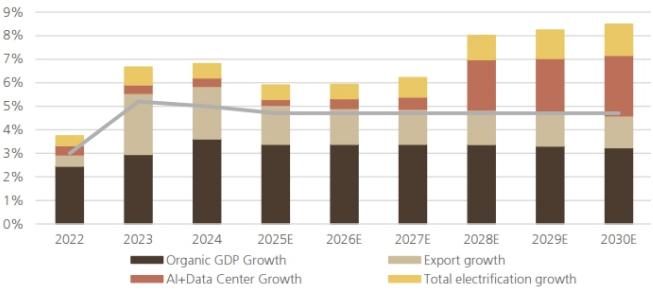
Source: China's National Data Administration, UBS-S

Figure 23: Global gas turbine demand



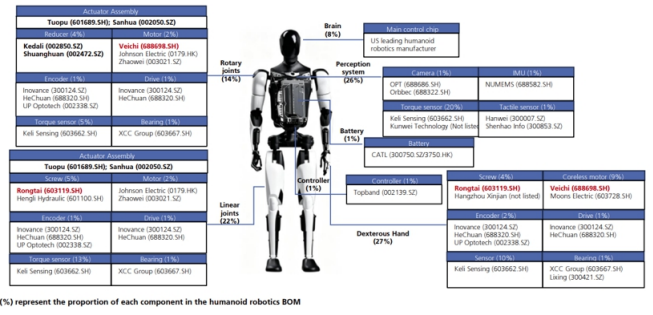
Source: International Energy Agency/McCoy/Siemens Energy

Figure 24: Breakdown of China's energy demand growth



Source: Wind, National Bureau of Statistics of China, China Customs, UBS estimates

Figure 25: Key humanoid robot components and Chinese suppliers' positioning therein



Source: Company data, UBS-S

Sectors undergoing an earnings recovery but yet to gain market attention

Under our base-case scenario, we project all A-share earnings growth to accelerate from 3.9% in 2025 to 11% in 2026E. Q126 results released in late April indicate that the earnings recovery in the A-share market is gaining momentum (A-share Q126 earnings review: Earnings growth picked up notably, margins improved). Non-financial sectors posted earnings growth of 11.8% YoY in Q126 vs +0.8% in 2025. Excluding oil & petrochemicals and basic chemicals sectors, earnings growth reached 12.3% in Q126. Earnings growth for the high-profile ChiNext and STAR Board significantly outperformed the Main Board - ChiNext and STAR Board recorded 23% and 205% YoY earnings growth in Q1, underscoring the substantial boost to tech companies from technological innovation and new productive forces.

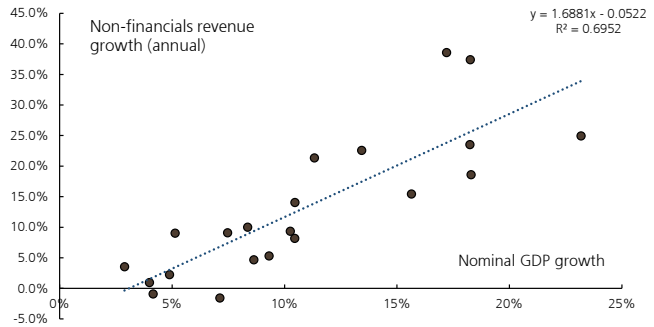
From a macro perspective, revenue growth in the A-share non-financial sector correlates with both China's nominal GDP growth and PPI growth. Recent data suggest that China is gradually emerging from deflation. In May, PPI and CPI rose 3.9% and 1.2% YoY, respectively. The UBS-S China Economics team projects China's PPI may improve further to 4.2% in June. We believe this could support a further acceleration in revenue growth for the A-share non-financial sector in 2026. We expect the upcoming interim results in August should validate further earnings acceleration in Q226.

Figure 26: Earnings growth by A-share market segments

	2020	2021	2022	2023	2024	2025	Q1 2026
All A-share	2.6%	20.7%	2.3%	-1.1%	-2.4%	3.9%	7.2%
A-shr excl. financials	4.0%	29.7%	3.3%	-3.0%	-12.9%	0.8%	11.8%
A-shr excl. financials, Sinopec & Petro China & CNOOC	8.7%	23.5%	-1.1%	-2.9%	-14.9%	2.8%	12.3%
A-shr excl. financials, oil&petrochemicals and chemicals	6.3%	17.5%	0.8%	0.7%	-15.2%	2.9%	11.1%
Financials	1.2%	11.2%	1.1%	1.2%	10.3%	6.8%	2.2%
Main Board	0.7%	19.5%	1.5%	0.4%	-1.3%	2.8%	5.5%
STAR Board	87.1%	94.0%	12.6%	-39.0%	-38.9%	26.3%	204.7%
ChiNext Board	35.9%	22.5%	10.7%	-9.4%	-12.7%	21.6%	22.7%

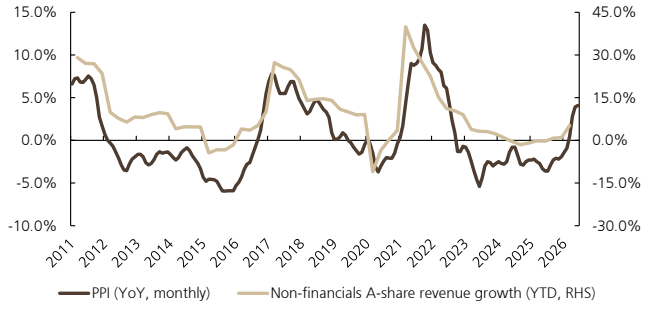
Source: Wind, UBS-S estimates

Figure 27: Regression analysis of revenue growth in A-share non-financial companies vs. China's nominal GDP growth



Source: Wind, UBS-S

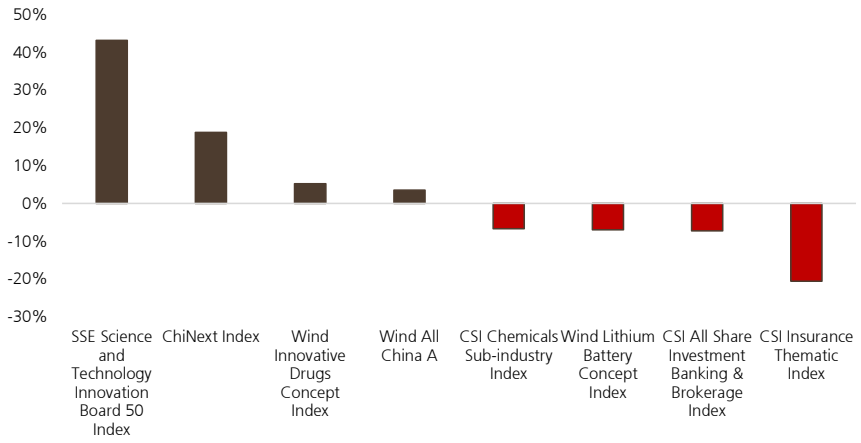
Figure 28: PPI and A-share non-financial companies revenue growth move in tandem



Source: Wind, UBS-S

While market attention remains heavily focused on AI-related themes, numerous sectors are also experiencing meaningful earnings recoveries, including lithium batteries (supported by volume and ASP uptick as well as low base), chemicals (driven by cost advantages and upward pricing trends), non-bank financials (benefiting from a sharp increase in A-share trading volumes), and innovative pharmaceuticals (supported by continued overseas expansion). During the tech-led rally over the past six months, these sectors have significantly underperformed major tech-related indices. As A-share companies release interim reports in coming weeks, should AI-related trading momentum moderate, capital pursuing marginal earnings growth may revisit these sectors.

Figure 29: Selected sectors with high earnings-growth have significantly underperformed major tech-related indices YTD



Source: Wind, UBS-S. Note: Data as of 15 July 2026.

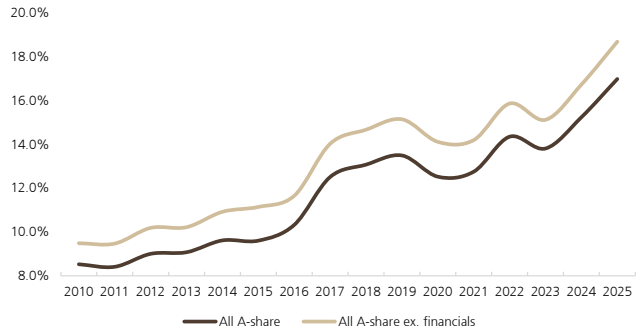
Chinese companies' overseas expansion

In our A-share Outlook 2026, we identified overseas expansion and global competitiveness of Chinese companies as one of the most important investment themes of the year. In 2026, the pace of Chinese companies' overseas expansion has continued to accelerate. In H126, China's cumulative export value increased by 17.6% YoY, with IC and high-tech products up 96.1% and 38.5%. By destination, China's exports to the U.S. and ASEAN grew by 14% and 35% YoY, respectively, in June.

Within the equity market, we observe that A-share companies' overseas revenue contribution has continued to rise in recent years. Overseas revenue share of total revenue for non-financial A-share companies further improved to 18.7% in 2025, nearly doubling from 9.5% in 2010. Given that overseas operations typically enjoy higher margins, the rising contribution of overseas business is conducive to earnings growth for both individual A-share companies and the broader market. After aggregating data across all non-financial A-share companies that disclosed overseas operation and comparing historical GPM between their domestic and overseas businesses, we find that the GPM of overseas business has consistently exceeded that of domestic business. Moreover, the margin differential widened further to 2.8 ppt in 2025 from 2.2 ppt in 2024.

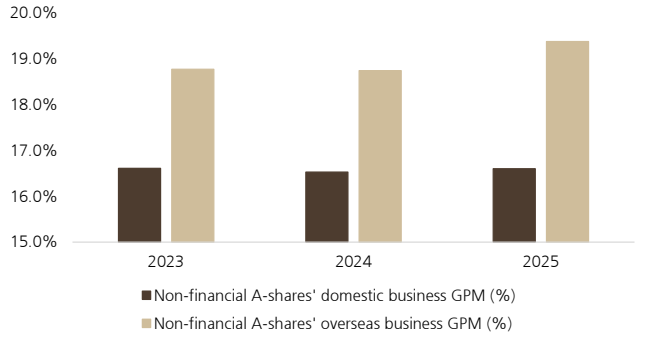
At the sector level, we note that among all 31 primary sectors , 20 sectors reported higher GPM from overseas operations than from domestic businesses in 2025. Notably, the gap between overseas and domestic GPM exceeded 7 ppt in sectors including media, pharmaceuticals & biotechnology, machinery, computers, non-ferrous metals, telecom, and electronics. Against this backdrop, we remain constructive on overseas expansion in sectors including but not limited to innovative pharmaceuticals, construction machinery, energy storage, gas turbines, telecom equipment, and semiconductors.

Figure 30: Overseas revenue contributions for all A-shares continue to rise



Source: Wind, UBS-S estimates. Note: The CSRC does not mandate disclosure of overseas revenue. In 2025, 3,858 A-share companies disclosed their overseas revenue, while 1,666 did not

Figure 31: Domestic vs overseas GPM for non-financial A-shares that disclosed overseas revenue



Source: Wind, UBS-S estimates. Note: Data aggregated from non-financial A-share companies reporting overseas revenue. The top 5 business segments were included. Total reporting companies: 3,689 in 2023, 3,745 in 2024 and 3,818 in 2025

Figure 32: Comparison of domestic and overseas GPM for A-share companies by Sector

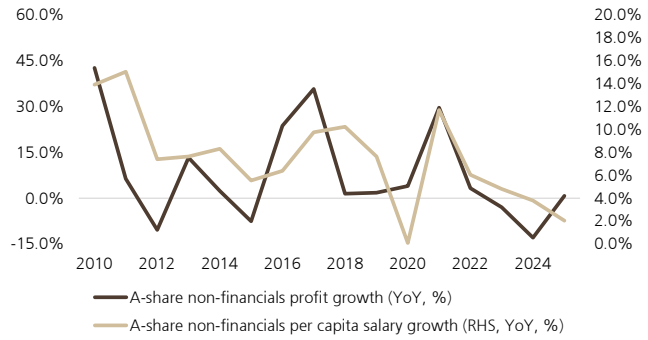
	Overseas GPM (%)			Domestic GPM (%)		
	2023	2024	2025	2023	2024	2025
Real estate	1.4%	9.2%	10.1%	13.6%	12.6%	12.9%
Computer	35.3%	31.1%	35.3%	24.9%	23.0%	24.2%
Commercial trade	12.1%	12.9%	15.0%	14.2%	13.9%	14.4%
Machinery	27.5%	27.6%	28.8%	18.6%	17.7%	17.1%
Electrical equipment	23.0%	22.0%	21.0%	17.7%	14.7%	15.0%
Construction	10.3%	10.0%	9.8%	10.9%	11.0%	10.9%
Building materials	22.7%	5.9%	25.0%	16.0%	18.4%	20.5%
Home appliances	24.0%	23.0%	23.1%	26.9%	25.4%	24.5%
Textile	22.7%	23.4%	22.9%	22.9%	22.6%	24.0%
Agriculture	11.2%	12.2%	13.0%	5.6%	10.9%	10.5%
Electronics	17.3%	17.4%	17.9%	16.0%	11.4%	10.8%
Conglomerates	19.3%	19.0%	19.3%	10.1%	11.0%	14.4%
Utilities	20.3%	20.1%	16.9%	17.4%	18.8%	21.2%
Healthcare	41.1%	43.1%	48.1%	28.9%	29.0%	27.4%
Auto	18.1%	19.7%	19.0%	15.0%	15.1%	14.9%
Environmental protection	25.3%	25.9%	24.1%	25.1%	26.1%	25.6%
Petrochemicals	8.5%	6.3%	7.1%	1.6%	2.7%	2.9%
Non-ferrous metals	14.3%	18.0%	19.8%	9.4%	9.2%	11.4%
Telecom	31.3%	28.4%	32.7%	26.4%	25.7%	24.8%
Transportation	4.8%	4.5%	4.5%	4.7%	5.0%	4.9%
Media	57.1%	53.6%	55.7%	30.4%	29.9%	29.3%
Chemicals	18.1%	17.6%	17.7%	14.7%	14.3%	14.1%
Social services	27.8%	27.1%	25.4%	20.6%	18.9%	21.5%
Light manufacturing	25.7%	25.0%	24.7%	20.3%	19.7%	18.4%
National Defence	17.0%	5.5%	20.1%	20.5%	20.0%	14.1%
Food and beverage	29.2%	29.2%	27.8%	49.4%	51.9%	58.3%
Coal	13.4%	14.6%	25.7%	18.0%	16.1%	19.7%
Beauty treatments	40.2%	38.4%	38.4%	52.9%	55.7%	49.3%
Steel	10.8%	7.7%	10.9%	5.5%	4.3%	6.8%

Source: Wind, UBS-S estimates. Note: We aggregated data for all non-financial A-share companies that disclosed overseas revenue. The top five business segments by revenue are included in the calculation. Number of non-financial A-share companies that disclosed overseas revenue: 3,689 in 2023, 3,745 in 2024, and 3,818 in 2025.

When will market style shift to the consumer sector?

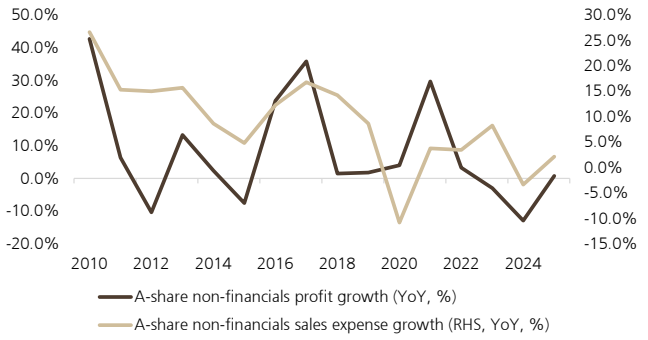
Weakness in the property market and the resulting negative wealth effect on Chinese households represent one of the most critical factors behind the weaker-than-expected recovery in consumer spending in recent years. Beyond the decline in housing prices in prior years, household employment security and income expectations have also been key constraints on consumer spending recovery over the past few years. We note that per-capita compensation growth for non-financial A-share enterprise demonstrates strong correlation with corporate earnings growth, with correlation coefficient of 0.54 over the past 16 years. Concurrently, earnings growth in non-financial A-share sectors exhibited a strong correlation with selling expenses growth. Should all A-share earnings achieve 11% growth in 2026 (our base-line forecast), this would highly likely drive a gradual acceleration in both per-capita compensation growth and selling expense growth, thereby facilitating consumer spending recovery and providing marginal upside to relevant consumer sectors.

Figure 33: Earning growth vs per-capita compensation growth for A-share non-financial sector



Source: Wind, UBS-S

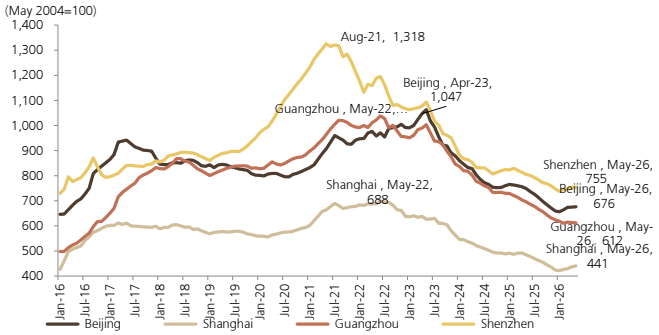
Figure 34: Earnings growth vs. selling Expenses growth for A-share non-financial sectors



Source: Wind, UBS-S

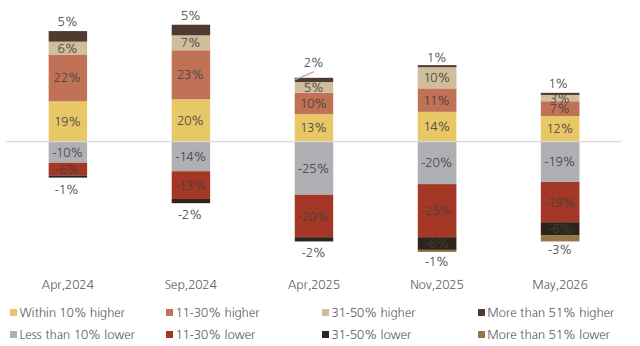
We observe that housing prices have stabilized and even posted modest rebounds in select markets recently, with corresponding mitigation of negative wealth effect. First, according to Centaline Property data, secondary home prices across the four Tier-1 cities have gradually stabilized since January 2026, with secondary home price indices in Beijing and Shanghai rebounding by 2.6ppt and 4.0ppt, respectively, from end-2025 levels. Meanwhile, in the May 2026 UBS Evidence Lab China Housing Survey, 47% of respondents reported unrealized losses on their properties holdings, representing a marginal improvement from 52% in the November 2025 survey. Nevertheless, following the substantial correction in housing prices over recent years, both asset price recovery and the restoration of household confidence in China will take time.

Figure 35: Secondary home prices across Tier-1 cities have gradually stabilized since January 2026



Source: Centaline Property, UBS-S

Figure 36: 47% of respondents reported unrealized losses on their properties holdings in the latest UBS Evidence Lab China Housing Survey



Source: UBS Evidence Lab (>Access Dataset)

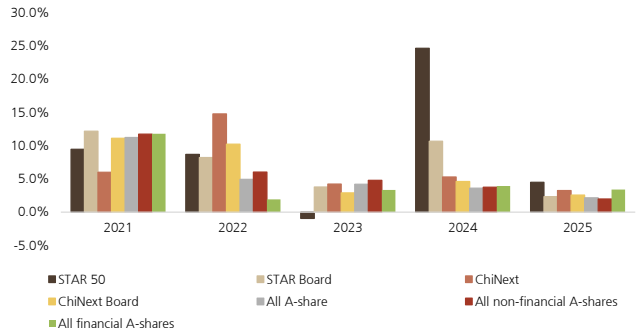
Employment security and income growth for Chinese households are also important indicators for assessing the progress of China's consumer spending recovery. We conduct a bottom-up aggregation of total employee and total compensation across all A-share enterprises to gauge employment dynamics and income growth prospects among China's leading companies. We observe that from 2021 onwards, overall A-share employment headcounts have shown YoY growth.

In terms of per-capita compensation, A-share per-capita compensation growth has decelerated YoY since 2021, moderating from 11.2% in 2021 to 2.1% in 2025. Among market segments, per-capita compensation growth in STAR 50 and ChiNext constituent companies has meaningfully outpaced the broader A-share market in 2024 and 2025. However, given the "high tech value-added and low labor-intensive" characteristics of technology innovation-focused index constituents companies, they employ relatively small workforces, with combined headcount representing only 5.4% of total A-share employment. In addition, the combined ChiNext- and STAR Board employee headcount accounted for only 15.4% of total A-share employment in 2025. Therefore, their faster per-capita compensation growth has a limited impact on broader A-share market. We

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believe that should listed Chinese enterprises steadily enhance employee compensation, stabilize employee income expectations and expand employment scale, this would provide crucial support for a broader recovery in consumer spending. That said, this will similarly require more time, as would household balance sheet repair and property market stabilization.

Figure 37: Per-capita compensation growth in by A-share market segments (2021-2025)



Source: Wind, UBS-S

Figure 38: Employee headcount by A-share market segments



Source: Wind, UBS-S

***UBS Evidence Lab** is a sell-side team of experts that work across numerous specialized labs creating insight-ready datasets. The experts turn data into evidence by applying a combination of tools and techniques to harvest, cleanse, and connect billions of data items each month. Since 2014, UBS Research analysts have utilized the expertise of UBS Evidence Lab for insight-ready datasets on companies, sectors, and themes, resulting in the production of thousands of differentiated UBS Research reports. UBS Evidence Lab does not provide investment recommendations or advice but provides insight-ready datasets for further analysis by UBS Research and by clients. All published UBS Evidence Lab content is available via UBS Neo. The amount and type of content available may vary. Please contact your UBS sales representative if you wish to discuss access.*

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-driven to a consumption-driven economy and increase the debt of government and state-owned enterprises.