China Equity Strategy

Thematic Rotation into Financials, Commodities and Healthcare; Earnings-Backed Alpha Screen

Equity Macro Research

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For September, we regard AI names to still be at attractive entry points, though the alpha set is broadening. We examine the investment opportunities in China equities via four lenses, namely price momentum, domestic mutual fund holdings, offshore positioning shifts and financial fundamentals. Our analysis is a two-track framework: for crowded sectors, the test is whether EPS growth can absorb valuation compression (a hurdle IT/AI currently clears); for under-owned sectors, it is whether earnings acceleration justifies a positioning rebuild. Our conclusions are twofold. **On AI, we remain constructive, favoring domestic AI supply chain players: Iluvatar CoreX (H), V-Test (A), JCET (A), AMEC (A), and NAURA (A). MXCN/CSI-300 IT sector FTM EPS growth stands at 46%/52%, enough to cushion any P/E compression from a bear-flattening UST curve** (Figure 6). **Beyond AI and high shareholder-return names, we also favor healthcare, brokers, shipping, ports, logistics, and chemicals. Our screen identifies A-shares with two consecutive quarters of accelerating earnings and improving OCF in 2Q26** (Figure 5).

- **Rebalancing continues into the less crowded, under-owned areas.** Investors we met in China and Singapore appeared midway through a portfolio rebalancing, with the majority actively seeking diversification. Gold, healthcare, and high yielders have become the default parking spots for incremental flows. The share of investors doing such rotation also raises the question of whether positioning is swinging to another extreme. The performance over the five trading days ending 1 Sep revealed a broadening of leadership, with the smartphone supply chain staying strong amidst Apple new product release on 9 Sep, while cloud computing, data centers, E-CNY and cybersecurity also caught up. In the non-AI space, entertainment and banks (notably SOE banks) stood out. We think themes such as entertainment, E-CNY and cybersecurity likely benefited from onshore investors' shift to small-cap to avoid selling pressure in mutual-fund crowded areas. Among the underperformers on past 5-day returns, energy storage and grid proxies got hurt by the US ban on China-made electrical equipment; healthcare gave back some of their previous gains; and traditional domestic demand names remain weak as evidenced by airlines, auto, domestic brands and retail in general.

- **Onshore mutual fund positioning: overlay the under-owned with EPS growth.** As of Q2 2026, onshore active mutual funds allocated 46% of their portfolios to IT, sitting 3.9SD above the historical mean—an extreme concentration unmatched by any other sector over the past decade (Figure 3 and Figure 4). This crowding reflects two reinforcing forces: fund managers actively adding to tech amid the AI and domestic semiconductor cycle, and tech-themed funds' AUM growing faster than peers, which mechanically lifts the sector's aggregate weight even without incremental buying decisions. On the other hand, consumer discretionary, staples and healthcare was at -3.3SD, -1.8SD, and -1.5SD below their respective historical means. While the former two are subject to concerns over weak domestic demand, healthcare became the easy choice supported by its healthy FTM EPS

See page 13 for analyst certification and important disclosures, including non-US analyst disclosures.

growth of c20%. Beyond healthcare, we see financials (at -1.1SD, in particular broker leaders) and industrials (at -0.9SD, transports as outperformers) also being supported by resilient EPS growth.

- **Offshore investor positioning & the impact of UST YTM increase on China equities.** JPM Asia Equity Strategy team notes that regional LO investors' key OWs are now in China EV/electrification (CATL the most OW stock in the region), consumer space (including Internet), as well as India banks and Korea holdcos and banks (Figure 28 - Figure 33). Key UWs were in Taiwan Financials, China Financials, most China small-caps, India Commodities, and now in Korea Tech. Amidst rising concerns over the AI trade, most of the allocation increases were in the form of trimming of UW positions, including several spaces in China (Financials, Tech and Defensives). Our regional strategists note that in the near term, a combination of (1)likely more restrictive monetary policy and tighter liquidity ahead, (2) worsening cycle indicators (QMI) in Asia, (3) risk aversion heading the into mid-term elections in the US, (4) a lack of new earnings catalysts until 3Q reports in October, and (5) poor seasonality offer reasons to be cautious over the coming weeks. Our study on the UST YTM yield increases' impact on China equities shows that FTM P/E multiples tend to contract during periods of bear flattener with UST 2Y YTM increasing faster than UST 10Y YTM, often amidst a policy rate hike cycle. That said, we also find that while valuation multiple contraction averaged -20% for MXCN, 1) high yielders together with healthcare, real estate and industrials tend to be less sensitive on FTM P/E contraction; and 2) outstanding FTM EPS growth can offset this at the sector level. Current consensus estimates on FTM EPS growth view IT (+46%) as the most likely sector to have EPS growth offsetting any P/E contraction.

- **Stock screens: four alpha clusters for 2H26.** To identify emerging potential fundamental winners for 2H26, we screen for A-shares with two consecutive quarters of accelerating earnings growth, simultaneous q-q and y-y acceleration in OCF in 2Q26 and market cap of >$1bn (Figure 5). The objective is to capture business cycles where improving demand, margin expansion and operating leverage are already converting into cash generation. The resulting screen highlights four distinct alpha opportunities. **First, AIDC build-out and rising technology sophistication**. Beyond volume growth, these companies are benefitting from higher product complexity, higher ASPs and better margins, including PCB, CCL, optical fibre and connectivity, optical laser chips, MLCC, and foundry. **Second, selected capex expansion**, including power/grid equipment, thermal management, battery equipment, and mining machinery, among others, though electrical equipment is now subject to the US ban on China-produced goods. **Third, improving pricing power and margin expansion across selected materials segments**, which is seen in wider chemical spreads, utilization recovery in battery separators, and product-mix upgrades in advanced materials exposed to AI and electronics demand. The common theme is a transition from industry destocking and excess capacity pressure towards a healthier supply-demand balance. **Fourth, operating leverage and yield expansion in high fixed-cost infrastructure assets**. Hydropower benefits from stronger generation volumes, railways from both passenger traffic recovery and fare optimization, and ports from throughput and pricing

improvement. This cohort's earnings acceleration is driven less by new capacity additions and more by higher asset utilization and revenue yield.

- **We maintain our OW China equities in our EM/Asia allocations and our end-2026 base case targets for the MXCN index and CSI-300 at 100 and 5,200, respectively,** underpinned by 14% and 25% consensus year-over-year EPS growth projections. Liquidity remains abundant, though yet to return to the excessive levels that we observed in June. Initial 2Q26 results show that AI remains a tier-1 growth theme outperforming the broad China equity space on financials. We believe such outperformance can support a rebound of the AI ecosystem in 3Q26, though liquidity turbulence could make the path choppy. For investors looking for diversification, our top picks in the non-AI fields include Meituan, Bank of China-H, Bank of Ningbo, CICC-H, Innovent, BYD-H and CR Land. Chinese policy makers' initiatives to balance equity issuance and buybacks may also lend support to the higher shareholder return theme in 2H26.

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Figure 1: Thematic top/bottom performers on Aug 2026 return

Theme	5d price return	1m price return	YTD price return	RSI 14d
CPO	4.6	**34.1**	74.3	47.9
PCB (A-shares)	9.7	**28.7**	70.1	47.9
Gold	-0.1	**27.2**	13.6	60.6
CDMO	-3.9	**24.8**	52.5	58.5
High US exposure	-3.3	**19.4**	60.9	63.6
Rare earth (A-shares)	2.6	**18.5**	21.5	47.9
Healthcare leaders	-4.7	**18.4**	47.1	55.4
Huawei supply chain	9.4	**17.4**	27.9	57.8
Smartphone supply chain	7.7	**17.3**	43.2	47.9
Nuclear fusion	3.3	**16.5**	-0.1	48.4
Smartgrid	-3.4	**-3.6**	-8.8	47.9
Domestic brands	-3.1	**-3.8**	-17.6	42.8
Online gaming	1.4	**-4.1**	-20.8	47.9
Infrastructure	-1.3	**-4.3**	-8.2	38.0
Solar	-3.0	**-4.4**	-35.9	47.9
Retail	0.5	**-6.6**	-21.7	37.3
Auto	-4.5	**-9.3**	-25.3	37.3
Pure EV	-2.4	**-9.5**	-27.6	39.9
Internet	0.6	**-10.0**	-29.0	32.6
Airlines	-5.1	**-12.5**	-47.0	33.4

Source: Bloomberg Finance L.P. (31 Aug 2026)

Figure 2: Thematic top/bottom performers on 5d return ending 1 Sep

Theme	5d price return	1m price return	YTD price return	RSI 14d
Entertainment	**8.5**	11.2	-13.5	65.3
Cybersecurity	**6.9**	3.5	-24.7	47.9
Huawei supply chain	**6.1**	15.0	25.4	57.8
Cloud computing (A-share)	**6.0**	4.0	-9.8	47.9
DeepSeek ecosystem	**5.1**	0.2	-20.9	47.9
SOE banks	**4.3**	4.2	19.1	73.9
E-CNY	**4.2**	6.8	-31.0	47.9
Quantum Computing	**4.0**	12.2	23.0	47.9
Autonomous driving	**3.9**	4.6	-11.6	47.9
Coal	**3.6**	11.1	25.5	67.1
Retail	**-3.2**	-8.3	-23.1	37.3
Domestic brands	**-3.3**	-3.6	-17.5	42.8
Pharmaceuticals	**-3.8**	-2.6	-15.1	41.1
Smartgrid	**-4.6**	-4.4	-9.5	47.9
Pure EV	**-4.8**	-9.9	-27.9	39.9
Biotech	**-4.9**	7.0	12.1	47.1
Auto	**-5.5**	-9.6	-25.5	37.3
Healthcare leaders	**-5.8**	18.5	47.2	55.4
Airlines	**-6.9**	-12.8	-47.1	33.4
Energy storage	**-7.4**	-1.2	-7.9	36.0

Source: Bloomberg Finance L.P. (1 Sep 2026)

Figure 3: Onshore mutual funds' percentage sector positioning

Sector	06 '26	12 '25	06 '25	12 '24	06 '24	12 '23	06 '23	12 '22	06 '22	12 '21	06 '21	12 '20	06 '20	12 '19	06 '19	12 '18	06 '18	12 '17	06 '17	12 '16	06 '16	12 '15	06 '15	12 '14	06 '14	12 '13	06 '13
IT	46	28	26	23	20	22	24	19	17	19	17	18	23	21	16	15	14	15	15	16	20	23	20	13	16	14	11
Industrials	12	15	14	15	15	14	15	17	16	16	14	13	10	10	9	11	9	13	14	18	17	16	16	15	14	15	13
Materials	11	14	8	8	9	9	9	11	15	15	13	12	6	7	5	6	9	10	10	10	11	9	7	7	6	6	5
Healthcare	9	13	15	14	14	18	15	16	14	13	16	14	21	13	12	12	14	9	11	11	11	10	11	9	16	15	14
Cons Discre	5	10	13	13	11	10	9	9	10	10	11	13	11	13	13	12	14	14	14	13	12	14	11	11	13	14	12
Cons Staples	3	5	7	7	8	10	9	12	11	10	11	13	13	12	16	11	11	10	6	5	6	4	4	5	7	9	8
Financials	2	3	4	4	3	3	2	2	3	4	5	5	3	8	10	10	6	9	8	5	4	4	6	16	4	5	6
Energy	1	1	1	2	3	2	1	1	1	1	1	1	0	1	1	2	2	1	1	2	2	1	1	1	2	2	2
Utilities	0	1	1	1	3	2	2	2	2	2	1	0	0	1	1	2	1	1	3	3	3	3	2	2	1	1	2
Real Estate	0	1	1	1	1	1	1	1	1	1	1	1	1	4	3	3	2	2	2	2	2	2	3	7	3	3	6
Comm Svs	0.3	0.8	1.5	1.4	1.5	0.9	0.4	0.3	0.3	0.1	0.2	0.0	0.1	0.1	0.2	0.3	0.1	0.2	0.8	0.7	0.2	0.2	0.3	0.3	0.3	0.3	0.3

Source: Wind (2 Sep 2026)

Figure 4: Onshore mutual funds' sector holding on standard deviation vs respective history

Sector	06 '26	12 '25	06 '25	12 '24	06 '24	12 '23	06 '23	12 '22	06 '22	12 '21	06 '21	12 '20	06 '20	12 '19	06 '19	12 '18	06 '18	12 '17	06 '17	12 '16	06 '16	12 '15	06 '15	12 '14	06 '14	12 '13	06 '13
IT	3.9	1.2	0.9	0.5	0.0	0.3	0.6	-0.1	-0.4	-0.1	-0.4	-0.2	0.6	0.1	-0.5	-0.8	-0.9	-0.7	-0.7	-0.5	0.1	0.5	0.1	-0.9	-0.5	-0.9	-1.3
Industrials	-0.9	0.4	-0.1	0.6	0.5	0.1	0.5	1.2	1.0	0.9	0.0	-0.4	-1.6	-1.5	-2.0	-1.2	-2.0	-0.6	0.0	1.7	1.1	0.8	0.8	0.3	0.0	0.6	-0.3
Materials	0.7	1.8	-0.4	-0.5	0.0	0.1	0.0	0.5	1.9	1.9	1.4	0.9	-1.1	-0.9	-1.4	-1.2	0.1	0.3	0.2	0.4	0.6	0.0	-0.8	-0.8	-1.1	-1.0	-1.3
Healthcare	-1.5	-0.2	0.7	0.2	0.4	1.6	0.7	0.9	0.1	-0.2	0.8	0.4	2.7	0.0	-0.3	-0.3	0.3	-1.7	-1.0	-0.8	-1.0	-1.3	-0.7	-1.4	1.0	0.5	0.1
Cons Discre	-3.3	-0.9	0.5	0.6	-0.5	-1.0	-1.1	-1.1	-0.5	-0.9	-0.2	0.5	-0.2	0.6	0.5	0.2	1.2	1.0	1.2	0.9	0.1	1.2	-0.1	-0.4	0.7	1.0	0.1
Cons Staples	-1.8	-1.1	-0.6	-0.5	-0.2	0.3	0.2	1.0	0.8	0.4	0.7	1.4	1.3	1.0	2.3	0.7	0.6	0.3	-0.7	-1.2	-0.8	-1.3	-1.3	-1.2	-0.5	0.1	-0.1
Financials	-1.1	-0.7	-0.4	-0.5	-0.6	-0.8	-0.9	-0.9	-0.7	-0.5	-0.2	0.0	-0.8	0.8	1.5	1.4	0.3	1.0	1.0	-0.2	-0.4	-0.6	0.1	3.5	-0.3	-0.1	0.2
Energy	-0.5	-0.6	-0.8	0.3	2.1	1.6	0.1	0.1	-0.1	-1.2	-0.9	-1.6	-1.9	-0.4	-0.4	1.1	1.0	0.0	-0.4	0.8	0.6	-1.0	-0.9	0.0	0.4	0.8	1.9
Utilities	-1.4	-1.2	-0.8	-0.1	1.9	0.3	0.4	0.1	0.0	0.6	-1.2	-1.5	-1.6	-0.9	-0.5	0.9	-0.2	-0.3	1.4	1.2	1.9	1.2	-0.1	0.5	-0.6	-0.3	0.3
Real Estate	-1.0	-0.9	-0.7	-0.7	-0.7	-0.8	-0.8	-0.5	-0.5	-0.6	-0.8	-0.7	-0.5	0.9	0.5	0.9	0.1	0.2	-0.2	-0.3	-0.2	-0.1	0.4	3.1	0.6	0.8	2.5
Comm Svs	-0.4	0.7	2.5	2.2	2.5	1.1	-0.2	-0.4	-0.4	-0.7	-0.5	-0.9	-0.8	-0.9	-0.5	-0.3	-0.8	-0.5	0.7	0.5	-0.6	-0.6	-0.4	-0.4	-0.2	-0.4	-0.4

Source: Wind (2 Sep 2026)

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Figure 5: A-share stock screen ranked by YTD return: (1) two consecutive quarters of accelerating earnings growth, (2) simultaneous q-q and y-y acceleration in operating cash flow in 2Q26, (3) market cap > $1bn

RIC Code	Name	Name	GICS Sector	Market cap (US$ bn)	YTD return (%)	FTM PE (x)	FY1 EPS growth (%)	Net profit q-q 1Q26 (%)	Net profit q-q 2Q26 (%)	OCF q-q 2Q26 (%)	OCF y-y 2Q26 (%)
601869.SH	Yangtze Optical Fibre and Cable Joint Stock Co	长飞光纤	Information Technology	24.2	251	30	832	44	391	96	197
688498.SH	Yuanjie Semiconductor Technology	源杰科技	Information Technology	27.5	234	148	304	111	138	1030	597
300408.SZ	Chaozhou Three-circle (Group)	三环集团	Information Technology	31.2	137	38	69	20	44	628	29
002859.SZ	Zhejiang Jiemei Electronic and Technology	洁美科技	Materials	4.3	132	47	105	9	88	221	37
300285.SZ	Shandong Sinocera Functional Material	国瓷材料	Materials	9.5	129	64	33	18	55	70	19
688347.SH	Hua Hong Grace Semiconductor	华虹宏力	Information Technology	15.2	125	256	254	11	86	173	97
600183.SH	Shengyi Technology	生益科技	Information Technology	52.2	104	35	115	30	84	322	44
601872.SH	China Merchants Energy Shipping	招商轮船	Energy	22.1	101	11	135	2	52	45	124
001389.SZ	Delton Technology (Guangzhou) Inc	广合科技	Information Technology	9.9	91	20	107	34	43	93	155
002768.SZ	Qingdao Gon Technology	国恩股份	Materials	3.7	75	23	16	13	55	43	24
002648.SZ	Satellite Chemical	卫星化学	Materials	14.3	59	9	101	36	94	236	115
300257.SZ	Kaishan Group	开山股份	Industrials	2.7	30	NULL	NULL	33	40	693	9
002167.SZ	Guangdong Orient Zirconic Ind Sci & Tech	东方锆业	Materials	1.9	29	NULL	NULL	44	196	310	18
001872.SZ	China Merchants Port Group	招商港口	Industrials	8.4	29	NULL	NULL	41	46	113	24
603127.SH	Joinn Laboratories China	昭衍新药	Health Care	4.2	28	67	82	10	114	158	238
300223.SZ	Ingenic Semiconductor Co.,.	君正股份	Information Technology	9.7	25	25	388	165	175	243	188
301376.SZ	Ziel Home Furnishing Technology	致欧科技	Consumer Discretionary	1.3	24	16	47	17	127	130	45
300739.SZ	Sunshine Global Circuits	明阳电路	Information Technology	1.3	23	NULL	NULL	73	124	132	767
300820.SZ	Sichuan Injet Electric	英杰电气	Industrials	1.9	20	33	45	22	66	216	112
300628.SZ	Yealink Xiamen Network Technology	亿联网络	Information Technology	7.9	20	15	23	2	32	127	12
002222.SZ	Castech Inc	福晶科技	Information Technology	4.7	18	NULL	NULL	8	77	213	175
002635.SZ	Suzhou Anjie Technology	安洁科技	Industrials	1.5	13	NULL	NULL	226	270	180	40
002128.SZ	Inner Mongolia Dian Tou Energy Corp	电投能源	Energy	13.7	10	8	39	54	64	111	174
600900.SH	China Yangtze Power	长江电力	Utilities	103.4	10	19	8	7	18	6	2
000722.SZ	Hunan Energy Group Development	湖南发展	Utilities	1.2	9	NULL	NULL	61	1214	1642	431
688578.SH	Shanghai Allist Pharmaceuticals	艾力斯	Health Care	7.3	7	15	33	11	42	61	27
300726.SZ	Zhuzhou Hongda Electronics Corp	宏达电子	Information Technology	3.3	5	NULL	NULL	27	40	1599	41
603055.SH	Zhejiang Taihua New Material Group	台华新材	Consumer Discretionary	1.3	3	11	37	17	91	17	175
688617.SH	APT Medical Inc	惠泰医疗	Health Care	5.3	1	29	28	16	34	86	28
688981.SH	Semiconductor Manufacturing International Corp	中芯国际	Information Technology	47.8	(0)	101	96	11	128	205	121
301175.SZ	Beijing China Sciences Runyu Environmental Technology	中科环保	Industrials	1.3	(2)	16	28	3	65	278	43
301029.SZ	Dongguan Yiheda Automation	怡合达	Industrials	2.4	(2)	22	29	37	46	42	18
601816.SH	Beijing-Shanghai High Speed Railway	京沪高铁	Industrials	35.7	(3)	16	10	10	15	42	15
688018.SH	Espressif Systems (Shanghai) Co.,.	乐鑫科技	Information Technology	4.3	(3)	35	34	12	46	1920	75
002545.SZ	Qingdao East Steel Tower Stock	东方铁塔	Materials	3.4	(3)	NULL	NULL	6	43	31	60
603235.SH	JiangXi Tianxin Pharmaceutical	天新药业	Consumer Staples	1.6	(7)	NULL	NULL	12	17	80	53
601100.SH	Jiangsu Hengli Hydraulic Co.,.	恒立液压	Industrials	20.3	(8)	34	21	1	20	42	30
603599.SH	Anhui Guangxin Agrochemical	广信股份	Materials	1.4	(10)	9	47	15	27	12	106
002444.SZ	Hangzhou GreatStar Industrial	巨星科技	Consumer Discretionary	5.4	(11)	11	15	45	53	988	70
002812.SZ	Yunnan Energy New Material (Group)	恩捷股份	Materials	7.6	(11)	15	1,283	14	115	362	1011
603193.SH	Runben Biotechnology	润本股份	Consumer Staples	1.3	(12)	20	22	9	228	11373	26
002703.SZ	Zhejiang Shibao	浙江世宝	Consumer Discretionary	1.6	(14)	NULL	NULL	36	48	1741	1189
002511.SZ	C&S Paper	中顺洁柔	Consumer Staples	1.4	(17)	18	37	16	20	6	411
603915.SH	Jiangsu Guomao Reducer	国茂股份	Industrials	1.4	(24)	25	41	11	51	5115	102
601608.SH	CITIC Heavy Industries	中信重工	Industrials	3.3	(27)	36	48	5	20	1788	304
603262.SH	TSI Group	技源集团	Consumer Staples	1.2	(29)	43	(5)	34	119	269	88
002050.SZ	Zhejiang Sanhua Intelligent Controls	三花智控	Industrials	20.0	(35)	29	8	13	20	26	73
300450.SZ	Wuxi Lead Intelligent Equipment	先导智能	Industrials	7.6	(36)	17	53	7	36	127	91

Source: Wind (2 Sep 2026), J.P. Morgan.

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Figure 6: MXCN performance during selected periods of UST 10Y YTM rising by at least 50bps

	Since 1990s			Since 2010		
FTM PE change	**Median**	**Bear steepener**	**Bear flattener**	**Median**	**Bear steepener**	**Bear flattener**
MSCI CHINA	3.0	6.4	-3.5	-7.9	6.4	19.8
IT	6.1	8.2	-14.3	-7.2	6.1	21.7
Energy	9.1	9.5	0.7	5.6	9.1	25.0
Financials	-0.6	2.6	-3.8	-3.5	-1.8	10.7
Industrials	3.2	3.5	2.0	-8.6	-7.6	11.9
Materials	2.9	13.1	-15.7	-0.8	9.1	34.8
Utilities	-3.3	-3.0	-5.7	-6.7	-3.5	10.0
REALES	3.8	13.0	-2.9	3.8	13.0	-2.9
COMM Services	0.0	-0.2	0.3	-7.5	-6.5	32.4
Cons Discr	7.3	19.4	4.9	16.2	0.8	23.8
Health Care	-3.2	-3.4	5.9	-3.3	-3.4	-1.4
Cons Staples	6.6	17.6	-9.8	-6.8	0.2	17.3

	Since 1990s			Since 2010		
FTM EPS change	**Median**	**Bear steepener**	**Bear flattener**	**Median**	**Bear steepener**	**Bear flattener**
MSCI CHINA	4.8	0.7	10.3	2.9	0.9	6.6
IT	5.5	6.6	-5.6	12.8	15.2	10.4
Energy	0.5	-3.3	24.9	5.9	-6.7	63.4
Financials	5.1	1.2	8.7	6.7	1.2	8.3
Industrials	0.1	0.0	7.3	-0.2	0.0	-0.4
Materials	3.3	-1.7	32.0	6.3	-6.4	46.3
Utilities	2.5	3.7	1.2	-0.1	-0.6	8.3
REALES	-3.9	-15.9	0.9	-3.9	-15.9	0.9
COMM Services	3.4	2.1	6.2	2.7	3.4	-11.0
Cons Discr	-2.4	1.9	-4.5	-1.1	1.9	-4.1
Health Care	2.0	2.0	-0.3	4.6	6.4	2.9
Cons Staples	2.5	1.1	2.5	-3.1	-8.8	0.0

	Since 1990s			Since 2010		
Price change	**Median**	**Bear steepener**	**Bear flattener**	**Median**	**Bear steepener**	**Bear flattener**
MSCI CHINA	6.9	8.7	6.8	-6.1	-2.9	-14.0
Information Technology	8.7	18.1	-5.8	3.5	31.6	-13.9
Energy	15.1	3.7	24.1	5.6	3.0	25.5
Financials	13.2	16.6	8.0	-4.2	-3.4	-5.1
Industrials	6.4	6.4	3.2	-6.7	-4.9	-12.4
Materials	8.6	15.9	7.5	-5.9	-3.6	-10.7
Utilities	1.3	1.3	2.8	-9.6	-12.6	-6.6
REALES	-11.3	5.9	-13.1	-11.3	5.9	-13.1
COMM Services	1.1	1.3	1.0	-13.7	-3.5	-31.0
Cons Discr	2.8	7.3	-3.5	-13.3	-1.7	-28.8
Health Care	-0.6	-1.0	6.9	-2.3	-3.7	5.3
Cons Staples	10.6	9.4	12.6	-18.2	-17.5	-21.7

Source: LSEG Workspace (3 Sep 2026), Wind (3 Sep 2026)



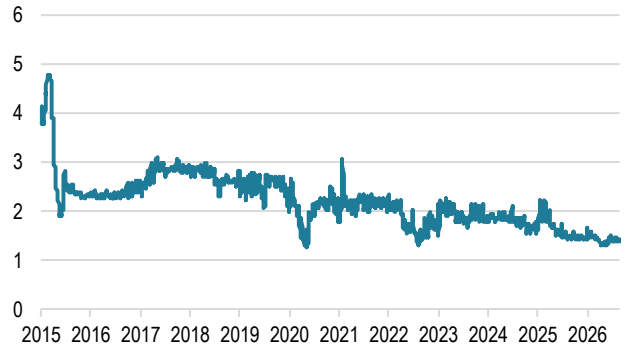
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Flows & Positioning

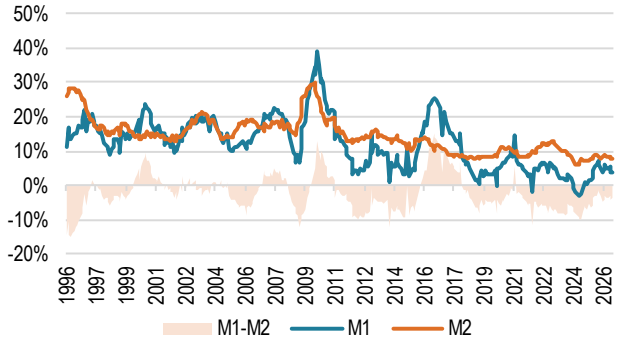
1. Macro indicators

Figure 7: Rolling 5-day DR007



Source: Wind (1 Sep 2026).

Figure 8: M1, M2, and M1-M2



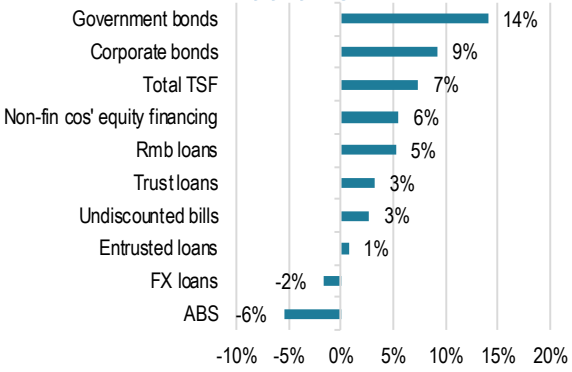
Source: Wind (1 Sep 2026).

Figure 9: China total social financing (TSF) balance y-y



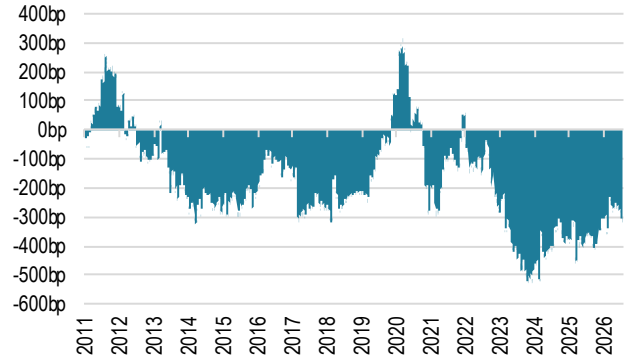
Source: Wind (1 Sep 2026).

Figure 10: China TSF balance y-y by segment in June



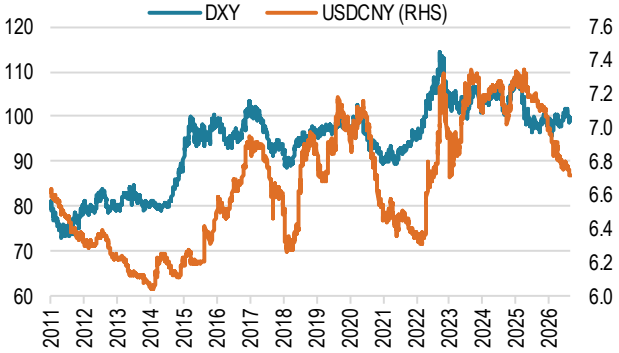
Source: Wind (1 Sep 2026).

Figure 11: China-US real 10-year government bond yield spread



Source: Wind (1 Sep 2026).

Figure 12: DXY and USD/CNY

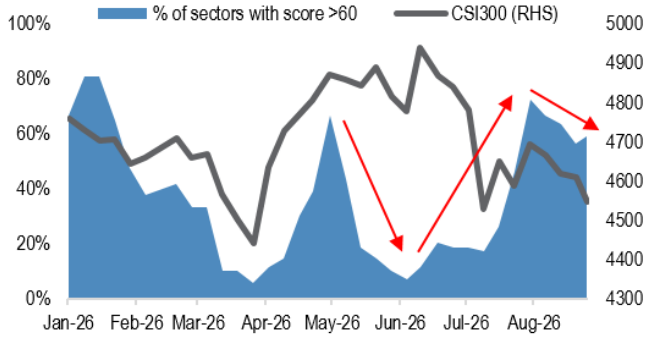


Source: Wind (1 Sep 2026).

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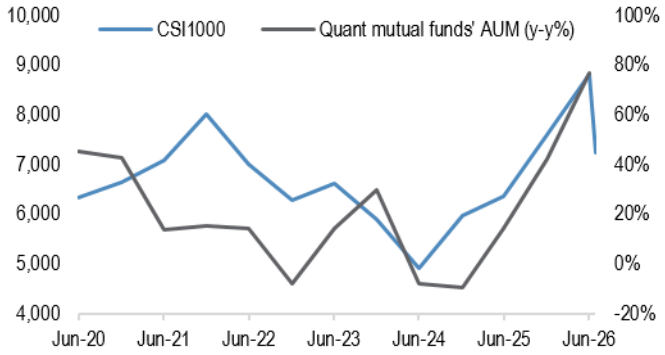
2. A-share flows and positioning

Figure 13: A-share L3 sector momentum tracker (Max=100, Min=0): As expected, the breadth of return leadership narrowed along with a softer market turnover



Source: Wind (02 Sep 2026).

Figure 14: Onshore quant mutual fund AUM vs. CSI1000



Source: Wind (28 July 2026).

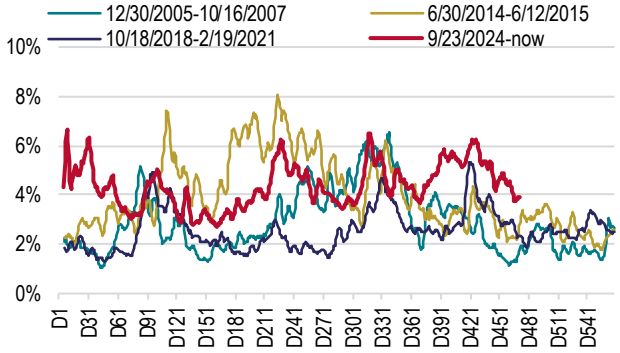
Figure 15: A-share sector momentum tracker (Max=100, Min=0), ranked by the latest score. Improving momentum in upstream (paper, coal, chemicals, metals), and select consumer sectors (durables, leisure, and hog).

Industry	Industry	8/7/2026	9/2/2026	change	Ticker	#1 stock by mkt cap
Top 10						
Paper & Forest Products	纸与林业产品	69	100	31	002078.SZ	Shandong Sun Paper Co Ltd
Building Products	建筑产品Ⅲ	23	100	77	603256.SH	Grace Fabric Technology Co Ltd
Household Durables	家庭耐用消费品	55	100	45	603816.SH	Jason Furniture Hangzhou Co Ltd
Coal	煤炭Ⅲ	72	100	28	601088.SH	China Shenhua Energy Co Ltd
Basic Chemicals	基础化工	55	94	39	600309.SH	Wanhua Chemical Group Co Ltd
Hotels, Restaurants & Leisure	酒店、餐馆与休闲	84	94	10	600754.SH	Shanghai Jin Jiang International Hotels Co Ltd
Food Products	食品	94	94	0	002714.SZ	Muyuan Foods Group Co Ltd
Precious Metals	贵金属	84	92	8	601899.SH	Zijin Mining Group Co Ltd
Marine Transport	海上运输Ⅲ	80	86	6	601919.SH	COSCO Shipping Holdings Co Ltd
Other Metals & Mining	其他金属与采矿	56	81	25	603993.SH	CMOC Group Ltd
Bottom 10						
Industrials Conglomerates	工业集团Ⅲ	80	20	(60)	000009.SZ	China Baoan Group Co Ltd
Software	软件	78	17	(61)	300033.SZ	Hithink RoyalFlush Information Network Co Ltd
Entertainment	娱乐	83	17	(66)	002602.SZ	Zhejiang Century Huatong Group Co Ltd
Pharmaceuticals	制药	92	16	(76)	688235.SH	BeOne Medicines AG
Electric Utilities	电力	80	12	(68)	600900.SH	China Yangtze Power Co Ltd
Energy Equip & Svcs	能源设备与服务	65	11	(54)	002353.SZ	Yantai Jereh Oilfield Services Group Co Ltd
Electrical Equipment	电气设备Ⅲ	55	5	(50)	300750.SZ	Contemporary Amperex Technology Co Ltd
Beverages	饮料	100	5	(95)	600519.SH	Kweichow Moutai Co Ltd
Airlines	航空客运Ⅲ	74	0	(74)	601111.SH	Air China Ltd
Automobiles	汽车	80	0	(80)	002594.SZ	BYD Co Ltd

Source: Wind (02 Sep 2026).

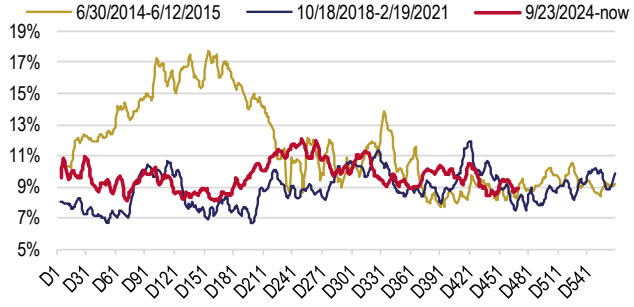
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Figure 16: A-share velocity: 5-day rolling average



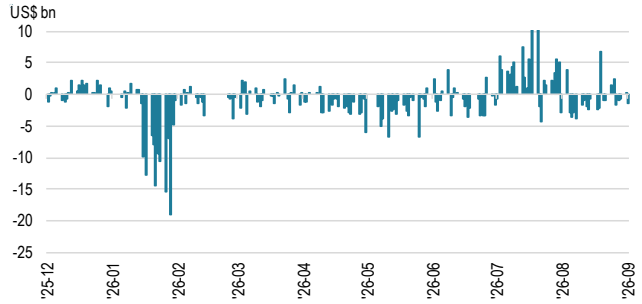
Source: Wind (1 Sep 2026)

Figure 17: Margin buy as % of A-share turnover: 5-day rolling average



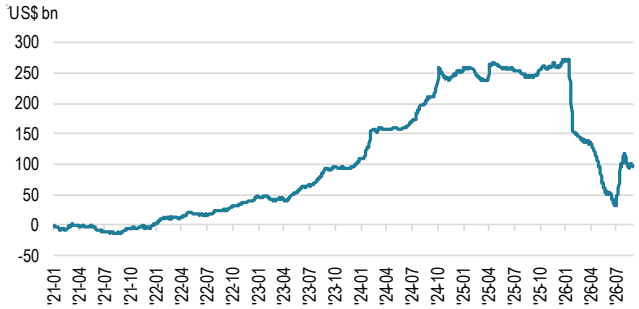
Source: Wind (1 Sep 2026)

Figure 18: A-share ETF daily inflows



Source: Wind (1 Sep 2026)

Figure 19: A-share ETF cumulative inflows



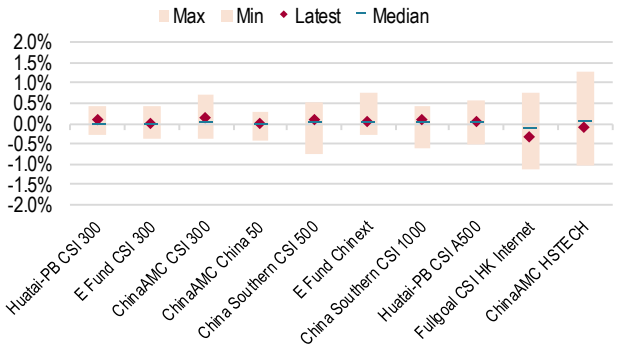
Source: Wind (1 Sep 2026)

Figure 20: 800-plus A-share ETFs' net flow by key benchmark

Inflows in (Rmb bn)	18 Dec 2023 - 9 Feb 2024	19 Feb 2024 - 9 Jan 2026	Jul 2026	Aug 2026
CSI300	254.3	356.7	44.8	-19.4
SSE50 + A50	35.1	30.0	2.7	-1.9
A500	0.0	204.9	45.2	-1.0
CSI500	32.5	31.6	23.4	-8.0
CSI1000	29.8	58.0	45.0	-30.2
CSI2000	6.2	-5.4	4.6	0.8
Chinext	24.6	-15.1	41.6	-6.1
STAR	9.4	-71.0	59.3	-1.9
Yield	12.2	60.5	-3.0	-10.4
Consumers	-2.4	33.0	-0.3	-1.1
Semis	-0.4	-25.4	121.5	8.9
IT hardware	0.0	0.7	30.1	-4.0
Rest	-0.9	184.2	123.9	-30.0
TOTAL	**400.3**	**842.6**	**538.8**	**-104.3**

Source: Wind (1 Sep 2026).

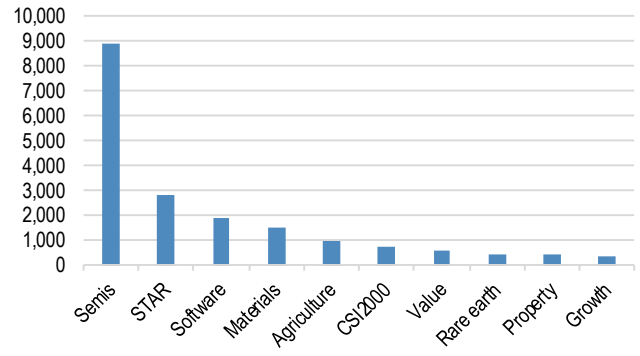
Figure 21: Select A-share ETFs' premium/discount ratios



Source: Wind (1 Sep 2026).

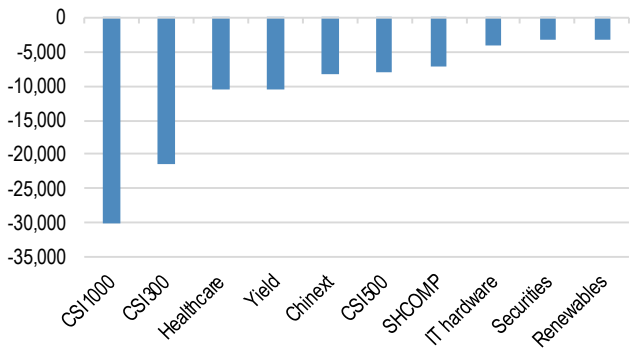
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Figure 22: 800-plus A-share ETFs' top verticals of net inflow in Aug
(Rmb mn)



Source: Wind (1 Sep 2026).

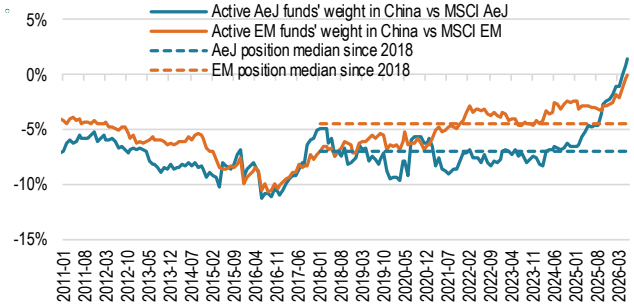
Figure 23: 800-plus A-share ETFs' top verticals of net outflow in Aug
(Rmb mn)



Source: Wind (1 Sep 2026).

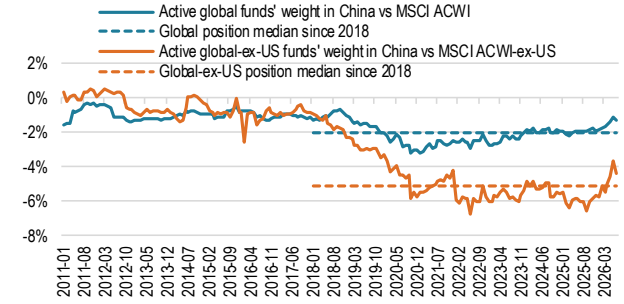
3. Offshore investors' positioning and flow in China equities

Figure 24: Active regional funds' position in China relative to MSCI benchmarks



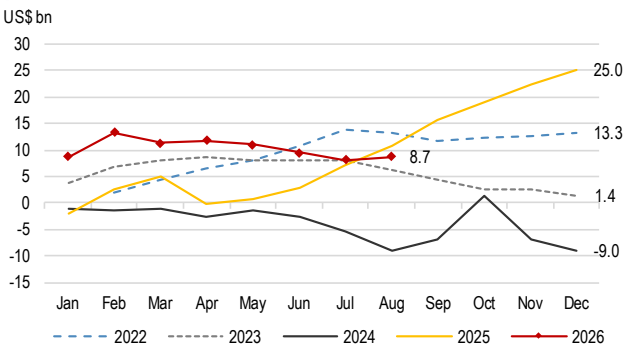
Source: EPFR Global (31 July 2026), MSCI (31 July 2026)

Figure 25: Active global funds' position in China relative to MSCI benchmarks



Source: EPFR Global (31 July 2026), MSCI (31 July 2026)

Figure 26: EPFR stock barometer tracked cumulative offshore fund flows into China equities YTD



Source: EPFR Global (28 August 2026).

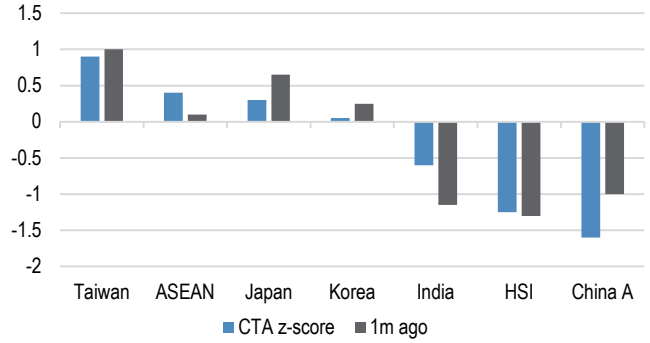
Figure 27: EPFR stock barometer tracked flow into China by sector

US$ mn	1 week	4 weeks	3 months
Communication Services	12.0	-11.9	-790.3
Consumer Discretionary	73.5	64.2	-1,063.7
Consumer Staples	8.6	28.4	-32.6
Energy	20.5	55.0	93.1
Financials	74.9	279.8	139.0
Health Care	15.8	33.4	13.2
Industrials	-23.1	31.7	-193.2
Information Technology	-78.6	79.8	-255.5
Materials	19.1	103.5	-14.9
Real Estate	7.2	14.2	-8.8
Utilities	1.9	16.0	-28.1
TOTAL	**131.8**	**694.1**	**-2,141.6**

Source: EPFR Global (28 August 2026).

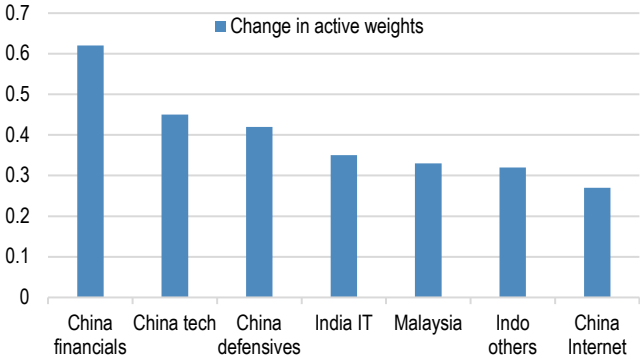
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Figure 28: CTA positioning likely most shorts in China



Source: Bloomberg Finance L.P. (1 Sep 2026)

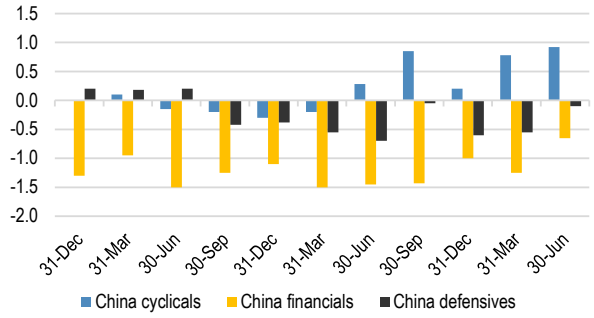
Figure 29: Biggest increases in LO investor allocation in 2Q26



Source: Bloomberg Finance L.P. (1 Sep 2026)

Figure 30: Various spaces in China continued to see improved allocations – in Financials as well as both Cyclicals and Defensive

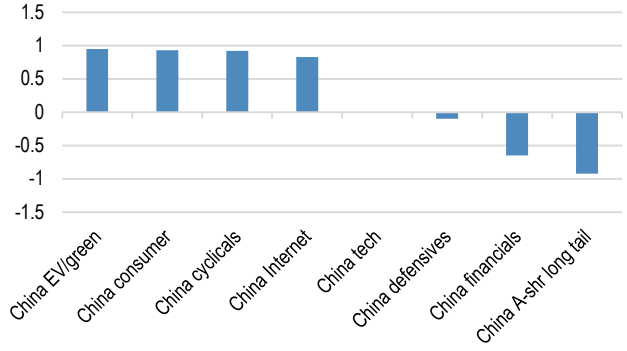
active weights



Source: Bloomberg Finance L.P. (1 Sep 2026)

Figure 31: EM/Asia LO investor allocations by category in China

active weights



Source: Bloomberg Finance L.P. (1 Sep 2026)

Figure 32: Top overweight (bps vs benchmark weight) stocks by EM/Asia LO investors – as of end June 2026

Allocation is ppts relative to benchmark weight

Ticker	Name	Sector	Industry Group	Market	Allocation (ppts)	Performance YTD (%)
300750 CH	CATL	Industrials	Capital Goods	CHINA	1.23	3.2
700 HK	Tencent Holdings Ltd	Communication Services	Media & Entertainment	CHINA	0.4	-25.1
9999 HK	NetEase Inc	Communication Services	Media & Entertainment	CHINA	0.39	-13.3
2318 HK	Ping An Insurance Group	Financials	Insurance	CHINA	0.37	-14.5
002371 CH	NAURA Technology Group	Information Technology	Semiconductors & Semiconductor	CHINA	0.32	62.1
000333 CH	Midea Group Co Ltd	Consumer Discretionary	Consumer Durables & Apparel	CHINA	0.32	13.8
9988 HK	Alibaba Group Holding Ltd	Consumer Discretionary	Consumer Discretionary Distrib	CHINA	0.29	-22.5
688008 CH	Montage Technology Co Ltd	Information Technology	Semiconductors & Semiconductor	CHINA	0.27	90.1
600031 CH	Sany Heavy Industry Co Ltd	Industrials	Capital Goods	CHINA	0.26	-6.2
2899 HK	Zijin Mining Group Co Ltd	Materials	Materials	CHINA	0.26	4.7

Source: Bloomberg Finance L.P. (1 Sep 2026)

Figure 33: Top underweight (bps vs benchmark weight) stocks by EM/Asia LO investors – as of end June 2026

Allocation is ppts relative to benchmark weight

Ticker	Name	Sector	Industry Group	Market	Allocation (ppts)	Performance YTD (%)
1398 HK	Industrial & Commercial Bank o	Financials	Banks	CHINA	-0.26	17.4
3988 HK	Bank of China Ltd	Financials	Banks	CHINA	-0.24	21.7
1810 HK	Xiaomi Corp	Information Technology	Technology Hardware & Equipmen	CHINA	-0.23	-30.5
PDD US	PDD Holdings Inc	Consumer Discretionary	Consumer Discretionary Distrib	CHINA	-0.2	-25.6
1347 HK	Hua Hong Grace Semiconductor	Information Technology	Semiconductors & Semiconductor	CHINA	-0.17	61.3
3690 HK	Meituan	Consumer Discretionary	Consumer Services	CHINA	-0.16	-27.5
857 HK	PetroChina Co Ltd	Energy	Energy	CHINA	-0.15	17
1088 HK	China Shenhua Energy Co Ltd	Energy	Energy	CHINA	-0.13	15.2

Source: Bloomberg Finance L.P. (1 Sep 2026)

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4. 2Q26 earnings summary

Figure 34: MXCN FTM EPS revision

	FTM EPS growth	FTM EPS growth revision		FTM EPS integer revision	
		Since end 2Q26	Since 20 Sep 2024	Since end 2Q26	Since 20 Sep 2024
Communication Services	6%	-2.4%	-9.2%	-3.1%	22.8%
Consumer Discretionary	38%	1.3%	19.2%	4.7%	-7.9%
Consumer Staples	15%	-1.1%	0.2%	0.3%	-2.2%
Energy	7%	-5.0%	4.7%	-0.8%	-0.8%
Financials	4%	0.8%	-1.1%	3.1%	19.9%
Health Care	16%	2.5%	-6.9%	8.3%	35.8%
Industrials	14%	-1.5%	6.8%	2.4%	-9.4%
IT	46%	5.5%	22.7%	11.0%	37.6%
Materials	23%	-10.4%	1.9%	0.3%	89.1%
Utilities	3%	0.7%	-9.7%	-0.4%	-14.2%
Real estate	15%	-1.8%	13.6%	-0.1%	-27.2%
MXCN	**14%**	**-0.3%**	**2.8%**	**2.2%**	**8.7%**

Source: MSCI (2 Sep 2026), LSEG Workspace (2 Sep 2026).

Figure 35: CSI-300 FTM EPS revision

	FTM EPS growth	FTM EPS growth revision		FTM EPS integer revision	
		Since end-2Q26	Since 20 Sep 2024	Since end-2Q26	Since 20 Sep 2024
Communication Services	14%	-6.9%	22.2%	1.4%	53.5%
Consumer Discretionary	13%	-0.5%	22.6%	5.5%	54.2%
Consumer Staples	22%	7.8%	32.0%	5.2%	8.7%
Energy	12%	-3.6%	-10.9%	-3.4%	-23.6%
Financials	6%	0.0%	10.9%	5.2%	26.1%
Health Care	21%	-0.9%	17.7%	10.2%	8.1%
Industrials	25%	-0.1%	14.5%	11.6%	43.7%
IT	52%	-2.9%	47.1%	8.9%	251.8%
Materials	26%	-12.9%	-20.0%	0.7%	72.0%
Utilities	6%	2.4%	37.4%	6.4%	47.9%
Real Estate	60%	-3.6%	-148.0%	18.7%	-159.6%
CSI300	**19%**	**-1.6%**	**15.8%**	**6.2%**	**41.2%**

Source: Wind (2 Sep 2026)

Figure 36: MXCN 2Q26 earnings summary

	2Q26 Reporting Season						*% of Companies Beat/Miss*	
	So Far Reported…						*2Q26 EPS*	
	# of Cos Rep	Total Cos	% of Cos Rep	Sales per share y-y	EPS y-y	NPM y-y (bps)	Beating	Missing
MXCN	**566**	**576**	**98.3%**	**12.2%**	**3.4%**	**-101**	**42%**	**54%**
ex-Financials	**481**	**491**	**98.0%**	**11.1%**	**-8.1%**	**-167**	**38%**	**57%**
ex-Energy	**548**	**557**	**98.4%**	**12.1%**	**2.3%**	**-118**	**41%**	**55%**
Cyclicals								
Consumer Discretionary	50	56	89.3%	9.3%	-40.6%	-390	39%	58%
Consumer Staples	27	29	93.1%	44.3%	-17.9%	-579	5%	74%
Industrials	80	80	100.0%	5.1%	2.4%	4	32%	66%
Materials	76	76	100.0%	13.8%	67.5%	306	30%	70%
Real Estate	11	11	100.0%	7.3%	5.6%	-20	57%	43%
Long Duration / Secular Growth								
Communication Services	20	20	100.0%	7.5%	0.5%	-178	55%	27%
Health Care	45	45	100.0%	11.8%	28.0%	109	33%	67%
Information Technology	130	130	100.0%	14.4%	-5.1%	-105	47%	49%
Bond Proxy								
Energy	18	19	94.7%	14.2%	38.1%	84	62%	38%
Financials	85	85	100.0%	18.0%	23.8%	125	58%	38%
Utilities	24	25	96.0%	9%	-16%	-182	50%	50%

Source: Wind (31 Aug 2026), LSEG Workspace (31 Aug 2026)

Figure 37: CSI-300 2Q26 earnings summary

	2Q26 Reporting Season						*% of Companies Beat/Miss*	
	So Far Reported…						*2Q26 EPS*	
	# of Cos Rep	Total Cos	% of Cos Rep	Sales per share y-y	EPS y-y	NPM y-y (bps)	Beating	Missing
CSI-300	**300**	**300**	**100.0%**	**4.0%**	**17.6%**	**126**	**40%**	**56%**
ex-Financials	**247**	**247**	**100.0%**	**0.4%**	**17.8%**	**108**	**38%**	**59%**
ex-Energy	**290**	**290**	**100.0%**	**3.5%**	**16.5%**	**123**	**39%**	**57%**
Cyclicals								
Consumer Discretionary	16	16	100.0%	-26.2%	-14.5%	87	50%	50%
Consumer Staples	16	16	100.0%	-9.9%	-63.2%	-944	8%	69%
Industrials	58	58	100.0%	-0.1%	-0.9%	-4	26%	70%
Materials	34	34	100.0%	18.5%	89.6%	415	36%	64%
Real Estate	4	4	100.0%	-20.3%	-79.4%	-339	33%	67%
Long Duration / Secular Growth								
Communication Services	10	10	100.0%	2.4%	10.8%	78	33%	67%
Health Care	18	18	100.0%	5.8%	0.3%	-85	31%	69%
Information Technology	68	68	100.0%	15.4%	98.2%	403	48%	50%
Bond Proxy								
Energy	10	10	100.0%	14.5%	57.4%	220	63%	38%
Financials	53	53	100.0%	23.4%	17.3%	-138	53%	44%
Utilities	13	13	100.0%	-5%	-23%	-241	50%	50%

Source: Wind (18 Aug 2026), LSEG Workspace (18 Aug 2026)