China Equity Strategy

Dual tracks of anti-involution: Destocking winners vs exporters caught in trade relation uncertainties

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With the EU signaling a shift toward sector-specific safeguards and stepped-up anti-dumping/anti-subsidy probes in high-value sectors such as EVs, solar hardware, and batteries ahead of an October deadline to rebalance trade relations. A wave of new trade frictions is **weighing on Chinese corporates' overseas expansion and P/E multiples**—unless the September 24 Trump–Xi Summit delivers an upside surprise, despite low market expectations (no grand deal; likely focus on trade and AI governance frameworks). The latest earnings read-through on China's overcapacity sectors shows that **chemicals, coal and battery materials leaders are joining logistics in anti-involution**, shifting into the "capex up + destocking" quadrant with visible revenue and net-margin improvement (Figure 2, Figure 3 and Figure 5). Logistics pioneered this transition as early as 3Q25, driven by policy-guided price coordination. Admittedly, elevated oil price facilitated the transition on the demand end. Hog also shows decent progress on capex upgrade (vertical integration supporting cash-flow stability) and destocking, though revenue growth and net margin change are yet to flip into the positive territory. On the other hand, autos, liquor and solar remain trapped in the "restocking + capex down" quadrant, with intense price competition and poor capacity utilization. Against this backdrop, within the anti-involution theme, **the near-term strategy is to stay concentrated in sectors showing good progress destocking, capex increase, revenue growth and margin recovery, namely logistics, chemicals, and battery materials.** Our screen on selected industries subject to over-capacity based on market cap and 3m ADT is shown in Figure 1.

- **Chinese corporates' overseas expansion comes with rising trade tensions that exert downward pressure on P/E multiples.** Over the past three months (June-September 2026), China has encountered a wave of new trade frictions across non-US markets, including Europe, South America and Southeast Asia. These measures range from anti-dumping duties and anti-circumvention rulings to new import licensing requirements, tariff hikes on EVs, and the expansion of carbon border mechanisms (Figure 7). European officials have set October as a deadline for achieving results in rebalancing trade relations between the EU and China. Brookings' collection of commentaries suggests the possibility of Europe adopting targeted, sector-specific trade safeguards rather than sweeping blanket tariffs against Chinese exports. It expects Brussels to ramp up anti-subsidy and anti-dumping investigations focusing on high-value sectors including EV, solar hardware and batteries, to address the perceived uneven competitive advantages.

- **Anti-involution campaign has made uneven progress across sectors, with Logistics taking the lead.** Logistics has been a leader in anti-involution so far. It was one of the earliest moving into the "capex up + destocking" quadrant in 3Q25 and into the "capex up + restocking" quadrant in 1Q26, thanks to policy-guided price coordination driving decent earnings recovery, and capacity upgrade. In the past year, Yiwu raised its floor price from Rmb1.1 to Rmb1.2 per ticket, Guangdong pushed average prices above Rmb1.4, and 22 provinces followed with self-discipline pricing rules. The results are visible in corporate earnings: STO Express posted a 1H26 net profit of cRmb1bn, up 128.3% y-y, with the 2Q26 profit alone surging 165% y-y. **JPM top pick is J&T in the logistics space.**

See page 7 for analyst certification and important disclosures, including non-US analyst disclosures.

- **Chemicals, coal, battery materials, and livestock are rising bright spots.** The four industries entered the "capex up + destocking" quadrant in 2Q26, with coal (coal to power) and livestock (hog to meat products) expanding vertically to improve its cashflow stability, and chemicals and battery materials upgrade their technology to further lower costs of production. In chemicals and refining, geopolitical conflict combined with supply-demand repair has helped driving meaningful earnings improvement at leading firms, widening spreads for refined products and petrochemicals. For instance, Rongsheng Petrochemical earned Rmn5.1bn in the first half, up 749%, with overseas revenue of Rmb21.8bn, up 45%; Wanhua Chemical posted a net profit of Rmb10.1bn, up 64%, with overseas revenue of Rmb57bn, up 35%; Baofeng recorded a net profit of Rmb9.7bn, up 70%.

- **Autos, liquor, and solar remain the three sectors struggling the most with involution.** Autos fell back to the "capex down + restocking" quadrant, which has been the domicile of liquor and solar for the past few quarters. In autos, domestic price competition remained intense, with average profit per vehicle around only Rmb3,000 (news). Auto OEMs have been eying overseas expansion as the exit route, where Chery derived 69% of sales from overseas in 1H26, and BYD's overseas revenue has surpassed domestic for the first time. Premiumization and value offering are supported by MIIT to constrain irrational pricing. In liquor, the average inventory day y-y growth stayed well above zero, at 23%, though arguably decelerating from the 35-45% range in 2025. In solar, the industry-wide supply-demand ratio exceeds 2 to 1 with average utilization below 40 percent, and 22 listed firms lost over Rmb10.5bn combined in the first quarter (news).

- **Low market expectation on the Trump-Xi summit on September 24 cushions the downside.** Markets are pricing in modest, narrow trade deliverables from the September 24 Xi-Trump summit, rather than a grand deal. Client feedback suggests that the anticipated outcomes include China's expanded purchases of US agricultural and energy commodities, alongside pledges to set up regular working groups to discuss trade frictions, AI governance, while major restrictions on advanced semiconductors and high-tech equipment are expected to remain unchanged. Given such low expectation, should the meeting yield no tangible new commitments, and this baseline outcome would trigger limited market disappointment given already muted expectations. Both sides have signaled intent to maintain dialogue, with another in-person leaders' meeting penciled in for the November 18-19 APEC forum. Barring unexpected inflammatory statements or abrupt tariff escalations, investors do not expect a sharp, material deterioration in US-China bilateral ties after the Washington summit. This sequence of scheduled high-level engagements helps anchor market confidence, even as deep structural competition over industrial capacity and technology persists over the medium term. Clients we met see this rhythm of periodic leader contact as a stabilizing mechanism, preventing sudden shocks to cross-border trade and capital flows.

- **We maintain our OW on China equities in our EM/Asia allocations and maintain end-2026 base case targets for the MXCN index and the 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. 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 indicator (QMI) in Asia, (3) risk aversion heading the into mid-term elections in the US, (4) a lack of new

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earnings catalysts until 3Q reports in October, and (5) poor seasonality offer reasons to be cautious over the coming weeks. 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 the rest of 2H26, though liquidity turbulence could make the path choppy. Our favored domestic AI supply-chain players: Iluvatar CoreX (H), V-Test (A), JCET (A), AMEC (A), and NAURA (A). 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.

Figure 1: Screen of autos, battery materials, cement, chemicals, coal, dairy, hog, liquor, lithium, logistics, and solar industries with free-float market cap above US$3bn, and 3m ADT above US$50mn

Ticker	Company	Industry	CSI-300 constituent	FFL market cap (US$ bn)	3m ADT (US$ mn)	Current price (LCU)	2026 P/B (x)	2026 P/E (x)	2026 EPS y-y (%)	2027 EPS y-y (%)	P/E percentile rank in history (%)
002594.SZ	BYD Co Ltd	Autos	Y	28.5	531	86	2.83	19.7	22	29	13
601127.SH	Seres Group Co Ltd	Autos	Y	5.0	223	48	1.95	18.7	-24	62	90
000625.SZ	Chongqing Changan Automobile Co Ltd	Autos	Y	4.9	80	7	0.87	15.0	16	30	79
600104.SH	SAIC Motor Corp Ltd	Autos	Y	4.5	88	11	0.41	10.7	16	11	86
002709.SZ	Tinci Materials	Battery Materials	Y	6.2	512	34	3.03	10.4	385	15	12
603659.SH	Shanghai Putailai New Energy Technology Co Ltd	Battery Materials		3.1	118	22	2.02	14.5	39	32	5
301358.SZ	Hunan Yuneng New Energy Battery Material	Battery Materials		3.9	223	56	2.34	8.7	327	10	21
002812.SZ	Yunnan Energy	Battery Materials		3.9	224	49	1.72	21.2	1,496	76	41
600585.SH	Anhui Conch Cement Co Ltd	Cement	Y	5.0	79	18	0.48	13.1	-11	16	83
600309.SH	Wanhua Chemical Group Co Ltd	Chemicals	Y	20.3	432	79	2.04	13.2	49	14	39
000792.SZ	Qinghai Salt Lake Industry Co Ltd	Chemicals	Y	12.8	339	27	2.51	12.0	39	11	14
600989.SH	Ningxia Baofeng Energy Group Co Ltd	Chemicals	Y	7.5	283	25	3.06	11.1	45	6	1
002493.SZ	Rongsheng Petrochemical Co Ltd	Chemicals	Y	5.4	114	15	3.10	17.2	935	13	43
600346.SH	Hengli Petrochemical Co Ltd	Chemicals	Y	4.7	118	19	1.75	10.7	77	11	16
601088.SH	China Shenhua Energy Co Ltd	Coal	Y	19.5	251	47	2.19	16.9	15	3	90
601225.SH	Shaanxi Coal Industry Co Ltd	Coal	Y	11.6	173	27	2.39	12.0	28	5	80
600188.SH	Yankuang Energy Group Co Ltd	Coal	Y	5.2	185	22	2.06	13.1	103	7	77
601898.SH	China Coal Energy Co Ltd	Coal	Y	3.2	107	15	1.15	10.2	10	7	40
600887.SH	Inner Mongolia Yili Industrial Group Co Ltd	Dairy	Y	20.7	243	26	2.90	15.6	-7	22	11
002714.SZ	Muyuan Foods Co Ltd	Hog	Y	14.2	341	43	3.12	200.0	-92	2,007	N/A
300498.SZ	Wens Foodstuff Group Co Ltd	Hog	Y	10.5	115	15	2.55	-80.0	-124	932	N/A
000895.SZ	Henan Shuanghui Investment & Development Co Ltd	Hog	Y	3.5	48	24	3.72	15.7	3	4	19
600519.SH	Kweichow Moutai Co Ltd	Liquor	Y	89.6	795	1,291	5.92	19.0	3	6	23
000858.SZ	Wuliangye Yibin Co Ltd	Liquor	Y	17.6	375	71	2.36	18.2	69	11	48
000568.SZ	Luzhou Laojiao Co Ltd	Liquor	Y	7.9	161	77	2.22	14.4	-27	8	26
600809.SH	Shanxi Xinghuacun Fen Wine Factory Co Ltd	Liquor	Y	7.2	180	119	3.32	13.8	-14	8	7
002304.SZ	Jiangsu Yanghe Distillery Co Ltd	Liquor	Y	3.0	43	39	1.28	27.6	-3	13	100
002460.SZ	Ganfeng Lithium Group Co Ltd	Lithium	Y	7.6	422	49	2.00	14.4	342	20	11
002466.SZ	Tianqi Lithium Corp	Lithium	Y	6.7	460	46	1.61	11.4	1,384	17	20
002352.SZ	S.F. Holding Co Ltd	Logistics	Y	9.2	110	32	1.55	14.0	7	13	1
600233.SH	YTO Express Group Co Ltd	Logistics	Y	4.0	65	17	1.44	9.4	41	16	0
601012.SH	LONGi Green Energy Technology Co Ltd	Solar	Y	10.2	217	12	1.75	-28.2	51	178	N/A
600438.SH	Tongwei Co Ltd	Solar	Y	4.2	109	12	1.69	-7.2	24	107	N/A
600010.SH	Inner Mongolia BaoTou Steel Union Co Ltd	Steel	Y	6.5	162	2	1.82	46.9	473	24	74
600019.SH	Baoshan Iron & Steel Co Ltd	Steel	Y	5.8	89	6	0.61	12.4	0	9	59

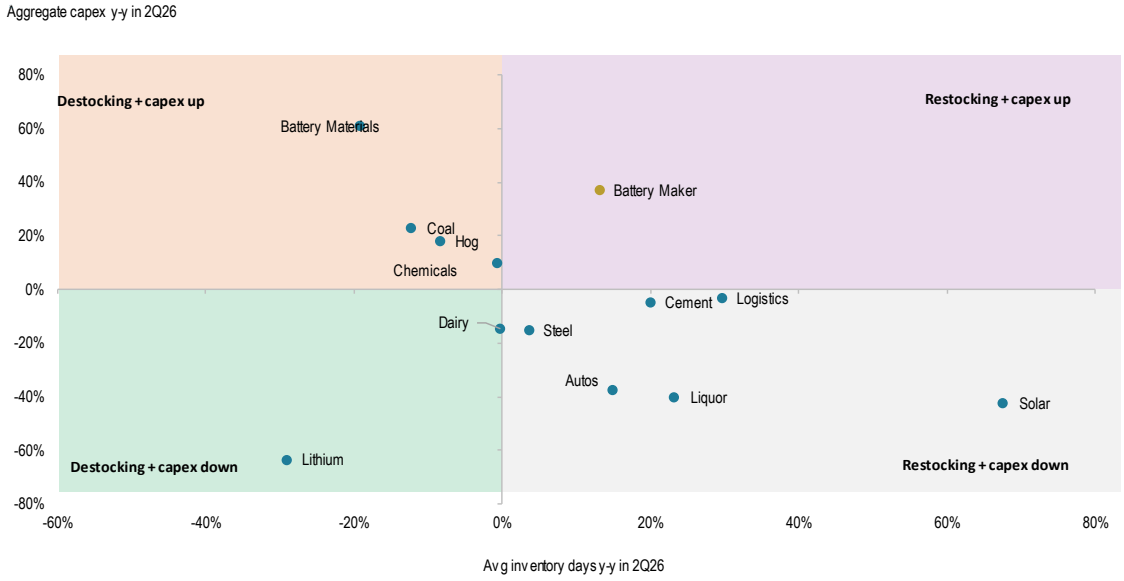
Source: Wind (9 Sept 2026)



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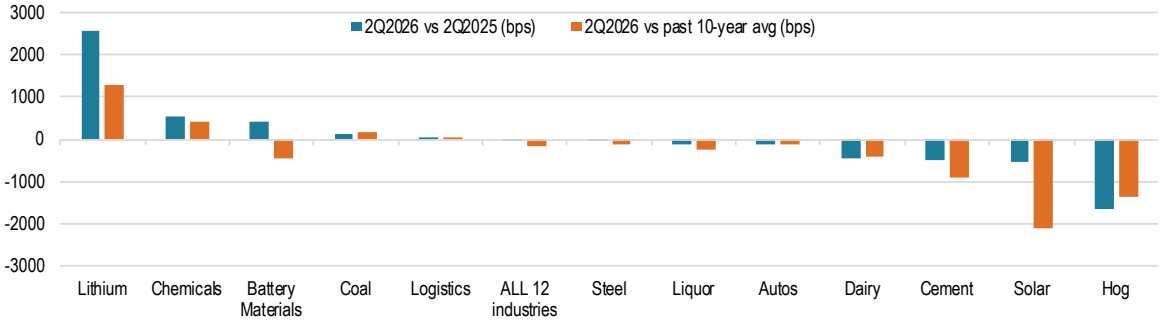
Charts in Focus

Figure 2: Anti-involution quarterly assessment on capex and inventory days



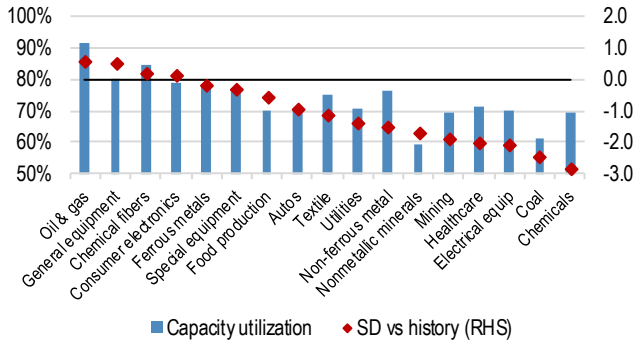
Source: Wind (9 Sep 2026)

Figure 3: Anti-involution quarterly assessment on NPM



Source: Wind (9 Sep 2026)

Figure 4: Capacity utilization



Source: Wind (9 Sep 2026)

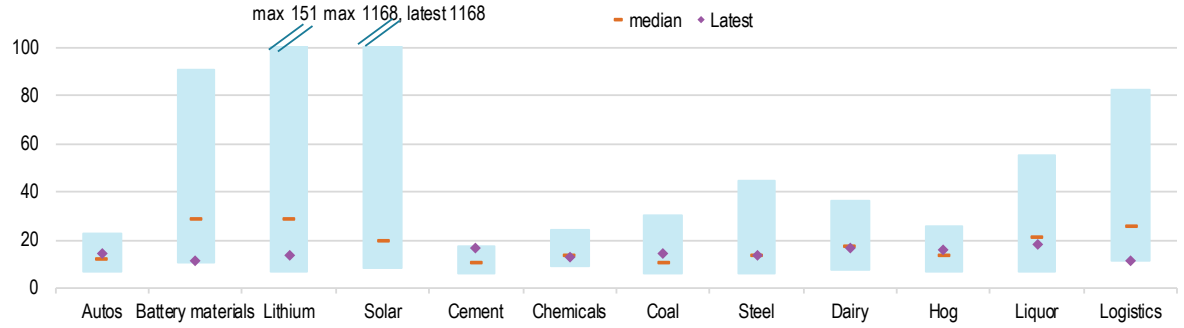
Figure 5: Revenue y-y of anti-involution industries

Industry	2Q2025	3Q2025	4Q2025	1Q2026	2Q2026
Autos	11%	9%	-3%	-3%	-4%
Battery Materials	11%	30%	53%	69%	97%
Lithium	-18%	10%	43%	125%	207%
Solar	-7%	-2%	-18%	-21%	-13%
Cement	-10%	-15%	-21%	-8%	-15%
Chemicals	-7%	-3%	7%	-3%	12%
Coal	-16%	-6%	-12%	0%	37%
Steel	-7%	0%	0%	0%	1%
Dairy	5%	-1%	-3%	5%	2%
Hog	15%	-4%	-8%	-2%	-12%
Liquor	-14%	-15%	-29%	3%	-16%
Logistics	11%	8%	7%	9%	9%

Source: Wind (9 Sep 2026)

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Figure 6: Anti-involution FTM P/E by sector



Source: Wind (9 Sep 2026)

Figure 7: Trade terms over Chinese exports in the past three months

Market	*Date*	*Revised Restrictive Measure*	
Brazil	27 Aug 2026	GECEX approved definitive anti-dumping measures on PET resin from Malaysia and Vietnam and carbon-steel tubes from Ukraine, alongside a provisional anti-dumping measure on glass fibre from China and Egypt.	link
Indonesia	14 Aug 2026	Anti-dumping investigation initiated on Superabsorbent Polymers from China.	link
Indonesia	14 Aug 2026	KADI initiated an anti-dumping investigation into Superabsorbent Polymers from China (HS 3906.90.92 and 3906.90.99), alongside other 2026 trade-remedy proceedings involving Chinese steel products.	link
Vietnam	14 Aug 2026	Expanded customs declaration requirements introduced for selected import categories, including passenger vehicles, household appliances, tobacco and alcohol; this is a trade-administration measure rather than a China-specific trade defence action.	link
EU	07 Aug 2026	Countervailing duties of 17.0%-30.7% on Chinese glass fibre fabrics maintained following an expiry review.	link
Argentina	06 Aug 2026	A third sunset review and changed-circumstances review was initiated concerning anti-dumping measures on Chinese unglazed floor and wall tiles (NCM 6907.21.00), rather than a new original investigation.	link
Argentina	06 Aug 2026	The Ministry of Economy initiated a third sunset review and changed-circumstances review concerning anti-dumping measures on Chinese unglazed floor and wall tiles, rather than a wholly new original investigation.	link
Indonesia	01 Aug 2026	BPOM pre-approval requirement introduced for frozen poultry imports, adding a regulatory requirement for foreign suppliers; the measure is not specific to China.	link
Vietnam	30 Jul 2026	Vietnam announced a 27.83% anti-circumvention duty on certain Chinese hot-rolled steel products under Decision No. 1917/QD-BCT; the measure took effect on 28 Jul 2026.	link
EU	27 Jul 2026	Definitive anti-dumping duties imposed on Chinese polyamide yarns, with duty rates ranging from 60.0%-67.6%.	link
Thailand	21 Jul 2026	Final anti-circumvention determination expanded anti-dumping coverage to alloyed high-carbon wire rod products from China.	link
EU	07 Jul 2026	Definitive anti-dumping duties of 4.3%-45.3% imposed on Chinese passenger-car and light-lorry tyres following an EU investigation into dumping and injury to EU producers.	link
Brazil	06 Jul 2026	Anti-dumping investigation initiated under SECEX Circular No. 51/2026 into certain welded carbon-steel line pipes originating in China.	link
EU	06 Jul 2026	European Parliament ENVI Committee adopted its position by 56-11-12 on extending CBAM coverage to approximately 180 downstream steel and aluminium products and strengthening anti-circumvention provisions.	link
EU	06 Jul 2026	European Parliament ENVI Committee approved the CBAM expansion position by 56-11-12, covering additional downstream steel and aluminium products; proposed application from 2028 remains subject to the legislative process.	link
Brazil	01 Jul 2026	Import tariffs on electric and hybrid vehicles restored to 35% under Brazil's phased tariff-normalisation framework. Chinese EV brands are among the most affected because of their large share of imports.	link
Brazil	01 Jul 2026	Import tariffs on fully built electric and hybrid vehicles were restored to 35% under Brazil's phased tariff-normalisation policy, with separate transitional treatment for some CKD/SKD imports and quotas.	link
EU	01 Jul 2026	New steel import regime reduced total duty-free tariff-rate quotas by approximately 47% versus the 2024 reference level and raised the out-of-quota duty from 25% to 50%. The measure applies broadly to covered steel imports from countries that are not part of the EU trade agreement, including China.	link
Malaysia	01 Jul 2026	New import conditions for CBU EVs require a minimum CIF value of RM200,000 and motor output of at least 180 kW. The measure applies broadly rather than specifically to China, although lower-priced Chinese EV imports are likely to be disproportionately affected.	link

Source: News (9 Sep 2026)

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Figure 8: MXCN overseas revenue exposure

Overseas revenue exposure	*2024*	*2025*	*1H26*
MXCN	15%	17%	18%
Communication Services	6%	9%	11%
Consumer Discretionary	13%	16%	17%
Consumer Staples	4%	4%	4%
Energy	22%	23%	25%
Financials	5%	5%	6%
Health Care	10%	13%	15%
Industrials	18%	19%	21%
Information Technology	53%	55%	56%
Materials	19%	24%	21%
Real Estate	1%	0%	0%
Utilities	3%	3%	2%

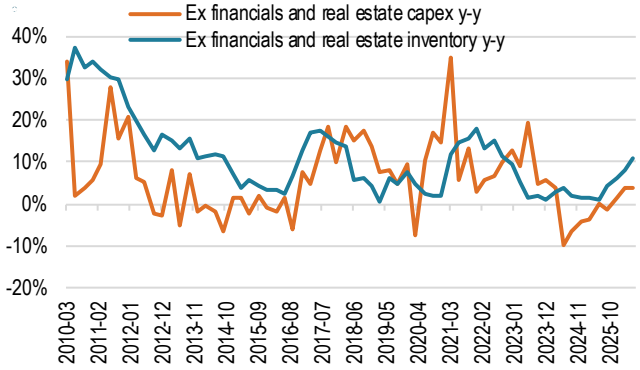
Source: Wind (9 Sep 2026), J.P. Morgan estimates

Figure 9: CSI-300 overseas revenue exposure

Overseas revenue exposure	*2024*	*2025*	*1H26*
CSI-300	19%	21%	22%
Communication Services	3%	5%	7%
Consumer Discretionary	27%	31%	33%
Consumer Staples	2%	2%	2%
Energy	21%	21%	23%
Financials	4%	4%	4%
Health Care	17%	21%	23%
Industrials	17%	19%	21%
Information Technology	48%	48%	47%
Materials	20%	23%	22%
Real Estate	0%	0%	0%
Utilities	3%	2%	2%

Source: Wind (9 Sep 2026), J.P. Morgan estimates

Figure 10: Capex and inventory days y-y changes for A-shares



Source: Wind (9 Sep 2026)

Figure 11: Capex and inventory days y-y change by sector

	2Q26 capex	2Q26 inventory
Ex financials and real estate inventory y-y	4%	11%
Ex fin/real estate/utilities/energy inventory y-y	7%	11%
Level 1 sector		
Communication Services	-9%	35%
Consumer Discretionary	-17%	12%
Consumer Staples	-7%	6%
Energy	7%	5%
Health Care	-1%	0%
Industrials	18%	4%
Information Technology	22%	31%
Materials	4%	19%
Utilities	-10%	9%

Source: Wind (9 Sep 2026)