UBS

Global Research
21 September 2026

China Equity Strategy

Market implications of Middle East conflict

Equity Strategy

China

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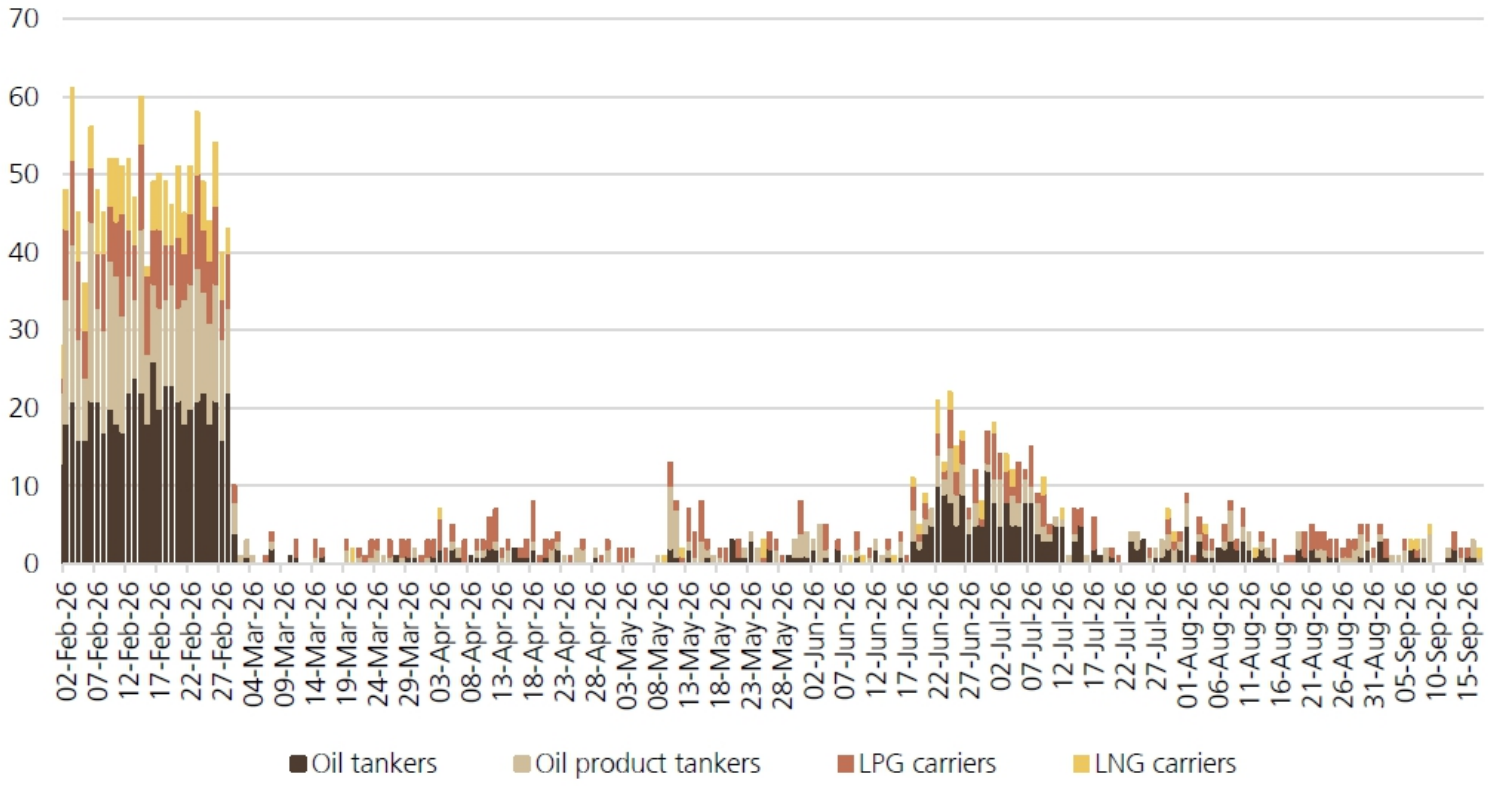
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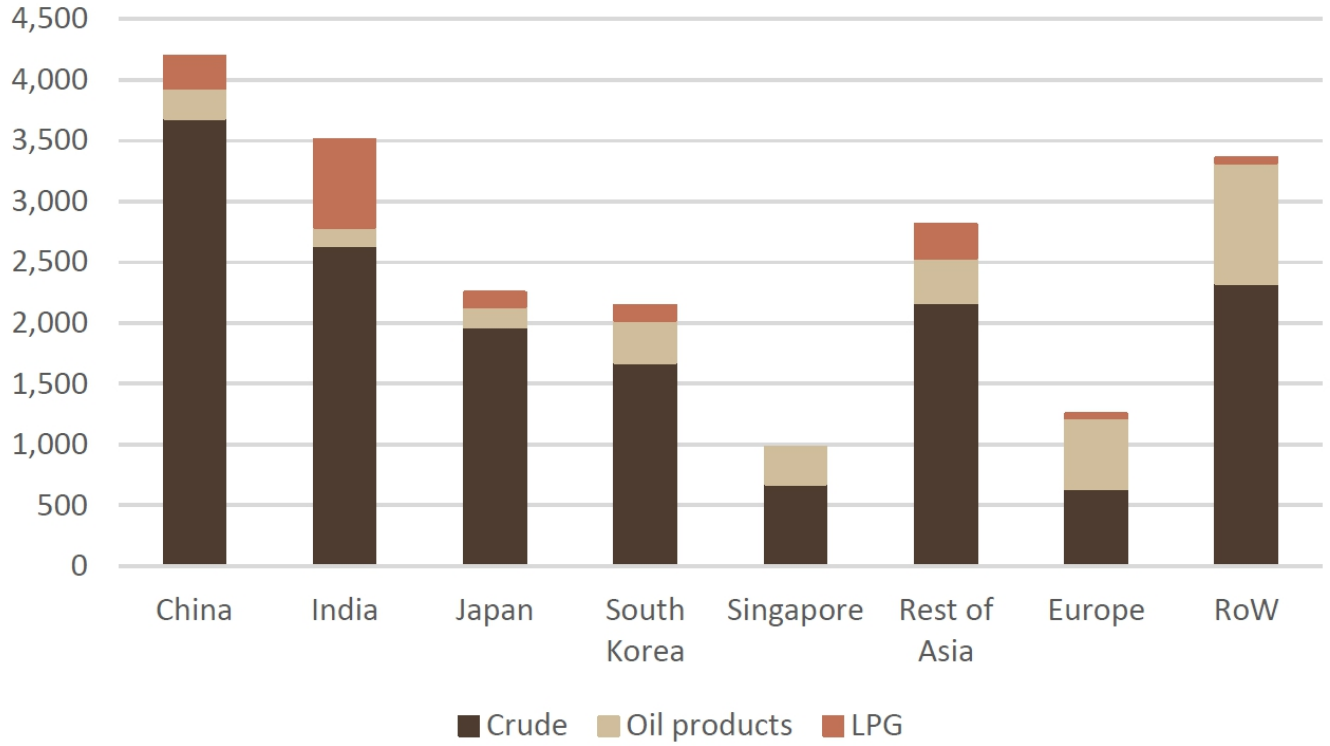
This report has been prepared by UBS Securities Asia Limited. **ANALYST CERTIFICATION AND REQUIRED DISCLOSURES, INCLUDING INFORMATION ON THE QUANTITATIVE RESEARCH REVIEW PUBLISHED BY UBS, BEGIN ON PAGE 26.**

Oil & gas tankers passing through the Strait of Hormuz, in number of ships entering and exiting the Gulf



Source: UBS Evidence Lab, includes content supplied by S&P Global Market Intelligence (Maritime & Trade); Copyright © S&P Global Market Intelligence (Maritime & Trade), 2026.

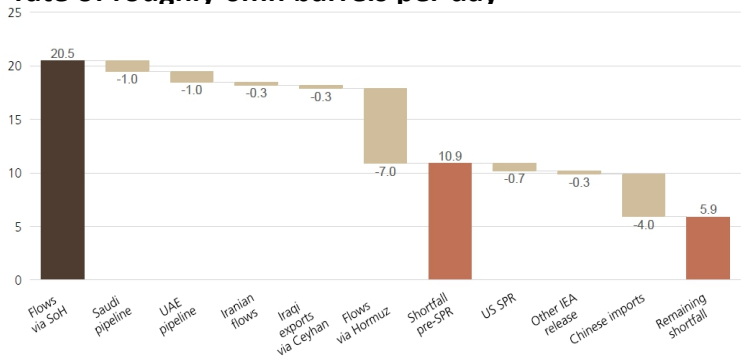
Oil and products transit via Strait of Hormuz by destination, average over January-February 2026 (kb/d)



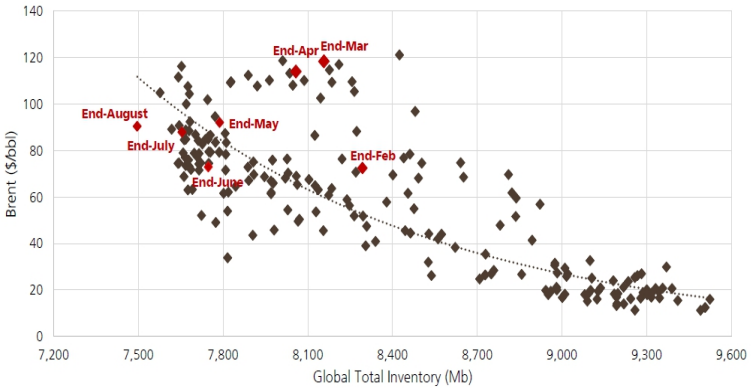
Source: Kpler, IEA, UBS

Key charts on oil price

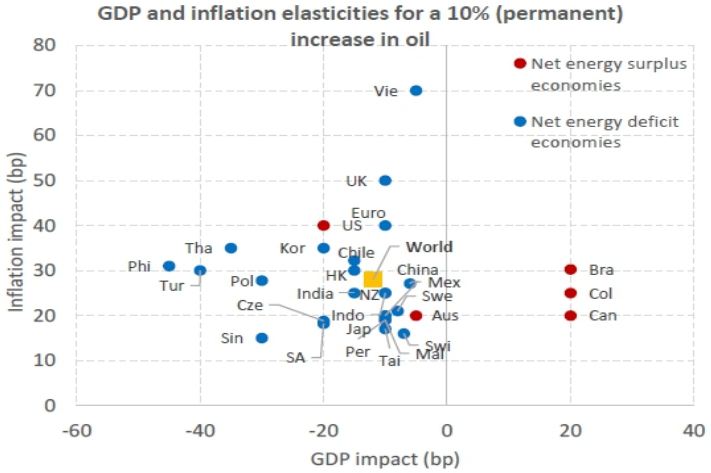
We are currently depleting global oil inventories at a rate of roughly 6mn barrels per day



The convexity of oil prices to inventories

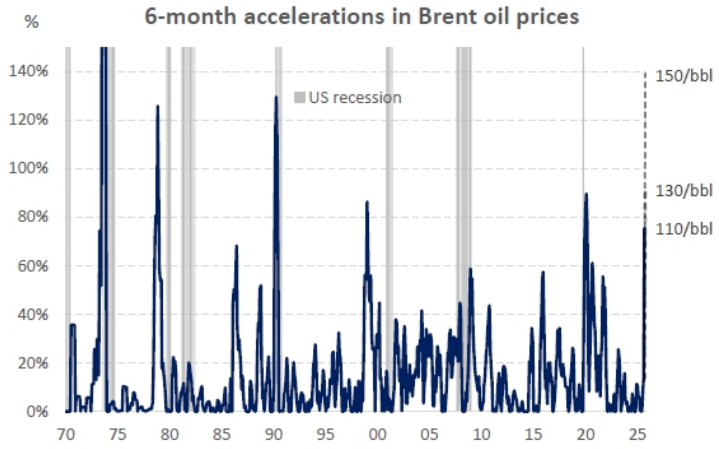


Global growth and inflation sensitivities to oil



Source: Bloomberg, Haver, IEA, UBS estimates

It's not the level that is impactful, but the acceleration



UBS Oil and Gas price forecasts

Crude oil price forecasts ($/bbl)

Brent ($/bbl)	2022	2023	2024	2025	1Q26	2Q26E	3Q26E	4Q26E	2026E	2027E	2028E
UBSe	**99.03**	**82.18**	**79.88**	**68.23**	**78.10**	**96.87**	**80.00**	**80.00**	**83.74**	**75.00**	**75.00**
Change						▼	▼	▼	▼	▼	▬
UBSe previous						100.00	105.00	90.00	93.28	85.00	75.00
Strip							71.92	71.78	79.67	70.25	69.55
Consensus							86.99	81.64	85.90	75.56	73.09
WTI ($/bbl)	**2022**	**2023**	**2024**	**2025**	**1Q26**	**2Q26E**	**3Q26E**	**4Q26E**	**2026E**	**2027E**	**2028E**
UBSe	**94.38**	**77.56**	**75.80**	**64.87**	**72.08**	**92.80**	**76.00**	**76.00**	**79.22**	**71.00**	**71.00**
Change						▼	▼	▼	▼	▼	▬
UBSe previous						95.00	101.00	86.00	88.52	81.00	71.00
Strip							68.20	67.68	75.19	65.95	64.98
Consensus							80.71	76.16	80.44	70.93	68.76

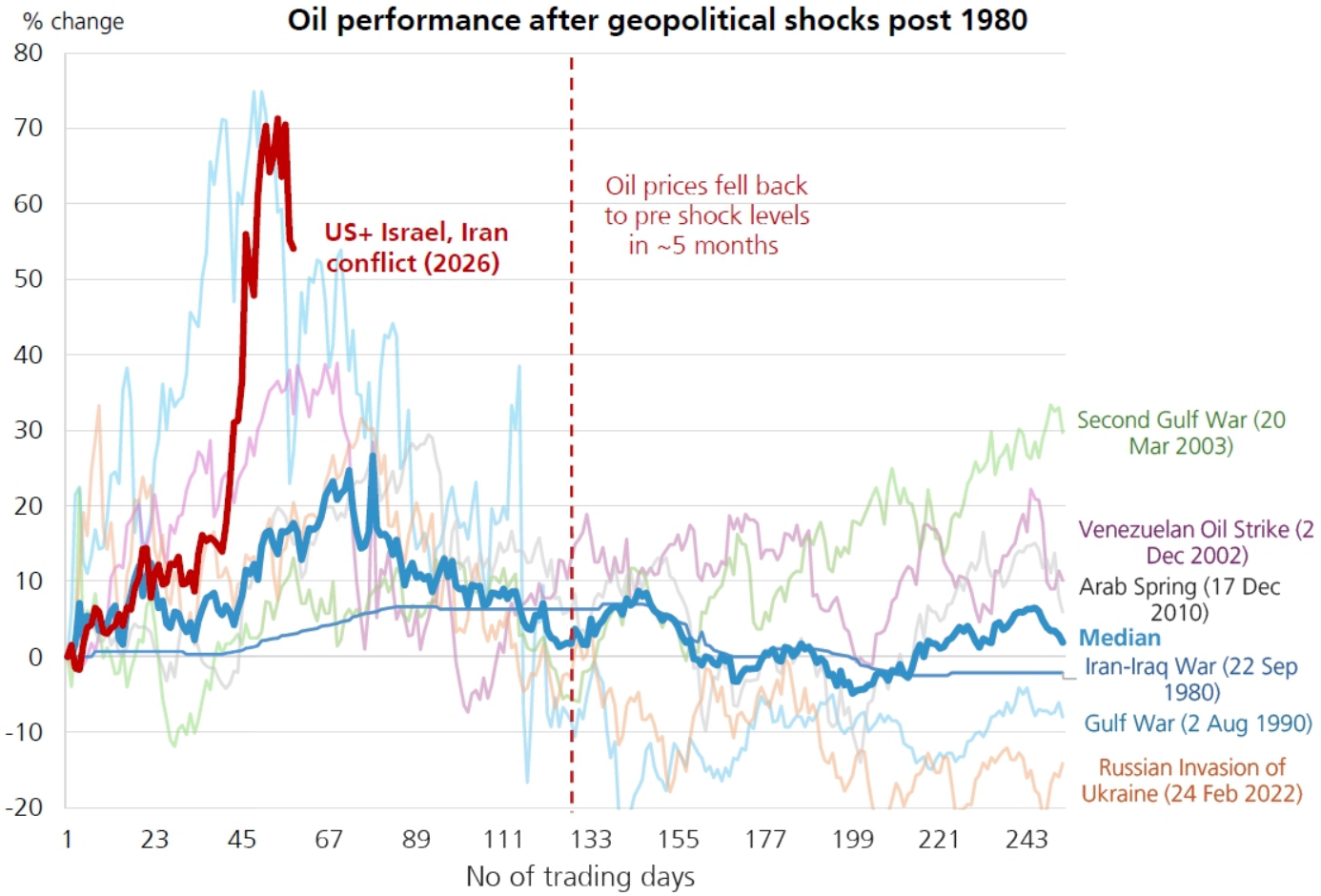
Source: Datastream, UBS estimates

UBS market and macro forecasts

	Current	2026	Change	2027	Change
Equities					
S&P 500	7,640	8,100	*6.0%*	8,900	*9.9%*
STOXX 600	636	690	*8.5%*	760	*10.1%*
MSCI EM	1,722	1,820	*5.7%*	2,080	*14.3%*
Rates					
US 10y %	4.95	4.80	*-15bp*	4.45	*-35bp*
Germany 10y %	3.52	3.50	*-2bp*	3.25	*-25bp*
US policy rate % (upper limit)	3.75	4.25	*50bp*	4.00	*-25bp*
Eurozone policy rate %	2.50	2.75	*25bp*	2.50	*-25bp*
Credit					
US IG (bp)	78	90	*12*		
US HY (bp)	265	325	*60*		
EUR IG (bp)	82	80	*-2*		
EUR HY (bp)	272	285	*13*		
FX & Gold					
EURUSD	1.16	1.12	*-3.1%*	1.12	*0.0%*
USDJPY	154	165	*-6.4%*	160	*3.1%*
Gold (end of period)	4,309	5,000	*16.0%*	5,000	*0.0%*

Source: Bloomberg, Haver, IEA, UBS estimates

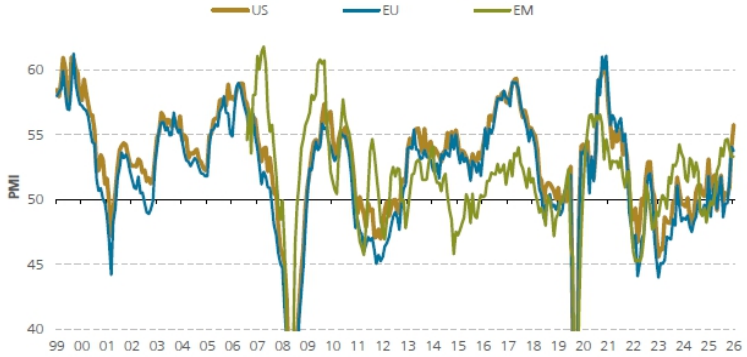
Oil performance after geopolitical shocks post 1980



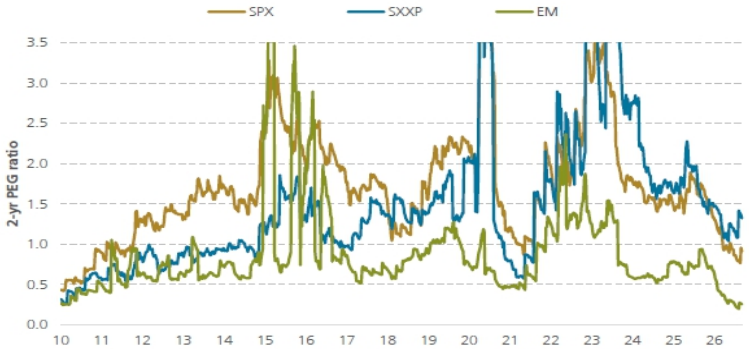
Source: Bloomberg, Haver, IEA, UBS

Market implications

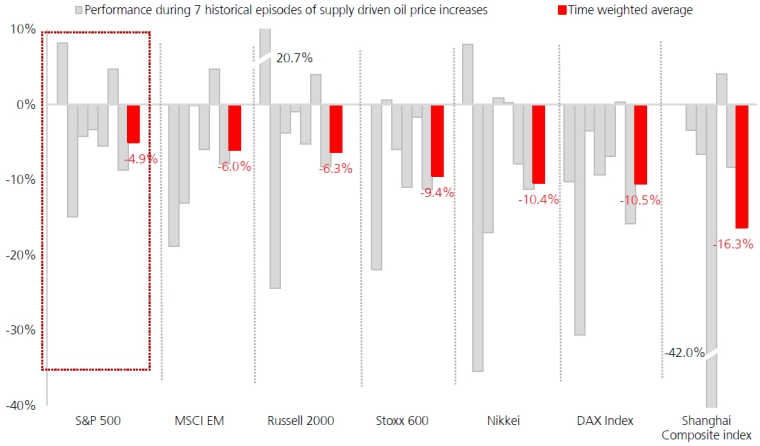
Adjusted PMIs show the strongest/broadest new expansion since 2013 (ex-Covid re-opening)



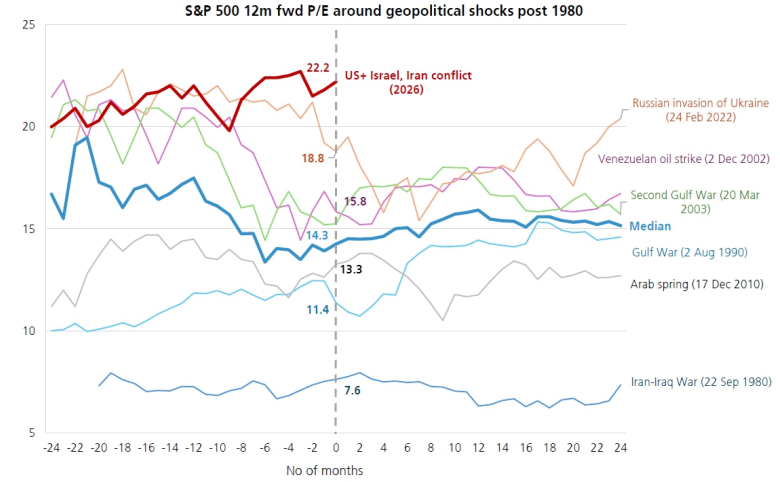
Across regions, growth is being priced at the cheapest levels in around 15 years



Performance during 7 episodes of oil supply shock



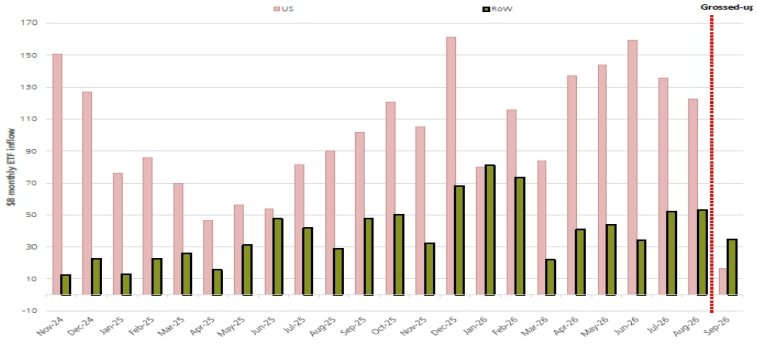
S&P 500 12m fwd P/E around geopolitical shocks



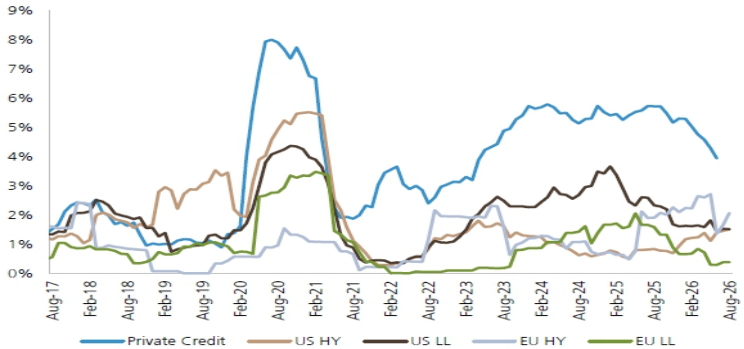
Source: Bloomberg, Haver, IEA, UBS

Market implications

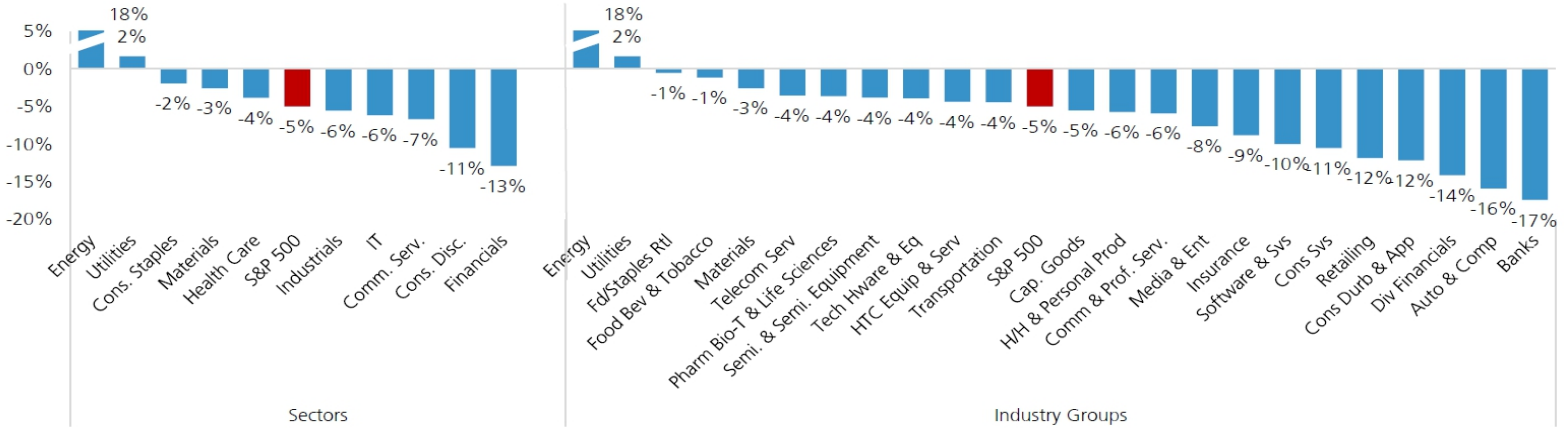
ETF flows are showing less momentum to the crowded US market in recent period



2M default rate (%) – default rates have begun to stabilize in recent months



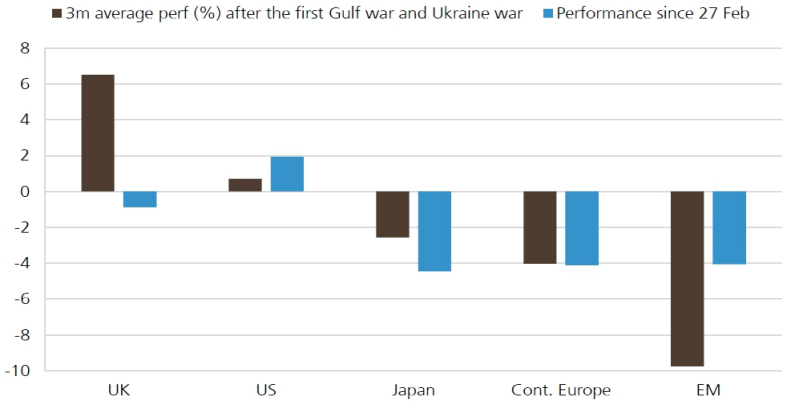
S&P 500 time-weighted average perf. during historical periods of oil supply shock



Source: Bloomberg, Haver,Macrobond, UBS

Implications of a continued ceasefire

3M average market performance during first Gulf war and Ukraine war



European P/E relative to US



Source: Refinitiv, Datastream, UBS estimates

Regional equity preference for ceasefire

5 week disruption

	Preference Unhedged	Preference local currency
GEM	++	++
US	+	+
UK	B	B
Europe	B	B
Japan	-	--

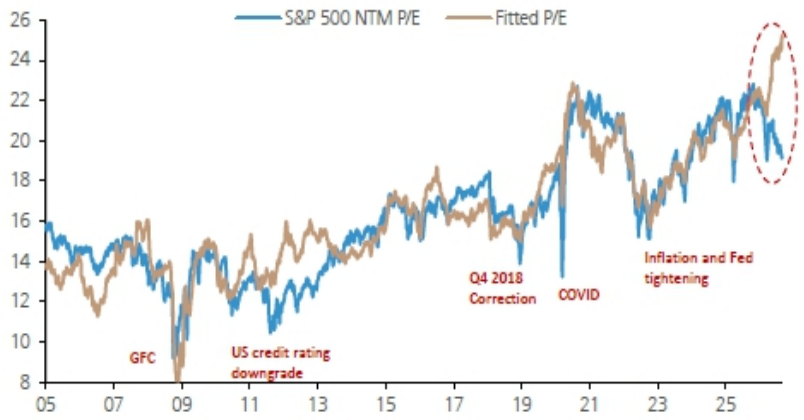
++: Overweight + Small overweight B Benchmark - Small underweight -- Underweight

Regional GDP forecasts under ceasefire scenario vs previous baseline – greater impact for Europe

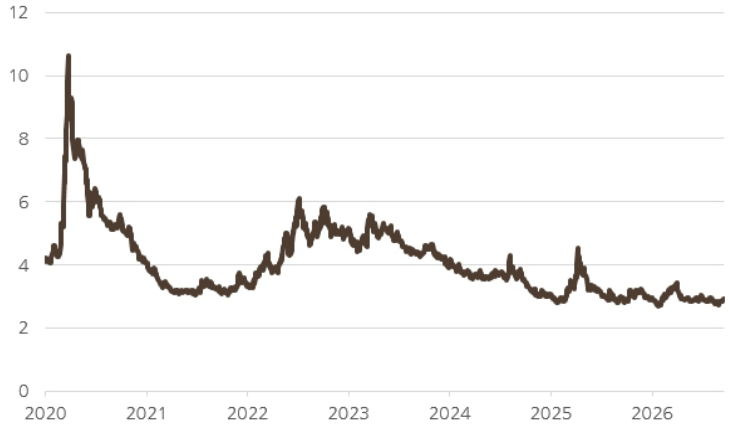
	Pre-conflict baseline		Scenario 1: 5 week disruption		
GDP	2026	2027	2026	2027	Cumualtive
US	2.2%	2.1%	0.0%	0.0%	0.0%
EU	1.2%	1.4%	-0.3%	-0.2%	-0.5%
UK	1.1%	1.4%	-0.4%	-0.2%	-0.6%
Japan	1.1%	1.1%	-0.1%	-0.1%	-0.2%
China	4.5%	4.6%	-0.1%	0.0%	-0.1%

US likely to outperform in ceasefire scenario

S&P 500 NTM P/E is below UBS model implied value



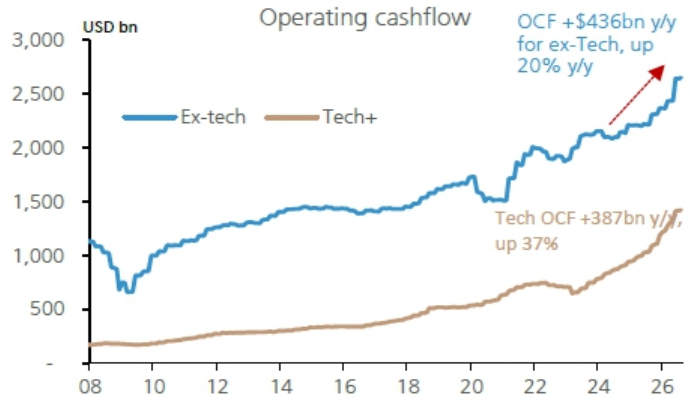
US HY spread held up well



US growth is being priced more cheaply than the last 15 years



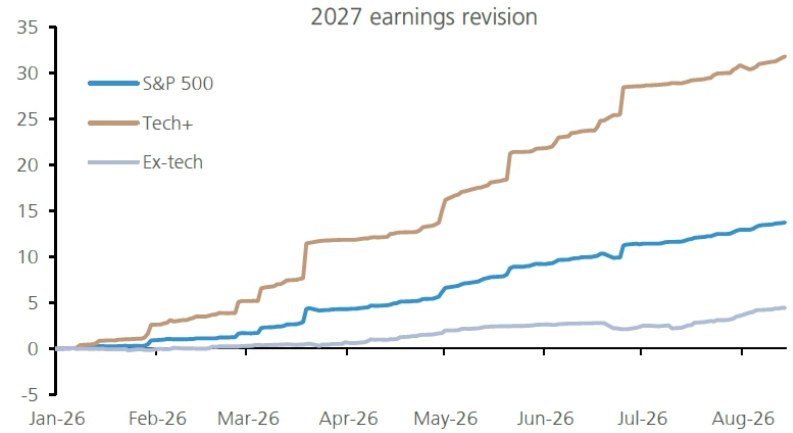
Operating cash flow has surged for US Tech and ex-Tech



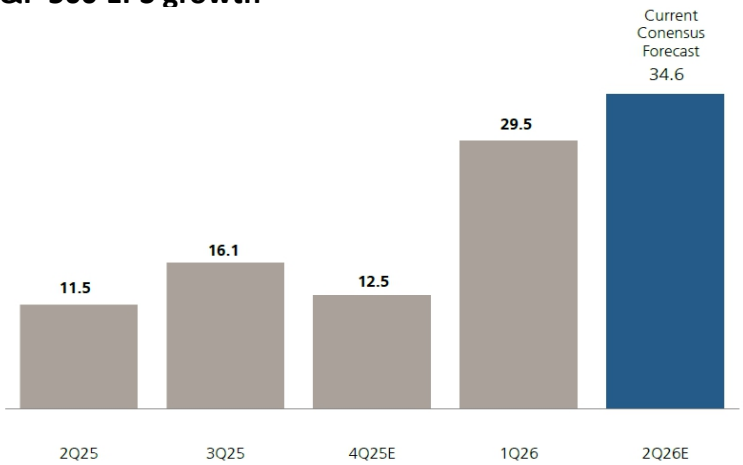
Source: Refinitiv, Datastream, Bloomberg, UBS estimates

Recent earnings trend in the US

S&P 500 2027e EPS continues to rise



S&P 500 EPS growth



2Q26 Surprise Dashboard – S&P 500

			Surprise (%)			Surprise (%) - Median		
	Rptd	Total	Revenue	Margins	Earnings	Revenue	Margins	Earnings
S&P 500	**479**	**500**	**3.7**	**3.9**	**7.6**	**1.6**	**4.0**	**5.6**
TECH+	**75**	**84**	**2.7**	**3.3**	**6.0**	**1.9**	**4.4**	**6.3**
Cyclicals	**170**	**174**	**5.9**	**2.0**	**7.9**	**1.7**	**4.0**	**5.6**
Energy	21	21	15.7	-5.5	10.2	10.6	2.9	13.5
Materials	26	26	0.4	5.3	5.7	1.2	3.8	5.1
Industrials	80	81	3.2	3.8	7.0	2.2	3.1	5.3
Discretionary ex-AMZN	43	46	1.2	5.6	6.9	0.7	3.3	4.0
Non-Cyclicals	**158**	**166**	**1.8**	**6.1**	**7.9**	**1.4**	**3.2**	**4.6**
Staples	28	34	1.3	5.9	7.2	1.4	3.9	5.4
Health Care	57	59	2.7	8.1	10.8	2.0	3.7	5.7
Utilities	31	31	-2.0	4.7	2.8	-1.1	6.5	5.4
REITs	31	31	1.7	0.6	2.3	1.1	1.0	2.1
Telcos	4	4	-0.6	8.0	7.4	-0.7	9.8	9.1
Financials	**76**	**76**	**6.0**	**4.7**	**10.7**	**1.5**	**4.5**	**6.0**

Source: UBS, Refinitiv Datastream, Bloomberg

7 preconditions for a bubble that we are not yet in as long as the Fed does not raise or we don't get a global recession

Bubble precondition	
Extended period of equities strongly outperforming bonds-happens at end of structural bull market.	✓
It is different this time around	✓
Gap of 25 years from previous bubble	✓
Overall profits (economy wide) under pressure / extended margins	✓
High concentration	✓
Retail buying	✓
Loose monetary conditions.	?

Source: UBS

Key messages for each asset class

Stay long equities globally: follow themes rather than regions

The business cycle is accelerating, led by tech but no longer solely reliant on it. There is still a strong and long investment cycle for AI capex in our view, but Asian manufacturing and European industrial and financial capacity are enabling a second order broadening of the industrial cycle as US non-Tech investment has been in a multi-year downturn.

Central Banks are mispriced for 2027-28

Bond markets have repriced sharply higher on expectations of further tightening but remain reluctant to price future rate cuts. With inflation still largely driven by supply-side pressures and restrictive policy likely to weigh on growth, history suggests easing could arrive sooner than markets expect. We believe investors are overestimating the permanence of higher rates and underestimating the scale of policy easing from 2027 onwards.

Credit: Policy Risk Overtakes Credit Risk

The dominant credit themes of 2026 have been AI, private credit and geopolitics. While these forces have driven meaningful dispersion across sectors and issuers, they remain relative-value stories rather than systemic risks. The growing risk of unexpected monetary tightening is now the dominant concern for credit markets. Unlike most asset classes, credit spreads remain near the tights despite a materially higher probability of a more restrictive rates regime.

Long XAUUSD (Gold)

We have long been in the "de-fiatization" camp as opposed to the "de-dollarization" one. We believe Q4 gold fundamentals such as central bank demand are constructive.

Source: UBS estimates

Key themes and trade ideas

Theme 1. Broadening around AI, not away from it

AI remains the dominant market theme, but leadership is broadening beyond hyperscalers and chipmakers. Earnings remain unusually strong despite only moderate economic growth, supported by an AI-led capex cycle that is increasingly benefiting Industrials, Healthcare, Utilities and Financials. The key question is no longer where growth is strongest, but which companies and markets are best positioned to convert AI spending into sustained earnings growth.

Theme 2. Buy volatility when you can, not when you need to

Despite elevated geopolitical, energy and bond-market risks, volatility across equities, credit and FX remains subdued. Markets remain focused on AI and company-specific stories, leaving macro risks underpriced. With volatility still relatively cheap, we favour owning protection before it is needed, as the risk of shocks is rising faster than expectations of them.

Theme 3. Consumer constrained, weak companies crowded out

The economy is increasingly split between strong investment demand and weak consumer spending. AI-driven capex continues to support Industrials, while households face persistent inflation, softer wage growth and tighter financial conditions. Higher rates continue to favour large, cash-generative companies, reinforcing our preference for Industrials over Consumer Discretionary and large-cap growth over small caps.

Theme 4. Central Banks are mispriced for 2027-28

Bond markets have repriced sharply higher on expectations of further tightening but remain reluctant to price future rate cuts. With inflation still largely driven by supply-side pressures and restrictive policy likely to weigh on growth, history suggests easing could arrive sooner than markets expect. We believe investors are overestimating the permanence of higher rates and underestimating the scale of policy easing from 2027 onwards.

Theme 5. No broad de-dollarisation, but gold remains the release valve

Despite de-dollarisation concerns, capital continues to flow into US assets and the dollar remains supported by relative economic strength. Gold has become the preferred hedge against geopolitical, fiscal and monetary risks, underpinned by strong central-bank demand. With investor allocations still low, we see further upside as a hedge against policy easing, fiscal deterioration and geopolitical fragmentation.

Source: UBS estimates

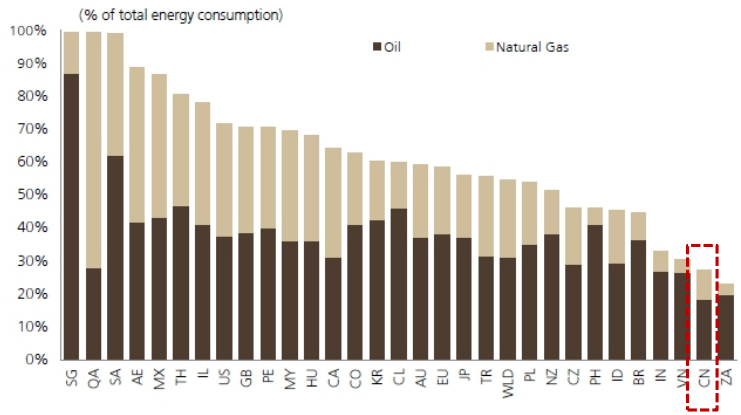
Key investment ideas:

1. **Long Nasdaq over US small cap equities**
2. **CSI 500 outperformance swaps**
3. **Long US Industrials vs US consumer**
4. **Long Momentum relative to Value**
5. **Long Korea relative to India**
6. **US 2y fwd 2s10s steepener**
7. **EU 2s10s flattener**
8. **Long Gold**
9. **Short EURCHF**
10. **Buy protection in CDX HY**

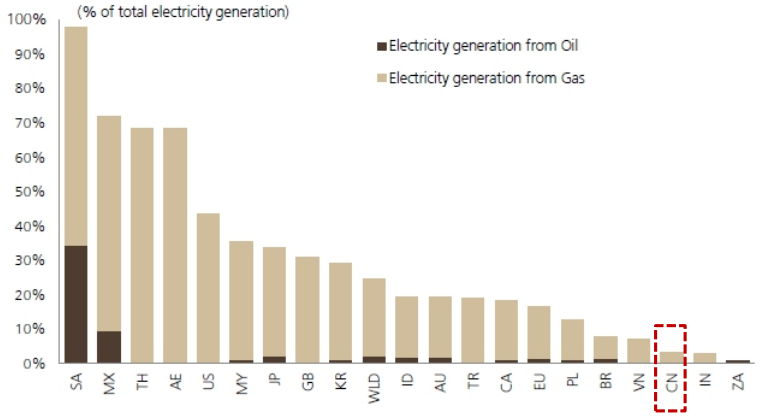


China’s dependency on oil and gas relatively low vs other economies

% of total energy consumption



% of total electricity generation

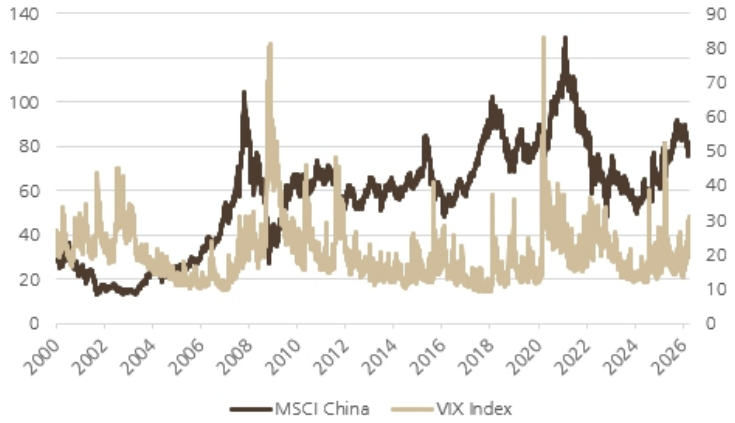


Source: Energy Research Institute, UBS

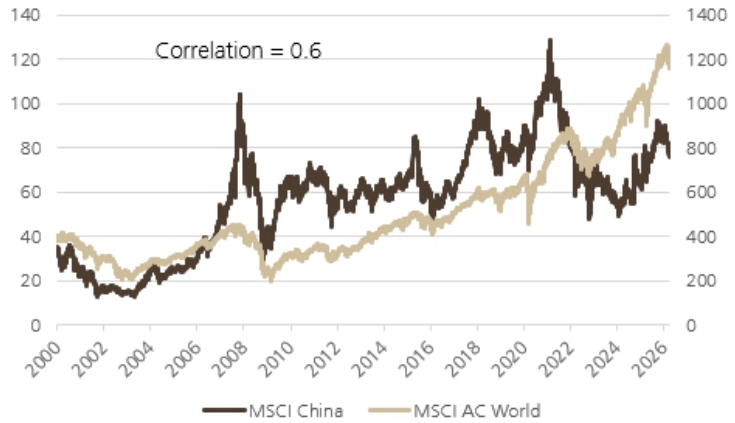
China equity market performance during historical global market sell-offs

Indices	2007 GFC	2015 EM sell off	2018 rate hike cycle	2020 COVID	2022 rate hike cycle	2025 Liberation day	Average
Start date	Oct-07	May-15	Sep-18	Feb-20	Jan-22	Apr-25	
End date	Mar-09	Feb-16	Dec-18	Mar-20	Oct-22	Apr-25	
MSCI AC World	-56%	-19%	-17%	-32%	-23%	-11%	-26%
MSCI China	-66%	-40%	-12%	-18%	-36%	-13%	-31%
CSI 300	-61%	-39%	-11%	-15%	-23%	-6%	-26%
HSCEI	-67%	-46%	-8%	-19%	-33%	-13%	-31%

MSCI China down 14% on average when VIX spiked



MSCI China vs MSCI AC World

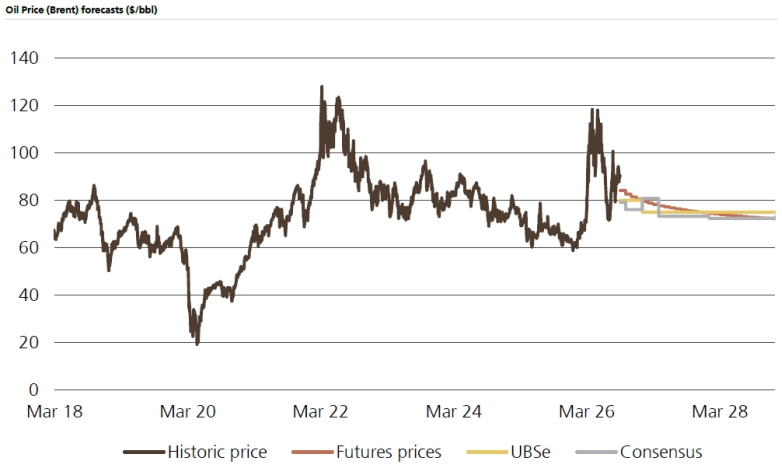


Source: Bloomberg, FactSet, UBS

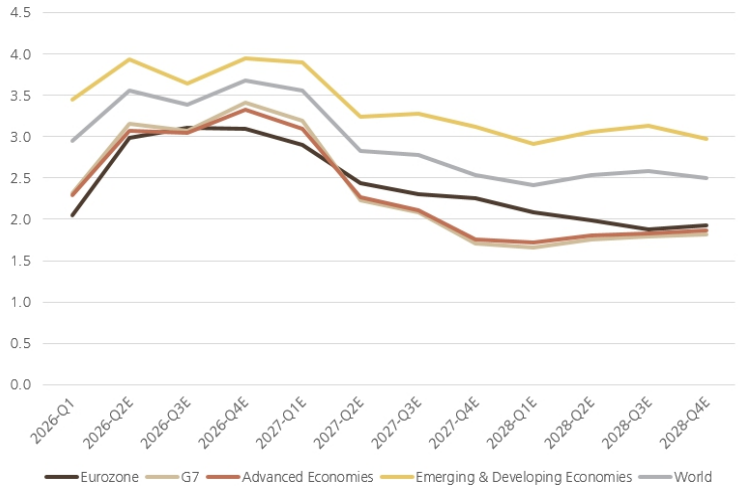
Top-down macro implications from ongoing disruption in Strait of Hormuz

Potential impact	Implication for Chinese equities overall	Sector implications	
		Positive for	Negative for
Oil price rising to $120/bbl (closure till end Mar)/ $150/bbl (closure till end Apr)	Modestly negative from sentiment perspective	Energy, renewables, EVs	Industrials, transportation, airline, consumer
Rising petrochemical/ refined product prices	Neutral	Chemicals, materials	N/A
Decline in major global equity indices	Negative	N/A	N/A
Negative impact on US consumer purchasing power	Slightly negative	N/A	Home appliances, consumer electronics
Rise in US treasury yields	Negative for market valuation overall	Energy, materials, telecom, banks	Property, internet, data center, healthcare
Unwinding of previous popular/ crowded trade	Negative	Consumer* (retailer, staples, restaurant)	Internet, AI tech hardware/ software

Brent oil price forecasts



Global inflation forecasts



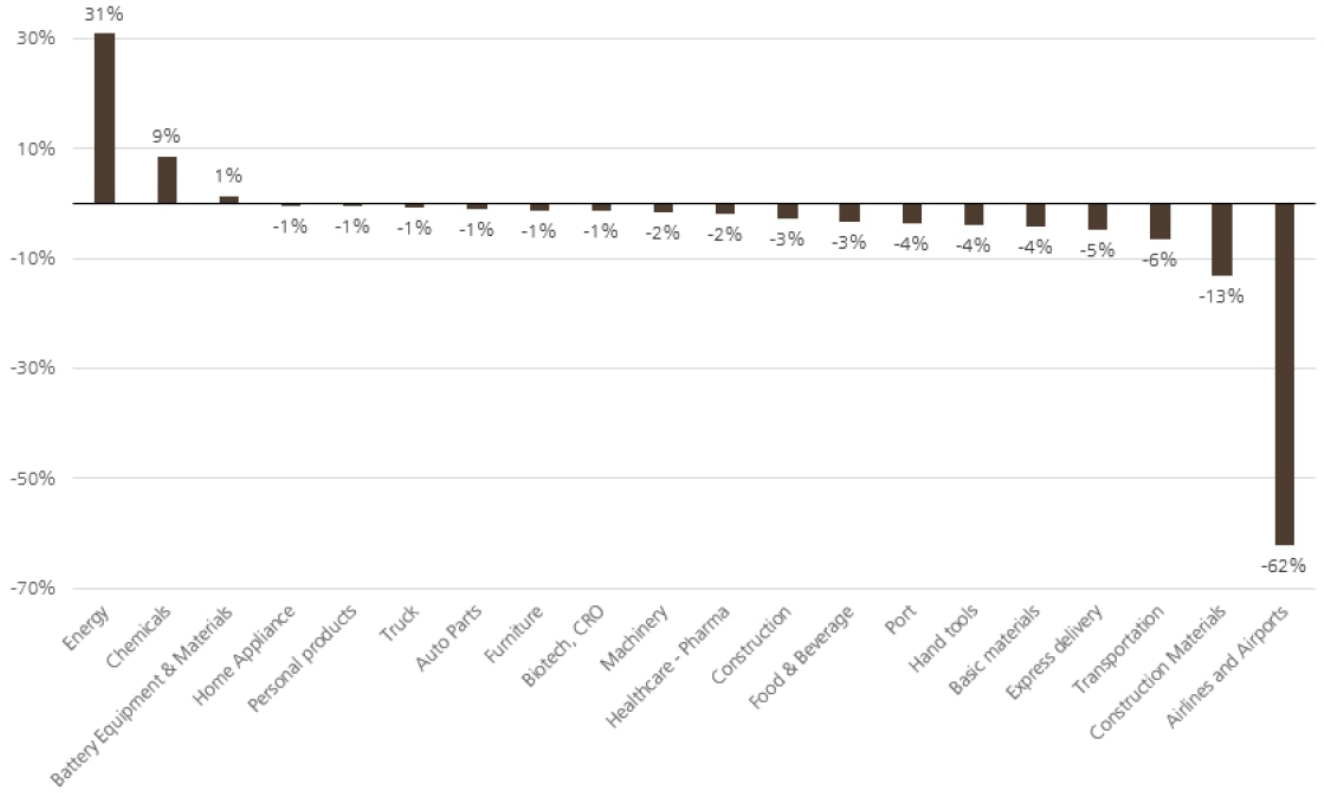
Source: UBS estimates. Note: *many consumer sub-sectors are least crowded and hence should be least susceptible to unwinding of crowded trades

Estimated earnings impact based on $100/bbl oil price assumption for Chinese equities

Sector	% change to 2026 EPS based on $100/bbl oil price assumption	EPS impact from a 10% further increase in oil prices from $100/bbl	% change to 2026 EPS based on LNG price at $15/mmbtu
Energy & materials	15.4%	20.4%	-1.8%
Renewables	0.8%	1.9%	-0.1%
Banks	0.1%	0.2%	0.1%
Defensive	0.0%	0.0%	0.0%
Insurance	0.0%	0.0%	0.0%
Other Financials	0.0%	0.0%	0.0%
Property	0.0%	0.0%	0.0%
Internet	-0.2%	-0.3%	-0.2%
Auto	-0.3%	0.7%	-0.4%
Tech	-0.3%	-0.2%	-0.3%
Healthcare	-0.9%	-0.5%	-0.3%
Consumer	-1.0%	-1.1%	-0.2%
Industrials	-10.1%	-8.4%	-0.5%
Overall	**1.3%**	**2.2%**	**-0.4%**

Source: UBS estimates, FactSet. Note: Values are market-cap weighted.

Estimated FY26 earnings impact based on $100/bbl oil price assumption by subsector



Source: UBS estimates, FactSet. Note: Values are market-cap weighted. Sectors not mentioned in the chart above have insignificant earnings sensitivity to oil prices.

Petrochemicals with high Iran/ Middle East capacity share and China's import share

Product	Iran production/capacity as % of global	ME/Iran + Persian Gulf production as % of global	Import from Iran as % of China's import	Import from ME as % of China's import	Import as % of China's apparent consumption
Sulfur	2-3%	33%	5%	56%	46%
LPG	3-4%	20%	20-25%	50%	41%
Methanol	10%	20%	>60%	70%	14%
PE	3%	16%	8%	48%	27%
Ethylene Glycols	3%	30%	1%	66%	27%
PP	1%	9%	0%	17%	<1%
Urea	5%	13%	0%	0%	0%

Source: S&P Global, CMA, Oilchem, Baiinfo, Customs data, UBS

Breakdown of input cost exposure

Sector	Oil	Plastics	Ferrous metals	Non-ferrous metals	Agricultural (e.g. CPO, food)	Cotton	Memory semis	Shipping / freight	Others/ unspecified
Autos & Parts	8%	4%		9%			5%	2%	14%
Cap Goods	5%	2%	5%	5%				2%	5%
Cons Dur & App	3%	5%	9%	8%		5%		1%	6%
Cons Svs	1%				30%				
Energy	10%	1%	3%	3%				1%	1%
Food/Staples retail					17%				1%
Food/Bev/Tob	10%	4%	1%	7%	17%			1%	3%
Hcare Equip							2%	2%	4%
Hhold & Pers Prod	12%								34%
Materials	11%		9%	16%				2%	2%
Pharma									3%
Real Estate									5%
Retailing	0%	4%			4%	1%		4%	0%
Semis		2%		5%				1%	23%
Software & Svs			1%						4%
Tech H/ware	1%	3%	2%	4%			3%	2%	4%
Transport	3%							14%	0%
Utilities	12%								24%

Source: UBS. Note: Shown as % of total cash operating costs. Based on the survey conducted in 2022.

3 phases of oil prices in 2022 during the Russia-Ukraine conflict



Source: FactSet, UBS

Sector performance in 2022 and since Iran conflict started this time

Sector	(1 Dec 2021 - 15 Mar 2022)	Return in 2nd phase (15 Mar - 8 Jun 2022)	Return after oil peaked (8 Jun - 27 Sep 2022)	Since 27 Feb 2026
Education	-65%	190%	9%	2%
Internet (E-commerce)	-47%	66%	-26%	-19%
Restaurant	-29%	37%	0%	-33%
Auto	-45%	36%	-22%	-24%
Internet (Media & entertainment)	-36%	34%	-29%	-22%
Auto retail	-30%	32%	-41%	-39%
Pharma retail	-37%	30%	-11%	-31%
Consumer finance	-29%	29%	-49%	-51%
Gas utilities	-33%	26%	-14%	-18%
Energy	7%	26%	-13%	0%
Health care service	-36%	21%	-13%	-24%
Leisure	-24%	19%	1%	-28%
Sportswear	-35%	18%	-5%	-24%
Beer	-23%	16%	0%	-23%
Property	-23%	15%	-13%	-20%
Shipping	-1%	14%	-27%	9%
Internet (Online game)	-30%	13%	-24%	-23%
Personal product	-16%	11%	-13%	-23%
Auto parts	-28%	11%	-6%	-25%
Baijiu	-21%	10%	-6%	-18%
Express delivery	-21%	9%	-12%	-11%
Data center	-37%	7%	-33%	-28%
Airline airport	-3%	5%	12%	-28%
Construction	-2%	5%	-16%	-17%
Biotech, CRO	-34%	5%	-24%	18%
Furniture	-14%	5%	-18%	-41%
Insurance	-15%	5%	-9%	-14%
Basic materials	-14%	5%	-19%	-26%
Machinery	-24%	4%	-2%	-21%
Power operator	-3%	3%	-10%	4%
Home appliance	-23%	3%	-13%	-2%
Food & beverage	-18%	3%	-11%	-15%
Transportation	-3%	3%	-9%	-4%
Chemicals	-19%	2%	-15%	-14%
EV Battery & materials	-30%	1%	-14%	-16%
Construction materials	-10%	1%	-21%	-21%
Telecom	-2%	1%	0%	-1%
Banks	-4%	0%	-15%	14%
Medical device	-23%	0%	-12%	-19%
Software	-32%	-1%	-16%	-24%
Truck	-24%	-1%	-24%	-4%
Broker	-18%	-1%	-15%	-8%
Grid	-23%	-1%	-18%	-20%
Wind power equipment	-22%	-1%	-8%	-42%
Aerospace & defense	-26%	-3%	-1%	-26%
Hog	-2%	-3%	0%	-8%
Solar supply chain	-9%	-4%	-11%	-10%
Tech hardware	-25%	-4%	-20%	20%
Pharma	-23%	-5%	-16%	-10%
Semiconductor	-22%	-9%	-22%	22%

Source: FactSet, UBS

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.