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China Equity Strategy

Risk-reward attractive from here - key stocks to buy

After a strong 1H26, China equities, mainly onshore, experienced a painful pullback. Four forces drove this: China AI stocks lagged the global AI rally on concerns over US restrictions and domestic supply bottlenecks; exporters weakened as US and EU trade measures became more targeted; hopes for large-scale stimulus faded as headline growth held up; and tighter scrutiny of tax payments and offshore trusts weighed on sentiment. **Near-term volatility may persist, but we think the downside now looks increasingly limited.** Valuations have reset meaningfully, leverage has been substantially unwound, AI-related valuation excess has largely corrected, and Central government backed capital buying has resumed. **We would buy on dips, expecting the rally to be led by onshore and tech stocks. Our top-10 high-conviction names**: BABA, CCB, Zijin Mining, PetroChina, Guangdong Songfa, Huafeng Test & Control, Midea, CGN Power, NARI and Kelun-Biotech.

- **Our five-factor investment framework points to an asymmetric setup** (Figure 1). We track China equities across five factors – Macro, Earnings, Liquidity, Valuation and Geopolitical Risk – using 12 key indicators that have historically been closely correlated with market performance. Today, two factors have clearly turned supportive: valuations have reset close to the '924' trough, and Central government backed capital has resumed buying. Macro growth remains on track, supported by resilient exports, although domestic demand is still soft and large-scale stimulus is not yet in sight. While earnings momentum and geopolitics remain headwinds, the improvement in policy-backed flow and the valuation reset leave risk-reward skewed to the upside.

- **Valuations are only around 9% above the '924' trough, a level that held even in far weaker conditions.** We acknowledge the near-term headwinds: earnings revisions remain negative, the potential for policy stimulus appears limited, and tax scrutiny may continue to weigh on sentiment. But conditions in September 2024 were considerably worse. Deflation was deepening, exports were weaker, and China had yet to demonstrate the innovation breakthroughs that have since reshaped the investment case, from DeepSeek to AI localization and biotech. Even then, valuations found a floor, and with **MSCI China now trading at 9.3x 12mf P/E, just 9% downside to '924' trough multiples, we think the downside from here is limited (**Figure 5**).** The reset has been sharpest in AI: MSCI China A IT now trades at 22x 12mf P/E, from 47x in Jun 2026, back to the late 2024 level, before China's Deepseek moment, despite expected earnings growth of 40-50% (Figure 6). Measured by **Composite Valuation Indicator**, MXCN trades at the 14% percentile, with IT at 44%, Banks at 98%, while broad consumer proxies are at low single digits.

- **Central government backed capital is back with Rmb327bn inflows in 2H26** (Figure 3). After selling heavily in 1H26 to cool an overheating market, it has bought around Rmb327bn of major ETFs in 2H26 (Rmb176bn in Oct). We think this is a clear signal that policymakers want to limit further downside and smooth volatility; historically MSCI China and CSI 300 rose 4-5% over three months after sizeable policy-backed flows (Figure 7). Having bought back only around 23% of its 1H26 outflows, the central government backed capital retains substantial 'dry powder' should sentiment weaken again. Positioning adds to the

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asymmetry: global investors remain structurally underweight China (JPM's investor survey at the IMF indicated that 50% of respondents had no allocation to China and 22% were underweight), leveraged retail investors, onshore mutual funds and northbound investors have also trimmed some of their positions (Figure 19, Figure 21, Figure 22), leaving positioning relatively lighter.

- **The US mid-terms on 3 Nov and December's CEWC should set up a more constructive year-end:** China equities have historically been weak in the run-up to US mid-term elections and tended to recover once the event risk cleared (Figure 4). Regardless of the outcome, our US Equity Strategy team expects the broad policy direction to remain largely unchanged: presidential veto power and the Senate filibuster limit the scope for major new legislation, while trade and foreign policy remain with the President. Beyond the mid-terms, December's Central Economic Work Conference (CEWC), which will set the 2027 growth and policy tone, is the next catalyst, and it typically marks the point when investors start repositioning for the year ahead. Further catalysts that could extend the rebound include a pick-up in central government backed capital buying, a re-acceleration in AI localization as foundry and memory constraints ease, and additional policy support if exports slow from a high base.

- **We prefer A-shares over H-shares, large caps over small caps, and a barbell across sectors.** Once markets stabilize, we prefer A-shares, which offer more direct exposure to China's high-end manufacturing upgrade, stronger central government backed capital support and less sensitivity to US rates and offshore risk sentiment. We prefer large caps, where valuations have reset more meaningfully, particularly in IT, and where central government backed capital flows into the CSI 300 and STAR 50 provide support. On sectors, **we keep AI-led growth as our core overweight in IT**, as the recent pullback looks more flow-driven than fundamental. **We balance it with Financials, Energy and Healthcare** to add yield, defensiveness and a lower correlation to AI (Figure 2). Banks offer a forward dividend yield of around 5%, with the yield spread versus China's 10-year government bonds remaining attractive at approximately 3.3%, and a negative correlation with semiconductors. Energy adds a hedge against geopolitical risk, with positive earnings revisions, although valuations are no longer cheap. Healthcare trades at only the 8th percentile of its five-year valuation range, with a low correlation to AI. **We are underweight Consumer Staples and Real Estate**, where demand visibility and earnings catalysts are still lacking amid weak household confidence and the ongoing property downturn. **The key risks to our view** are a further rise in US bond yields, higher oil prices, and further tightening tax enforcement.

- **Our top picks mirror the barbell, combining structural growth with resilient, cash-generative leaders. On the growth side, we favour names with visible earnings drivers:** Alibaba as the clearest platform for AI monetization, Huafeng Test & Control as a beneficiary of rising AI-related testing demand and localization, Guangdong Songfa in a multi-year shipbuilding upcycle, and Kelun-Biotech for innovation with low correlation to AI. **On the defensive side, we prefer large, cash-generative leaders with yield support or policy tailwinds,** including CCB, PetroChina, Midea, CGN Power and NARI, alongside Zijin Mining for gold and copper exposure. Our least preferred names are concentrated where earnings downside is not yet fully priced, including autos and batteries facing price competition and overseas policy pushback, solar where anti-involution has yet to deliver, and property and consumption names exposed to weak domestic demand.

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Key Charts in Focus

Figure 1: Five factor framework

Factors	Indicators	Signal	Incremental Change
Macro			
	JPM QMI (Quantitative Macro Indicator, 3MMA)		↓
	Other regulatory policies		→
Earnings			
	ERB (earnings revision breadth)		↓
Liquidity			
Offshore liquidity	UST–CGB yield spread		↓
	US and EU mutual fund flows		↓
Onshore liquidity	M1–M2 growth gap		→
	National team flows (proxied by major ETF flows)		↑
	Retail investor activity (proxied by margin financing)		↓
Cross-border liquidity	Southbound flows		↓
Valuation			
	12-month forward P/E		↑
	CVI (Composite Valuation Indicator)		↑
Geopolitical risk			
	Geopolitical Risk Index		↓
	Brent oil price		↓

Note: For signal, green stands for favorable, yellow stands for neutral, and red stands for unfavorable.
Source: J.P. Morgan.

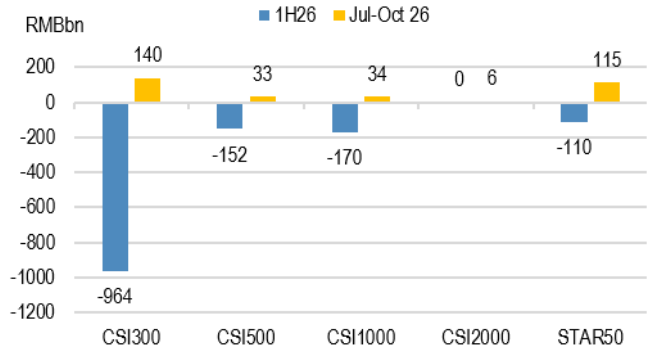
Figure 2: JPM's sector allocation

GICS Sectors	MXCN Wgt (%)	FTM PE (x)	SD vs. 10Y avg	26-Oct-26
Communication Services	18	11	-1.3	N
Consumer Discretionary	24	10	-1.4	N
Consumer Staples	3	14	-1.8	UW
Energy	4	9	-0.2	OW
Financials	21	6	0.0	OW
Health Care	6	24	-0.4	OW
Industrials	5	9	0.3	N
Information Technology	10	17	-0.9	OW
Materials	5	8	-0.9	N
Real Estate	2	11	1.4	UW
Utilities	2	10	0.1	N
MXCN		**9**	-1.3	

Source: Bloomberg Finance L.P.

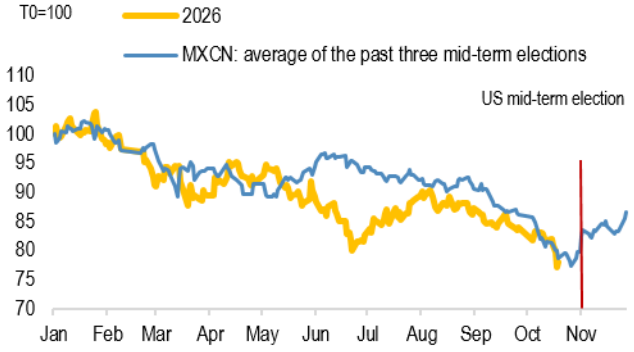
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Figure 3: Central government backed capital buying picked up in October, led by major inflows into CSI 300 and STAR 50 ETFs



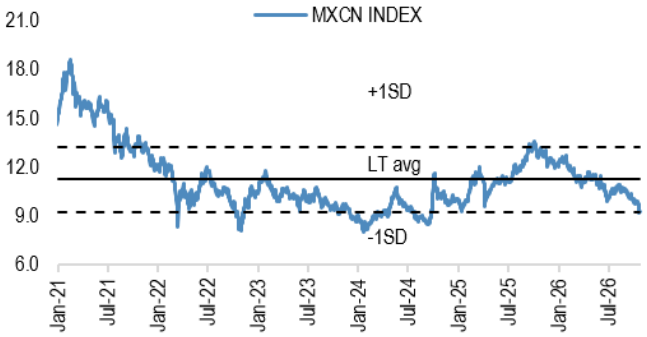
Source: Wind.

Figure 4: China equities in US mid-term election years: 2026 vs history shows a typical post-election recovery pattern



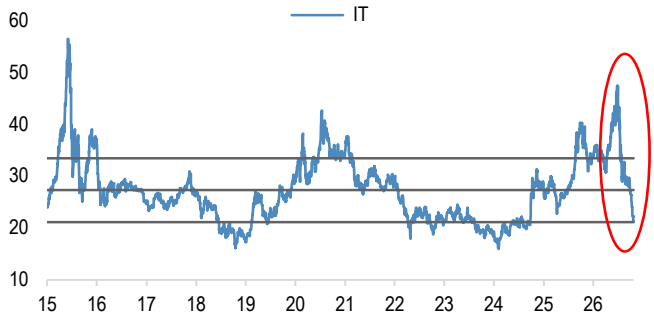
Source: Bloomberg Finance L.P.

Figure 5: MSCI China FTM P/E has fallen to 9.3x, implying only 9% downside to the '9/24' trough multiple



Source: Bloomberg Finance L.P.

Figure 6: MSCI China A IT sector FTM P/E has derated from 47x to 22x, back to pre-DeepSeek levels



Source: Bloomberg Finance L.P.

Figure 7: Sizeable ETF inflow spikes have tended to mark a market floor, with indices up 4-6% on average over the following three months

		ETF inflow		Avg. daily inflow	3M return after inflow pickup (%)		
Start	End	(RMBbn)	# of days	(RMBbn)	CSI300	MXCN	ChiNext
8/7/2023	8/30/2023	135	23	6	-11	-11	-13
1/18/2024	2/8/2024	305	21	15	10	7	6
7/15/2024	8/29/2024	265	45	6	12	17	25
9/18/2024	10/10/2024	322	22	15	24	15	43
3/31/2025	4/9/2025	195	9	22	0	1	0
7/2/2026	7/20/2026	421	18	23	-12	3	-26
10/15/2026	10/23/2026	219	8	27			
				Avg. return	**4**	**5**	**6**

Source: Wind.

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Stock picks

Figure 8: Top 10 most preferred stock picks

Ticker	Security Name	GICS Sector	JPM rating	Current price (LCU)	Market cap (US$ bn)	FTM PE (x)	FY1 EPS growth (%)	FTM div yield (%)	YTD return (%)	Return since end-Jun (%)	% to 52w high (%)	% to 52w low (%)
9988 HK	Alibaba Group Holding	Discretionary	OW	97.2	251	12	67	1.6	(32)	5	(44)	10
000333 CH	Midea Group Co., Ltd.	Discretionary	OW	86.4	90	13	9	5.4	11	14	(3)	20
857 HK	PetroChina Company Limited	Energy	OW	10.3	27	9	23	6.0	23	22	(15)	32
939 HK	China Construction Bank Corp	Financials	OW	10.2	304	6	7	5.1	33	26	(0)	38
6990 HK	Kelun-Biotech Biopharmaceutical	Health Care	OW	446.2	13	139	129	0.0	14	2	(21)	31
603268 CH	Guangdong Songfa Ceramics	Industrials	OW	159.3	26	10	NULL	0.6	91	14	(30)	198
600406 CH	NARI Technology Co., Ltd.	Industrials	OW	22.8	28	19	10	3.1	1	(0)	(29)	7
688200 CH	Huafeng Test & Control	IT	OW	224.0	7	41	73	0.8	74	(57)	(61)	103
2899 HK	Zijin Mining Group Co Ltd	Materials	OW	28.3	22	8	61	4.5	(21)	3	(40)	6
1816 HK	CGN Power Co Ltd	Utilities	OW	3.5	5	12	13	3.7	18	29	(8)	33

Source: Bloomberg Finance L.P. Data as of 28 Oct 2026

Figure 9: Top 10 least preferred stock picks

Ticker	Security Name	GICS Sector	JPM rating	Current price (LCU)	Market cap (US$ bn)	FTM PE (x)	FY1 EPS growth (%)	FTM div yield (%)	YTD return (%)	Return since end-Jun (%)	% to 52w high (%)	% to 52w low (%)
PDD US	PDD Holdings Inc.	Discretionary	N	77.5	110	6	(2)	0.0	(32)	2	(44)	8
1211 HK	BYD Company Limited	Discretionary	N	70.4	33	11	23	1.9	(26)	(3)	(38)	5
605499 CH	Eastroc Beverage (Group)	Staples	UW	101.8	10	13	14	5.2	(50)	(17)	(54)	3
3328 HK	Bank of Communications Co Ltd	Financials	N	8.6	37	6	2	5.0	33	27	(2)	35
300124 CH	Shenzhen Inovance Technology	Industrials	N	56.5	23	23	16	1.2	(25)	(15)	(33)	16
300782 CH	Maxscend Microelectronics	IT	UW	55.5	5	109	50	0.4	(32)	(49)	(62)	6
601012 CH	LONGi Green Energy	IT	N	11.2	13	263	34	0.4	(38)	(14)	(52)	7
603881 CH	Shanghai AtHub Co., Ltd.	IT	N	20.2	3	91	40	0.4	(21)	(19)	(46)	1
9696 HK	Tianqi Lithium Corporation	Materials	N	24.2	1	5	1,420	4.0	(53)	(40)	(65)	9
2202 HK	China Vanke Co., Ltd.	Real Estate	UW	2.2	1	NULL	72	0.0	(33)	4	(52)	5

Source: Bloomberg Finance L.P. Data as of 28 Oct 2026

Investment Thesis

We introduce a five-factor framework for China Equity Strategy. The framework evaluates five key dimensions of the China equity market and identifies 12 indicators within each factor that have historically shown a high correlation with equity market performance. A more comprehensive set of data, charts, and supporting analysis for the five-factor framework can be found in: Five Factor Framework Databook.

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Figure 10: Five factor framework

Factors	Indicators	Signal	Incremental Change
Macro			
	JPM QMI (Quantitative Macro Indicator, 3MMA)		
	Other regulatory policies		
Earnings			
	ERB (earnings revision breadth)		
Liquidity			
Offshore liquidity	UST–CGB yield spread		
	US and EU mutual fund flows		
Onshore liquidity	M1–M2 growth gap		
	National team flows (proxied by major ETF flows)		
	Retail investor activity (proxied by margin financing)		
Cross-border liquidity	Southbound flows		
Valuation			
	12-month forward P/E		
	CVI (Composite Valuation Indicator)		
Geopolitical risk			
	Geopolitical Risk Index		
	Brent oil price		

Note: For signal, green stands for favorable, yellow stands for neutral, and red stands for unfavorable.
Source: J.P. Morgan.

Macro: Growth on track, but domestic demand lags exports; no major stimulus in sight, while tax scrutiny weighs on sentiment

Despite deepening softness in domestic demand across consumption, housing, investment and credit creation, China's headline growth remains broadly on track. 3Q GDP growth surprised modestly to the upside at 4.5% (consensus: 4.4%), while our Quantitative Macro Indicator (QMI) firmed to the borderline of the Expansion quadrant. Resilience has been primarily driven by strong exports and industrial production, with export growth reaching a multi-year high (+21% in 9M26).

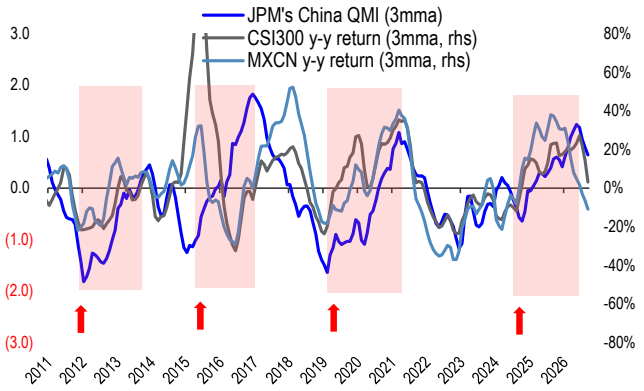
The key macro debate is increasingly what could trigger a meaningful policy response to revive domestic demand. Market expectations for sizable stimulus remain low in the medium term, given still-resilient headline GDP growth and a political cycle that is likely to prioritize stabilization ahead of the 21st Party Congress in 4Q27. A sharper deterioration in exports and domestic activity would, therefore, likely be needed to shift the policy reaction function. Besides, tax scrutiny may continue to weigh on sentiment.

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The PBoC's planned shift to an overnight policy rate is a marginal positive, but more a mechanism change than meaningful easing. At the Financial Street Forum, the PBoC said it is studying a move of its main policy rate from the 7-day to the overnight reverse repo rate, which could lower the effective policy anchor by around 15bp if set at the reported 1.25%. However, JPM's economics research believes the reform is aimed mainly at improving transmission rather than starting a new easing cycle, and a new liquidity backstop for non-bank institutions should reduce the tail risk of redemption-driven sell-offs.

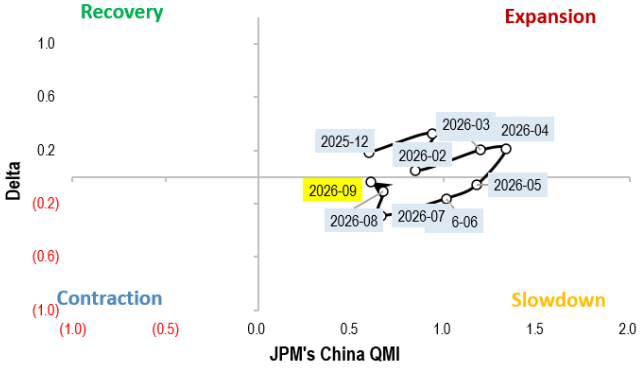
Capital market reform is shifting towards building long-term institutional demand. The CSRC approved China's first 18 active equity ETFs this month, potentially bringing around RMB36bn of new money. The amount is small relative to daily turnover, but we believe the step is structurally important for channeling household savings into equities. Further progress on insurers' and pension funds' equity allocation, SOE dividends and buybacks, and Stock Connect expansion would be the key areas to watch.

Figure 11: JPM's China Quantitative Macro Indicator (QMI) vs indices return



Source: Wind

Figure 12: JPM's QMI: holding up in borderline Expansion



Source: Wind

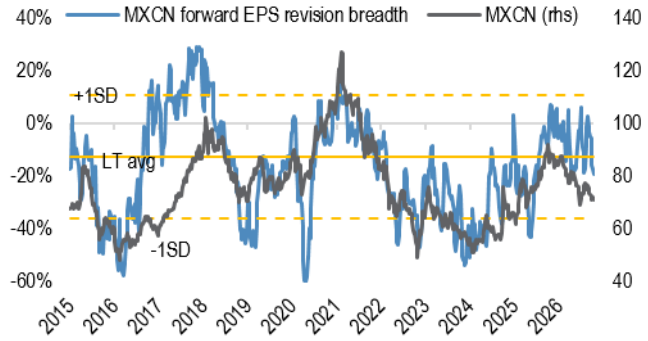
Earnings: Confidence is fading, with further consensus downgrades likely

According to IBES, consensus still expects 14%/13% 2026/27E EPS growth for MSCI China, despite reported EPS growth of only -8%/+4% in 1Q26/2Q26, leaving a demanding hurdle for 2H26. Near-term earnings momentum has turned weaker, with forward earnings revision breadth falling to a YTD low of -19%.

Expectations are increasingly challenged by the widening PPI-CPI gap, reduced fiscal support through export VAT rebate cuts, and emerging trade restrictions on AI and NEV related exports. A reversal in earnings expectations would likely require clearer upside catalysts, including accelerating AI demand (e.g. physical AI), an easing of Middle East tensions, or more forceful domestic policy support.

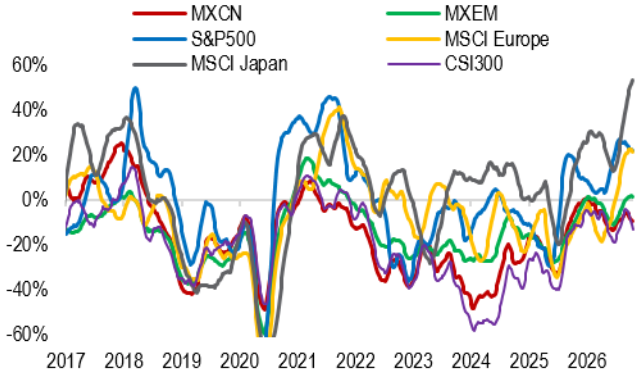
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Figure 13: MSCI China: FTM EPS revision breadth vs price performance



Source: IBES

Figure 14: 12M forward EPS revision breadth (3mma)



Source: I/B/E/S.

Liquidity: Ample domestic liquidity meets a shortage of investable assets; weak offshore and global liquidity weighs on foreign flows

Liquidity conditions remain mixed, with abundant onshore liquidity but tight offshore liquidity. **Onshore liquidity** is ample, supported by low interest rates and policy easing, but transmission into the real economy and asset prices remain weak. The M1-M2 growth gap remains stable at around -4%. JPM Economics expects a potential 10bp policy-rate cut and 50bp RRR cut as the next line of defense if growth and deflation risks persist.

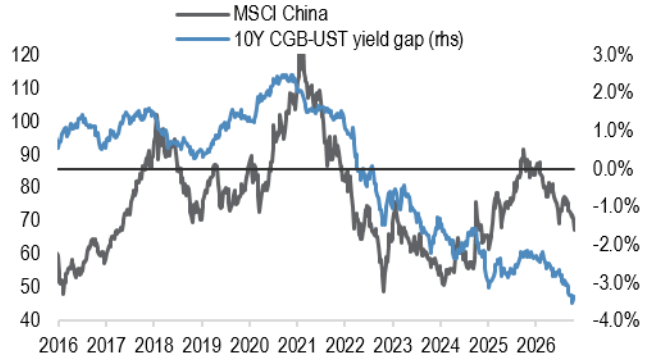
Onshore equity liquidity is also supported by policy-related flows, particularly central government backed capital buying, proxied by major ETF inflows. These flows act as a policy backstop and help stabilize market sentiment during periods of weakness. Recent major ETF inflows of Rmb327bn in 2H26 suggest renewed policy support, while margin financing of Rmb2.5tn – back to November 2025 levels – indicates retail risk appetite remains muted.

Offshore liquidity remains a headwind. The 10Y CGB-UST yield spread of around -340bp has reached the historical trough level, which continues to make offshore capital conditions challenging for China equities, while US and European mutual fund flows to China remain muted.

Southbound flows have also been more muted in 2026, with year-to-date net inflows of HK$429bn, equivalent to only around 30% of the full-year 2025 level.

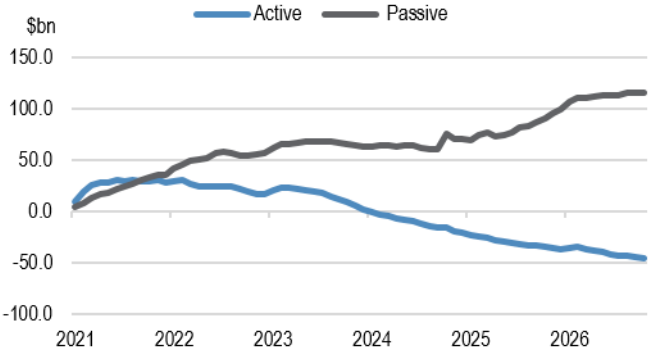
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Figure 15: Wider CGB-UST Yield Gap Negative for MXCN



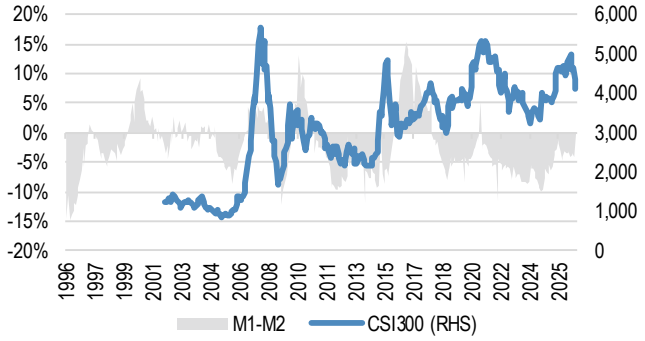
Source: Wind, J.P. Morgan.

Figure 16: US & EU accumulative fund flows to China since 2021



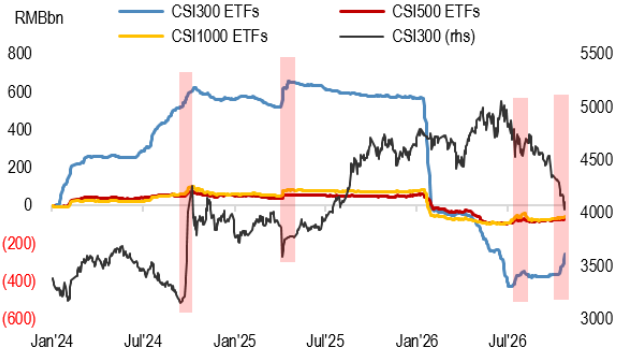
Source: EPFR

Figure 17: M1-M2 vs CSI 300



Source: Wind

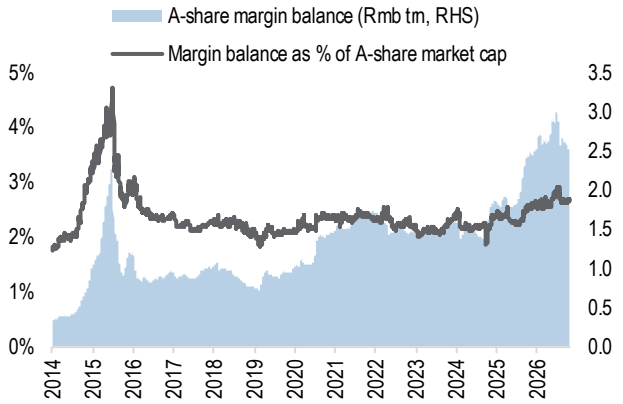
Figure 18: Cumulative ETF net flows: Central government backed capital buying picked up in October



Source: Wind

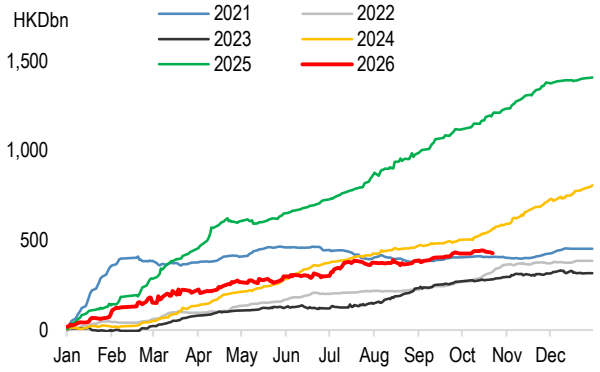
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Figure 19: A-share margin financing



Source: Wind

Figure 20: Southbound net inflow per year



Source: Wind

Figure 21: Top holdings by onshore mutual funds: IT exposure declined in 3Q, while Financials and Healthcare exposure increased

	Top holdings by onshore mutual funds			Change in holding %	
Industry	3Q26	2Q26	4Q25	vs. last quarter	2026 YTD
IT	48%	63%	33%	-15%	16%
Utilities	1%	0%	1%	1%	0%
Healthcare	10%	6%	8%	4%	2%
Cons. Discre	5%	4%	9%	1%	-4%
Industrials	10%	10%	15%	0%	-4%
Real Estate	1%	1%	1%	0%	0%
Cons. Staples	5%	2%	7%	2%	-3%
Materials	8%	9%	11%	-1%	-3%
Energy	3%	2%	2%	1%	1%
Comm. Svs	1%	0%	2%	1%	-1%
Financials	8%	3%	12%	5%	-4%
Grand Total	**100%**	**100%**	**100%**		

Source: Wind

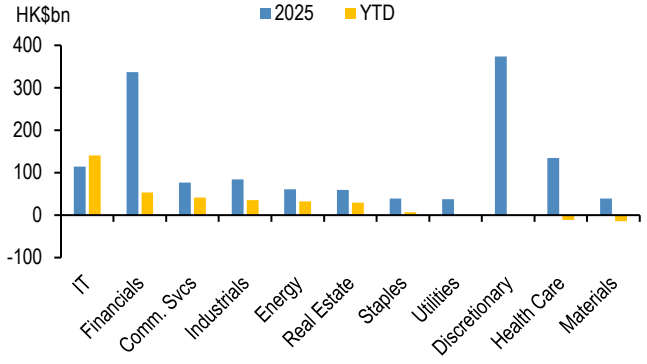
Figure 22: Northbound holdings: IT and Industrials exposure declined in 3Q, while Financials exposure increased

	NB holding			Change in holding %	
Industry	3Q26	2Q26	4Q25	vs. last quarter	2026 YTD
Financials	13%	8%	12%	5%	1%
Healthcare	6%	4%	6%	2%	1%
Cons. Staples	5%	4%	7%	1%	-1%
Utilities	3%	2%	2%	1%	1%
Cons. Discre.	8%	6%	10%	2%	-2%
Energy	2%	1%	1%	0%	0%
Real Estate	0%	0%	0%	0%	0%
Comm. Svs.	1%	1%	2%	0%	0%
Materials	11%	11%	13%	0%	-2%
Industrials	24%	28%	27%	-3%	-3%
IT	27%	35%	21%	-8%	5%
Grand Total	**100%**	**100%**	**100%**		

Source: Wind

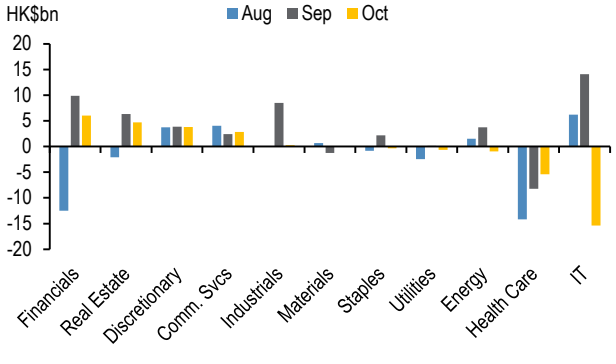
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Figure 23: Southbound net inflows by sector: 2025 vs YTD



Source: Wind

Figure 24: Southbound net inflows by sector



Source: Wind

Valuation: How low is low? MSCI China at 9.3x FTM P/E, 9% above the '924' level

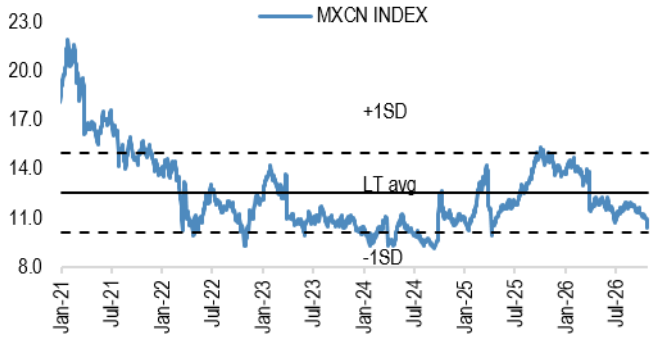
Following the recent correction, MSCI China has de-rated to 9.3x FTM P/E, around 0.8SD below its long-term average. The correction has been particularly acute in technology: since end-June, the IT sector has experienced its sharpest forward P/E compression in a decade.

As a proxy for the China AI trade, MSCI China A-share IT now trades at 22x FTM P/E despite 61% 2027E EPS growth. Against a backdrop of broad pessimism, and valuations, we see increasingly asymmetric risk reward. Historically, MXCN has tended to bottom at -1SD, equivalent to ~9x forward PE, and the '924' trough valuation stands at 8.5x.

Measured by Composite Valuation Indicator (a combination of 5 valuation metrics), MXCN trades at the 14% percentile, with IT at 44%, Banks at 98%, while broad consumer proxies at low single digits.

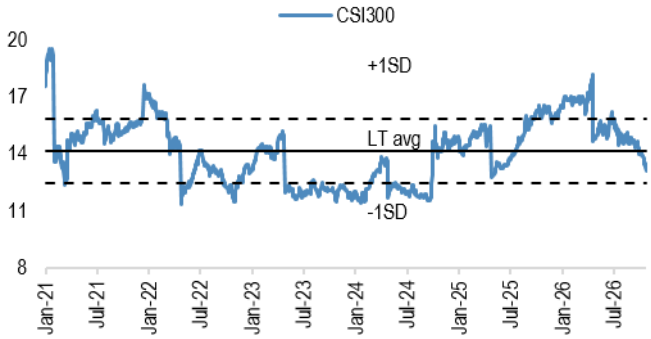
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Figure 25: MSCI China fwd P/E



Source: Bloomberg Finance L.P.

Figure 26: CSI300 fwd P/E



Source: Bloomberg Finance L.P.

Figure 27: Composite Valuation Indicator (CVI): weighted average percentile rank across 12M forward valuation metrics

	PE	PB	EV ebitda	Dividend yield	Px to cash flow	CVI*
MSCI China	12%	18%	16%	5%	20%	14%
Consumer Discretionary	1%	1%	0%	0%	0%	1%
Retailing	22%	1%	14%	2%	3%	8%
Automobiles	0%	0%	0%	0%	0%	0%
Consumer Durable & Apparel	1%	1%	1%	1%	1%	1%
Consumer Services	5%	12%	4%	3%	4%	5%
Consumer Staples	6%	3%	4%	4%	5%	4%
Food, Beverage & Tabaco	7%	4%	5%	5%	7%	6%
Household & Personal Products	0%	0%	0%	0%	0%	0%
Communication Services	0%	1%	0%	0%	0%	0%
Media and Entertainment	0%	1%	0%	0%	0%	0%
Telecommunication Services	3%	1%	22%	4%	44%	15%
Energy	79%	83%	79%	81%	78%	80%
Financials	71%	72%	N/A	72%	97%	78%
Banks	98%	95%	N/A	98%	99%	98%
Insurance	3%	25%	N/A	28%	82%	34%
Diversified Financial	16%	37%	29%	4%	48%	27%
Health Care	25%	61%	32%	62%	27%	41%
Pharma, Biotech & Life Science	6%	70%	29%	59%	27%	38%
Healthcare Equipment & Service	16%	8%	7%	24%	5%	12%
Information Technology	37%	45%	46%	40%	52%	44%
Technology Hardware	13%	43%	37%	16%	45%	31%
Semiconductors	73%	77%	84%	80%	87%	80%
Software & Services	97%	42%	66%	87%	95%	77%
Industrials	64%	59%	42%	22%	42%	46%
Capital Goods	68%	61%	45%	3%	22%	40%
Transportation	51%	45%	20%	59%	72%	49%
Real Estate	75%	31%	73%	70%	34%	57%
Materials	12%	57%	2%	2%	44%	23%
Utilities	74%	22%	78%	45%	27%	49%

Source: Wind. Note: The Composite Valuation Indicator (CVI) is calculated as the weighted average of the historical percentile ranks of 12M forward P/E, P/B, EV/EBITDA, dividend yield and price-to-cash-flow. A higher CVI indicates a more expensive valuation relative to history.

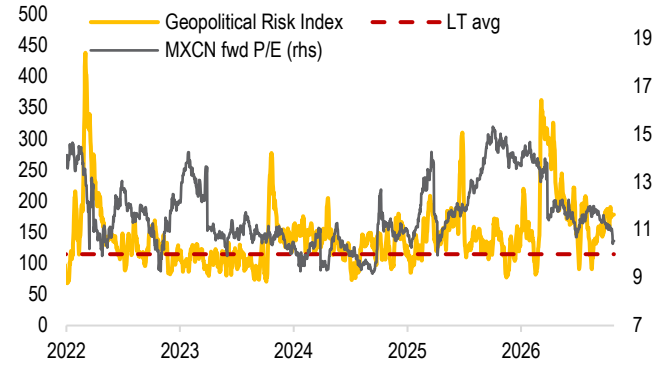
Geopolitics: lingering Middle East conflict and renewed trade restrictions on high-end manufacturing are the key risks to watch

On the Strait of Hormuz, JPM's survey shows that 58% of respondents expect shipping to resume but with recurring disruptions, while 24% expect a prolonged standoff. This suggests that investors are not yet positioned for a clean or durable resolution, leaving Middle East-related inflation and risk-premium volatility as ongoing macro uncertainties.

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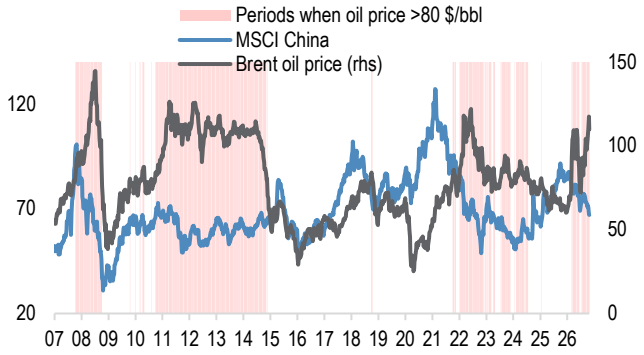
Another notable is the US/EU trade restrictions targeting high-end manufacturing, including NEVs and AI hardware such as optical transceivers. These industries are increasingly important both to China's pillar growth engine and equity benchmark earnings, making any broadening of trade restrictions a key downside risk to both the macro and earnings outlook.

Figure 28: Geopolitical Risk Index (7DMA)



Source: Bloomberg Finance L.P.

Figure 29: MXCN tended to be under pressure when brent price >$80/bbl



Source: Bloomberg Finance L.P.

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Upcoming catalysts and key things to watch

In 4Q26, market attention is likely to be concentrated on three areas: the tone of macro policy, the delivery of corporate earnings, and the external trade and political environment.

On the domestic front:

- The A-share third-quarter earnings season, together with policy windows such as the Fifth Plenary Session of the 20th CPC Central Committee and the Central Economic Work Conference, represent key reference points for assessing earnings delivery and the policy orientation for the coming year.
- Specifically on AI, AI developer conferences and the earnings validation of domestic AI applications are mutually reinforcing, serving as an important window for assessing the sustainability of the technology theme.

On the global front:

- The FOMC meeting in December will deliver a near-term rate decision and the year-end dot plot, respectively, which directly influence US Treasury yields and cross-border capital flows.
- On the geopolitical front, the US midterm elections, potential Trump-Xi meetings over the APEC meeting, G20 leader gathering, and the US Executive Order 14420 on grid-equipment will collectively shape the external trade and geopolitical landscape. The 178 tariff exclusions are set to expire in November; whether they are extended will have implications for the cost and order expectations of relevant exporters.

Figure 30: Catalyst calendar

Date	Event	Note
Domestic events		
Late Oct	A-share 3Q26 results season	Companies are scheduled to disclose third-quarter results by end-October. As a regular earnings-verification window, it offers a read on the actual operating performance of AI-related names, helping to distinguish fundamentals-driven growth from purely thematic momentum.
10/26-29	20th CPC Central Committee, 5th Plenum	Agenda dominated by party-building (groundwork for the 2027 Party Congress), not economic policy. Low base-case market impact; watch for any surprise stimulus signal.
Mid-Dec	Politburo meeting + Central Economic Work Conference	Sets the tone for 2027 economic policy (typically around 12/10–11). The core window for spotting China's next "Sep 24 moment" — whether policy escalates from incremental fine-tuning to aggregate stimulus.
Q4 2026 (tbd)	Major AI developer conferences	Following the Alibaba Cloud Apsara Conference, the Tencent Global Digital Ecosystem Summit (typically held in Q4) will serve as the next key window to monitor developments in AI agents and platform ecosystems.
Overseas events		
3-Nov	US midterm elections	U.S. midterm elections The U.S. holds midterm elections, with all House seats and a portion of Senate and gubernatorial seats up for election. The results will shape the domestic policy landscape and foreign economic policy, with implications for global risk appetite.
10-Nov	Expiry of 178 tariff exclusions	The exclusions cover solar equipment, selected machinery, and medical devices. Should they lapse without renewal, costs for relevant U.S. importers and Chinese exporters could rise; whether they are extended remains to be seen.
18-19 Nov	APEC Meeting	The summit focuses on building an Asia-Pacific community and advancing open trade, digital economy and cooperation across the region. US President Donald Trump and China President Xi Jinping may meet over the period.
8-9 Dec	FOMC meeting (with dot plot)	This meeting will publish updated economic projections and the year-end dot plot, providing guidance for the 2027 rate path and serving as an important reference for U.S. Treasury yield trends.
14-15 Dec	G20 meeting	The US-hosted flagship G20 leaders gathering will discuss global growth, market resilience and cross-border economic coordination. US President Donald Trump and China President Xi Jinping may meet over the period.
Late Dec	US grid-equipment executive order — implementing rules	DOE rules implementing the 8/26 executive order (120-day deadline), which could materially restrict Chinese exports of transformers, switchgear and other grid equipment to the US.

Source: J.P. Morgan.

Sector Allocation Recommendations

On sector allocation, we assess opportunities across four dimensions: 1) correlation with the AI trade (Figure 33), **2) earnings growth** (Figure 34**) and earnings revision trend** (Figure 36), **3) valuation relative to five-year percentile ranges** (Figure 35, Figure 37), and **4) positioning** (Figure 65). We also consider the **year-to-date sector rotation pattern** shown in Figure 32.

We recommend overweighting the following four sectors:

- **Information Technology: We retain IT as our core structural overweight,** with AI still the defining driver of the current cycle. The recent pullback appears more flow-driven than fundamental: capex commitments remain intact, AI supply-chain earnings are broadening, and the adoption cycle remains early. While positioning was crowded at end-June, with IT representing 46% of onshore mutual-fund holdings, the correction has meaningfully reset valuations. **MSCI China A IT's 12-month forward P/E has fallen from 47x at end-June 2026 to 22x currently, back to late 2024 levels, before China's Deepseek moment.** This leaves quality AI beneficiaries offering more compelling risk-reward. JPM A-share screen on AI infrastructure sub-industries with free-float (FFL) market cap>US$3bn is shown in Figure 39. In particular, we see selected AI sub-sectors as having reasonable valuations to act as a cushion against downside risks: Memory and Server/switch ODM/OEM (JPM top pick: Huaqin) are two verticals with fair FTM P/S and decent FTM sales y-y.

- **Financials: We recommend an overweight in banks given their combination of yield support and diversification benefits**. Following the year-to-date rally, MSCI China Banks' forward dividend yield has declined to around 5%, versus a 10-year average of 6.1%, placing it near the lower end of its past 10-year level. However, with government bond yields still low, the yield spread between Banks and China's 10-year government bonds remains attractive at around 3.3%, broadly in line with its 10-year average and still above the 2016-2021 range. Banks also have a -0.3 correlation with semiconductors, making them less vulnerable to a synchronized sell-off during another AI-positioning unwind and helping dampen portfolio volatility.
- **Energy: We are overweight Energy for its diversification and geopolitical hedging characteristics.** The sector has a negative correlation with the semiconductor trade (-0.2), offers a geopolitical hedge amid prolonged Middle East escalation, and is benefiting from upward earnings revisions that have yet to be matched by a valuation re-rating. Although valuations are relatively elevated at the 74th percentile of the sector's five-year forward P/E range, we believe Energy's distinct earnings drivers and portfolio diversification value justify its role as a complement to the AI core.
- **Healthcare: Healthcare offers an attractive mix of low AI correlation, reasonable valuation, and strong EPS growth.** Biotech shows only a moderate correlation with AI (0.2), trades at the 8th percentile of its five-year forward P/E range, and continues to benefit from global out-licensing opportunities at reasonable valuations. The JPM A-share screen on innovative drug and CXO names with free-float market cap>US$3bn is in Figure 40..

We also highlight our defensive, dividend plays in Figure 41.

We recommend underweighting two sectors:

- **Consumer Staples and Real Estate:** We recommend underweighting Consumer Staples and Real Estate, as both still lack clear signs of a broad-based recovery. Consumption remains weighed down by sluggish retail sales, subdued household income growth, weak confidence, and the absence of large-scale stimulus. The negative wealth effect from the property downturn also continues to constrain demand, while housing-price stabilization remains narrow and concentrated in select markets such as Shanghai. As a result, we do not expect a meaningful near-term recovery in either consumption or property, leaving both sectors short of the demand visibility and earnings catalysts needed to justify a benchmark-weight allocation.

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Figure 31: JPM's sector allocation

GICS Sectors	MXCN Wgt (%)	FTM PE (x)	SD vs. 10Y avg	26-Oct-26
Communication Services	18	11	-1.3	N
Consumer Discretionary	24	10	-1.4	N
Consumer Staples	3	14	-1.8	UW
Energy	4	9	-0.2	OW
Financials	21	6	0.0	OW
Health Care	6	24	-0.4	OW
Industrials	5	9	0.8	N
Information Technology	10	17	-0.9	OW
Materials	5	8	-0.9	N
Real Estate	2	11	1.4	UW
Utilities	2	10	0.1	N
MXCN		**9**	-1.3	

Source: Bloomberg Finance L.P.

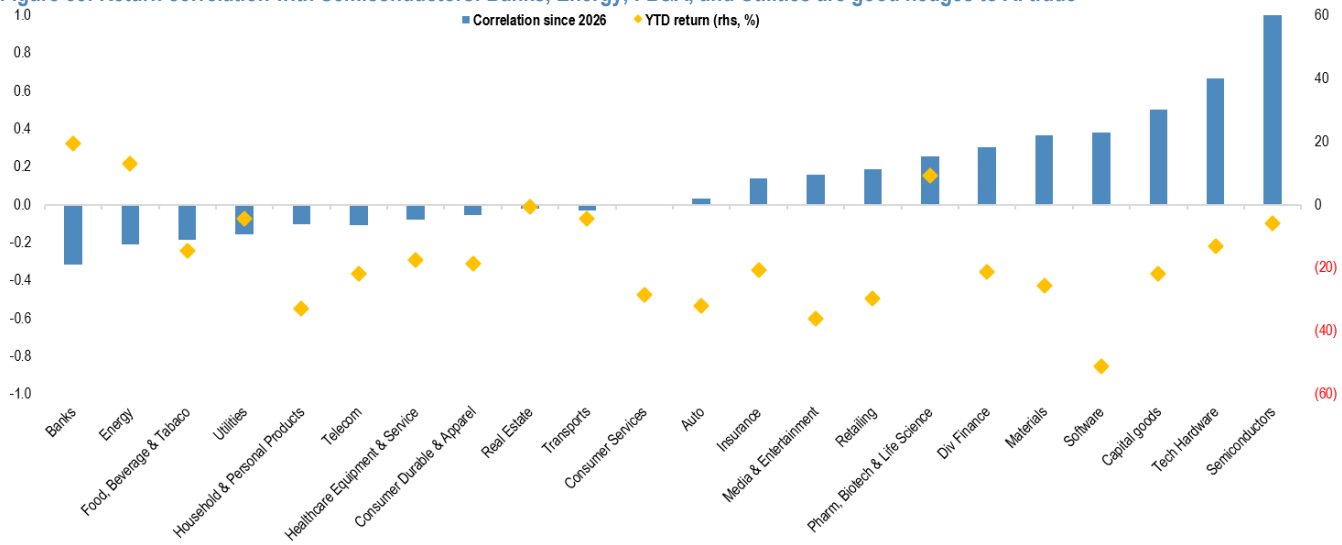
Figure 32: MSCI China industry group performance (%)

	Spring rally Dec 31 - Jan 30	Internet correction Jan 30 - Feb 28	Iran-US war Feb 28 - Apr 07	AI rally Apr 07 - Jun 30	Tech correction Jun 30 - Current	YTD
MSCI China	5	-6	-6	-9	-4	-19
Consumer Discretionary	6	-9	-8	-21	1	-29
Retailing	11	-12	-14	-20	4	-30
Automobiles	-3	-1	10	-28	-11	-32
Consumer Durable & Apparel	3	5	-12	-13	-1	-19
Consumer Services	-4	-9	-4	-18	4	-29
Consumer Staples	3	0	-4	-20	5	-17
Food, Beverage & Tabaco	0	1	-2	-18	5	-15
Household & Personal Products	1	0	-7	-16	-15	-33
Communication Services	3	-15	-8	-9	-12	-35
Media and Entertainment	3	-15	-8	-9	-12	-36
Telecommunication Services	-2	-1	-5	-17	2	-22
Energy	12	6	3	-17	12	14
Financials	4	-2	-2	-5	11	5
Banks	0	0	6	-6	20	19
Insurance	13	-7	-13	-9	-4	-21
Diversified Financial	0	-4	-13	9	-13	-21
Health Care	8	-1	2	-14	15	8
Pharm, Biotech & Life Science	8	-1	3	-14	16	9
Healthcare Equipment & Service	2	0	-10	-18	10	-18
Information Technology	1	-1	-10	36	-30	-15
Technology Hardware	-5	0	-7	27	-22	-13
Semiconductors	19	-3	-15	93	-50	-6
Software & Services	9	-7	-21	-24	-20	-51
Industrials	3	5	-5	-2	-16	-15
Capital Goods	5	5	-5	2	-26	-22
Transportation	0	6	-2	-12	5	-4
Real Estate	14	-3	-13	-3	5	-1
Materials	18	4	-16	-21	-7	-24
Utilities	2	3	-3	-13	10	-3

Source: Bloomberg Finance L.P. Note: Data as of 28 Oct 2026

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Figure 33: Return correlation with Semiconductors: Banks, Energy, FB&A, and Utilities are good hedges to AI trade



Source: Bloomberg Finance L.P. Data as of 28 Oct 2026

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Figure 34: Consensus earnings growth by sectors (%)

	2025	2026E	2027E	2028E
MSCI China	**-3**	**14**	**13**	**13**
Consumer Discretionary	**-39**	**29**	**37**	**25**
Retailing	-44	31	34	24
Automobiles	25	43	52	30
Consumer Durable & Apparel	8	1	9	10
Consumer Services	-57	32	57	32
Consumer Staples	**-13**	**7**	**18**	**10**
Food, Beverage & Tabaco	-18	9	20	9
Household & Personal Products	1	-4	4	6
Communication Services	**15**	**2**	**8**	**10**
Media and Entertainment	15	2	8	10
Telecommunication Services	7	22	6	0
Energy	**-15**	**28**	**-3**	**1**
Financials	**8**	**5**	**3**	**6**
Banks	0	3	5	6
Insurance	27	3	0	5
Diversified Financial	32	31	6	9
Health Care	**88**	**17**	**13**	**23**
Pharma, Biotech & Life Science	125	19	13	25
Healthcare Equipment & Service	-2	4	9	8
Information Technology	**50**	**41**	**45**	**31**
Technology Hardware	37	23	41	26
Semiconductors	-18	877	83	40
Software & Services	NA	NA	NA	NA
Industrials	**-8**	**21**	**11**	**13**
Capital Goods	-5	28	17	14
Transportation	-15	11	-1	11
Real Estate	**-17**	**-4**	**16**	**9**
Materials	**31**	**77**	**8**	**10**
Utilities	**2**	**-5**	**6**	**6**

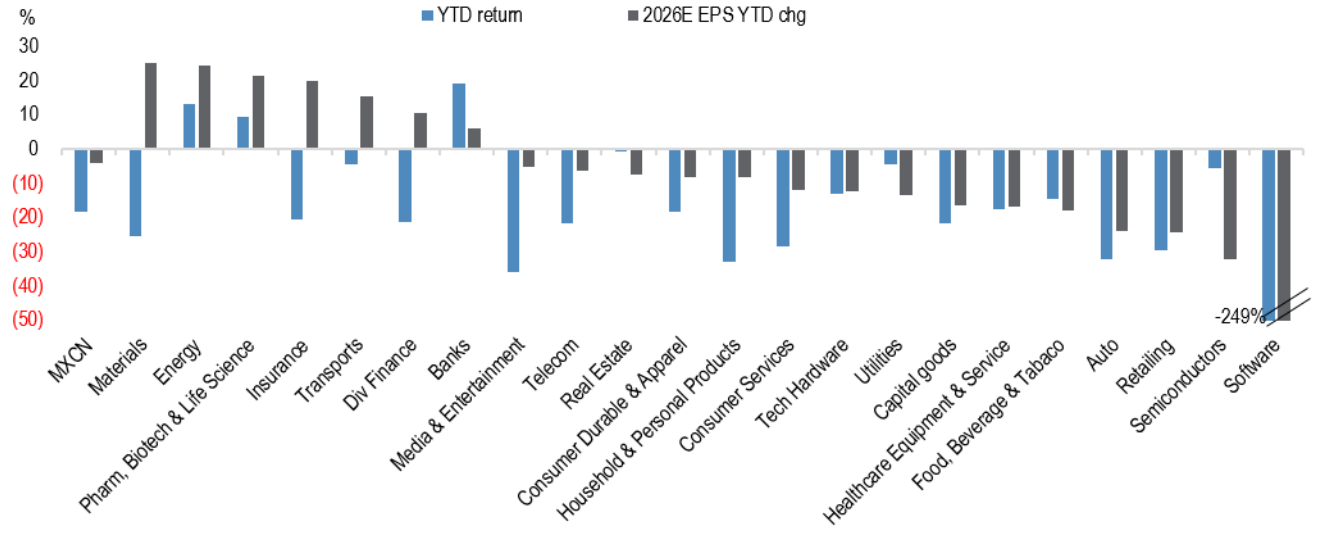
Source: IBES

Figure 35: Forward P/E by sectors

	Current	5Y avg	Percentile in 5Y
MSCI China	**9x**	**11x**	**12%**
Consumer Discretionary	**10x**	**18x**	**1%**
Retailing	**10x**	**16x**	**22%**
Automobiles	**9x**	**28x**	**0%**
Consumer Durable & Apparel	**10x**	**17x**	**2%**
Consumer Services	**14x**	**22x**	**4%**
Consumer Staples	**14x**	**19x**	**6%**
Food, Beverage & Tabaco	**14x**	**20x**	**6%**
Household & Personal Products	**8x**	**13x**	**0%**
Communication Services	**11x**	**18x**	**0%**
Media and Entertainment	**11x**	**16x**	**0%**
Telecommunication Services	**10x**	**14x**	**2%**
Energy	**9x**	**7x**	**74%**
Financials	**6x**	**5x**	**68%**
Banks	**6x**	**4x**	**97%**
Insurance	**4x**	**6x**	**3%**
Diversified Financial	**7x**	**9x**	**15%**
Health Care	**24x**	**31x**	**26%**
Pharm, Biotech & Life Science	**26x**	**32x**	**8%**
Healthcare Equipment & Service	**10x**	**16x**	**11%**
Information Technology	**17x**	**20x**	**39%**
Technology Hardware	**13x**	**17x**	**15%**
Semiconductors	**38x**	**28x**	**73%**
Software & Services	**N.A.**	**120x**	**N.A**
Industrials	**9x**	**9x**	**63%**
Capital Goods	**9x**	**9x**	**67%**
Transportation	**10x**	**10x**	**47%**
Real Estate	**11x**	**8x**	**74%**
Materials	**8x**	**10x**	**14%**
Utilities	**10x**	**9x**	**68%**

Source: Bloomberg Finance L.P.

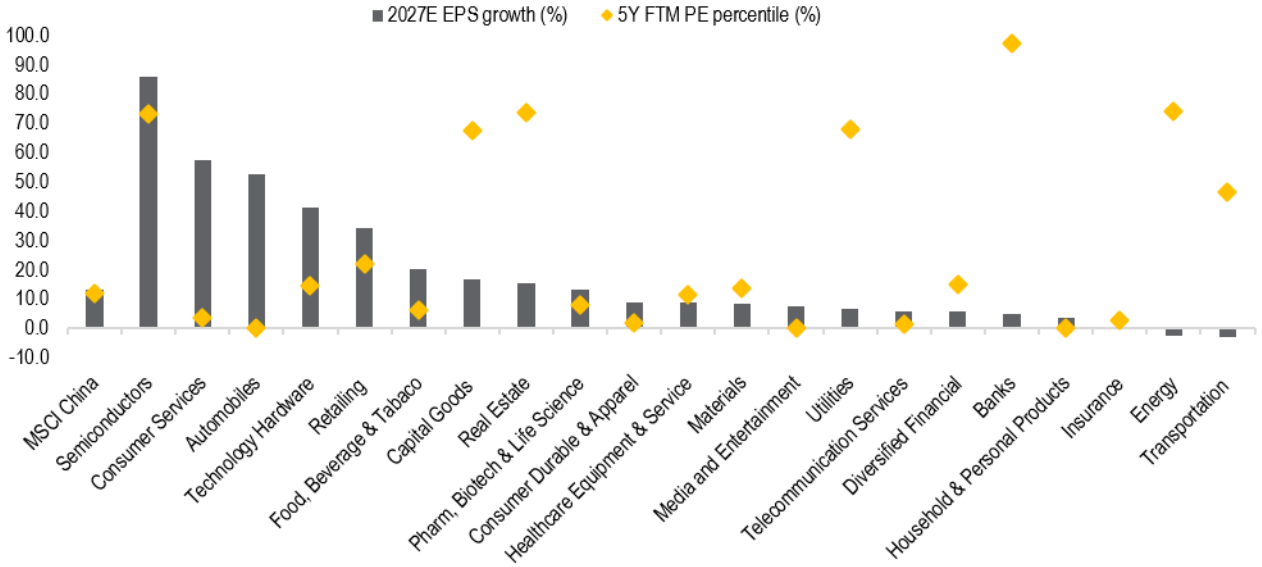
Figure 36: MXCN: Materials, Consumer Services, Insurance, and Tech Hardware have seen upward revisions without a matching re-rating



Source: IBES, Bloomberg Finance L.P. Data as of 28 Oct 2026

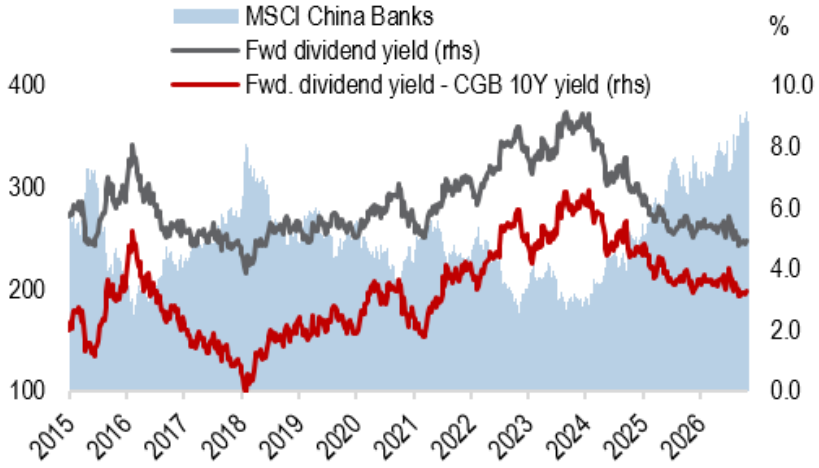
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Figure 37: MXCN sector FTM PE 5Y percentile vs 2027E EPS growth



Source: I/B/E/S.

Figure 38: China banks still offer decent dividend yield spread vs CGB 10Y yield



Source: Bloomberg Finance L.P.

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Figure 39: Screen on China A-share AI infrastructure sub-industries with free-float (FFL) market cap>US$3bn

RIC Code	Security Name	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 (%)
688012.SH	AMEC	Wafer fab equipment	Y	29	967	267	8.9	64.4	88	25	17
002371.SZ	NAURA	Wafer fab equipment	Y	30	817	537	8.7	54.3	31	50	39
688072.SH	PIOTECH	Wafer fab equipment	Y	13	583	514	12.9	75.0	116	39	21
688361.SH	SKYVERSE	Wafer fab equipment		9	475	259	17.0	379.0	310	165	N/A
688120.SH	HWATSING	Wafer fab equipment		9	393	204	11.3	74.5	29	34	84
688037.SH	KINGSEMI	Wafer fab equipment		6	242	266	18.1	279.6	168	121	95
688082.SH	ACMSH	Wafer fab equipment	Y	4	234	235	7.7	60.8	35	31	68
300604.SZ	CCTECH	Backend equipment		13	764	202	15.1	60.7	62	56	17
688200.SH	ACCOTEST	Backend equipment		5	252	276	10.7	68.6	51	41	61
688521.SH	VERISILICON	Design service/IP	Y	7	526	125	15.2	432.4	129	388	N/A
301269.SZ	EMPYREAN	Design service/IP	Y	3	97	108	11.2	380.0	156	52	100
688981.SH	SMIC	Foundry	Y	28	745	104	5.4	119.6	48	28	60
688347.SH	HUA HONG GRACE	Foundry		13	636	166	6.9	302.1	181	45	57
688249.SH	NEXCHIP	Foundry		3	114	28	2.6	78.7	13	57	69
688820.SH	SJSEMI	OSAT		17	227	95	8.8	157.7	22	56	6
600584.SH	JCET	OSAT	Y	12	1,065	60	3.5	49.1	39	34	39
002156.SZ	TFME	OSAT		9	860	48	4.4	38.8	63	14	4
688256.SH	CAMBRICON	CPU/GPU/AI ASIC	Y	41	1,730	932	34.8	102.7	177	114	2
688041.SH	HYGON	CPU/GPU/AI ASIC	Y	24	761	201	17.5	104.5	76	55	22
688802.SH	METAX	CPU/GPU/AI ASIC		18	201	488	14.6	1,347.3	118	752	34
688795.SH	MOORE THREADS	CPU/GPU/AI ASIC		13	213	384	15.6	-1,119.1	84	427	N/A
688469.SH	UNT	Power/Analog		6	150	8	5.0	136.9	184	65	100
300661.SZ	SGMICRO	Power/Analog	Y	5	199	88	8.0	62.9	76	49	37
688536.SH	3PEAK	Power/Analog		3	148	268	5.4	59.5	260	55	16
688396.SH	CRM	Power/Analog	Y	3	156	53	2.9	56.8	88	35	51
688008.SH	MONTAGE TECHNOLOGY	Connectivity	Y	29	1,157	180	12.4	60.0	64	40	38
688702.SH	CENTEC COMMUNICATIONS	Connectivity		5	386	214	38.6	2,014.0	129	994	N/A
688825.SH	CXMT	Memory		436	NULL	43	10.6	16.6	9,254	70	5
603986.SH	GIGADEVICE	Memory	Y	26	2,316	292	6.4	16.7	647	26	5
688525.SH	BIWIN STORAGE	Memory		8	735	165	4.0	6.1	1,412	1	2
301308.SZ	LONGSYS	Memory	Y	7	694	245	5.2	7.6	938	-17	1
001309.SZ	TWSC	Memory		5	873	251	5.5	5.6	1,979	-32	1
600183.SH	SYTECH	PCB	Y	21	1,321	111	12.6	36.3	122	52	93
002463.SZ	WUS	PCB	Y	21	879	107	9.8	30.5	77	61	80
300476.SZ	VGT	PCB	Y	16	1,123	183	6.9	21.3	96	70	50
002916.SZ	SCC	PCB	Y	11	478	283	9.1	32.7	80	51	49
601138.SH	FII	Server/Switch ODM/OEM	Y	24	968	49	4.7	15.6	76	37	72
000063.SZ	ZTE	Server/Switch ODM/OEM	Y	13	424	28	1.7	23.0	4	14	94
000977.SZ	IEIT	Server/Switch ODM/OEM	Y	9	768	59	3.2	16.9	110	32	5
000938.SZ	UNIS	Server/Switch ODM/OEM	Y	8	979	26	4.2	22.6	95	35	7
603296.SH	HUAQIN TECHNOLOGY	Server/Switch ODM/OEM	Y	4	224	72	3.5	19.6	38	22	38
300308.SZ	ZHONGJI INNOLIGHT	Optical component	Y	74	3,972	613	10.0	21.0	218	100	27
300502.SZ	EOPTOLINK	Optical component	Y	45	2,572	261	9.6	17.8	114	77	14
300394.SZ	TFC	Optical component	Y	18	1,526	201	26.7	62.0	75	68	93
688498.SH	YUANJIE SEMICONDUCTOR	Optical component		11	881	925	33.2	100.6	500	81	11
002475.SZ	LUXSHARE-ICT	Cable	Y	34	831	50	3.6	18.7	26	37	8
002837.SZ	ENVICOOL	Cooling	Y	5	367	44	13.0	51.6	111	77	88
002851.SZ	MEGMEET	Power supply (server)		6	481	93	6.6	68.6	446	113	92
600941.SH	CHINA MOBILE	IDC/Telecom operator	Y	12	154	99	1.5	16.4	-4	3	81
600050.SH	CHINA UNICOM	IDC/Telecom operator	Y	10	89	4	0.8	18.0	-17	7	30
601728.SH	CHINA TELECOM	IDC/Telecom operator	Y	9	108	7	1.3	21.4	-12	3	95
300442.SZ	RANGE TECHNOLOGY	IDC/Telecom operator	Y	5	238	58	5.8	30.9	-39	32	38

Source: LSEG Workspace, Wind, data as of 26 Oct 2026

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Figure 40: Screen on China A-share innovative drug and CXO names with free-float market cap>US$3bn

Ticker	Company	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 (%)
603259.SH	WUXI APPTEC	Y	44	1,129	145	4.52	19.6	17	22	25
600276.SH	HENGRUI PHARMA	Y	24	518	47	4.49	34.2	18	16	18
002422.SZ	KELUN PHARMA	Y	7	164	43	2.65	33.5	19	22	74
300759.SZ	PHARMARON	N	5	379	38	4.11	34.5	22	28	43
002821.SZ	ASYMCHEM	N	4	264	146	2.82	38.2	22	30	46
600196.SH	FOSUN PHARMA	Y	4	81	23	1.17	16.1	14	17	20
688235.SH	BEONE MEDICINES	N	5	175	278	11.84	80.4	265	59	24
300347.SZ	TIGERMED	N	4	131	49	2.02	91.1	-48	171	99
603087.SH	GAN & LEE	N	4	110	72	3.45	30.4	24	18	30
000661.SZ	CCHT	N	3	81	72	1.29	27.3	595	24	N/A
688506.SH	BIOKIN PHARMACEUTICAL	Y	3	72	268	20.87	-102.5	-2	-34	N/A

Source: LSEG Workspace, Wind, data as of 26 Oct 2026

Figure 41: Screen on China A-share names with free-float market cap>Rmb20bn, positive TTM FCF, MRQ P/B<1.5x, TTM dividend yield>4%

Ticker	Company	Industry	FFL mkt cap (Rmb bn)	TTM FCF (Rmb mn)	MRQ P/B (x)	TTM dividend yield (%)	2026 cons. NP y-y	2027 cons. NP y-y
600036.SH	CMB	Bank	442	144,821	0.9	4.8	1.4	4.1
601166.SH	INDUSTRIAL BANK	Bank	278	776,714	0.5	5.8	-1.7	2.6
600919.SH	BANK OF JIANGSU	Bank	172	6,720	0.8	4.7	6.2	10.2
600000.SH	SPD BANK	Bank	115	33,822	0.4	4.4	3.2	7.2
000001.SZ	PAB	Bank	96	113,669	0.5	5.4	-0.3	3.0
601825.SH	SHRCB	Bank	49	4,609	0.6	5.1	1.4	2.1
601998.SH	CNCB	Bank	43	122,712	0.7	4.3	0.9	3.8
601916.SH	CZBANK	Bank	42	145,232	0.4	4.5	-1.9	2.0
601838.SH	BANK OF CHENGDU	Bank	40	3,502	0.8	7.7	4.7	6.2
600015.SH	HUAXIA BANK	Bank	32	31,085	0.3	6.8	-5.1	4.2
601577.SH	BANK OF CHANGSHA	Bank	22	14,184	0.5	4.8	5.2	6.1
601668.SH	CSCEC	Building	79	11,116	0.4	6.0	-6.7	2.0
600352.SH	ZHEJIANG LONGSHENG	Chemical Industry	27	1,404	1.1	4.0	66.4	13.7
601318.SH	PING AN	Financial Services & Insurance	502	123,568	0.9	5.3	12.4	9.3
601211.SH	GTHT/GUOTAI HAITONG SECURITIES	Financial Services & Insurance	175	126,797	0.9	4.0	22.1	7.4
601601.SH	CPIC	Financial Services & Insurance	88	39,363	0.9	5.4	6.1	7.6
601336.SH	NCI	Financial Services & Insurance	36	510	1.3	5.4	3.5	6.0
002736.SZ	GUOSEN SECURITIES	Financial Services & Insurance	27	52,747	1.0	4.7	3.4	9.0
000783.SZ	CHANGJIANG SECURITIES	Financial Services & Insurance	24	43,373	1.1	4.6	30.3	4.8
000651.SZ	GREE	Household Appliances II	156	14,358	1.4	8.0	-0.1	4.2
000157.SZ	ZOOMLION	Machinery	28	4,498	0.9	6.8	9.4	21.8

Source: LSEG Workspace, Wind, data as of 26 Oct 2026

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Five Factor Framework Databook

The details of five key factors and ten key indicators are outlined below.

1. **Macro:** The macro factor assesses the broader economic and policy environment in China. Key indicators include:

   - **JPM QMI (Quantitative Macro Indicator, 3MMA):** The JPM QMI is used to gauge China's macroeconomic environment. It incorporates a range of macro indicators, including PMI, CPI and trade, etc., and provides a timely signal of underlying economic momentum.
   - **Regulatory and policy developments:** We also monitor the latest monetary, fiscal, and regulatory policies. These include measures related to anti-monopoly regulation of internet platforms, offshore investment, offshore trusts, and other policy areas that may affect investor sentiment and market performance.

2. **Earnings:** The earnings factor focuses on corporate fundamentals and earnings momentum.

   - **ERB (earnings revision breadth):** ERB measures the net ratio of upward earnings revisions versus downward earnings revisions. It is used to assess changes in corporate earnings expectations and the overall direction of company fundamentals.

3. **Liquidity:** The liquidity factor captures offshore, onshore, and cross-border liquidity conditions, all of which can materially influence China equity market performance.

   - Offshore liquidity
     - **10Y CGB-UST yield spread:** The spread between the 10-year China Government Bond yield and the 10-year US Treasury yield is an important indicator of relative asset attractiveness. A narrower spread is generally negative for China equities, as capital may be more likely to flow towards the US Treasury market.
     - **US and EU mutual funds flows:** Mutual fund flows from the US and Europe provide a measure of foreign investor appetite for China equities. Stronger inflows are typically supportive of market performance.
   - Onshore liquidity
     - **M1-M2 growth gap:** A rising M1-M2 gap means money is shifting from idle time deposits into demand deposits that are ready to be spent or invested. This usually signals improving corporate activity and risk appetite, which tends to support earnings and equity inflows.
     - **Central government backed capital flow (proxied by major ETF flows):** Central government backed capital buying acts as a policy backstop that can help cushion downside risk and stabilize market sentiment. Sustained inflows may signal Beijing's intention to support the equity market. Historically, the central government backed capital has had a strong track record of buying during market dips and selling into rallies.

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- Cross-border liquidity
  - **Southbound flows:** Southbound inflows from mainland investors have become a key marginal buyer of Hong Kong equities, especially high-dividend names and internet platforms that are scarce onshore. Sustained inflows support valuations and can offset any foreign selling.

4. **Valuation:** The valuation factor assesses whether China equities are attractively priced relative to their own history and global peers.

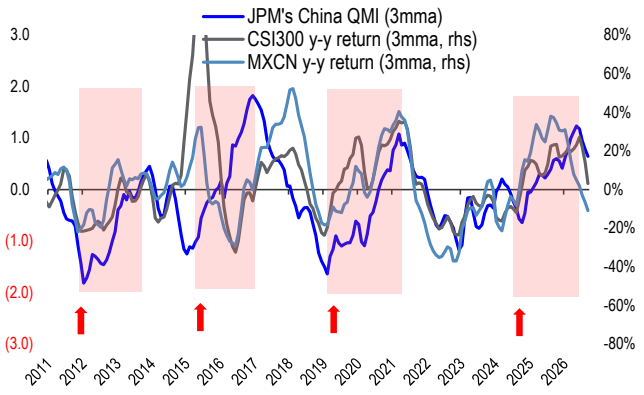
- **12mf P/E:** It indicates how much investors are paying for expected future earnings. We compare this metric against China's historical valuation range and global peer markets to evaluate whether the market appears cheap or expensive.
- **Composite Valuation Indicator (CVI):** Given no single multiple works across all sectors (banks trade on yield and book value, tech on earings), the CVI averages the historical percentile ranks of five 12-month forward metrics: P/E, P/B, EV/EBITDA, dividend yield and price-to-cash-flow. A higher reading means more expensive valuation.

5. **Geopolitical risk:** The geopolitical risk factor captures external risks that may affect investor confidence, risk premiums, and market valuations.

- **Geopolitical risk index:** The index tracks media coverage of geopolitical tensions and has tended to move inversely with MSCI China's forward P/E. However, it is subjective, global rather than China-specific, and evolving quickly in the current environment. We use it to illustrate the backdrop rather than as a stand-alone signal, and cross-check it against oil prices and other geopolitical development.
- **Brent oil price:** Oil prices are a timely, market-based gauge of geopolitical stress, as spikes often coincide with conflicts and supply disruptions.

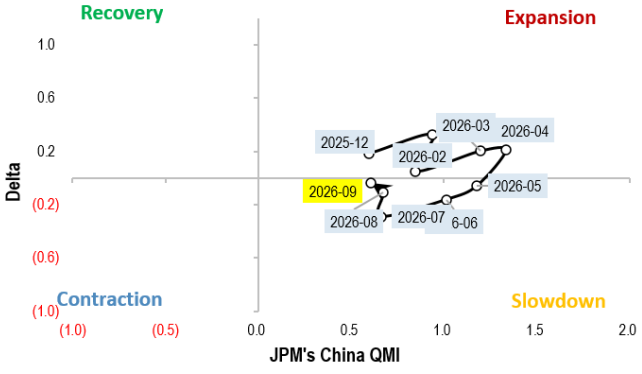
1. Macro: JPM QMI, Key macro indicators

Figure 42: JPM's China Quantitative Macro Indicator (QMI) vs CSI300 return



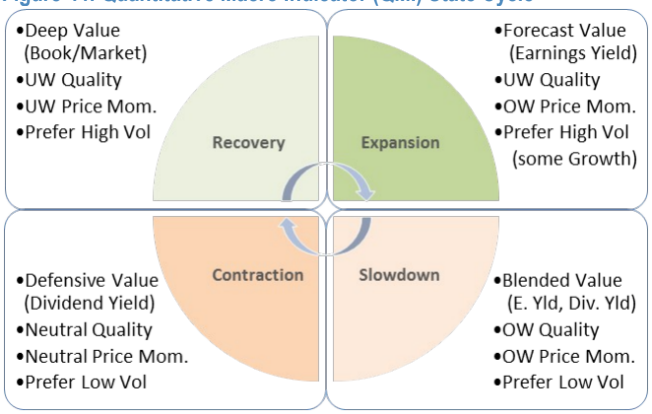
Source: Wind

Figure 43: JPM's QMI: holding up in borderline Expansion



Source: Wind

Figure 44: Quantitative Macro Indicator (QMI) State Cycle



Source: Wind

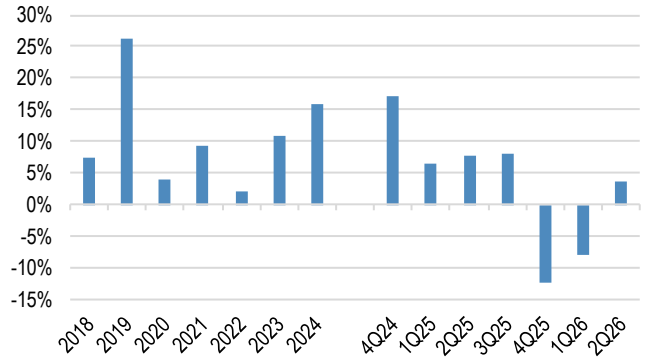
Figure 45: China macro: key indicators and forecasts

	Average 2019-23	2024	2025	2026f	2027f
Real GDP, % change	5.1	4.9	5.0	4.5	4.3
Consumption[1]	2.5	2.1	2.5	2.3	2.5
Investment[1]	1.9	1.2	0.9	1.1	1.1
Net trade[1]	0.7	1.6	1.6	1.1	0.7
Consumer prices, %oya	1.7	0.2	0.0	0.8	0.6
% Dec/Dec	1.5	0.1	0.8	0.3	0.8
Government balance, % of GDP	-3.3	-3.0	-4.0	-4.0	-3.8
Merchandise trade balance (US	545	768	1,004	1,067	1,088
Exports	2,928	3,409	3,606	4,256	4,406
Imports	2,383	2,641	2,602	3,189	3,318
Current account balance	282	424	736	782	767
% of GDP	1.7	2.3	3.8	3.6	3.4
International reserves, (US$ bn)	3,192	3,301	3,265	3,340	3,389

1. Contribution to growth of GDP.
Source: NBS, J.P. Morgan estimates

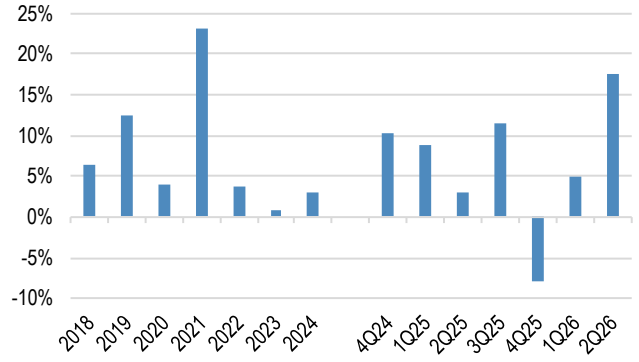
2. Earnings: Quarterly EPS growth, Quarterly earnings net beat/miss ratio, Earnings revision trend

Figure 46: MXCN quarterly eps y-y



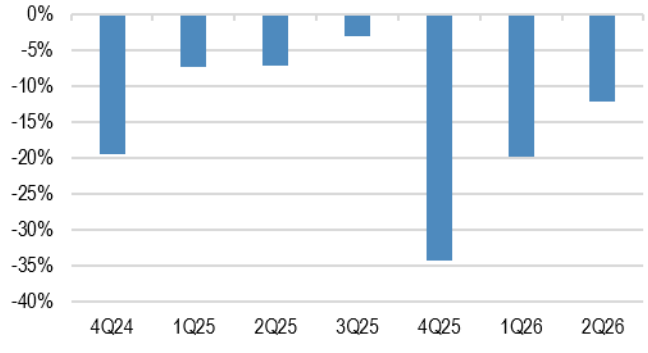
Source: IBES

Figure 47: CSI-300 quarterly eps y-y



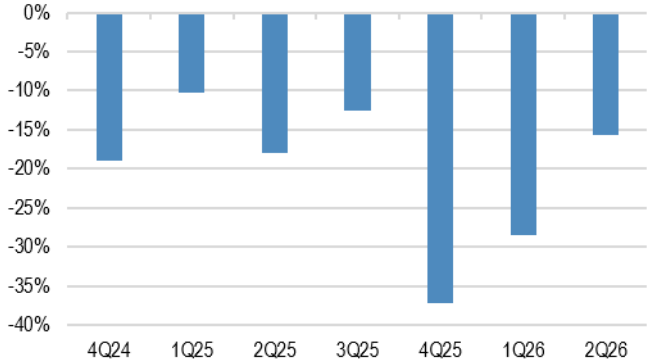
Source: Wind

Figure 48: MXCN quarterly eps net miss ratio



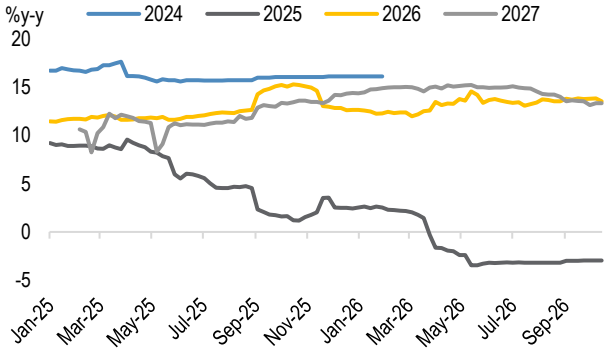
Source: IBES

Figure 49: CSI-300 quarterly eps net miss ratio



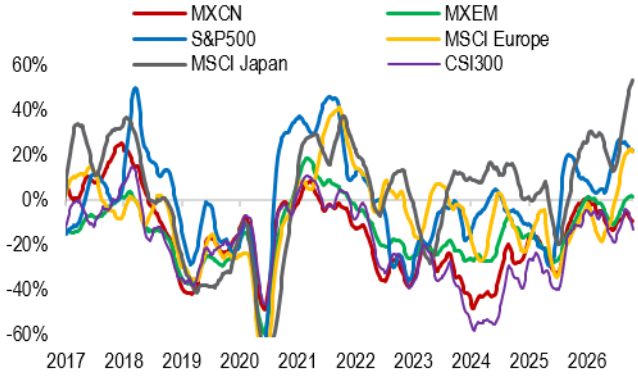
Source: Wind

Figure 50: MSCI China: consensus EPS growth revision trend



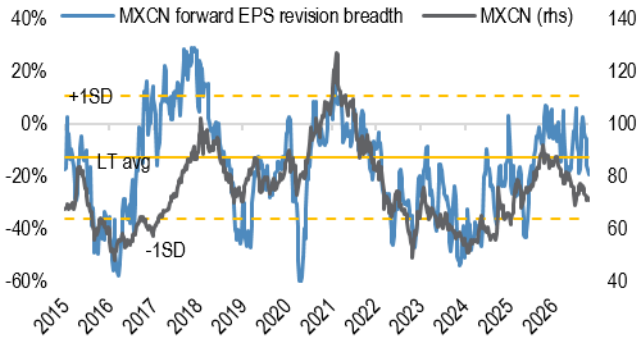
Source: I/B/E/S.

Figure 51: 12M forward EPS revision breadth (3mma)



Source: I/B/E/S.

Figure 52: MSCI China: FTM EPS revision breadth vs. price performance

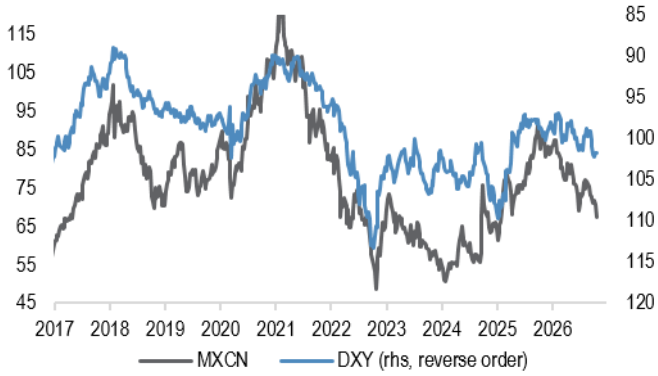


Source: IBES

3. Liquidity

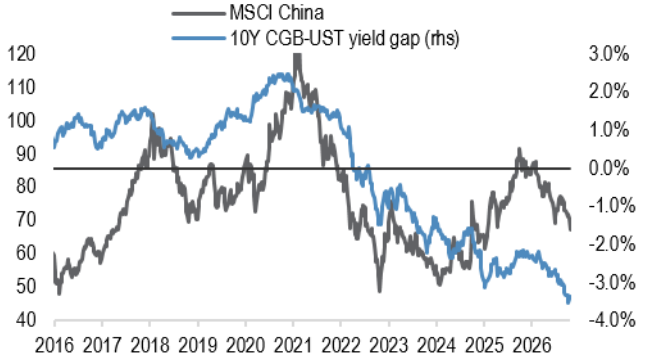
1) Offshore liquidity: USD vs MXCN, CGB-UST yield gap vs MXCN

Figure 53: USD strength a negative to MXCN



Source: Wind, J.P. Morgan.

Figure 54: Wider CGB-UST Yield Gap Negative for MXCN

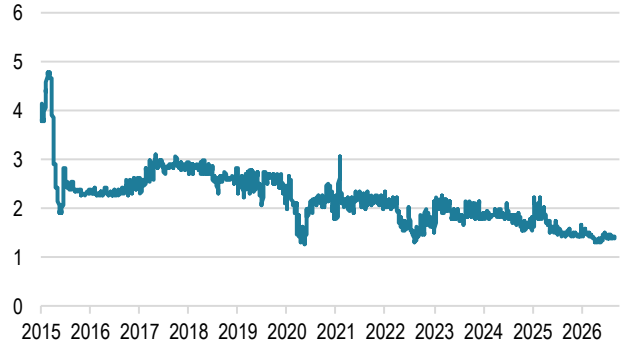


Source: Wind, J.P. Morgan.

2) Onshore liquidity: DR007, M1-M2 gap, Total social financing (TSF)

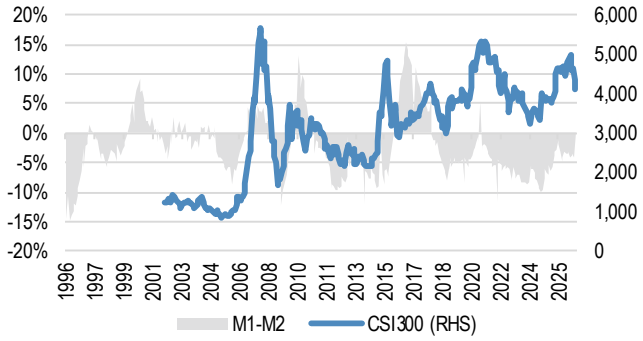
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Figure 55: Rolling 5-day DR007



Source: Wind

Figure 56: M1-M2 vs CSI 300



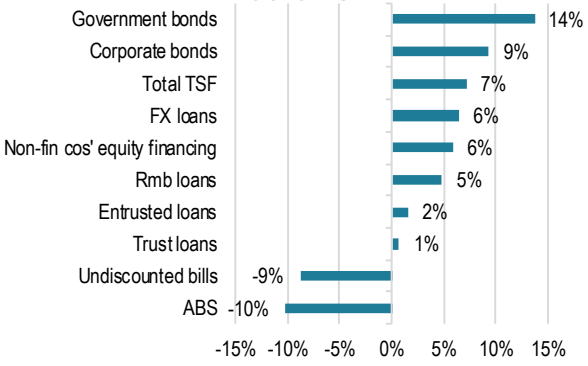
Source: Wind

Figure 57: China total social financing (TSF) balance y-y



Source: Wind

Figure 58: China TSF balance y-y by segment in September



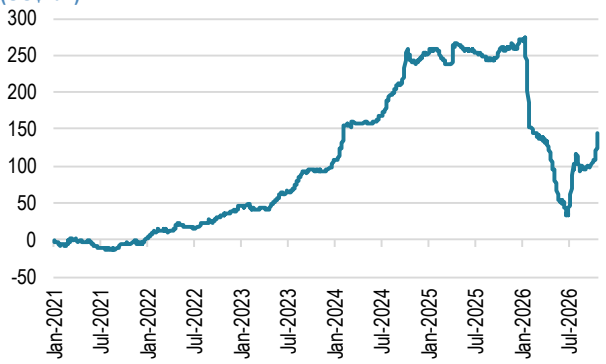
Source: Wind

3) Flows & Positioning

3a. Onshore: Onshore ETF flow, A-share velocity, margin financing, onshore mutual fund positioning by sector and top 50 stock holdings, and Northbound Connect top 50 holdings

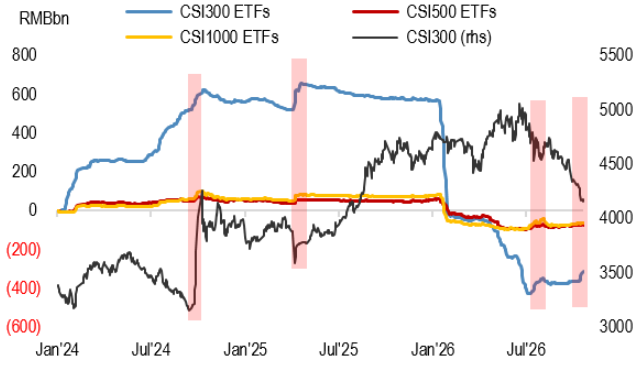
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Figure 59: Cumulative A-share ETF net flows since January 2021 (US$ bn)



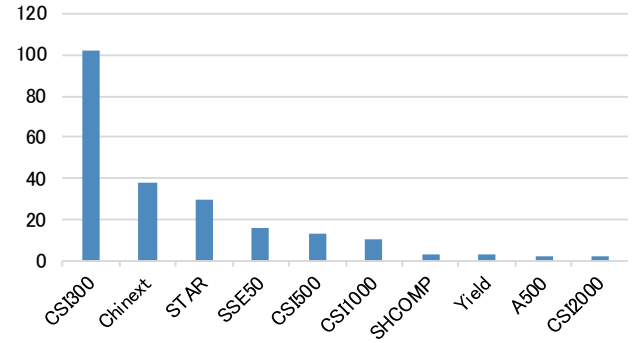
Source: Wind

Figure 60: Cumulative ETF net flows



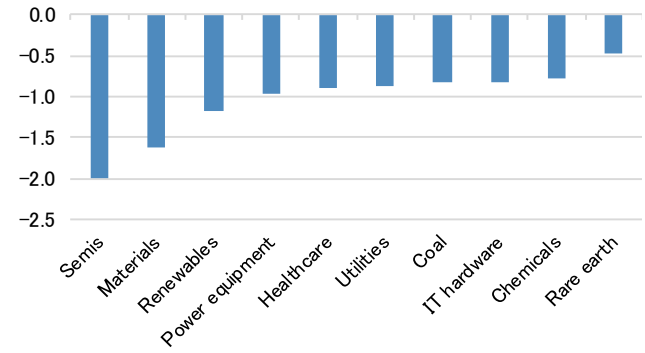
Source: Wind

Figure 61: 800-plus A-share ETFs' top verticals of net inflow MTD (Rmb bn)



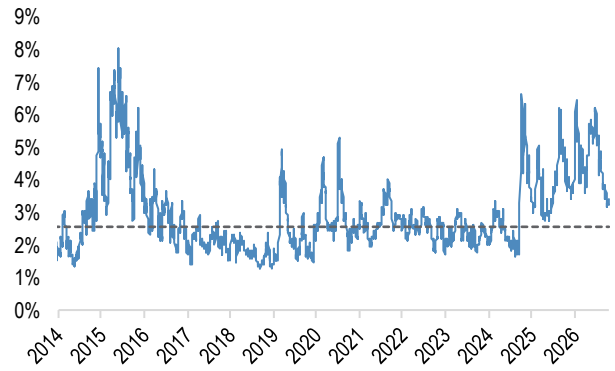
Source: Wind

Figure 62: 800-plus A-share ETFs' top verticals of net outflow MTD (Rmb bn)



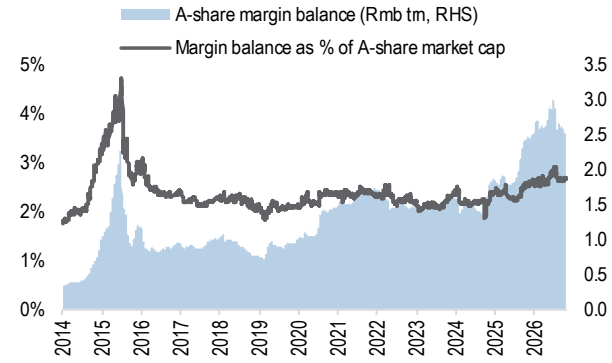
Source: Wind

Figure 63: A-share velocity



Source: Wind

Figure 64: A-share margin financing



Source: Wind

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Figure 65: Top holdings by onshore mutual funds: IT exposure declined in 3Q, while Financials and Healthcare exposure increased

	Top holdings by onshore mutual funds			Change in holding %	
Industry	3Q26	2Q26	4Q25	vs. last quarter	2026 YTD
IT	48%	63%	33%	-15%	16%
Utilities	1%	0%	1%	1%	0%
Healthcare	10%	6%	8%	4%	2%
Cons. Discre	5%	4%	9%	1%	-4%
Industrials	10%	10%	15%	0%	-4%
Real Estate	1%	1%	1%	0%	0%
Cons. Staples	5%	2%	7%	2%	-3%
Materials	8%	9%	11%	-1%	-3%
Energy	3%	2%	2%	1%	1%
Comm. Svs	1%	0%	2%	1%	-1%
Financials	8%	3%	12%	5%	-4%
Grand Total	**100%**	**100%**	**100%**		

Source: Wind

Figure 66: Northbound holdings: IT and Industrials exposure declined in 3Q, while Financials exposure increased

	NB holding			Change in holding %	
Industry	3Q26	2Q26	4Q25	vs. last quarter	2026 YTD
Financials	13%	8%	12%	5%	1%
Healthcare	6%	4%	6%	2%	1%
Cons. Staples	5%	4%	7%	1%	-1%
Utilities	3%	2%	2%	1%	1%
Cons. Discre.	8%	6%	10%	2%	-2%
Energy	2%	1%	1%	0%	0%
Real Estate	0%	0%	0%	0%	0%
Comm. Svs.	1%	1%	2%	0%	0%
Materials	11%	11%	13%	0%	-2%
Industrials	24%	28%	27%	-3%	-3%
IT	27%	35%	21%	-8%	5%
Grand Total	**100%**	**100%**	**100%**		

Source: Wind

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Figure 67: Onshore mutual funds top holdings by 3Q26

Ticker	Name	Sector	Holdings market cap (RMBbn)	# of share holding (mn)	# of share holding 3Q chg	# of share holding YTD chg
300308.SZ	Zhongji Innolight	IT	170	210	3%	-21%
300502.SZ	Eoptolink Technology Inc., Ltd.	IT	143	367	8%	27%
300750.SZ	Contemporary Amperex Technology	Industrials	88	301	3%	-39%
688256.SH	Cambricon Technologies Corp Ltd	IT	82	82	-1%	38%
603259.SH	WuXi AppTec	Health Care	82	489	32%	49%
688012.SH	Advanced Micro-Fabrication Equipment	IT	72	226	16%	93%
688498.SH	Yuanjie Semiconductor Technology	IT	62	38	10%	144%
600519.SH	Kweichow Moutai	Staples	55	43	10%	-50%
601899.SH	Zijin Mining Group	Materials	52	1746	22%	-43%
002371.SZ	Naura Technology Group	IT	52	84	-11%	36%
688825.SH	CXMT Corporation	IT	48	905	N/A	N/A
688072.SH	Piotech Inc	IT	47	73	38%	37%
688041.SH	Hygon Information Technology	IT	45	197	-7%	-5%
688008.SH	Montage Technology	IT	42	207	18%	-21%
002384.SZ	Dongshan Precision Manufacturing	IT	42	249	-14%	-20%
688361.SH	Skyverse Technology	IT	40	114	33%	87%
688981.SH	SMIC	IT	39	350	0%	-7%
300394.SZ	Suzhou TFC Optical Communication	IT	39	150	59%	57%
0700.HK	Tencent Holdings Limited	Comm. Services	33	90	-4%	-48%
688120.SH	Hwatsing Technology	IT	33	147	46%	290%
601138.SH	Foxconn Industrial Internet	IT	32	553	15%	47%
002463.SZ	WUS Printed Circuit (Kunshan)	IT	31	265	16%	-10%
300059.SZ	East Money Information	Financials	30	1664	10%	-1%
300408.SZ	Chaozhou Three-circle (Group)	IT	29	251	-3%	216%
300604.SZ	Hangzhou Changchuan Technology	IT	29	121	2%	134%
601318.SH	Ping An Insurance (Group)	Financials	29	536	4%	-61%
600030.SH	CITIC Securities Company Limited	Financials	28	1098	2%	-10%
000333.SZ	Midea Group	Discretionary	28	350	36%	-46%
600036.SH	China Merchants Bank	Financials	27	643	19%	-53%
002475.SZ	Luxshare Precision Industry	IT	25	513	-12%	-15%
600183.SH	Shengyi Technology	IT	23	176	-13%	-22%
9988.HK	Alibaba Group Holding Limited	Discretionary	22	245	-7%	-51%
002916.SZ	Shennan Circuits	IT	22	59	21%	11%
688037.SH	Kingsemi	IT	21	65	27%	93%
601211.SH	Guotai Haitong Securities	Financials	21	1223	0%	8%
600276.SH	Jiangsu Hengrui Pharmaceuticals	Health Care	20	426	-7%	-20%
0981.HK	SMIC	IT	20	377	-28%	-12%
600900.SH	China Yangtze Power	Utilities	18	624	119%	-46%
603986.SH	GigaDevice Semiconductor Inc	IT	18	50	-48%	-51%
688200.SH	Huafeng Test & Control Technology	IT	17	45	11%	384%
2269.HK	WuXi Biologics (Cayman) Inc.	Health Care	15	319	89%	38%
688347.SH	Hua Hong Grace Semiconductor Ltd	IT	15	74	-17%	39%
688808.SH	Semight Instruments	IT	15	10	155%	N/A
1801.HK	Innovent Biologics, Inc.	Health Care	14	169	-17%	-30%
300759.SZ	Pharmaron Beijing	Health Care	14	309	32%	54%
600809.SH	Shanxi Xinghuacun Fen Wine Factory	Staples	13	114	8%	-14%
300548.SZ	EverProX Technologies	IT	13	60	36%	114%
688002.SH	Raytron Technology	IT	13	76	2%	-14%
603993.SH	CMOC Group Limited	Materials	13	753	20%	-16%
002821.SZ	Asymchem Laboratories (Tianjin)	Health Care	13	67	6%	148%

Source: Wind

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Figure 68: Northbound connect holdings by 3Q26

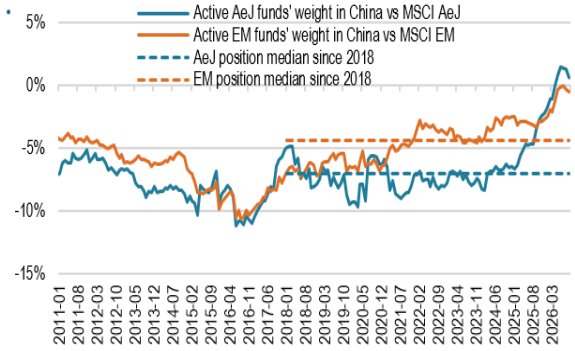
Ticker	Name	Sector	Holdings market cap (RMBbn)	# of share holding (mn)	# of share holding 3Q chg	# of share holding YTD chg
300750.SZ	Contemporary Amperex Technology	Industrials	233	801	-10%	16%
000333.SZ	Midea Group	Discretionary	77	956	7%	-3%
600519.SH	Kweichow Moutai	Staples	70	55	3%	0%
600036.SH	China Merchants Bank	Financials	54	1314	20%	8%
603259.SH	WuXi AppTec	Health Care	52	310	18%	58%
300308.SZ	Zhongji Innolight	IT	51	63	-13%	3%
601899.SH	Zijin Mining Group	Materials	48	1622	23%	19%
002371.SZ	Naura Technology Group	IT	46	75	-21%	-25%
688012.SH	Advanced Micro-Fabrication Equipment	IT	36	113	-10%	105%
600900.SH	China Yangtze Power	Utilities	34	1198	6%	11%
688008.SH	Montage Technology	IT	32	156	7%	3%
601318.SH	Ping An Insurance (Group) Company of China	Financials	28	531	23%	3%
002475.SZ	Luxshare Precision Industry	IT	25	505	-13%	-4%
600031.SH	Sany Heavy Industry	Industrials	23	1332	-2%	26%
600660.SH	Fuyao Glass Industry Group	Discretionary	22	402	3%	5%
300124.SZ	Shenzhen Inovance Technology	Industrials	21	400	-25%	-16%
688256.SH	Cambricon Technologies Corp Ltd	IT	20	20	-9%	52%
000338.SZ	Weichai Power	Industrials	20	796	-33%	6%
300502.SZ	Eoptolink Technology Inc., Ltd.	IT	19	48	-40%	21%
601138.SH	Foxconn Industrial Internet	IT	18	301	-4%	-24%
600887.SH	Inner Mongolia Yili Industrial Group	Staples	17	624	17%	28%
002028.SZ	Sieyuan Electric	Industrials	17	141	-9%	-18%
601398.SH	Industrial and Commercial Bank of China Ltd	Financials	17	2033	35%	17%
002142.SZ	Bank of Ningbo	Financials	16	464	14%	41%
601100.SH	Jiangsu Hengli Hydraulic	Industrials	16	180	4%	47%
002594.SZ	BYD Company Limited	Discretionary	15	181	7%	-17%
600183.SH	Shengyi Technology	IT	15	112	-7%	-10%
300760.SZ	Shenzhen Mindray Bio-Medical Electronics	Health Care	15	90	5%	-7%
600406.SH	NARI Technology	Industrials	15	644	-8%	-7%
002463.SZ	WUS Printed Circuit (Kunshan)	IT	14	125	-28%	-13%
000001.SZ	Ping An Bank	Financials	14	1209	64%	92%
600030.SH	CITIC Securities Company Limited	Financials	14	524	24%	21%
688041.SH	Hygon Information Technology	IT	13	59	3%	25%
600276.SH	Jiangsu Hengrui Pharmaceuticals	Health Care	13	279	-23%	-39%
601166.SH	Industrial Bank	Financials	12	670	36%	9%
603986.SH	GigaDevice Semiconductor Inc	IT	12	33	-13%	-20%
600309.SH	Wanhua Chemical Group	Materials	12	169	-6%	26%
000725.SZ	BOE Technology Group	IT	11	1963	-15%	-29%
601288.SH	Agricultural Bank of China Ltd	Financials	11	1526	33%	13%
002384.SZ	Suzhou Dongshan Precision Manufacturing	IT	10	62	-10%	50%
600690.SH	Haier Smart Home	Discretionary	10	500	3%	46%
601328.SH	Bank of Communications	Financials	10	1313	71%	48%
600885.SH	Hongfa Technology	Industrials	10	288	-9%	-16%
600150.SH	China CSSC Holdings Ltd	Industrials	9	239	-1%	67%
603501.SH	OmniVision Integrated Circuits Group Inc	IT	9	111	11%	-13%
600919.SH	Bank of Jiangsu	Financials	9	720	25%	4%
601919.SH	COSCO Shipping Holdings	Industrials	9	544	103%	95%
300408.SZ	Chaozhou Three-circle (Group)	IT	9	74	-18%	-39%
605117.SH	Ningbo Deye Technology Corp	Industrials	9	111	9%	54%
300394.SZ	Suzhou TFC Optical Communication	IT	9	33	-10%	20%

Source: Wind

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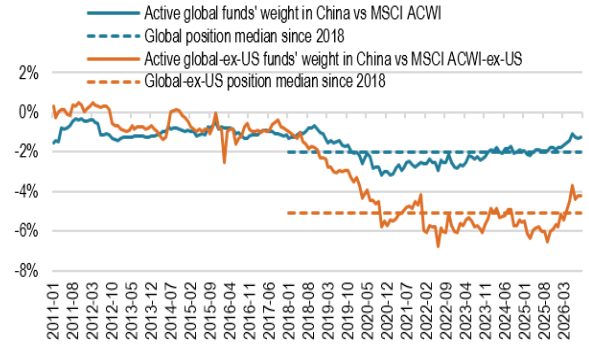
3b. Offshore: Foreign funds' China weighting, US & US fund flows to China

Figure 69: Active regional funds' position in China relative to MSCI benchmarks



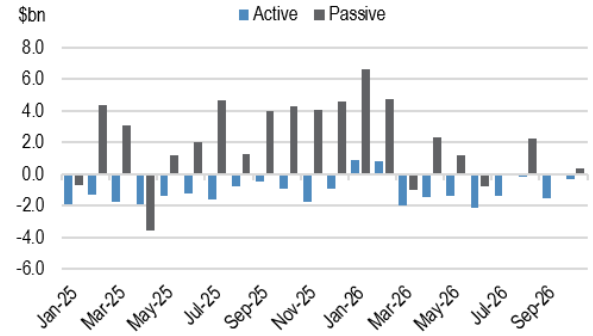
Source: EPFR Global, MSCI

Figure 70: Active global funds' position in China relative to MSCI benchmarks



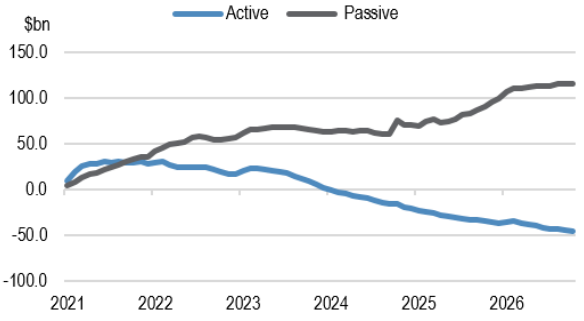
Source: EPFR Global, MSCI

Figure 71: US & EU fund flows to China



Source: EPFR

Figure 72: US & EU accumulative fund flows to China since 2021



Source: EPFR

Figure 73: EPFR stock barometer tracked flow into China by sector

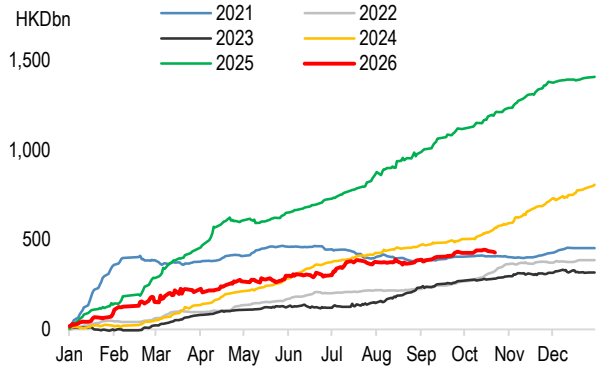
US$ mn	1 week	4 weeks	3 months	YTD	2025
Communication Services	53.9	-258.6	-366.4	1,677.9	7,465.4
Consumer Discretionary	73.9	-269.1	-283.2	2,313.5	8,675.9
Consumer Staples	4.3	-37.1	-1.3	-62.5	34.5
Energy	21.3	58.7	173.1	514.4	507.9
Financials	79.8	-3.6	445.8	1,767.1	3,337.7
Health Care	20.7	-54.4	6.6	220.5	634.4
Industrials	-27.7	-165.8	-168.4	-297.2	-53.9
Information Technology	-48.4	-397.7	-519.2	42.8	3,256.2
Materials	-4.9	-66.9	-25.1	823.9	682.7
Real Estate	5.7	-17.8	5.0	88.4	304.2
Utilities	-3.6	-33.4	-13.6	179.0	314.0
TOTAL	**175.0**	**-1,245.7**	**-746.5**	**7,138.9**	**25,159.0**

Source: EPFR Global. As of 23 Oct 2026.

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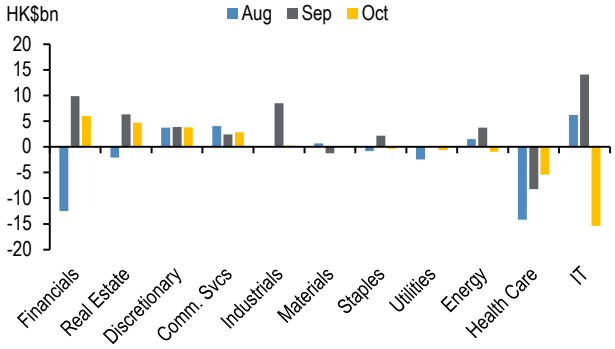
3c. Southbound flow, YTD total flow and flow by sector

Figure 74: Southbound net inflow per year



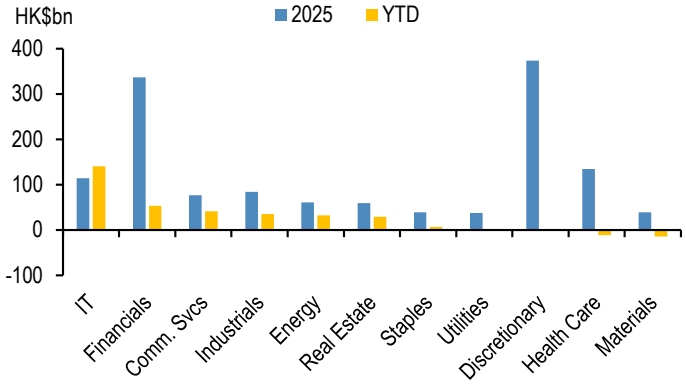
Source: Wind

Figure 75: Southbound net inflows by sector



Source: Wind

Figure 76: Southbound net inflows by sector: 2025 vs. YTD



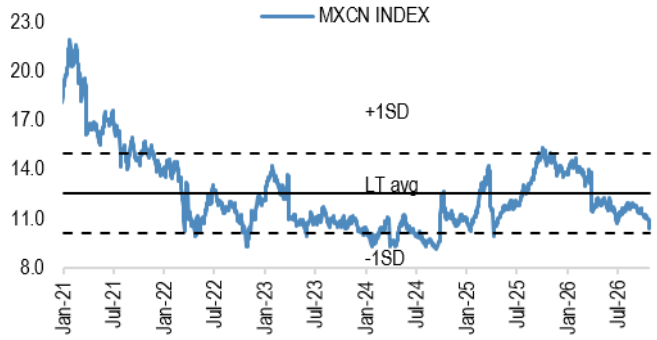
Source: Wind

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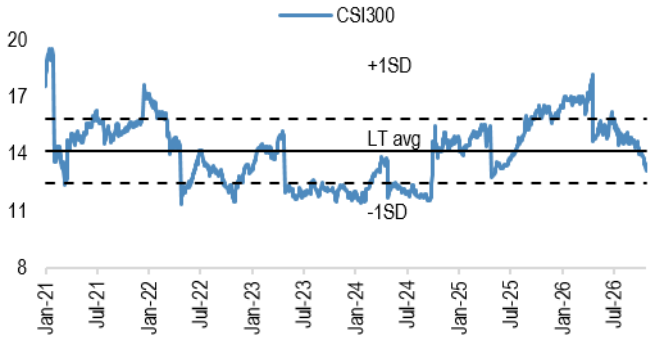
4. Valuations: MSCI China, CSI 300 fwd PE, comparing to global peers, AH Premium, P/E vs EPS growth, P/B vs ROE comparing to global peers, Composite Valuation Indicator (CVI)

Figure 77: MSCI China fwd P/E



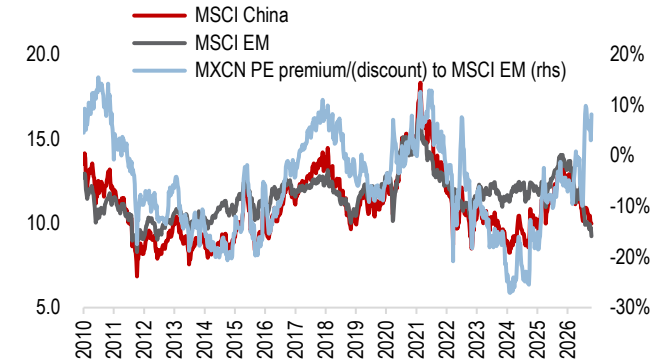
Source: Bloomberg Finance L.P.

Figure 78: CSI300 fwd P/E



Source: Bloomberg Finance L.P.

Figure 79: MSCI China fwd P/E vs MSCI EM fwd P/E



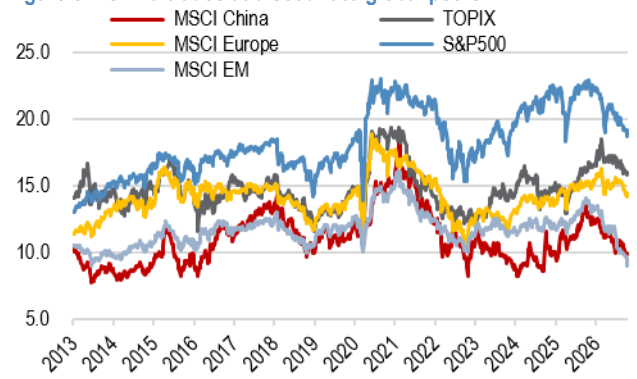
Source: Datastream, J.P. Morgan.

Figure 80: MSCI China fwd P/E vs CSI300 fwd P/E



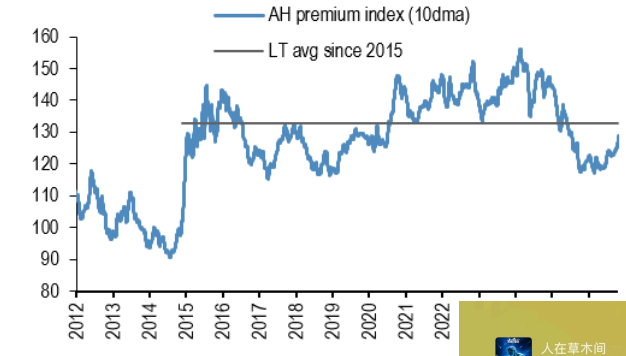
Source: Datastream, J.P. Morgan.

Figure 81: China trades at discount to global peers



Source: Bloomberg Finance L.P., J.P. Morgan

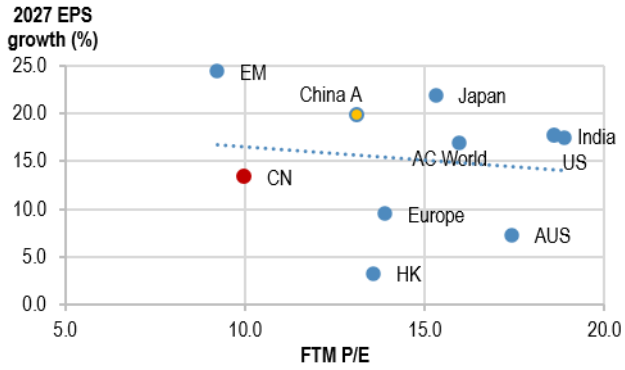
Figure 82: A-H premium



Source: Bloomberg Finance L.P., J.P. Morgan.

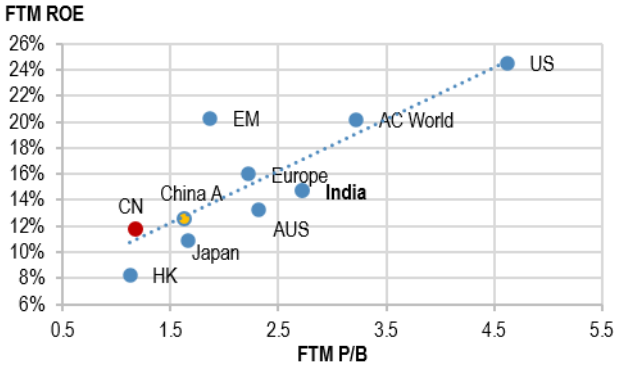
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Figure 83: Fwd P/E vs 2027E EPS growth



Source: IBES, J.P. Morgan.

Figure 84: Fwd P/B vs Fwd ROE



Source: IBES, J.P. Morgan.

Figure 85: Composite Valuation Indicator (CVI): weighted average percentile rank across 12M forward valuation metrics

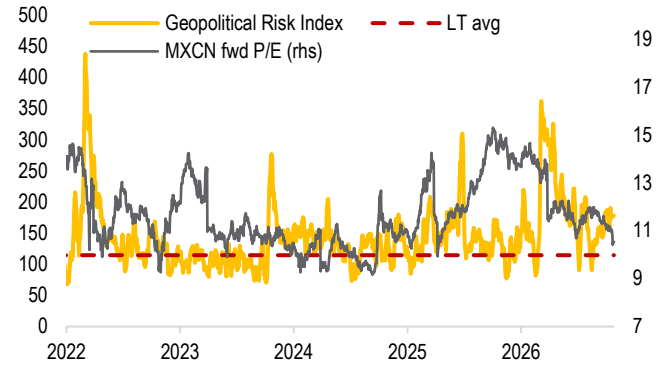
	PE	PB	EV ebitda	Dividend yield	Px to cash flow	CVI*
MSCI China	12%	18%	16%	5%	20%	14%
Consumer Discretionary	1%	1%	0%	0%	0%	1%
Retailing	22%	1%	14%	2%	3%	8%
Automobiles	0%	0%	0%	0%	0%	0%
Consumer Durable & Apparel	1%	1%	1%	1%	1%	1%
Consumer Services	5%	12%	4%	3%	4%	5%
Consumer Staples	6%	3%	4%	4%	5%	4%
Food, Beverage & Tabaco	7%	4%	5%	5%	7%	6%
Household & Personal Products	0%	0%	0%	0%	0%	0%
Communication Services	0%	1%	0%	0%	0%	0%
Media and Entertainment	0%	1%	0%	0%	0%	0%
Telecommunication Services	3%	1%	22%	4%	44%	15%
Energy	79%	83%	79%	81%	78%	80%
Financials	71%	72%	N/A	72%	97%	78%
Banks	98%	95%	N/A	98%	99%	98%
Insurance	3%	25%	N/A	28%	82%	34%
Diversified Financial	16%	37%	29%	4%	48%	27%
Health Care	25%	61%	32%	62%	27%	41%
Pharma, Biotech & Life Science	6%	70%	29%	59%	27%	38%
Healthcare Equipment & Service	16%	8%	7%	24%	5%	12%
Information Technology	37%	45%	46%	40%	52%	44%
Technology Hardware	13%	43%	37%	16%	45%	31%
Semiconductors	73%	77%	84%	80%	87%	80%
Software & Services	97%	42%	66%	87%	95%	77%
Industrials	64%	59%	42%	22%	42%	46%
Capital Goods	68%	61%	45%	3%	22%	40%
Transportation	51%	45%	20%	59%	72%	49%
Real Estate	75%	31%	73%	70%	34%	57%
Materials	12%	57%	2%	2%	44%	23%
Utilities	74%	22%	78%	45%	27%	49%

Source: Wind. Note: The Composite Valuation Indicator (CVI) is calculated as the weighted average of the historical percentile ranks of 12M forward P/E, P/B, EV/EBITDA, dividend yield and price-to-cash-flow. A higher CVI indicates a more expensive valuation relative to history.

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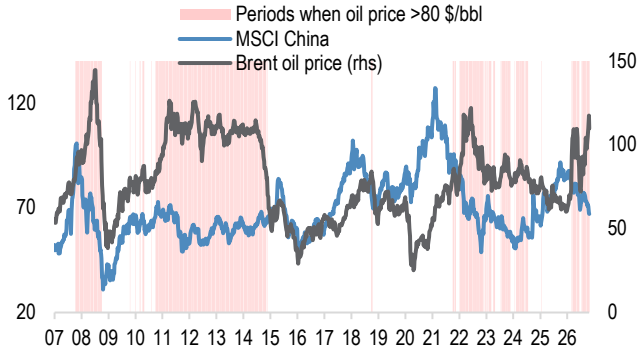
5. Geopolitical: Geopolitical Risk Index vs MSCI China fwd P/E, Brent oil price vs MSCI China

Figure 86: Geopolitical Risk Index (7DMA)



Source: Bloomberg Finance L.P.

Figure 87: MXCN tended to be under pressure when brent price >$80/bbl



Source: Bloomberg Finance L.P.