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China Equity Strategy

Post US-midterms: Can China's Rally Last?

China & HK Equity and Thematic Strategy

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Chinese equities rallied sharply in afternoon trading on November 4, with CSI 300 gaining 2.3%, ChiNext 6.4% and the STAR 50 9.9%, while MSCI China rose 0.25%, underscoring the onshore lead. A-share turnover returned to Rmb2tn for the first time in 25 trading days. We attribute the move to three factors: 1) US midterm clear event; 2) valuations and positioning that have been substantially reset; and 3) a turn in sentiment as the national team and regulators step in. **We see room for a further 10-15% rebound as valuations recover from trough levels. Additional policy stimulus could extend the rally further. We maintain our preference for A-shares over H-shares, with onshore tech and brokers leading, and reiterate our top 10 picks alongside a new screen of AI-related names that have de-rated sharply despite strong earnings growth.**

- **US midterm event risk has cleared:** A Democratic sweep of both chambers was largely priced in. Given legislative constraints and the presidential veto, our US team does not expect material changes to broad US policy. As our earlier analysis indicated, Chinese equities have historically tended to rebound after US midterms as uncertainty recedes (Figure 1). One area to watch for the global AI trade is data-center policy at the state level. In Texas, which accounts for more than 25% of planned US data-center capacity by 2030, the incoming administration has signaled a more restrictive stance on new data-center development. **As debate over the global AI trade intensifies, China could benefit from short covering and a rotation of flows, having served as a funding short against long AI positions. Chinese equities also offer diversification from the global AI trade, while China's AI localization has its own trajectory and could prove less dependent on US AI capex.**
- **Trough valuations and reset positioning could support a further rally**: Even after the November 4 rally, the MSCI China and CSI 300 indexes trade only 8-10% above their "924" trough levels. Positioning has also reset: 1) Margin financing has declined from Rmb3tn in June to around Rmb2.3tn, returning to its September 2025 level and suggesting that investors' leverage build-up this year has largely unwound (Figure 4). 2) Foreign investors' IT exposure in A-shares fell from 35% at end-June to 27% at end-September, versus 21% at the start of the year (Figure 8); 3) IT exposure among onshore mutual funds' top 10 holdings fell from around 60% in June to 48% in September. We estimate it declined further to around 40% in October, compared with 33% at the start of the year (Figure 7). The resulting pool of sidelined capital could support a further tech-led rebound, as we highlighted in China Equity Strategy: Risk-reward attractive from here - key stocks to buy.
- **China de-risked earlier, while policy support is improving sentiment**: The STAR 50 corrected by around 50% from its June peak and decoupled from the US AI rebound in August. State-backed funds accelerated ETF purchases in October, buying RMB330bn. Inflows in 2H26 amounted to 35% of the outflows recorded in 1H26, leaving approximately RMB900bn in potential "dry powder." (Figure 2,Figure 3). Signals from the PBoC and CSRC this week further suggest that regulators intend to support the market's downside (more details: China Equity Strategy: PBoC and CSRC steps: not a bazooka, but a

See page 5 for analyst certification and important disclosures.

firmer floor).

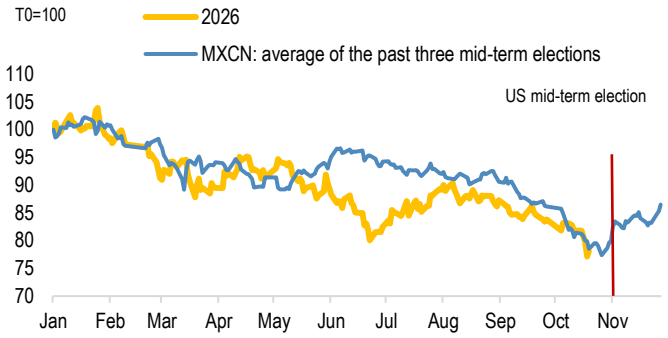
- **Feedback from Hong Kong and Singapore marketing - a rally setup despite fundamental headwinds:** Most investors we spoke with in Hong Kong and Singapore marketing agreed that downside is limited following the policy response. Offshore investors are notably less bearish than onshore investors and more willing to add exposure. China's AI capital expenditure is roughly one-tenth of US levels and is largely funded by internal cash flow, leaving it less exposed to the overbuilding and financing concerns weighing on global AI names. Investors are also looking beyond AI for sector opportunities. Interest is strongest in banks, followed by healthcare, as well as selected consumer companies offering attractive shareholder returns and higher earnings visibility. The major fundamental concerns remain consistent with our view: further earnings downgrades, a lack of fiscal stimulus ahead of the Party Congress in fall 2027, and tax enforcement weighing on sentiment. Some investors expect additional policy stimulus if exports slow next year after front-loaded shipments of solar products, batteries and EVs, or/and if global AI capital expenditure weakens, which may be an upside risk for the China market.
- **Key stock ideas:** We reiterate our top 10 preferred names (Figure 5) and introduce a new screen for AI-related stocks that have de-rated sharply despite strong earnings growth (Figure 6). The screen covers names rated Overweight by JPM, trading below 20x 2027E P/E, with expected 2027E EPS growth above 30% and share prices more than 40% below their 52-week highs. We believe these names offer attractive risk-reward as the rebound broadens.



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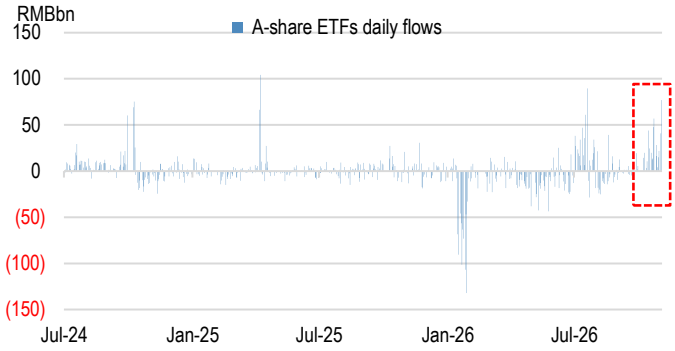
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Figure 1: MSCI China performance during mid-term election years



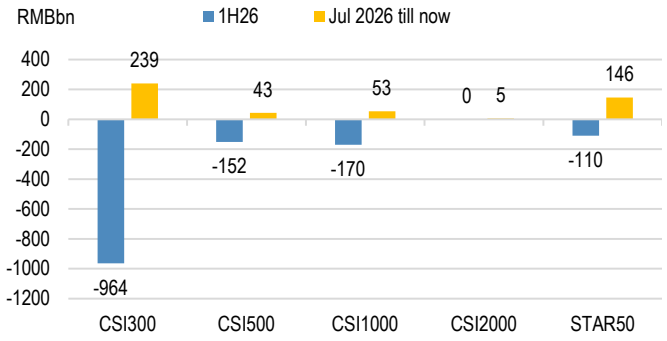
Source: Wind, J.P. Morgan.

Figure 2: A-share ETFs daily inflows have picked up notably since October



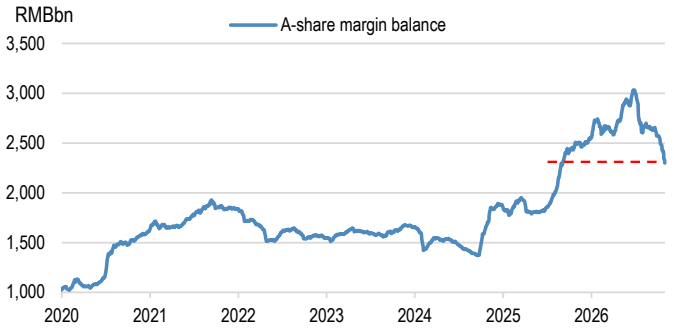
Source: Wind, J.P. Morgan.

Figure 3: Recent ETFs inflow have been concentrated in CSI300 and tech



Source: Wind, J.P. Morgan.

Figure 4: Margin balance has come down meaningfully



Source: Wind, J.P. Morgan.

Figure 5: JPM top 10 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 Limited	Consumer Discretionary	OW	100.6	255	12	68	1.6	(30)	8	(42)	13
000333 CH	Midea Group Co., Ltd.	Consumer Discretionary	OW	88.0	92	14	9	5.3	13	16	(2)	23
857 HK	PetroChina Company Limited	Energy	OW	10.8	29	9	27	5.7	29	27	(12)	38
939 HK	China Construction Bank Corp	Financials	OW	10.3	314	6	7	5.0	33	27	(3)	39
6990 HK	Kelun-Biotech Biopharmaceutical	Health Care	OW	442.4	13	130	132	0.0	13	1	(21)	30
603268 CH	Guangdong Songfa Ceramics Co Ltd	Industrials	OW	167.7	26	9	NULL	1.2	101	20	(26)	183
600406 CH	NARI Technology Co., Ltd.	Industrials	OW	23.7	29	19	9	3.1	5	4	(26)	11
688200 CH	Huafeng Test & Control Technology	Information Technology	OW	218.5	7	35	76	0.9	70	(58)	(62)	99
2899 HK	Zijin Mining Group Co Ltd	Materials	OW	29.4	22	8	61	4.4	(18)	7	(37)	11
1816 HK	CGN Power Co Ltd	Utilities	OW	3.5	5	12	15	3.6	18	29	(8)	33

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

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Figure 6: Stock screen for AI stocks: OW rating, fwd PE <20x, fwd EPS growth >30%, correction from 52w high > 40%

Ticker	Security Name	RATING	SECTOR	Market cap (US$ bn)	Price	Fwd PE (2027E)	EPS growth (2027E)	% to 52w high (%)
002353 CH	Yantai Jereh - A	OW	Energy	13	93.90	12.0	126.3	(49)
2338 HK	Weichai Power - H	OW	Industrials	26	25.50	9.6	30.8	(45)
002384 CH	Dongshan Precision - A	OW	Information Technology	27	104.60	9.0	143.7	(66)
002484 CH	Jianghai Capacitor - A	OW	Information Technology	4	35.08	19.2	52.1	(71)
1888 HK	Kingboard Laminates	OW	Information Technology	16	40.30	8.3	59.1	(65)
300308 CH	Zhongji Innolight - A	OW	Information Technology	106	636.30	9.7	102.5	(62)
522 HK	ASMPT Ltd (0522)	OW	Information Technology	6	118.30	17.5	44.3	(54)
688372 CH	V-Test - A	OW	Information Technology	2	74.95	17.2	70.0	(64)
992 HK	Lenovo Group Limited	OW	Information Technology	38	23.78	6.5	53.8	(45)

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

Figure 7: Top holdings by onshore mutual funds: IT exposure declined in 3Q, while Financials and Healthcare exposure increased

	Onshore mutual fund top holdings breakdown by sector			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, J.P. Morgan.

Figure 8: 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, J.P. Morgan.