

China A Shares Theme Update

Q1 2026

In a Nutshell

A rare, cheap equity market ahead of the global index over past 12 months

Summary

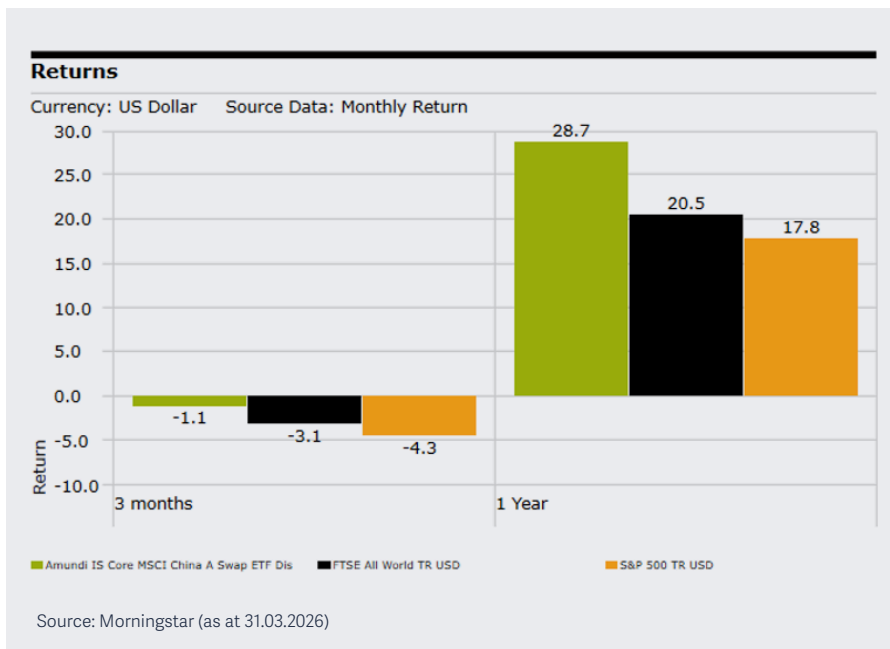
The Amundi MSCI China A Swap ETF fell by 1% in USD terms in Q1, which was more defensive than both the FTSE All World index (-3%) and the S&P 500 index (-4%). The China A Swap ETF is over 8% ahead of the FTSE All World index over the past twelve months.

The macro picture remains mixed. Whilst the property market continues to act as a drag, many other areas such as export growth and retail sales have performed well. Chinese corporate earnings posted double digit growth in 2025 after an increased focus on dividends and buybacks; they are forecast to do similarly well in 2026.

The Chinese market remains cheap by historical standards. It trades on 1.6x Price-to-Book-Value ratio, compared with the US trading near an all-time high (5.5x P/BV). Plenty of potential upside remains despite the market's recent outperformance.

Performance

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The China A shares ETF led global and US stock markets in Q1 and the past year

Recent price action in Chinese equity markets looks promising. The Shanghai Composite index has broken to a decade long high. This index is similar to the MSCI China A shares index, but it has a longer price history. If the bull market in China continues, there is still plenty of upside to the prior highs of 2015 and 2007. The chart below shows monthly returns over a 20-year time frame. Recent months have seen the index consolidate above the 2021 highs.



The stealth bull market in the Shanghai Composite index continues

Source: Bloomberg (24 April 2026)

In addition to healthy returns of late, the China A shares market also offers attractive diversification benefits. It exhibits a low correlation to other global stock markets. This is because of a domestic investor base, a lack of China A shares in broad global indexes, and different liquidity cycles.

Over the last 3 years the China A ETF had a correlation of just 0.24 against the S&P 500 index. Whereas the S&P 500 index has a correlation of 0.95 with FTSE All World.

Correlation Matrix

Time Period: 01/04/2023 to 31/03/2026

Currency: US Dollar Source Data: Monthly Return

	1	2	3
1 Amundi IS Core MSCI China A Swap ETF Dis	1.00		
2 FTSE All World TR USD	0.36	1.00	
3 S&P 500 TR USD	0.24	0.95	1.00

Legend: 1.00 to 0.80 (dark blue), 0.80 to 0.60 (medium blue), 0.60 to 0.40 (light blue), 0.40 to 0.20 (very light blue), 0.20 to 0.00 (pale blue), 0.00 to -0.20 (orange), -0.20 to -0.40 (light orange), -0.40 to -0.60 (yellow), -0.60 to -0.80 (light yellow), -0.80 to -1.00 (pale yellow)

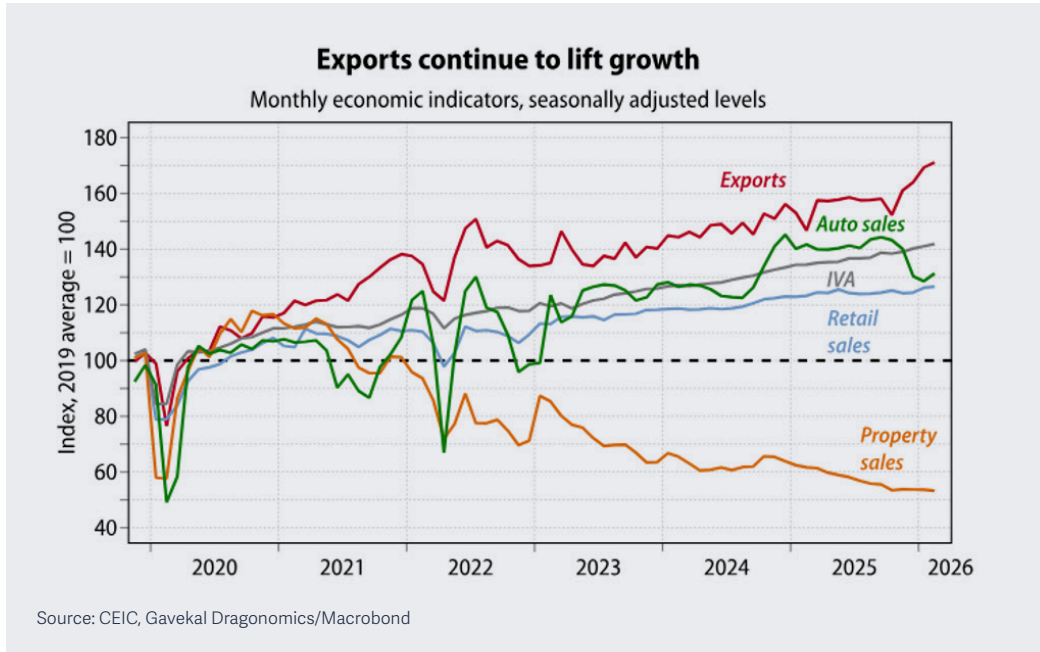
Source: Morningstar (as at 31.03.2026)

China A Shares exhibit low correlation to the rest of the global stock market

Macro Update

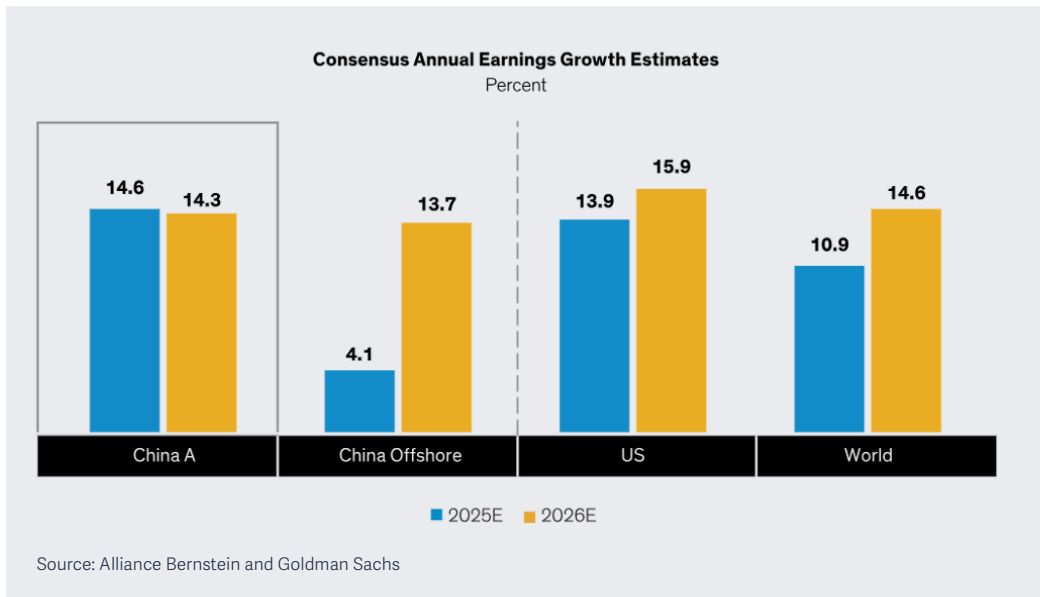
The macroeconomic picture remains mixed for China. Economic growth remains resilient, lifted by surging exports (e.g. integrated circuits up 70% year on year) and strong retail sales growth, which increased to 2.8% from 0.9%. Core CPI inflation rose to 1.8%.

The property market remains subdued, with many property developers on the verge of bankruptcy or restructuring. Property sales declined 16% in February, following the 19% drop in December. The policy response by the Chinese government has (so far) avoided aggressive wholesale measures, instead favouring marginal nudges. A wholesale resolution to underpin the property sector would no doubt be much more bullish for Chinese assets, especially the equity market, given the amount of Chinese household wealth tied up in the property sector.



The property sector remains a drag on growth, but several other areas are performing well

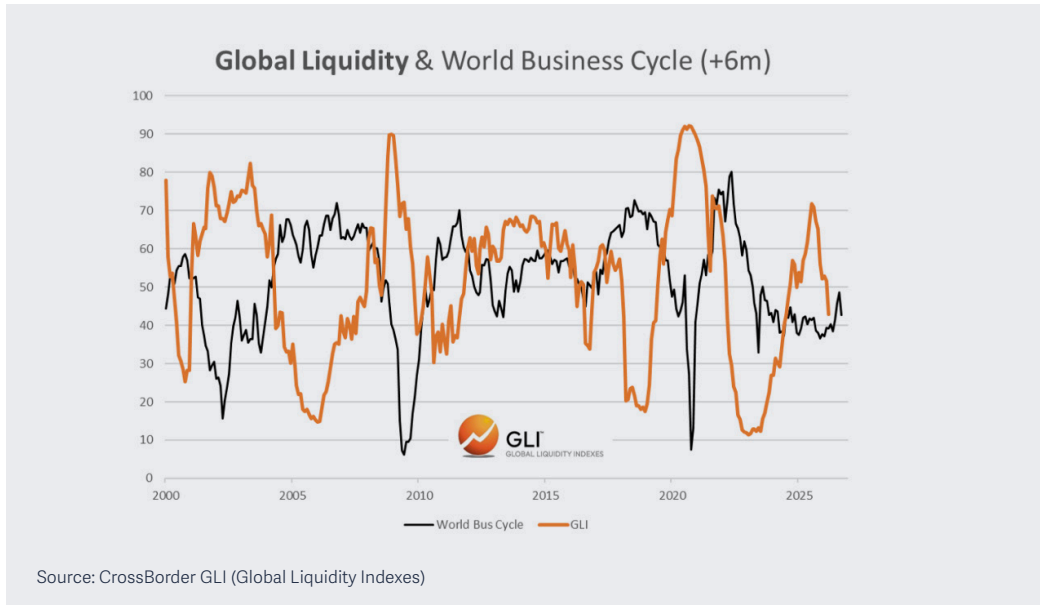
From an earnings perspective, equities have been helped by a greater focus on dividends and buybacks. With margins improving, earnings have also been robust. The broad market CSI 300 index led US and World earning growth in 2025 and is forecast to perform similarly well in 2026.



China A shares earnings were robust in 2025, and forecast to do well again this year

Liquidity

Meanwhile, central bank liquidity has become less accommodative. Research provider CrossBorder warn that global liquidity peaked in Q3 2025 and is not expected to form a bottom before 2027. It expects financial market turbulence as global liquidity is drained by real economic growth, which diverts capital from financial market speculation into productive real-world use. They conclude the conflict in Iran is "significant but so far manageable".



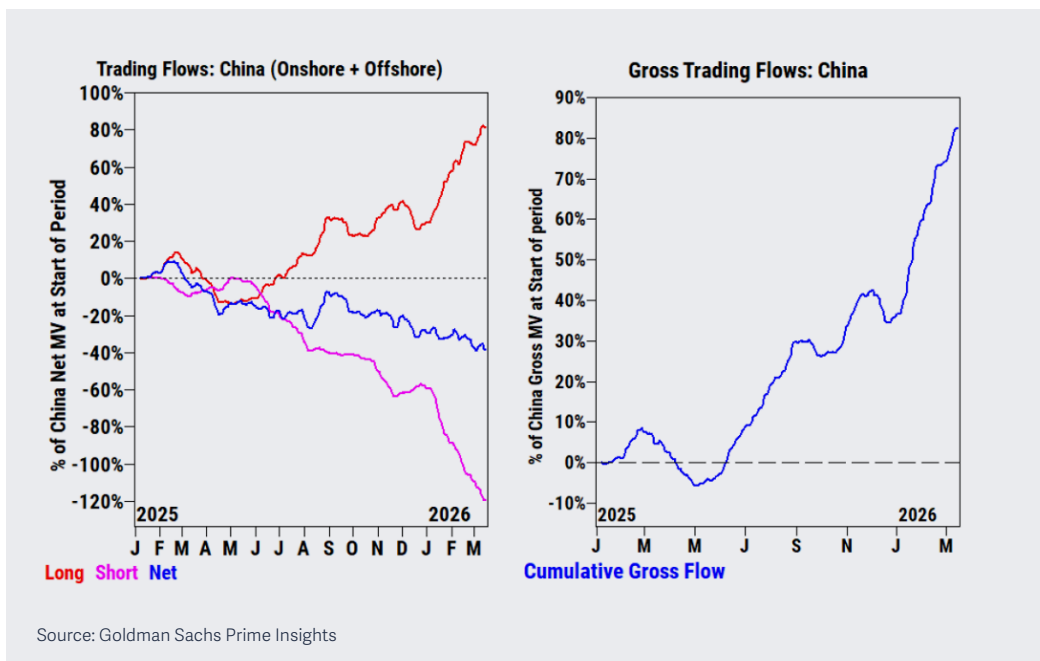
Global liquidity looks to have peaked in late 2025, which acts as a headwind to risk assets

Regarding China, they report

“People’s Bank of China (PBoC) liquidity growth has slowed sharply (-0.6% 3m ann.) due to a base effect. Liquidity in nominal terms remains broadly stable. This is in line with the PBoC’s stated position to maintain a “moderately loose” monetary policy during 2026. The Yuan has weakened a tad versus the US dollar (RMB6.83/US\$). Our latest economic momentum indicators show that China continues to lose traction.”

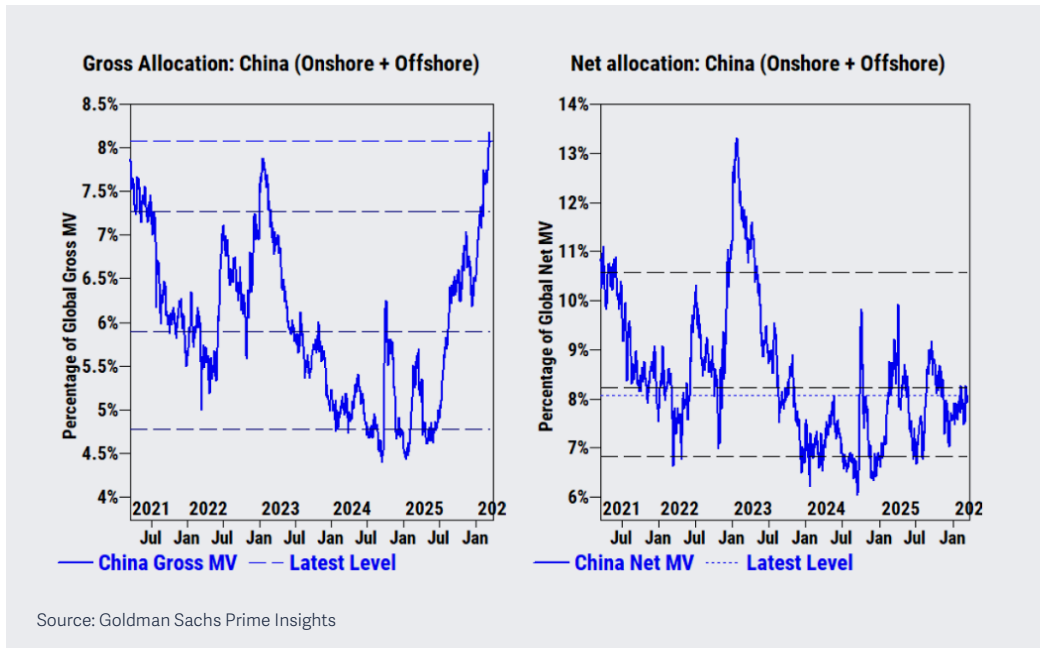
Sentiment

According to Goldman Sachs, gross trading flows in China increased during Q1 2026. Whilst long positions increased, this was more than offset by short selling in A shares. As a result, net trading flows decreased this quarter despite the equity market holding up well on a relative basis (left hand chart below). Sentiment remains uninterested, at best.



Gross trading flows were up last year, but net exposure decreased due to increased short positions

Investors remain significantly underweight China. Hedge funds’ net allocations to China (right hand chart below) have increased from the low end of historical ranges but still remain below average levels.



Investors' gross positions are now average, but net long positions remain subdued: a contrarian indicator

Valuation

The valuation of China A shares has varied dramatically over time, with today's low valuations representing a compelling, if contrarian, opportunity. The price/book multiple is one of our favoured valuation ratios for China, because historically it has identified important turning points. Simply put, when the P/B ratio falls to around 1.5x or lower, it infers high returns over the next few years. As of April 2026, the P/B ratio of 1.6x is at a significant discount to other global equity markets.

However, the Chinese market (green line) still looks very cheap compared to other global markets. The US market (blue line) is trading near all-time high valuations on a Price-to-Book-Value ratio of 5.5x. The China A shares market also stands at a significant discount to other unloved, value markets such as the UK (2.3x P/BV), indicating the potential value to be unlocked should macro data and/or investor sentiment change.

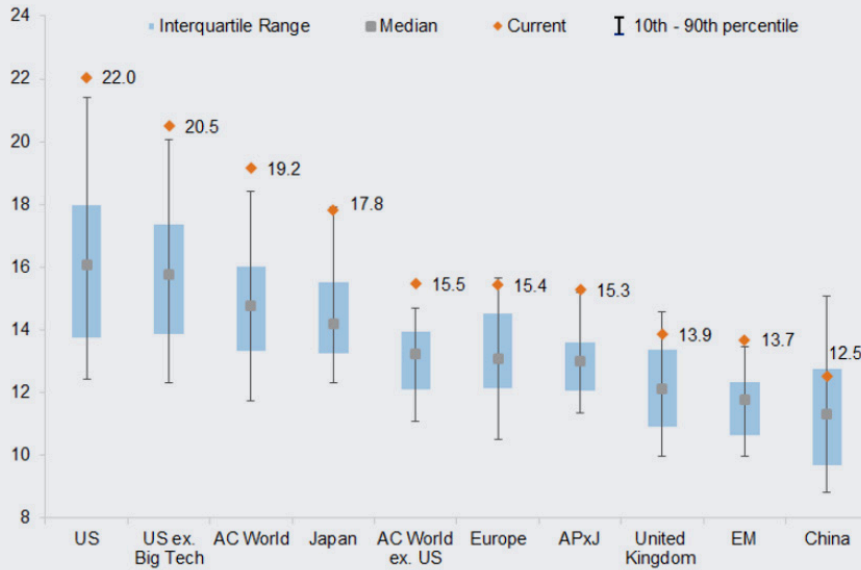


The Chinese market has much less valuation risk than (very) expensive US market

Looking at markets on a Price/Earnings basis, China trades on a 12 month forward multiple of 12.5x which is within a 20yr range. Unlike most other equity markets which trade in the top decile (10%) of their historical ranges over the same period.

Exhibit 4: Equity valuations across regions are now at historical highs

12m fwd P/E multiple. MSCI Regions, STOXX 600 for Europe and S&P 500 for US. Data for the last 20 years



Source: FactSet, Goldman Sachs Global Investment Research

The Chinese market is also relatively cheap on an earnings basis

While valuation is an important ingredient for generating long-term rewards, it is not the sole tool for timing entries and exits into markets. We continue to complement our valuation analysis with a broader ongoing assessment of China’s economic and liquidity conditions.

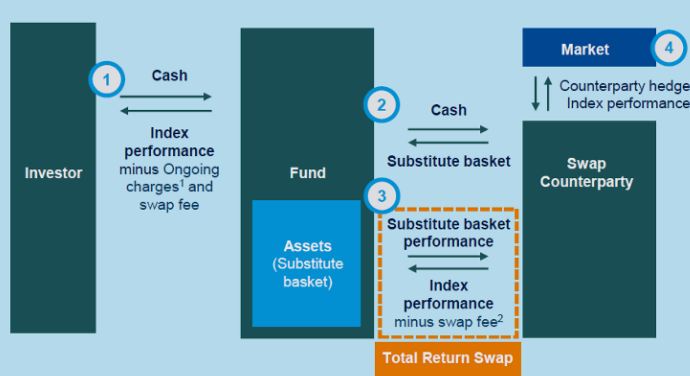
Positioning

We own the Amundi Core MSCI A Swap ETF. We generally have a preference for physically backed ETFs which hold underlying shares in the reference index. However, there can be certain exceptions. In this case, swap-based ETFs can earn a premium over the China index return due to restrictions on stock lending in the underlying index.

The ETF owns a pool of developed market equities, then swaps this return for the performance of the reference index, plus a spread (in the region of 3% additional return at present). The diagram below helps explain this. The Amundi ETF uses six swap counterparties to spread risk and the swap P&L is reset daily. The swap-based ETF has an OCF of 0.25%.

How index returns are delivered:

- Investor buys shares/units in the fund, receives index performance minus costs
- Fund buys a basket of securities (Substitute Basket) subject to strict risk criteria. Basket is owned by the fund
- Fund trades a 2-way "Total Return Swap" to:
 - Pay substitute basket performance
 - Receive index performance minus swap fee
- Swap counterparty hedges their exposure to index performance



Source: Amundi

How a swap based ETF is structured

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