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China A Shares | Theme Update

Q2 2026

In a Nutshell

The Artificial Intelligence arms race is heating up with ramifications for equity market valuations

Summary

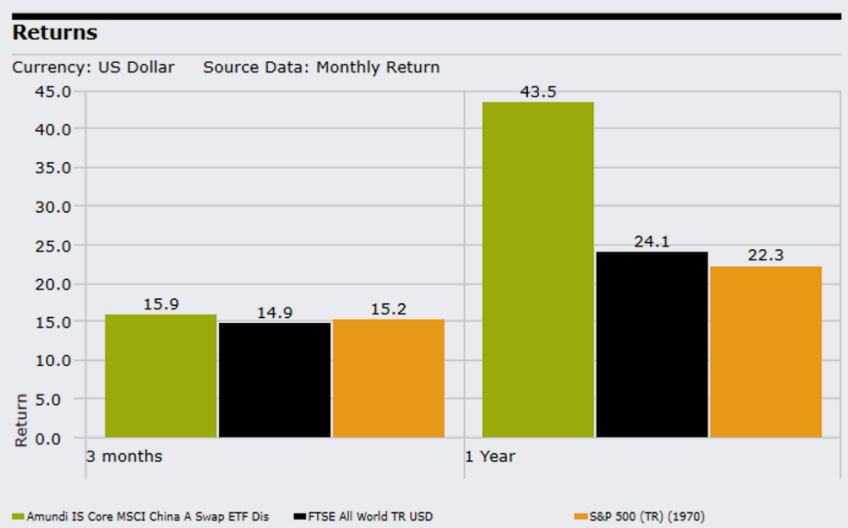
The Amundi MSCI China A Swap ETF rose 16% in USD terms in Q2, which was 1% ahead of the very strong return from FTSE All World index (+15%). The China A Swap ETF is up 44% over the past twelve months, which is 20% ahead of the FTSE All World index.

Whilst the broad macro picture remains uninspiring in China, there were several notable announcements relating to Artificial Intelligence (AI). Chinese start-up Moonshot AI released the Kimi K3 model in July which performs almost as well as the best US models, at a fraction of the cost.

Despite strong recent performance, the Chinese market remains cheap by historical standards. It trades on 1.5x Price-to-Book-Value ratio, compared with the US trading near an all-time high (5.6x P/BV). Plenty of potential upside remains despite the market's recent outperformance.

Performance

The Amundi MSCI China A Swap ETF rose 16% in USD terms in Q2, which was 1% ahead of the very strong returns from FTSE All World index (+15%) and S&P 500 index (+15%). The China A Swap ETF is up 44% over the past twelve months, which is 20% ahead of the FTSE All World index.



Source: Morningstar (as at 30.06.2026)

The China A shares ETF led global and US stock markets in Q2 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.

Source: Bloomberg (27 July 2026)

The Shanghai Composite index is consolidating near recent highs

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 swap ETF had a correlation of just 0.42 against the FTSE All World index. Whereas the S&P 500 index has a correlation of 0.96 with FTSE All World.

Correlation Matrix

Time Period: 01/07/2023 to 30/06/2026

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	0.42	1.00	
3	S&P 500 (TR) (1970)	0.33	0.96	1.00

1.00 to 0.80 · 0.80 to 0.60 · 0.60 to 0.40 · 0.40 to 0.20 · 0.20 to 0.00
0.00 to -0.20 · -0.20 to -0.40 · -0.40 to -0.60 · -0.60 to -0.80 · -0.80 to -1.00

Source: Morningstar (as at 30.06.2026)

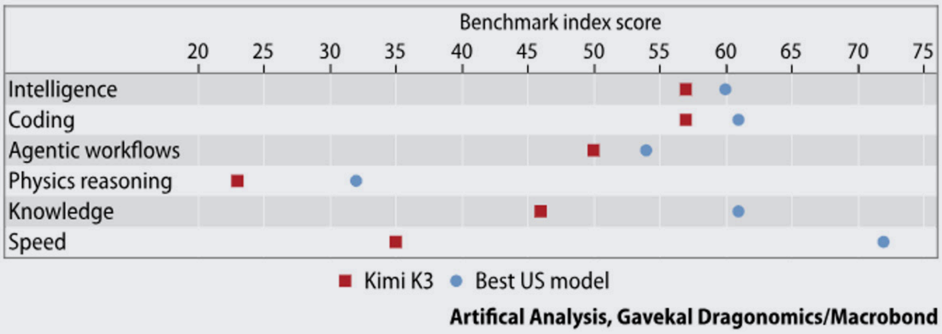
China A Shares exhibit low correlation to the rest of the global stock market

Macro Update

The big headline in July was the latest Artificial Intelligence (AI) model to be released in China. Moonshot AI released the Kimi K3 model in July which caused a stir across the globe. It performs almost as well as the best version of Claude on some measures, at a fraction of the cost. Gavekal Research commented:

"Moonshot as a company is only three years old, but it has managed to build a model that is nearly as powerful as the most advanced US models, while being open for users to download and modify. Beyond that technical accomplishment, though, what's important is how Moonshot and other Chinese AI developers have ensured that open-weight models will be a significant part of the AI market into the future. That will mean ongoing competitive pressure on closed models from the US leaders Anthropic and OpenAI."
(source: GK Dragonomics, China entrenches AI competition, 27th July 2026)

The model is especially good at coding, with several measures of performance close to the best US models.



Kimi K3 scores highly on coding, although lags in speed

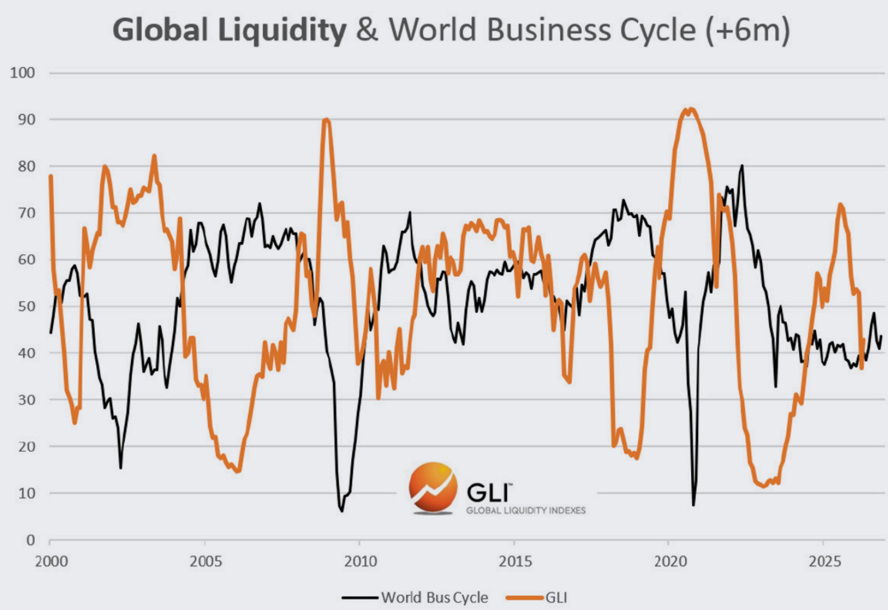
This caused a drawdown in the share price of AI-related stocks around the world, most notably in the US and Korea. Having previously led the market higher, there is now reasonable doubt whether the amount of capital expenditure by the so called 'Hyperscalers' will bear fruit. It also calls into question the 'winner takes all' mentality if open source models prevent incumbents raising prices in future.

China also announced that a state-backed company has begun mass production of advanced lithography machines which form a crucial part of chipmaker supply chain, further eroding the West's dominance of the most cutting-edge technology.

The broader macroeconomic picture remains disappointing in China. Economic growth slowed to 4.3% this quarter, falling from 5% in Q1. There was a sharp fall in investment and weak consumption with June retail sales up just 1%. Consumer confidence is also low, acting as a brake on growth. Inflation remains contained, with CPI dropping to 1% in June from 1.2% in May.

Liquidity

Meanwhile, central bank liquidity has become less accommodative this year. Research provider GLI (Global Liquidity Indexes) warn that global liquidity (orange line) peaked in Q3 2025 and is not expected to form a bottom before 2027. It expects financial market turbulence as markets enter the 'late-cycle speculation regime'.



Source: CrossBorder GLI (Global Liquidity Indexes)

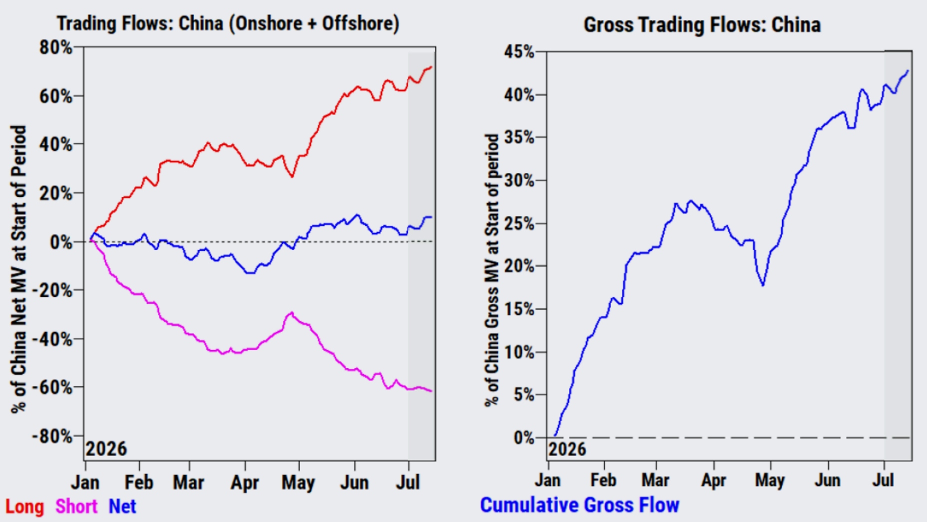
Global liquidity looks to have peaked in late 2025, which should act as a headwind to risk assets

Regarding China, they report:

"People's Bank of China (PBoC) net liquidity growth jumped to 14.4% (3m ann.) as of Wednesday's cut-off point, although data through to Friday show some moderation. Despite the recent easing, the Yuan is steady at RMB6.77/USD. Our indicators show that China's economy rapidly lost traction from March through to June and picked up through July. Latest observations suggest it is losing traction again." (24th July weekly update)

Sentiment

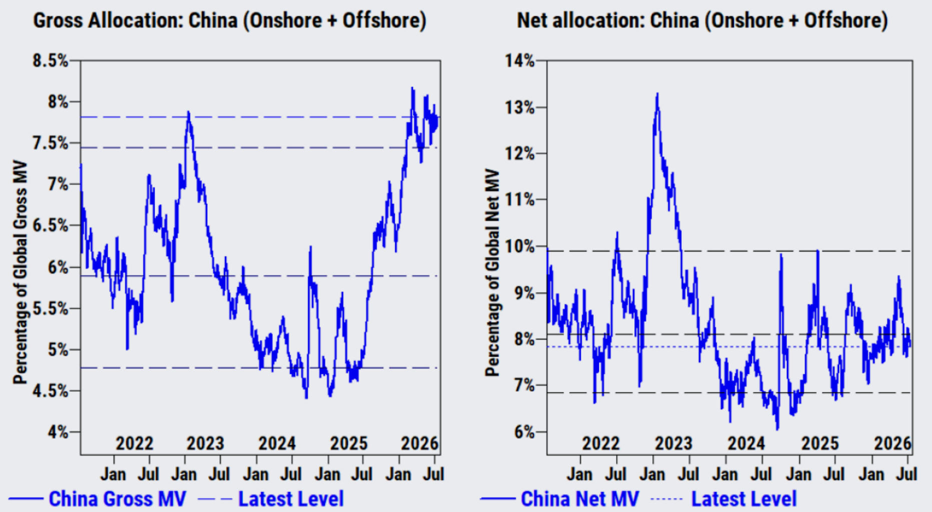
According to Goldman Sachs, gross trading flows in China increased during Q2 2026. Whilst long positions increased, this was more than offset by short selling in A shares. As a result, net trading flows were flat despite the equity market performing strongly. Sentiment remains uninterested, at best.



Source: Goldman Sachs Prime Insights

Gross trading flows are up this year, but net exposure is flat 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 remain at average levels.



Source: Goldman Sachs Prime Insights

Investors' gross positions have recovered, 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 July 2026, the P/B ratio of 1.5x 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 5.6x. The China A shares market also stands at a significant discount to other unloved, value markets such as the UK (2.4x P/BV), indicating the potential value to be unlocked should macro data and/or investor sentiment change.

Source: Bloomberg

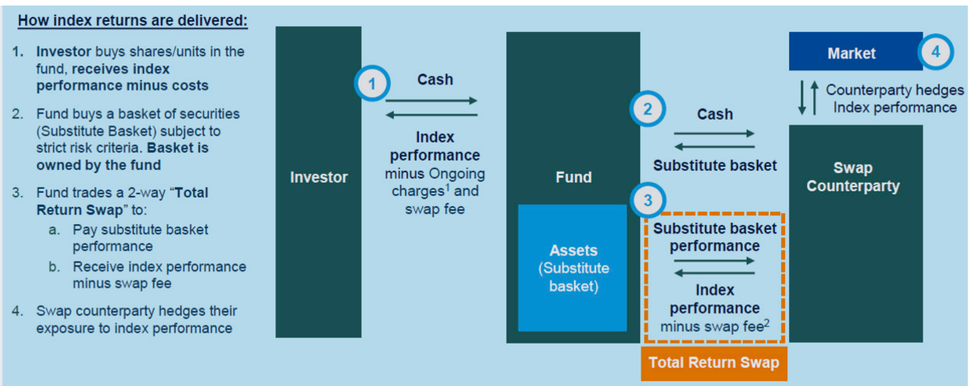
The Chinese market has much less valuation risk than (very) expensive US market

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%.



Source: Amundi

How a swap based ETF is structured

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