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China A Shares | Theme Update

Q3 2026

In a Nutshell

A sharp correction in China technology shares this quarter

Summary

The Amundi MSCI China A Swap ETF fell 10% in USD terms in Q3, trailing the FTSE All World index return of 2%. It was a disappointing quarter, but some consolidation was overdue after the 44% rally over the previous 12 months to end June (as we reported last quarter). Technology shares were hit particularly hard in Q3, down 30% on average. The technology sector has grown to become 30% of the China A shares market, up from 10% a decade ago, with 'old economy' sectors such as Real Estate now less than 1% of the index.

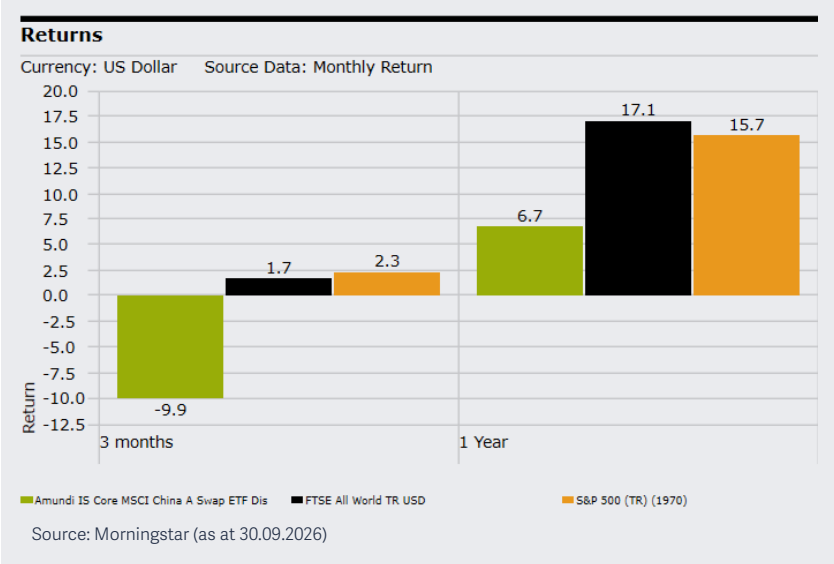
The broad economy grew at 4.5% in Q3, ahead of market expectations (4.4%). This keeps Beijing on track for its annual growth target without having to resort to further stimulus measures. However, China continues to demonstrate a two-speed economy. Industrial output surged 5.5%, propelled by a boom in global tech and Artificial Intelligence exports. Conversely, domestic consumption remains deeply depressed: retail sales grew at just 1.1%.

Inflation data paint the same picture. The latest CPI reading was 0.9% in September, kept low by limited retail demand and falling food prices. Meanwhile producer led PPI inflation climbed to 5% due to higher energy prices and strong demand for AI hardware. China could be set to climb out of deflation next year, which could act as a positive catalyst for the equity market.

The Chinese market remains cheap and de-rated further this quarter as stock prices fell. It trades on 1.4x Price-to-Book-Value ratio, compared with the US trading near an all-time high (5.7x P/BV).

Performance

The Amundi MSCI China A Swap ETF fell 10% in USD terms in Q3, which trailed the 2% return from both the FTSE All World index and S&P 500 index. The China A Swap ETF is up 7% over the past twelve months, which trails the FTSE All World index by 10%.



Source: Morningstar (as at 30.09.2026)

The China A shares ETF trailed global and US stock markets in Q3

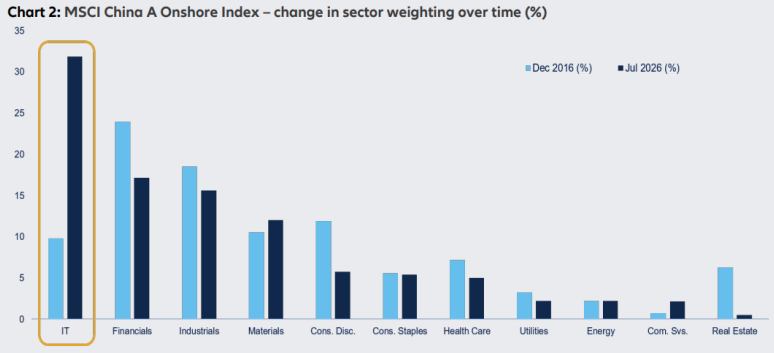
Technology shares were badly hit in Q3, falling an average of 30%. This contributed nearly all the negative performance for the ETF. By contrast, seven out of eleven GICS sectors produced a positive return this quarter.

Name	Tot Rtn	CTR	Avg % Wgt
Amundi Core MSCI China A Swap UCITS ETF (C024 GR)	-11.05	-11.05	100.00
Communication Services	-0.32	0.01	1.25
Consumer Discretionary	2.32	0.10	4.23
Consumer Staples	7.42	0.44	6.61
Energy	18.33	0.47	3.15
Financials	9.02	1.50	19.03
Health Care	12.44	0.45	4.30
Industrials	-13.20	-1.83	14.05
Information Technology	-30.25	-11.46	31.70
Materials	-8.11	-1.00	11.91
Real Estate	7.67	0.03	0.46
Utilities	8.30	0.25	3.32

Source: Bloomberg, USD returns for Q3

The technology sector was the main source of weakness this quarter

It is interesting to note how the composition of the China A shares market has changed over time. Allianz Global Investors highlight how the sector split of the MSCI China A index has evolved over the past decade, comparing July 2026 with December 2016 below. The Technology sector has grown to become the largest sector at just over 30%. Most other sectors have shrunk pro-rata, although the Real Estate sector has declined to less than 0.5% today which reflects the ongoing issues in the property market.



Source: IDS GmbH, Allianz Global Investors. Data as of 31 July 2026 and 31 December 2016.

Source: Allianz Global Investors

Technology has grown to the largest sector in the China A shares market

Recent price action in Chinese equity markets has seen a loss of momentum. After the Shanghai Composite index broke to a decade long high, it has pulled back to prior levels of support (pink horizontal line below). The index is comparable 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.



Source: Bloomberg (22 October 2026)

The Shanghai Composite index is testing prior levels of support

The China A shares market offers attractive diversification benefits as it exhibits 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 0.40 against the FTSE All World index. Whereas the S&P 500 index has a correlation of 0.96 with FTSE All World. Put simply, the China A shares market will go up and down at different times to the global equity market. This helps reduce overall portfolio volatility.

Correlation Matrix

Time Period: 01/10/2023 to 30/09/2026

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	0.40	1.00	
3	S&P 500 (TR) (1970)	0.31	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 30.09.2026)

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

Macro Update

China's economy expanded by 4.5% year-on-year in the third quarter of 2026, narrowly beating market expectations of 4.4% and recovering from a low of 4.3% in Q2. This places year-to-date growth at 4.6%, keeping Beijing within reach of its annual 4.5% to 5% target without having to resort to further stimulus measures.

The macro landscape reflects a divergence between external and internal demand. Industrial output surged 5.5% in September, propelled by a boom in global tech and Artificial Intelligence exports. Conversely, domestic consumption remains deeply depressed. Retail sales eked out just 1.1% growth in September, as a persistent property slump suppresses household confidence.

Inflation data reinforce the imbalances above. The latest CPI reading was 0.9% in September, held lower by limited retail demand and falling food prices. Meanwhile producer led PPI inflation climbed to 5%, up from 3.8% in August, due to higher energy prices and strong demand for AI hardware. China could be set to climb out of deflation next year, which could act as a positive catalyst for the equity market.

"Firmer producer prices now look set to lift the annual GDP deflator into positive territory in 2026 for the first time since 2022, although this will not be confirmed until full-year GDP data are released in January 2027." (Muzinich)

The People's Bank of China (BPOC) kept interest rates steady as it seeks to manage this two-speed economy. The one-year Loan Prime Rate remains at 3%, whilst the five-year rate (the mortgage benchmark) is 3.5%. PBOC governor Pan Gongsheng announced the bank is looking at whether it should move its main policy rate to the overnight repurchase (repo) rate – currently around 1.25%. Some economists view this as a potential easing mechanism, as the rate can be moved without a formal announcement.

Beijing also deployed a $54bn injection into state owned firms to help bolster financial stability. The finance ministry pumped the money into eight state-owned banks and insurance companies with a view to "enhance their sound operating capabilities, risk resistance capabilities, and ability to serve the real economy."

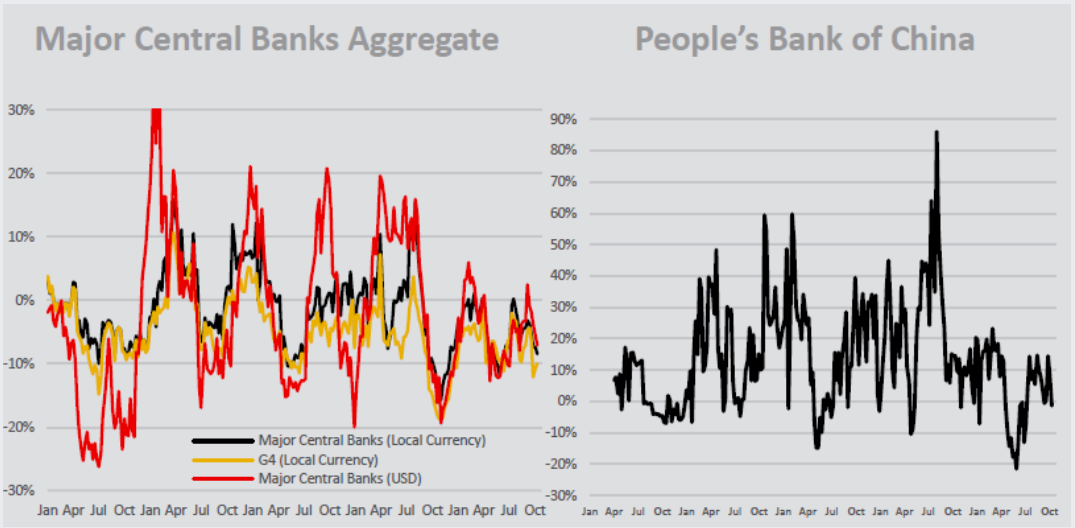
China to pump $54bn into state banks and insurers to boost economy

Source: BBC (7 Sept)

Authorities stand ready to help, but no policy bazooka

Liquidity

Global central bank liquidity has become less accommodative this year. Research provider GLI (Global Liquidity Indexes) warns that central bank liquidity growth has weakened further (-8.5% using 3m annualised rate). The US Fed liquidity growth is still negative whilst PBoC has also acted as a negative.



Source: CrossBorder GLI (Global Liquidity Indexes), 16 Oct

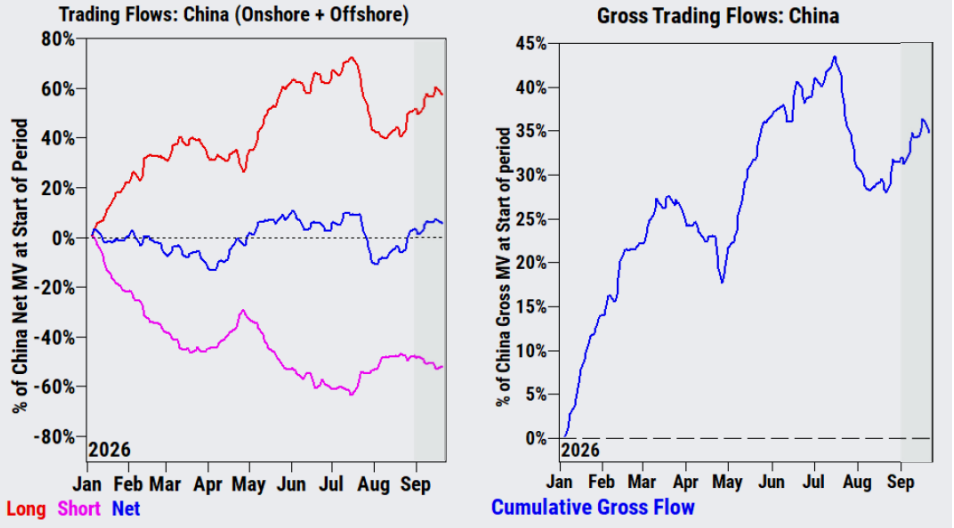
Tentative signs of stabilisation in China, although overall liquidity remains challenging

Regarding China, they report:

*"**People's Bank of China** (PBoC) liquidity growth slowed further this week (-1.5% 3m ann.). Still, it is still stronger than that of other major Central Banks. China's authorities are deploying a range of measures to stimulate the economy. These include direct injections into the financial sector by the MoF, interest rate subsidies for first-time homebuyers and a massive US$3.7tr infrastructure spend. Our indicators suggest that China's economy may be stabilizing following a sharp loss of traction from March onwards."*

Sentiment

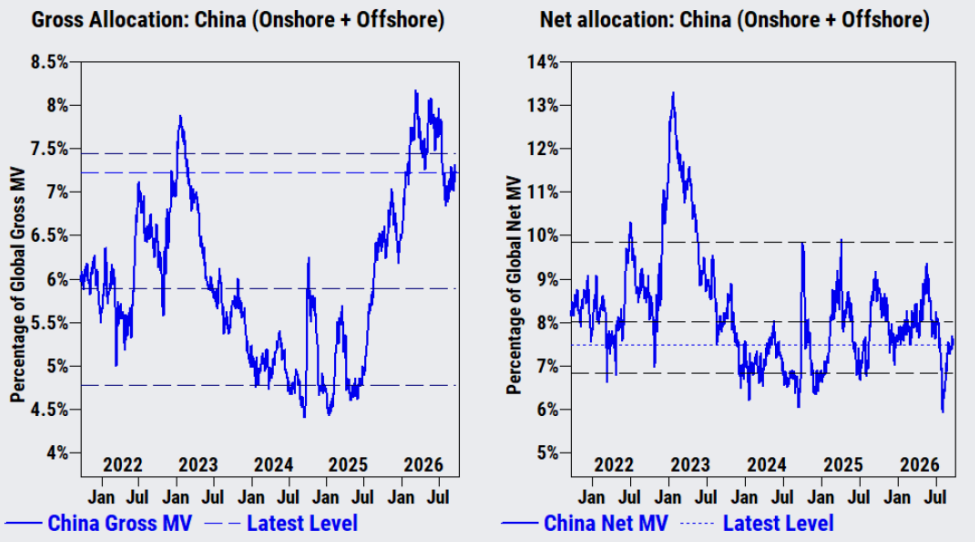
According to Goldman Sachs, gross trading flows in China decreased during Q3. Both long and short positions were reduced during the period. Net trading flows were slightly down as a result.



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 below average levels.



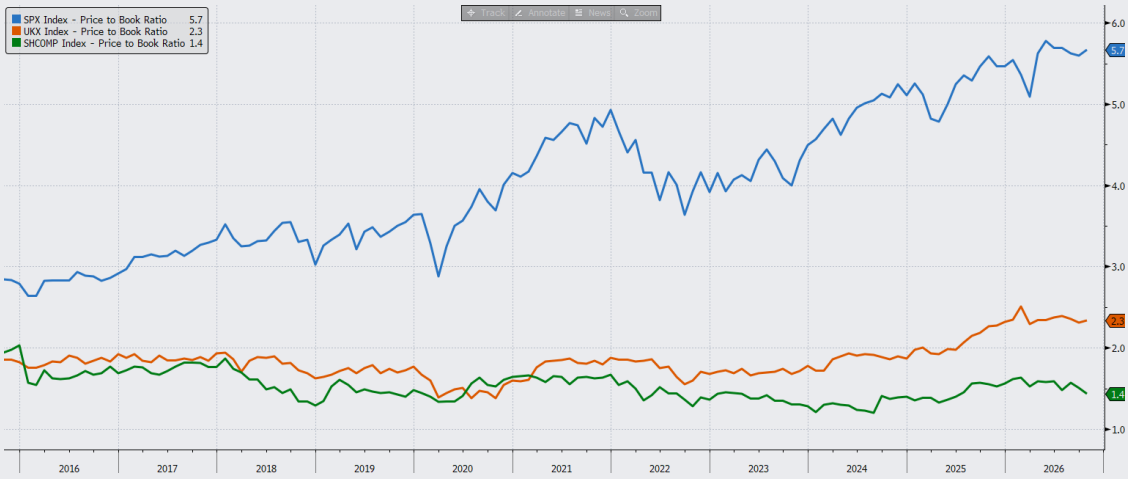
Source: Goldman Sachs Prime Insights

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 October 2026, the P/B ratio was 1.4x.

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 5.7x. 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.



Source: Bloomberg

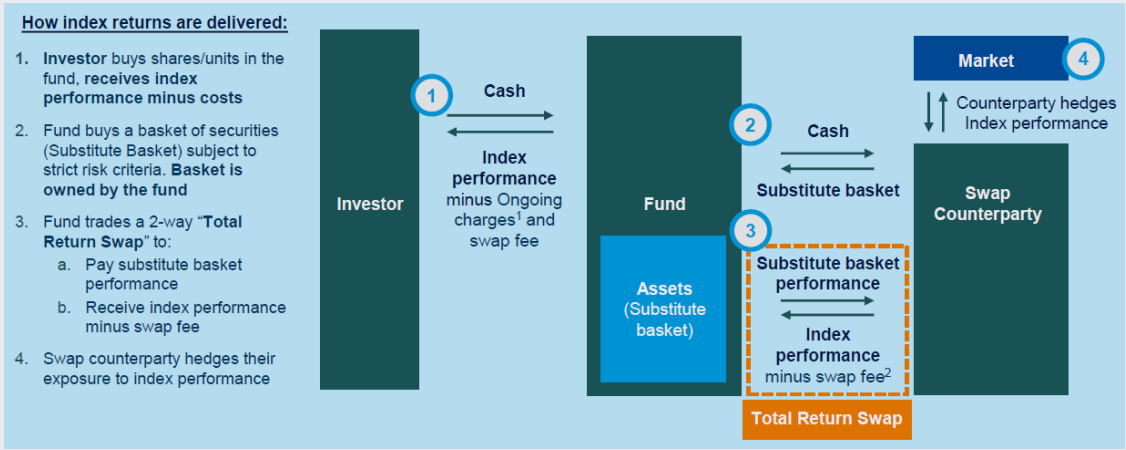
The Chinese market has much less valuation risk than the (very) expensive US market

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 China A Swap ETF. We prefer using physically backed ETFs which hold underlying shares in the reference index, but there can be 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 a swap based ETF is structured

Source: Amundi

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