

Market Review & Outlook



A-Share Edges up. Thematic investing Prevails

Market Review

A-share rally continues, with brisk thematic rotation.

Last week, the A-share market traded in a choppy range. The All A Index declined 0.33%. The Shanghai Composite edged up 0.13%, while the Beijing Stock Exchange 50 and ChiNext Index underperformed, each falling by more than 1%.

From a style perspective, small-cap stocks outperformed, with the CSI 1000 down 0.13%, less than the CSI 300 decline of 0.59%. Among the five major style indices, cyclicals rose 0.65%, while defensive and consumer styles saw notable pullbacks.

At the sector level, the performance of the primary industry (per Shenwan Hongyuan Industry Classification)

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diverged. Oil & petrochemicals, defense & military, and media led gains, while utilities, food & beverages, and power equipment lagged. Robotics and satellite-related stocks posted strong advances.

Market Outlook

Positioning for a spring “January effect.”

China’s A-share market closed 2025 on a strong note, with the Shanghai Composite ending at 3,968.84, up 18.41% for the year. Amid the ongoing rebound, we believe Chinese equities are well-positioned to break through and stabilize above key levels, supported by several factors:

- The impending clarity around the Fed’s next chair has fueled expectations for U.S. rate cuts in 2026. Easier global liquidity conditions, combined with yuan settlement leading up to Chinese New Year, should

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support RMB stability and appreciation.

- Incremental fund inflows, represented by A500 ETFs, alongside the seasonal “January effect” from insurance capital, continue to reinforce the market’s liquidity.
- Beijing has, for the first time, emphasized the need to “stabilize investment and halt declines,” while highlighting efforts to improve and stabilize real estate market expectations. The necessity for stronger growth-supportive policies has increased, with potential upside from stronger counter-cyclical and cross-cyclical support.

Cross-year strategy: Favor technology, non-bank financials, and consumption.

Amid AI-driven industrialization and accelerating industrialization across emerging markets, China’s

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technology sectors and capital goods exports show strong momentum and high visibility. At the same time, we see opportunities to accumulate cyclical stocks at the bottom as domestic demand recovers.

Key themes include:

- **Technology growth:** Ongoing global semiconductor breakthroughs and rising memory prices, combined with shortages in domestic computing infrastructure, should accelerate localization/import substitution. Leading players may see non-linear growth in token consumption by big tech firms. Preferred areas include Hong Kong-listed internet, electronics, media, and computing, as well as globally competitive exporters of power equipment and machinery.
- **Non-bank financials:** Benefiting from household deposit reallocation toward capital markets and rising

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wealth management demand, supported by capital-market reforms. We favor insurers and brokerages.

- **Cyclicals:** With valuations and positioning at cyclical lows and fundamentals showing marginal improvement, sectors benefiting from domestic demand and property stabilization—such as tourism services, hotels, and mass-market consumer goods—are attractive. Within commodities, we favor products with tighter supply-demand dynamics, including non-ferrous metals and chemicals.

(Source: based on internal report of Guotai Haitong Securities)

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