ChinaAMC

Spot-on

May 7

What Happened?

On Wednesday, the first day after the long Labor Day holiday, A-shares rebounded strongly, with the benchmark Shanghai Composite Index rallied 1.17% and ChiNext board jumped 2.75%, according to Wind data. **Turnover topped 3.23 trillion yuan, one of the highest daily transactions this year.**

The rally echoed a broad rebound across global risk assets. U.S., Japanese, and Korean equities rallied strongly following March corrections, while AI-related sectors continued to lead global markets.

What's Driving the Market?

Recent market resilience has been supported by:

- Strong global market sentiment recovery
- Ample liquidity support from the PBOC; continued RMB strength, which drove record high USD to RMB conversion by Chinese exporters and businesses
- Corporate earnings that verified earlier expectations: intensive Q1 earnings release at end-April showed profitability recovery, with double-digit income growth in STAR Market and ChiNext companies

Capital Flow Trends

While some institutional investors took profit through ETF outflows (resulting an overall outflow in April), some high risk-appetite retail investors bet on high-prosperity sectors, in **a sharp contrast with institutional investors**.

Margin financing continued to increase, particularly in: Electronics, Communications, Machinery & advanced manufacturing. This reflects continued market preference toward growth and technology sectors.

Strategy

Looking ahead, **market momentum may moderate after the recent rapid rebound, with volatility likely intensifying**. However, the broader bull market narrative may continue to be supported by:

- Strong earnings recovery
- Expected global capex expansion
- China’s manufacturing competitiveness
- Ongoing incremental capital inflows, including deposit migration (driven by record-low interest rate), insurance fund inflow, USD to RMB conversion.

We caution that in the short term, market advance might slow and volatility may increase as:

- Some investors might choose profit-taking as return accumulated
- Trump's China visit (due in mid-May) may prompt

some funds to "sell the news"

- Institutional investors' reposition ahead and during the earnings season has come to an end

Going forward, structural opportunities may matter more than broad index exposure. The strategy involves **positioning in high-prosperity sectors, hedged with assets that benefit from oil price increases.**

Source: ChinaAMC, data as of May 6,2026