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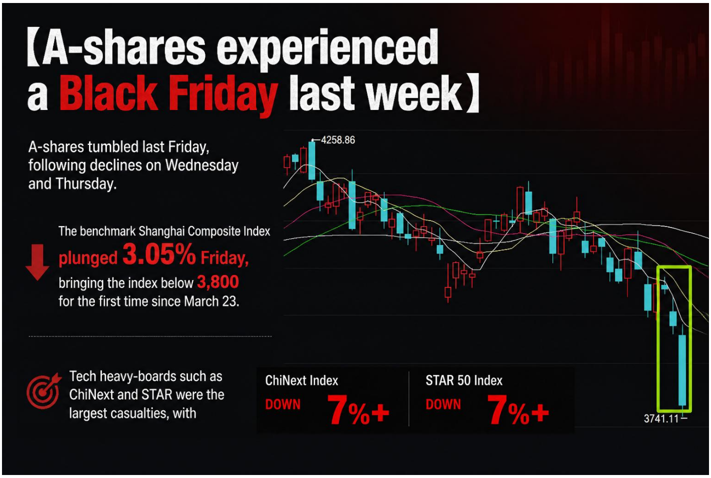
spot-on

What to do after the rout？



What happened:

A-shares tumbled last Friday, following declines on Wednesday and Thursday. The benchmark Shanghai Composite Index plunged 3.05% Friday, bringing the index below 3,800 for the first time since March 23. Tech heavy-boards such as ChiNext and STAR were the largest casualties, with ChiNext and STAR 50 index down more than 7%.

(Data Source: Wind as of July 17, 2026.)

Three major reasons:

The first explaination is the clear out of trading risks. Prior to the meltdown, market polarization reached an extreme, leaving the A-share technology sector in a fragile, 'triple-high' structure(high valuations, high positioning, and high consensus). Driven by this strong consensus, the vast majority of investors firmly embraced AI computing, resulting in a trading structure where buying momentum stalled following the market rally, as fresh buying capital lacked.

The second is capital took profit on key events. With the release of interim earnings guidance by key companies, the market broadly considers it a cash-in point. The third is the spread of overseas markets panics. The increasingly interconnected tech stocks across markets means foreign markets' selloff, especially that of Korea, can rapidly affect the domestic market.

Market Outlook

Tech stocks currently represent the make-or-break point. In our view, the three primary risks mentioned earlier are unleashing at an ever-faster pace, leading to an exceptionally swift correction amid intensifying market speculation. Although the market has not yet bottomed out in the short term, we roughly estimate that the correction phase is more than halfway through. Maximum drawdowns in upstream computing power and related segments generally range between 20% and 40%, with signs of short-term panic.

(Data Source: Wind as of July 17, 2026.)

Ultimately, however, this pullback is driven by valuation compression and trading risks. For a market rally backed by solid fundamentals, a sharp collapse is highly unlikely. High-frequency data for models and computing power indicate that fundamentals remain in expansion. Investor anxiety over slowing growth momentum is to blame, rather than any shift in the underlying industry logic.

In terms of catalysts, overseas cloud service providers will disclose their earnings and capital expenditures in late July, followed by the A-share semi-annual reporting season in August. With ample potential catalysts ahead, incremental drivers will keep the industry's core thesis intact. Therefore, we believe significant opportunities remain for tech stocks this year. Once risks are fully digested and market panic subsides, the emergence of new incremental drivers will prompt capital to rebuild technology positions.

Tactical Action Plan

From an operational standpoint, while short-term tech risks continue to clear out, the downside potential is likely contained. The liquidity leaving high-flying sectors will likely favor under-allocated assets, sparking activity in sectors such as agriculture/farming, innovative drugs, and Hong Kong-listed tech stocks. A key pivotal window to monitor is the late-July capital expenditure data from overseas cloud giants. If this data confirms the sustainability of the tech growth curve, it could trigger a strong comeback for the growth style.

Overall, market opportunities are expected to be more balanced in H2, characterized by volatility and sector rotation. ETF investment strategies are suggested to shift from the previous heavy concentration in technology toward a more balanced and flexible approach. While tech stocks may the structural mainstay, they are entering a phase of heightened volatility and oscillation. The primary trading strategy should focus on buying the dips and taking profits on rallies. For allocation capital, we recommend focusing on dividend assets, as well as sectors improving from the bottom, such as innovative drugs, brokerages, and agriculture.