



Market Review

A Sharp Correction Amid Liquidity Pressure

A-shares experienced a sharp correction over the five trading sessions surrounding the National Day holiday, **as tightening domestic and external liquidity and fading buying interest weighed on market sentiment. Trading turnover fell to a year-to-date low of RMB 1.42 trillion** (approximately USD 212 billion), with communications and electronics leading losses, while utilities, coal, transportation, real estate and energy demonstrated relative resilience.

Domestically, stronger-than-expected profit-taking after the US-China leadership summit highlighted weak buying momentum. Pre-holiday risk-off mood and mutual funds' quarter-



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end portfolio adjustment further intensified selling pressure amid shrinking turnover.

Externally, elevated U.S. Treasury yields continued to weigh on technology and growth valuations, while U.S. capital markets attracted global liquidity, negative for non-US markets. New FCC restrictions also weighed on China's optical communications supply chain. Buying orders tumbled, exacerbating liquidity for technology stocks that are heavily positioned by mutual funds.

The **Shanghai Composite Index retested its previous low near 3,714**, triggering renewed buying interest in broad-market ETFs. The subsequent rebound reinforced the attractiveness of current market valuations, while recent regulatory engagement signaled continued policy support.



Market Outlook

Increase Core Broad-Market Exposure, Maintain Balanced Sector Allocation

Following the market's second test of previous lows, improving valuations and potential liquidity normalization create an attractive window to increase core broad-market exposure.

In the short term, investors may consider increasing allocations to **CSI 300, CSI 1000 and dividend low-volatility strategies** at current levels.



Market Outlook

Over the medium term, uncertainty surrounding the **Fed monetary policy**, **Middle East geopolitical developments** and **Q3 earnings releases** warrants a balanced approach. A combination of **banks and machine tools** may offer exposure to both defensive characteristics and potential growth opportunities.

Sector sentiment remains differentiated.

Communications and AI optical interconnect technologies, including CPO, silicon photonics and liquid cooling, continue to benefit from industry catalysts, while **non-ferrous metals**, **consumer sectors and chemicals** face pressure from weaker demand, commodity prices and monetary policy uncertainty.

Sector Sentiment & Market Indicators



Sector	Sentiment Score	Data Tracking			
		Earnings Expectations	Crowding	Fund Flows	Valuation Percentile
Semiconductors	3.50 ↑	147.23%	1.29	-79.83	54.53%
Communications	3.56 ↑	88.23%	1.75	-297.13	78.80%
New Energy	3.27 ↑	73.58%	0.97	40.18	33.49%
Chemicals	3.08 ↓	42.27%	0.29	-10.01	79.04%
Financials	3.05 ↓	29.05%	0.37	-20.44	0.32%
Non-ferrous Metals	2.77 ↓	85.11%	0.95	-10.01	25.77%
Dividend	3.26 ↑	5.35%	0.10	-29.01	99.13%
Healthcare	3.40 ↓	36.23%	0.66	-3.96	11.43%
Consumer	3.12 ↓	-8.42%	0.30	0.30	21.12%



Methodology & Data Notes

Sell-side sentiment scores are generated using AI-based semantic analysis of at least 20 sell-side weekly research reports for each sector published during the prior week. Scores use a 1–5 scale based on positive and negative keyword frequency: **3.0–3.25 = Neutral**; **3.25–3.6 = Conservative**; **≥3.6 = Positive**; **<3.0 = Negative**.

Earnings Expectations = (Consensus Net Profit FY1 – Net Profit FY0) / |Net Profit FY0| × 100.
Crowding = the sector index's share of total A-share turnover divided by its share of total A-share free-float market capitalization. Fund Flows represent net main-fund inflows over the most recent week. Valuation Percentile is based on the past five years.

Data as of October 12, 2026.Source: ChinaAMC Research

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