

Quick Take: Chasing Growth in China A-Shares?

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Offshore ownership of China-A shares: Overwhelmingly growth-oriented

- Over the past two years, growth stocks have come to dominate holdings through the northbound Hong Kong Stock Connect program. The blue markers (top chart) are stocks where 10% or more of the available float is held by users of the Hong Kong Stock Connect.
- Moreover, all but 4 of these 91 most popular stocks have undesirable value characteristics. In other words, while onshore investors are tilting their portfolios towards growth, they are also — whether intentionally or not — ignoring valuation.

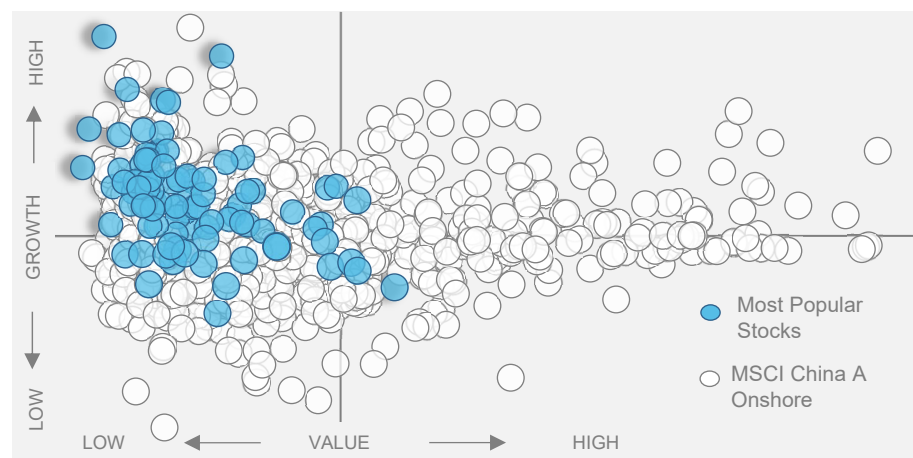
China A-Shares: Risks in ignoring their full breadth

- China A-Shares are often perceived as growth-centric. Over the past 2 years, this perception has been self-reinforcing (bottom chart).
- The demand for growth exposure combined with the historically strong outperformance of these stocks has resulted in a substantial and widespread tilt towards growth.
- This positioning, while recently profitable, ignores the long-term returns offered by value signals in the China A market and risks reversion of growth's outperformance. Investors would be wise to seek diverse drivers of excess returns in their China-A allocations.

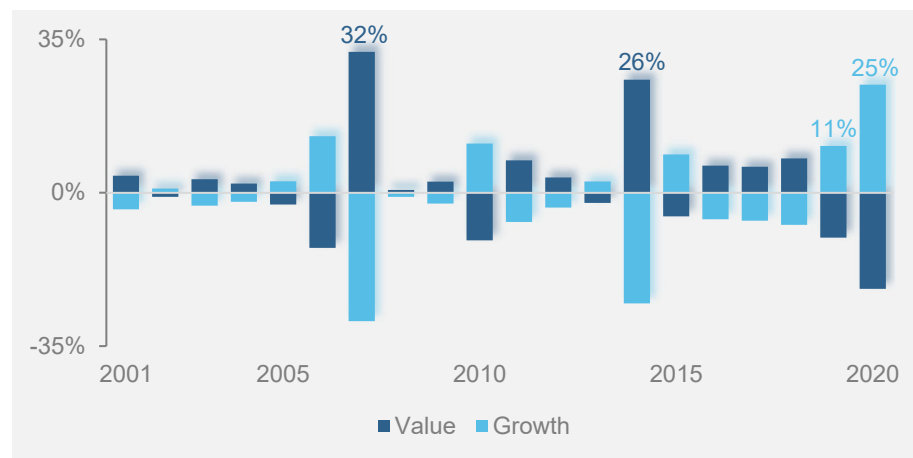
Top chart: Average Axioma growth and value scores of the most popular stocks owned on the northbound Hong Kong Stock Connect program from 2019-March 2021. These are stocks where greater than 10% of the available float is held by participants of the northbound Hong Kong Stock Connect program.

Bottom chart: Excess return of MSCI China A Onshore style indices vs. the cap weighted index.

Hong Kong Stock Connect Investors: Owning Growth, Ignoring Valuation



Style Performance: Excess Return of Value & Growth in China-A Shares



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