

China A-share W&W Indicator - Monthly

The W&W Indicator swung between bullish and neutral

Equity Strategy

Indicator is at neutral to bullish in January

The BofA China A-share Wax & Wane Indicator swung between the “bullish” and “neutral” zones most of the time in the past one month. The monthly average was 32 at bullish and weekly average was 40 at neutral. Leverage and fund flows are neutral, valuation is low, liquidity is loose, and positioning is high. Chinese markets were boosted by government easing measures recently but were still dragged by pressure on property, price cuts and potential tariffs from EU on EVs, and domestic consumption weakness. Within China indices, NASDAQ Golden Dragon, ChiNext and CSI 500 underperformed the most. HSCEI, MSCI China and CSI 300 relatively outperformed. We believe the market is in the process of bottoming but that a fundamental turnaround would take time.

Leverage: 57%, neutral. Margin trading as % of A-share daily turnover is at 9% in Jan-24, slightly above its long-term average of 8.9%.

Valuation: 22%, low. Currently, A-share P/E valuation is at 16x, lower than its long-term average since 2007 at 21.4x.

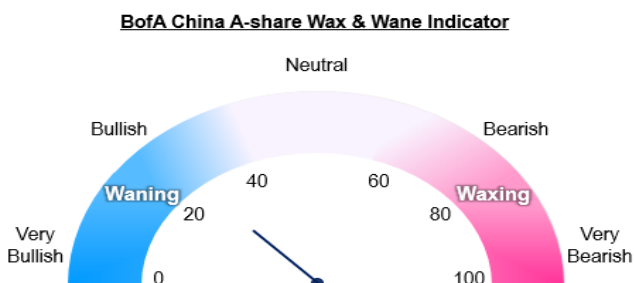
Positioning: 71%, high. 87.2% of stock mutual funds’ position is invested, lower than its recent peak in Feb-20 at 90.3% but higher than its long-term average of 84.4%.

Liquidity: 0%, very loose. China 10-year government bond yield eased to 2.5% in Jan-24. 10-year AAA corporate bond spread narrowed by 46.4bp from the beginning of Jan-23 to 40.3bp in Jan-24.

Fund flow: 47%, neutral. Northbound net outflow reduced to RMB2.2bn in the past one month, while major A-share funds remained net sellers.

Exhibit 1: BofA China A-share W&W Indicator

The latest daily reading at 27 was bullish. The monthly average was at 32



Source: Wind, CEIC, Bloomberg; **Disclaimer:** The BofA China A-share W&W Indicator identified as an indicator above is intended to be an indicative metric only and may not be used for reference purposes or as a measure of performance for any financial instrument or contract, or otherwise relied upon by third parties for any other purpose, without the prior written consent of BofA Global Research. This BofA China A-share W&W Indicator was not created to act as a benchmark

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Refer to important disclosures on page 8 to 10.

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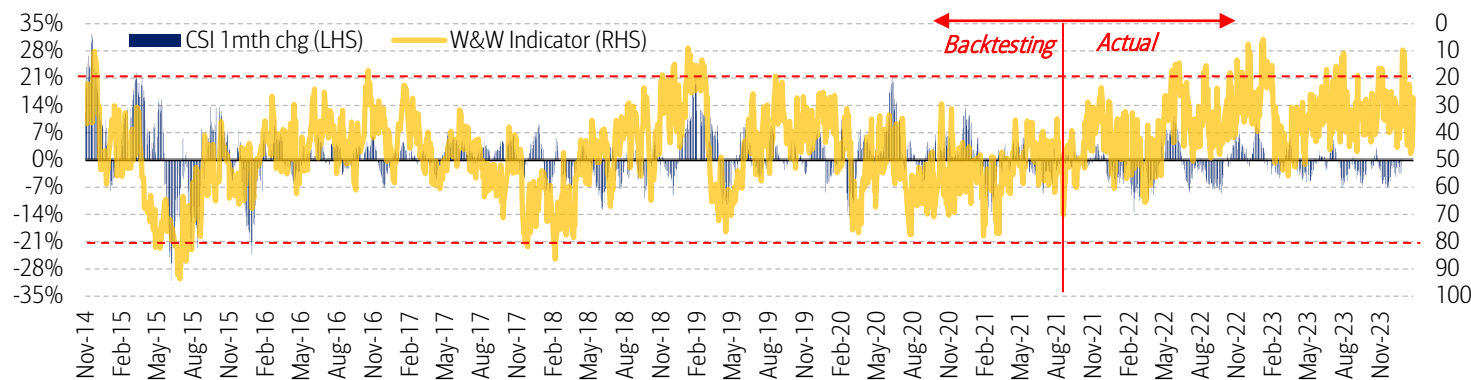
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W&W Indicator vs CSI300 performance

The exhibits below show the historical correlation between the W&W Indicator and the CSI300 Index forward performance for the following 1/2/3 month(s) since 2014.

Exhibit 2: W&W Indicator vs percentage change in CSI300 in the following 1mth (Back-tested)

W&W Indicator has been fairly good in predicting the CSI300 1mth performance

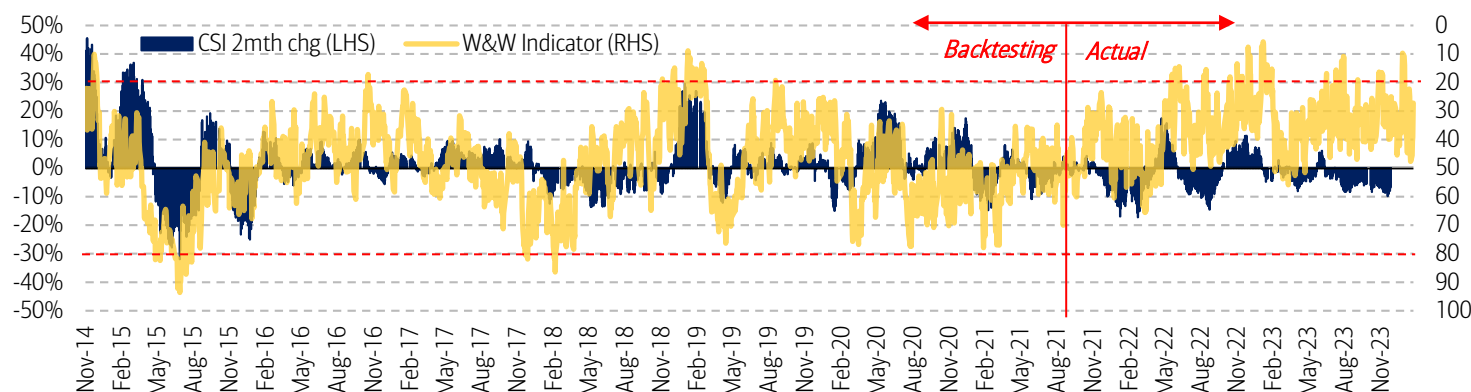


Source: Wind, Bloomberg *Note: Backtesting for Jan-2010 to Jun-2021, actual starts Jul-2021. #W&W Indicator's input factors rose from six to ten from Jan-2010 to Apr-2015, due to data availability, thus the historical reading before and after Apr-15 may not be fully comparable. This performance is back-tested and does not represent the actual performance of any account or fund. Back-tested performance depicts the theoretical (not actual) performance of a particular strategy over the time period indicated. No representation is being made that any actual portfolio is likely to have achieved returns similar to those shown herein.

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Exhibit 3: W&W Indicator vs percentage change in CSI300 in the following 2mths (Back-tested)

W&W Indicator has been fairly good in predicting the CSI300 2mth performance

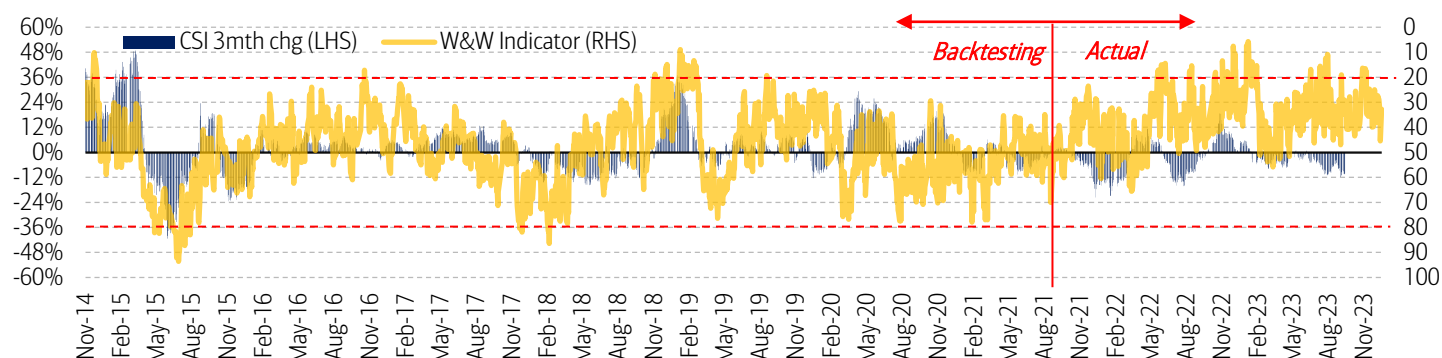


Source: Wind, Bloomberg *Note: Backtesting for Jan-2010 to Jun-2021, actual starts Jul-2021. #W&W Indicator's input factors rose from six to ten from Jan-2010 to Apr-2015, due to data availability, thus the historical reading before and after Apr-15 may not be fully comparable. This performance is back-tested and does not represent the actual performance of any account or fund. Back-tested performance depicts the theoretical (not actual) performance of a particular strategy over the time period indicated. No representation is being made that any actual portfolio is likely to have achieved returns similar to those shown herein.

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Exhibit 4: W&W Indicator vs percentage change in CSI300 in the following 3mths (Back-tested)

W&W Indicator has been fairly good in predicting the CSI300 3mth performance



Source: Wind, Bloomberg *Note: Backtesting for Jan-2010 to Jun-2021, actual starts Jul-2021. #W&W Indicator's input factors rose from six to ten from Jan-2010 to Apr-2015, due to data availability, thus the historical reading before and after Apr-15 may not be fully comparable. This performance is back-tested and does not represent the actual performance of any account or fund. Back-tested performance depicts the theoretical (not actual) performance of a particular strategy over the time period indicated. No representation is being made that any actual portfolio is likely to have achieved returns similar to those shown herein.

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Market performance

Exhibit 5: Performance of major indices

In the past one month, major developed market indices continued to outperform. Chinese markets boosted by the news of stock market rescue package and other government easing measures. However, they still dragged by property market slid further in Dec, price cuts and potential tariffs from EU on EVs, and domestic consumption weakness. Within China indices, NASDAQ Golden Dragon, ChiNext and CSI 500 underperformed the most. HSCEI, MSCI China and CSI 300 relatively outperformed.

	Current level	Performance (%)								Ranking							
		1M	3M	6M	12M	YTD	3yr	5yr	10yr	1M	3M	6M	12M	YTD	3yr	5yr	10yr
Major indices																	
S&P 500	4,894	2.9	16.9	7.2	21.9	2.6	26.9	83.7	173.4	3	4	3	2	3	1	2	2
Dow Jones	38,049	1.8	15.2	7.4	12.8	1.0	22.9	53.8	139.6	4	6	2	4	4	2	3	3
NASDAQ	15,511	3.5	21.0	9.7	37.1	3.3	13.7	116.5	275.7	2	1	1	1	1	4	1	1
Euro Stoxx 50	4,582	-0.3	15.3	2.4	9.8	-0.7	15.1	37.6	19.9	5	5	5	5	5	3	4	7
FTSE 100	7,530	-2.3	6.3	-3.5	-0.4	-3.2	5.3	6.5	-13.1	11	7	7	7	7	5	9	12
Nikkei 225	36,236	4.9	17.6	5.8	16.0	3.2	-11.7	29.5	62.9	1	3	4	3	2	7	6	5
Russell 2000	1,976	-2.9	19.6	0.5	4.5	-2.5	-8.7	33.2	72.7	12	2	6	6	6	6	5	4
MSCI China	53	-0.5	-4.7	-16.3	-27.5	-5.0	-57.7	-31.1	-11.5	7	11	11	13	10	14	12	11
NASDAQ Golden Dragon	5,779	-6.6	-7.6	-19.7	-27.7	-10.8	-67.9	-33.7	-13.7	15	15	14	14	15	15	13	13
HSI	16,212	-0.9	-5.1	-16.6	-26.4	-5.0	-46.7	-41.0	-28.3	9	12	12	11	11	11	14	14
HSCEI	5,469	-0.4	-6.5	-17.2	-26.8	-5.3	-54.7	-49.5	-45.8	6	14	13	12	12	13	15	15
SHCOMP	2,906	-1.0	-0.3	-10.5	-15.8	-3.3	-27.6	5.1	19.3	10	8	8	8	8	8	10	8
CSI300	3,343	-0.7	-2.7	-15.1	-24.4	-3.6	-46.3	-1.3	25.5	8	9	9	10	9	10	11	6
CSI500	5,073	-5.1	-3.8	-16.1	-23.3	-7.5	-31.0	10.5	10.2	13	10	10	9	13	9	8	9
ChiNext	1,721	-6.5	-5.8	-21.9	-37.1	-9.9	-53.7	27.9	-2.3	14	13	15	15	14	12	7	10

Source: Bloomberg, MSCI, data as of Jan 25, 2024, in USD terms

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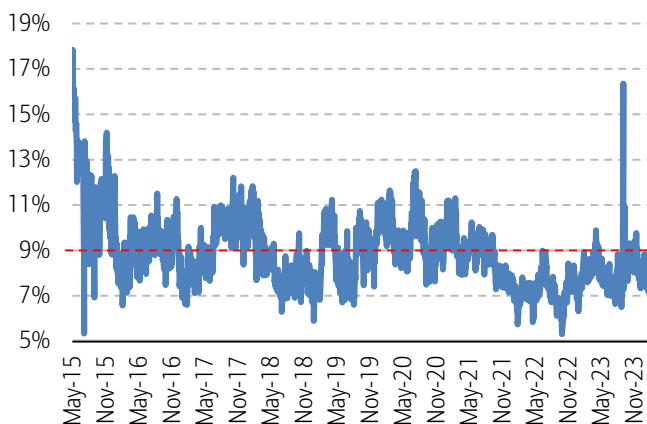
Performance of key input factors

Leverage: 57%, neutral

Margin trading as % of A-share daily turnover is at 9% in Jan-24, slightly above its long-term average of 8.9%. Leverage is at neutral level.

Exhibit 6: Margin financing as % of daily turnover: long term

The current margin financing as % of A-share daily turnover is slightly above its long-term average

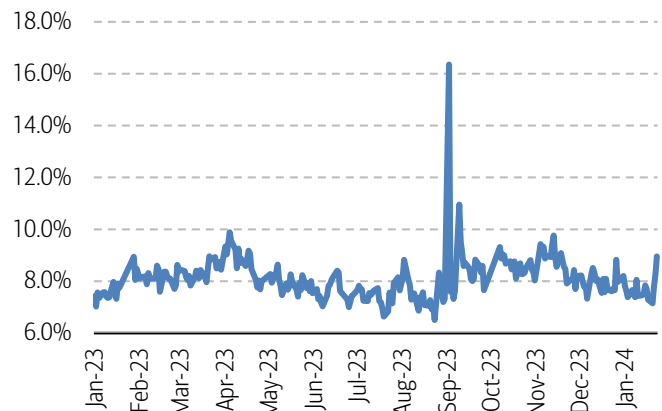


Source: BofA Global Research, Wind, CEIC

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Exhibit 7: Margin financing as % of daily turnover since 2023

Leverage increased to 9% in Jan-24 from 8% in Dec-23



Source: BofA Global Research, Wind, CEIC

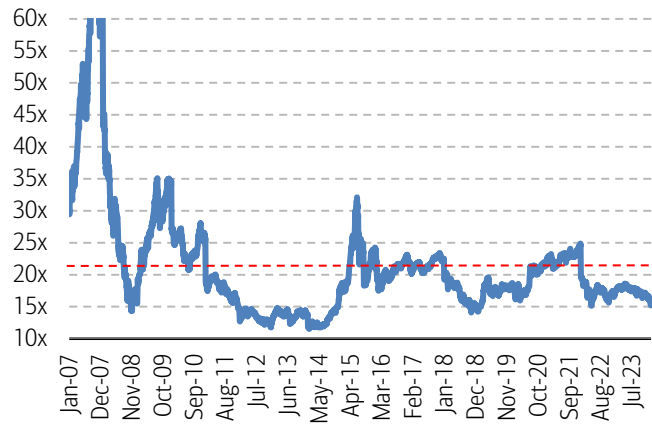
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Valuation: 22%, low

Currently, A-share P/E valuation is trading at 16x, lower than its long-term average since 2007 at 21.4x.

Exhibit 8: A-share P/E valuation: long term

The current 16x P/E of A-share is lower than its long-term average

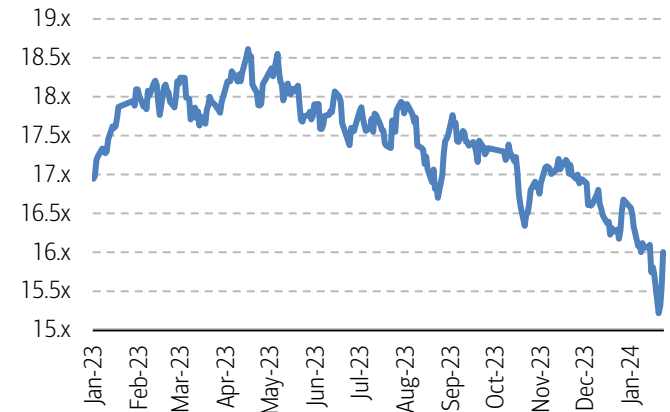


Source: BofA Global Research, Wind

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Exhibit 9: A-share P/E valuation since 2023

A-share P/E rebounded to 16x in Jan-24



Source: BofA Global Research, Wind

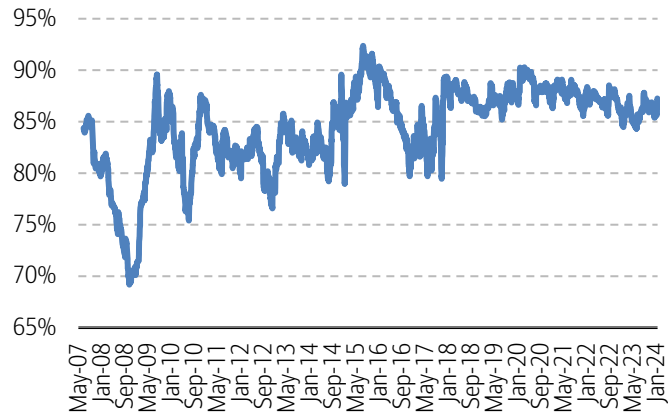
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Positioning: 71%, high

87.2% of stock mutual funds' position is invested currently, which is lower than its recent peak in Feb-20 at 90.3%, but higher than its long-term average of 84.4%.

Exhibit 10: % of position invested by stock mutual funds: long term

Stock fund positioning is at 87.2%, higher than its long-term average



Source: BofA Global Research, Wind

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Exhibit 11: % of position invested by stock mutual funds since 2023

87.2% of stock funds' position is invested in Jan-24, rebounded sharply from 85.4% in Dec-23



Source: BofA Global Research, Wind

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Liquidity: 0%, very loose

The 10-year government bond yield eased to 2.5% in Jan-24 due to the rate cut expectations. The current level has back to the level in April 2020.

Exhibit 12: China 10yr government bond yield: long term

The current 10-yr CGB yield at 2.5% is lower than its long-term average

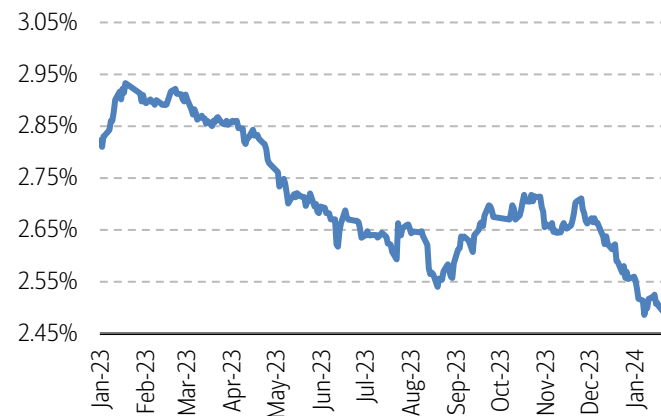


Source: BofA Global Research, Wind

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Exhibit 13: China 10yr government bond yield since 2023

10-yr CGB yield eased to 2.5% in Jan-24, the lowest level in the past one year



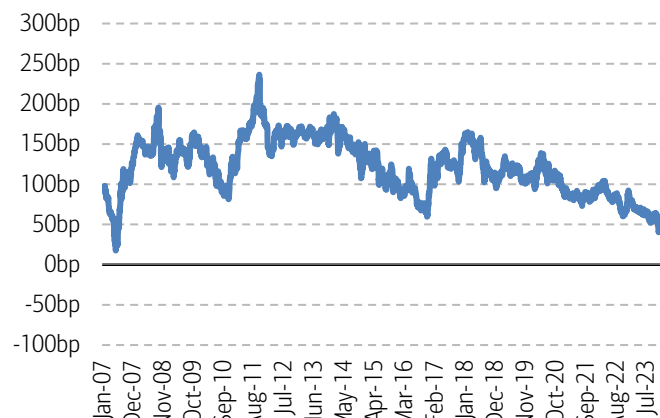
Source: BofA Global Research, Wind

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10-year AAA corporate bond spread narrowed by 46.4bp from the beginning of Jan-23 to 40.3bp in Jan-24.

Exhibit 14: Spread between 10yr AAA corporate bond yield and 10yr CGB yield: long term

Corporate bond spread remains at low levels

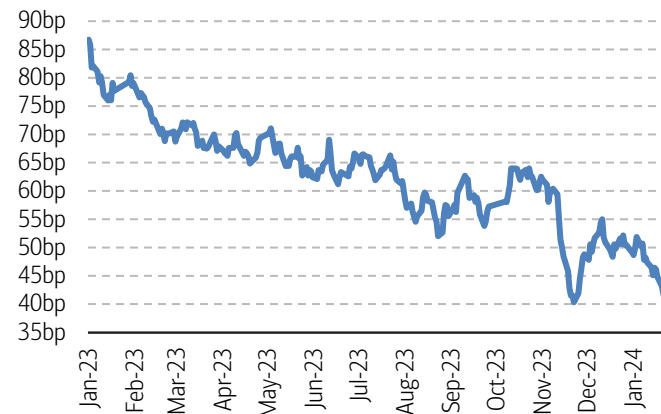


Source: BofA Global Research, Wind

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Exhibit 15: Spread between 10yr AAA corporate bond yield and 10yr CGB yield since 2023

Corporate spread narrowed by 46.4bp from the beginning of Jan-23 to 40.3bp in Jan-24, the lowest in the past one year



Source: BofA Global Research, Wind

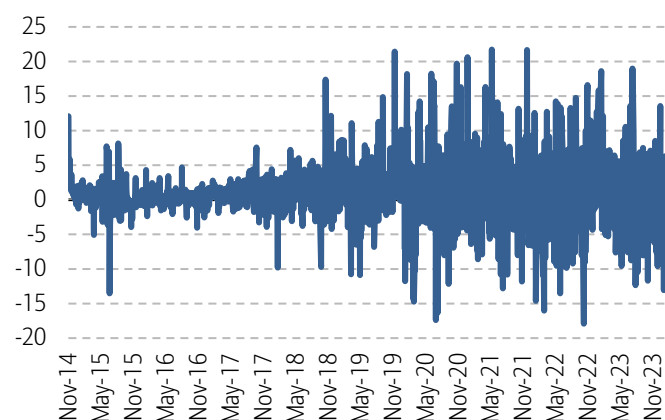
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Fund flow: 47%, neutral

Northbound net outflow reduced to RMB2.2bn in the past one month, while major A-share funds continued to be net sellers.

Exhibit 16: Northbound net inflow (RMB bn): long term

Northbound flow has been growing over the past few years

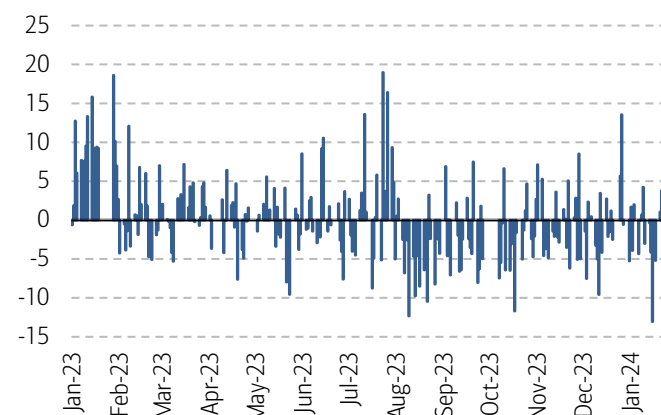


Source: BofA Global Research, CEIC

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Exhibit 17: Northbound net inflow (RMB bn) since 2023

Northbound has been net selling over the past one month, and net outflow reduced to RMB2.2bn



Source: BofA Global Research, CEIC

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Appendix

BofA China A-share W&W indicator

The BofA China A-share Wax & Wane (W&W) Indicator is a contrarian sentiment indicator, using fund flows, liquidity, positioning, leverage, and valuation data. While the China Investment Compass guides us phases in the cycle and sectors to select, our W&W Indicator helps to gauge the short-term market sentiment and technical drivers. We believe the Indicator can offer predictive value on how the A-share market (ie. CSI300 Index) is likely to perform in the following 6 months – when the Indicator wanes, it usually creates buying opportunities, whereas when the Indicator waxes, it tends to become selling opportunities.

The Wax & Wane Indicator has a reading between 0 and 100:

When the Indicator exceeds the threshold of 80, sentiment is extremely strong, and it makes a “Very Bearish” signal. When the Indicator falls between 60 and 80, it is a “Bearish” signal.

When the Indicator drops below the threshold of 20, sentiment is extremely weak, and it makes a “Very Bullish” signal. When the Indicator falls between 20 and 40, it is a “Bullish” signal.

Please refer to our [China Strategy Initiation](#) report for details of the methodology.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R1}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R1} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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