INTELLIGENCE SERIES · EMERGING MARKETS

Which China Are You Buying?

A data-led framework for allocators. China is not one investment: two distinct markets, mainland A-shares and offshore H-shares, have diverged by roughly 15 percentage points in thirteen weeks. Most allocators are exposed to one without knowing it.

Date: July 2026 · **Audience:** Professional investors & allocators · **Data through:** 7 Jul 2026 (performance), 1 Jul 2026 (credit) · **Prepared by:** 3HC Intelligence

+9.0%	−6.2%	181bps
CSI 300 mainland A-share return, 3 Apr to 7 Jul 2026	MSCI China offshore return, same period	EM sovereign spread (EMB OAS), near a 15-year low

EXECUTIVE SUMMARY

- **The mainland/offshore gap is 15 percentage points in 13 weeks.** Mainland CSI 300 A-share vehicles returned +9.0% between 3 April and 7 July 2026; offshore MSCI China vehicles returned −6.2%. This is a market-access story, not a sector story. The right first question is which market you are in.
- **Sector composition explains the gap.** Mainland A-shares are ~31% domestic technology (semiconductors, hardware, industrial software) and ~18% industrials. Offshore MSCI China is ~39% consumer cyclical and communication services (Alibaba, Tencent, Meituan, Baidu). The winning sectors in 2026 are mainland-heavy; the losing sectors are offshore-heavy.
- **European allocators built a structural EM overweight, but it is a dollar-diversification trade, not a China call.** On the reconciled net series, EU institutions added roughly $70B of EM equity in 2024, the largest single-year allocation on the series and around 5× the US that year. Since late 2024 that flow has cooled into mild net outflow.
- **EU China-specific flows are a contrarian, not a leading, indicator.** EU UCITS flows directly into China-equity categories correlate at r = −0.45 (p = 0.001) with 3-month forward China returns. The five largest EU inflow months into China each preceded a negative outcome. Current mild EU China outflows are, by this signal, mildly constructive.
- **EM sovereign spreads at a 15-year low confirm sustained buying, but the cushion is thin.** EMB OAS at 181bps is within 17bps of its all-time low. A China hard landing or tariff escalation could widen spreads 50 to 80bps, offsetting months of carry.

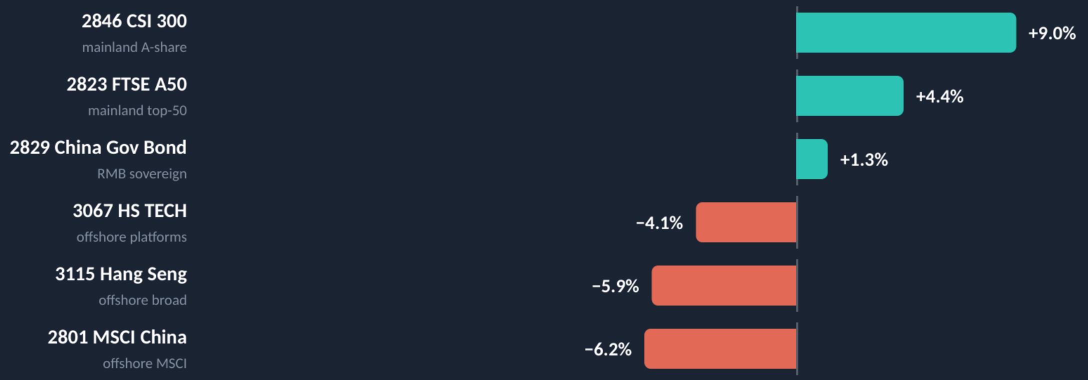
PART I

Which market are you in? The access and vehicle decision.

The first question an allocator faces on China is structural, not thematic. Two distinct investable universes exist, they are not interchangeable, and in 2026 they have diverged materially. **Mainland A-shares** trade in renminbi on the Shanghai and Shenzhen exchanges, accessible to foreign investors via Stock Connect quota. Representative vehicles are the CSI 300 (2846 in Hong Kong; CNYA in US/UCITS format) and the FTSE China A50 (2823). The composition is dominated by domestic technology (semiconductors, hardware, industrial software, not internet platforms), industrials, and basic materials. **Offshore H-shares and ADRs** trade in Hong Kong dollars or as US-listed depositary receipts, accessible without quota. Representative vehicles are MSCI China (MCHI, 2801), FTSE China 50 (FXI), and Hang Seng TECH (3067). The composition is dominated by consumer cyclical (Alibaba, JD, Meituan) and communication services (Tencent, Baidu), collectively about 39% of MSCI China.

Same country. One market up 9%, the other down 6%.

China ETF NAV return, 3 April to 7 July 2026. Mainland A-share vehicles vs offshore MSCI/Hang Seng vehicles.



✓ A 15.2-point gap in 13 weeks, running on the mainland/offshore axis, not on sectors within either market.

Six Hong Kong-listed vehicles, verified to the decimal against 3HC ETF daily NAV data. DATA.

THREE HORIZONS CAPITAL

Fig. 1: China ETF NAV returns, 3 April to 7 July 2026. Green = mainland A-share vehicles; red = offshore MSCI/Hang Seng vehicles. Six Hong Kong-listed vehicles verified to the decimal against 3HC ETF daily NAV data.

ETF	LISTING	BENCHMARK	NAV RETURN	PRIMARY SECTOR TILT
2846 CSI 300	HK	Mainland large-cap	+9.0%	Tech 31% / Industrials 18% / Financials 17%
CNYA MSCI China A†	US / UCITS	Mainland A inclusion	+8.5%	Tech 31% / Industrials 18% / Financials 17%
EWH MSCI Hong Kong†	US	Broad HK market	+5.4%	Financials 40% / Cons. Cyclical 20%
2823 FTSE A50	HK	Mainland top-50	+4.4%	Tech 31% / Industrials 18% / Financials 17%
2829 China Gov Bond	HK	RMB sovereign	+1.3%	Fixed income (CNY)
FXI China Large-Cap†	US	FTSE China 50 H-share	+1.9%	Financials 34% / Cons. Cyclical 25% / CommSvc 13%
MCHI MSCI China†	US	Broad offshore	+1.8%	Cons. Cyclical 22% / Financials 19% / CommSvc 17%
3067 HS TECH	HK	Hang Seng TECH	−4.1%	Cons. Cyclical 34% / CommSvc 28% / Tech 19%
3115 Hang Seng	HK	Hang Seng Index	−5.9%	Financials 35% / Cons. Cyclical 20% / CommSvc 13%
2801 MSCI China HK	HK	MSCI China	−6.2%	Cons. Cyclical 22% / Financials 19% / CommSvc 17%

† US-listed vehicle returns sourced from public price feeds; not independently reproduced from 3HC internal NAV data, which has a known pipeline gap for these tickers after mid-May 2026. The six Hong Kong-listed vehicles are verified to the decimal and carry the argument. The gap between the best mainland vehicle (+9.0%) and the worst offshore vehicle (−6.2%) is 15.2 percentage points over roughly 13 weeks, running entirely on the mainland/offshore axis.

Why the gap exists: sector is the explanatory layer, not a competing frame. The winning sectors in 2026 are mainland-heavy. Domestic technology (semiconductors, hardware, industrial software, automation) is about 31% of the CSI 300 and MSCI China A Inclusion, benefiting from state-directed investment in China's data-centre build-out and rising domestic AI spending; Goldman Sachs projects 20% CAGR in Chinese data-centre demand through 2028. The losing sectors are offshore-heavy: consumer cyclical and communication services, Alibaba, Tencent, Meituan, JD, Baidu, account for about 39% of MSCI China and the majority of offshore tech indices, and have borne the AI-competitive narrative and the HKD/USD translation drag.

> **THE CRITICAL DISTINCTION**
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> When commentary refers to "Chinese technology outperforming," it typically means domestic semiconductors and industrial hardware within mainland A-shares, **not** the US-cross-listed internet platform names that dominate offshore indices. An allocator buying MSCI China for "tech exposure" is buying platform names, not the domestic industrial-tech theme. These two groups share a sector label but have opposite return profiles in 2026.

ETF	BENCHMARK	P/E	P/B	UNIVERSE
TCHI	MSCI China Tech	22.9×	2.92×	Offshore tech / platform names
MCHI	MSCI China (broad offshore)	12.8×	1.56×	Offshore, consumer-heavy
FXI	FTSE China 50 H-share	10.3×	1.26×	Offshore large-cap
ECNS	MSCI China Small-Cap	11.3×	0.87×	Below stated book value

Valuation multiples as of 3 July 2026.

ECNS at 0.87× price-to-book means investors are buying Chinese small-cap assets below stated book value; FXI at 10.3× earnings is inexpensive by historical comparison. These valuations price in the real-estate crisis, sustained geopolitical risk, and offshore-sector headwinds. The discount is real and understood; the debate is whether it is a floor or a value trap on the property-resolution timeline. Our factor model shows Chinese Domestic Equity carries a Growth-factor correlation of only **0.48** versus 0.78 to 0.97 for most developed and emerging equities, with an R^2 of just **24%** against the three global structural factors. China provides genuine low-correlation diversification, but it does not behave like other EM markets: adding China does not give an allocator India, Brazil, or Taiwan exposure. It is a distinct, idiosyncratic bet with its own return drivers.

PART II

The structural positioning reality: where institutional capital sits.

Most allocators are not accessing China directly. The larger story, in terms of where institutional capital has actually moved, is how European allocators have positioned toward China via the dominant vehicle of choice: emerging markets. That positioning is real and documented, but it is a dollar-diversification trade that carries implicit China exposure as a constituent, not a targeted China timing signal. Understanding the difference is essential, and it is where the earlier draft of this piece was corrected.

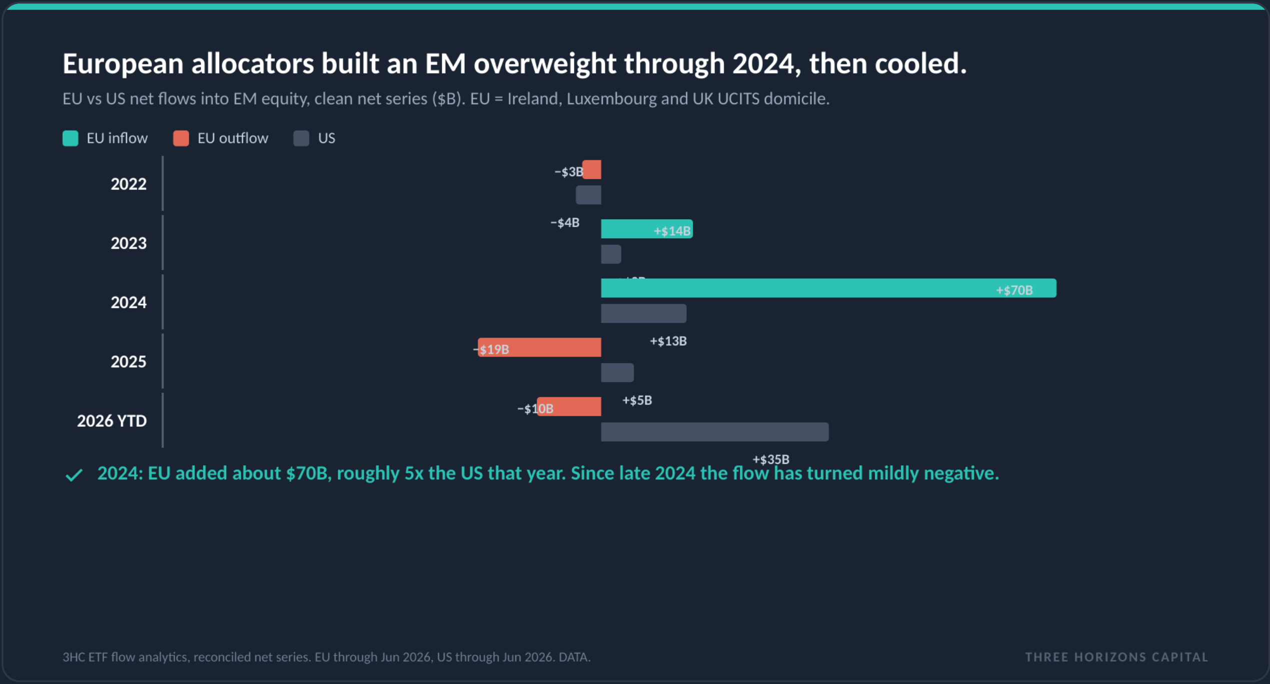

Fig. 2: EU vs US net flows into EM equity, reconciled net series ($B). EU = Ireland, Luxembourg and UK UCITS domicile. The 2024 build peaked near $70B, roughly 5× the US that year; the flow has since cooled into mild net outflow.

YEAR	EU EM EQUITY	US EM EQUITY	EU/US	REGIME
2022	−$3B	−$4B	n/a	Rate-hike shock
2023	+$14B	+$3B	–	Rate cycle turns
2024	+$70B	+$13B	~5×	Disinflation; the build peaks
2025	−$19B	+$5B	–	Tariff regime; EU cools
2026 YTD	−$10B	+$35B	–	US re-engages; EU mild outflow

What the reconciled series shows. European institutions built a meaningful EM equity overweight as the global rate cycle turned in 2023, peaking in 2024 with roughly $70B of net new positions, the largest single-year allocation on the clean series and about five times the US figure that year. Since late 2024 the impulse has cooled: 2025 and 2026 to date have both been mild net outflow. This is a structural positioning story, not a timing signal, and it should be read as where capital is sitting rather than when to follow it. Approximately 25 to 30% of broad EM equity is China-weighted, so this European EM overweight carries substantial implicit China exposure, but as a diversified constituent rather than an explicit directional bet.

> **LOOKING THROUGH THE NOISE**
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> Our flow decomposition separates each observation into a structural allocation component and a sentiment-driven narrative component. The 2023 to 2024 build occurred **against** a persistently negative narrative factor: EU institutions added EM through a run of adverse China and trade-war headlines. That is the signature of a deliberate, conviction-driven structural allocation rather than a momentum trade. Since late 2024 that structural impulse has faded and net flow has turned mildly negative, which sets up the more precise question below.

When EU China-specific flows are a signal, they point the other way. A separate and important finding applies when European allocators direct flows *specifically* into China-equity UCITS categories (China Equity, China A-Shares, Greater China). Those targeted flows carry a statistically significant **contrarian** signal, not a leading one.

FLOW SERIES	PEARSON R	P-VALUE	N	INTERPRETATION
EU China flow → fwd 1-month return	−0.11	0.45	51	Not significant
EU China flow → fwd 3-month return	**−0.45**	0.001	50	Significant, contrarian
EU EM ex-China flow → fwd 3m China return	**+0.32**	0.025	50	Mild contrarian confirmation

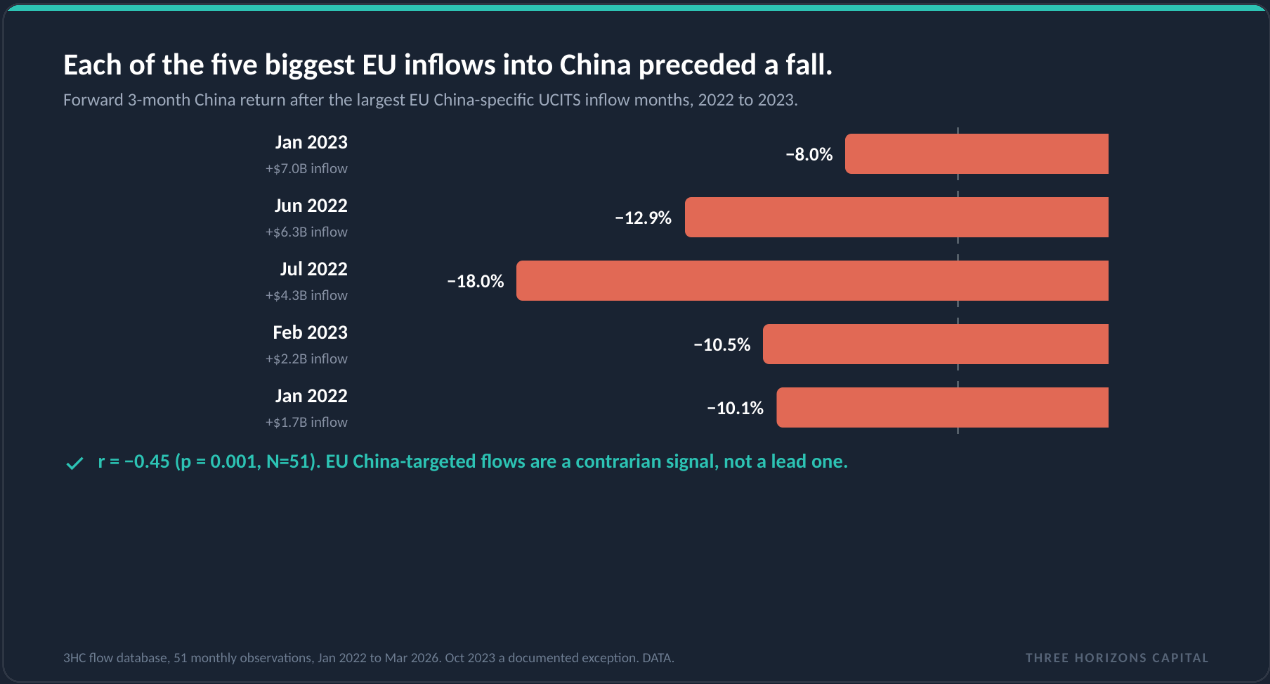

Fig. 3: Forward 3-month China return after the five largest EU China-specific UCITS inflow months. Each preceded a fall. 51 monthly observations, Jan 2022 to Mar 2026; October 2023 is a documented exception.

Higher EU inflows specifically into China consistently precede lower 3-month forward returns, the classic dumb-money pattern: EU institutional flows into China-targeted categories arrive at peak optimism, after the move has already happened. The usable implication is the mirror image. EU China-specific outflows exceeding $3 to $4B in a single month have historically preceded recoveries more often than not, and the current environment of mild sustained EU China-specific outflow is, by this signal, mildly constructive for a contrarian entry.

> **RECONCILING THE TWO EU FLOW SIGNALS**
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> The contrarian finding applies specifically to EU China-*targeted* UCITS flows. The broad EU EM equity series, where China is one constituent among Brazil, India, Taiwan and Mexico, operates on a different thesis and is not tested by that analysis: those flows reflect dollar diversification and rate-cycle conviction. The two signals measure different things and should be read independently. **Broad EU EM conviction is not the same as EU China-specific momentum chasing.**

PART III

The fixed-income confirmation: EM credit near a 15-year low.

EM sovereign credit spreads tell the same story as the equity positioning, from a different angle. Fifteen years of daily option-adjusted spread data confirm that sustained institutional buying has driven spreads to near-historic lows. The carry is still positive; the cushion is thin.

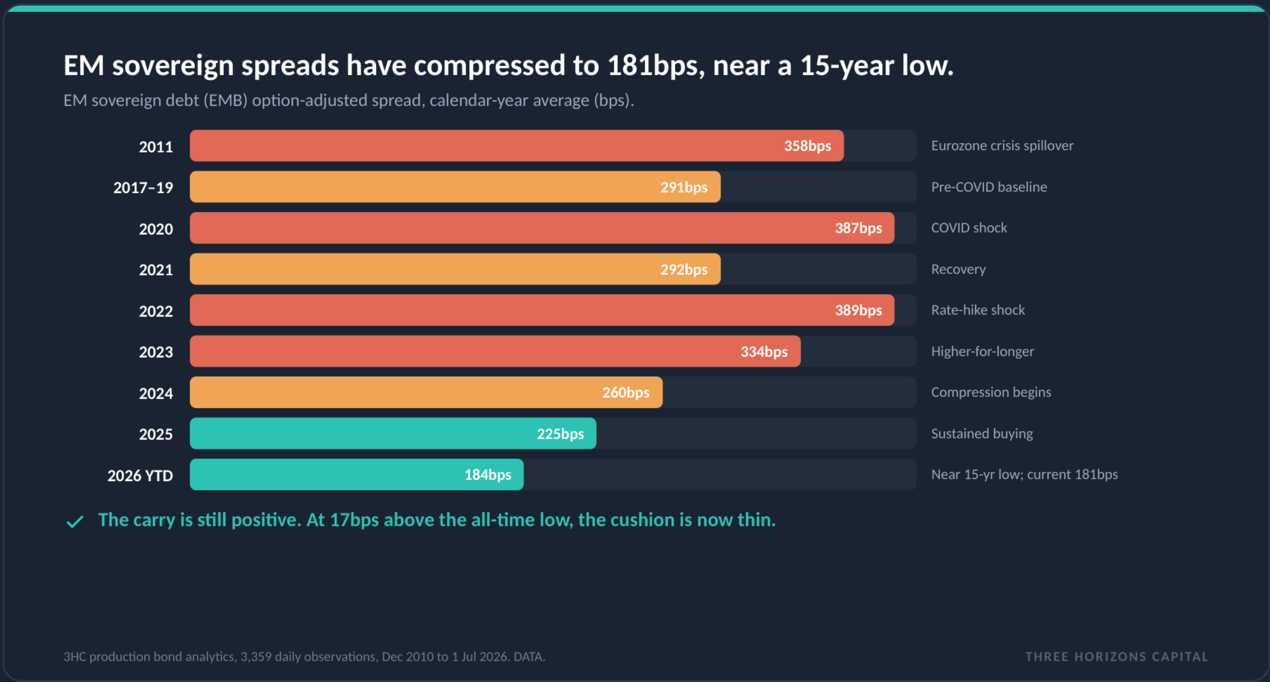

Fig. 4: EM sovereign debt (EMB) option-adjusted spread, calendar-year average, 2011 to 2026. Current 181bps is within 17bps of the 15-year low of 163.9bps. 3,359 daily observations, Dec 2010 to 1 Jul 2026.

PERIOD	AVG OAS (BPS)	CONTEXT
2011	358	Eurozone crisis spillover
2017–2019	282–300	Pre-COVID baseline
2020	387 (peak 674)	COVID shock
2022	389 (peak ~494)	Rate-hike shock
2023	334	Higher-for-longer
2024	260	Compression begins
2025	225	Continued compression
2026 YTD	**184 (current 181)**	Near 15-year low (floor 164bps)

Current spreads at 181bps are within 17bps of the all-time low in our 15-year dataset. The April 2026 widening to about 211bps, driven by a Strait of Hormuz shipping disruption, fully reversed within eight weeks, demonstrating a strong institutional bid at roughly the 200bps level. If European institutional allocators have been dominant marginal buyers of EM assets in both equity and fixed income, their sustained inflows have mechanically contributed to the spread compression. The flows and the credit pricing are two expressions of the same institutional conviction; when that trade eventually unwinds, EM credit spreads are likely to be the first observable indicator, pricing the reversal before monthly equity flow data updates.

THE RISK AT CURRENT LEVELS

At 181bps, a China hard landing, a re-escalation of US-China tariffs, or a global risk-off event could widen spreads 50 to 80bps rapidly. At that magnitude, mark-to-market spread losses would offset many months of carry accrual. Allocators building EM credit positions today are accepting a materially different risk/reward profile than peers who entered in 2022 to 2023 at 300 to 390bps. The carry remains positive at roughly 6.25% yield to maturity; the buffer does not.

ASSET CLASS (JPM 2026 LTCMA)	EXPECTED RETURN	VOLATILITY	NOTE
Asia Pacific Core Real Estate	**8.1%**	16.0%	Highest in the Asia/EM complex
AC Asia ex-Japan Equity	7.2%	20.8%	–
Emerging Markets Equity	7.2%	20.9%	–
EM Corporate Bonds	6.2%	7.6%	–
EM Local Currency Debt	6.1%	12.1%	–
EM Sovereign Debt	5.8%	8.8%	Current OAS 181bps

JPM 2026 LTCMA, USD, vintage 2026. Asia Pacific Core Real Estate 8.1% reflects an AI / data-centre infrastructure premium built into the assumption, not traditional Chinese property.

PART IV

So which China should you buy? Three profiles, three questions.

Having established what the mainland/offshore split delivers, where institutional capital sits, and what fixed income is signalling, the closing question returns to the original decision with an informed answer. The default of broad EM or offshore indices implicitly bets on consumer platform companies in a period when those names have materially underperformed domestic industrial and semiconductor names. Whether that implicit bet is correct depends on a view of the AI-competitive narrative and the HKD/USD translation drag, not on a general view of "China."

Profile 1 · The European allocator with existing EM overweights

You already have China exposure, about 25 to 30% of broad EM equity. The question is not whether to add China, but whether the vehicle delivering your exposure is giving you the return you intend. If your EM vehicle is MSCI-based, you are implicitly long offshore consumer-platform companies, carrying ~39% exposure to consumer cyclical and communication-services names that have underperformed mainland peers by 10 to 15 points over the past quarter. **The practical question: is an explicit mainland A-share sleeve (CNYA, 2846, or equivalent) the right complement?** This is a vehicle and access decision, not a market-timing decision, and can be executed at any point in the cycle.

Profile 2 · The US allocator with lighter EM positioning

The EU/US divergence in the 2024 build is worth interrogating, but it does not automatically indicate European allocators are right: the contrarian finding shows targeted EU China buying has historically been a signal to fade. The structural EU EM allocation, driven by dollar diversification and rate-cycle conviction, is a different matter, and US allocators underweight EM have potentially missed the 2023 to 2024 spread-compression trade. For a US allocator weighing entry today: EU China-specific flows are mildly negative, historically a mildly constructive contrarian signal; EM sovereign spreads at 181bps leave limited cushion but carry remains positive at ~6.25% yield; and mainland A-share valuations are not extended, while offshore platforms are inexpensive but face structural headwinds.

Profile 3 · The allocator seeking targeted China thematic exposure

For an allocator wanting to express a specific China AI or domestic-industrial thesis, the mainland vehicle is the only accurate expression. Offshore thematic indices (HS TECH, 3067) are predominantly consumer-platform names, not domestic industrial technology. The direct expression of the domestic-tech theme is CNYA or 2846, where the ~31% technology weight reflects domestic semiconductors and industrial software, not US-cross-listed internet platforms.

	SHORT TERM (6–18 MONTHS)	LONG TERM (3–7 YEARS)
Bull	Mainland A-share tech cycle accelerating; CSI 300 at moderate valuation; PBOC supportive; the mild EU China outflow signal is constructive on the contrarian read.	"China Shock 2.0" locks in global share in EVs, solar and electronics; data-centre infrastructure builds a durable productivity platform; 20% CAGR data-centre demand to 2028.
Bear	Real estate contaminates the broader economy (construction −8% in Q1 2026); policy uncertainty repels Western capital; offshore platforms stay under AI-competitive pressure; EM credit widens and undermines the carry thesis.	"Japan's lost decades" at scale; demographic contraction is structural, not cyclical; geopolitical escalation forecloses Western access.
Base	Mainland A-shares modestly constructive; offshore platforms range-bound at a deep discount; EM credit carry positive (~6.25% YTM) but the spread cushion is thin; selective re-entry on the EU China outflow contrarian signal.	Bifurcated: domestic industrial and digital infrastructure attractive; traditional property and consumer discretionary a multi-year restructuring story; the EM wrapper remains the preferred vehicle for most Western allocators.

THE LIVE SIGNAL TO WATCH

The critical update is the May to June 2026 EU UCITS flow data, when Ireland/Luxembourg monthly reporting publishes. **If the mild EU outflow deepens, particularly if EU China-specific outflows accelerate beyond −$3B per month, that is the first quantitative warning that the structural positioning is unwinding**, and EM credit spread widening should be anticipated. Conversely, a return to sustained EU EM inflow would confirm the structural thesis is intact. The EM spread story also has a natural floor near 164bps; a breach would be historically unprecedented and warrant immediate re-examination. This piece has a sequel, and the flow update is its trigger.

Data sources. ETF price and NAV data: 3HC ETF daily data through 7 July 2026; performance figures are NAV returns, unhedged, in the vehicle's listing currency (US-listed China-ticker NAV has a known pipeline gap after 16 May 2026, noted in Part I). ETF flow data: 3HC ETF flow analytics, reconciled net series; EU by UCITS domicile (Ireland, Luxembourg, UK) monthly through June 2026; US monthly through June 2026; structural/narrative flow decomposition. EU UCITS China flow correlation: monthly net flows from EU UCITS China-equity categories against forward returns of the MSCI China A UCITS proxy; 51 monthly observations, January 2022 to March 2026; two-tailed p-values; October 2023 a documented exception. EM sovereign OAS: 3HC production bond analytics; 3,359 daily observations, December 2010 to 1 July 2026. Capital market assumptions: JPM 2026 Long-Term Capital Market Assumptions, USD, vintage 2026. Factor model and institutional research synthesis: 3HC research library; named third-party sources include Goldman Sachs, JPM Private Bank, PIMCO, Deutsche Bank WM, CEPR/VoxEU, FTSE Russell, ADB, World Gold Council, BNP Paribas AM, AXA IM and Robeco.

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