恒生投資
HANG SENG INVESTMENT

ETF Insights

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Hang Seng Index

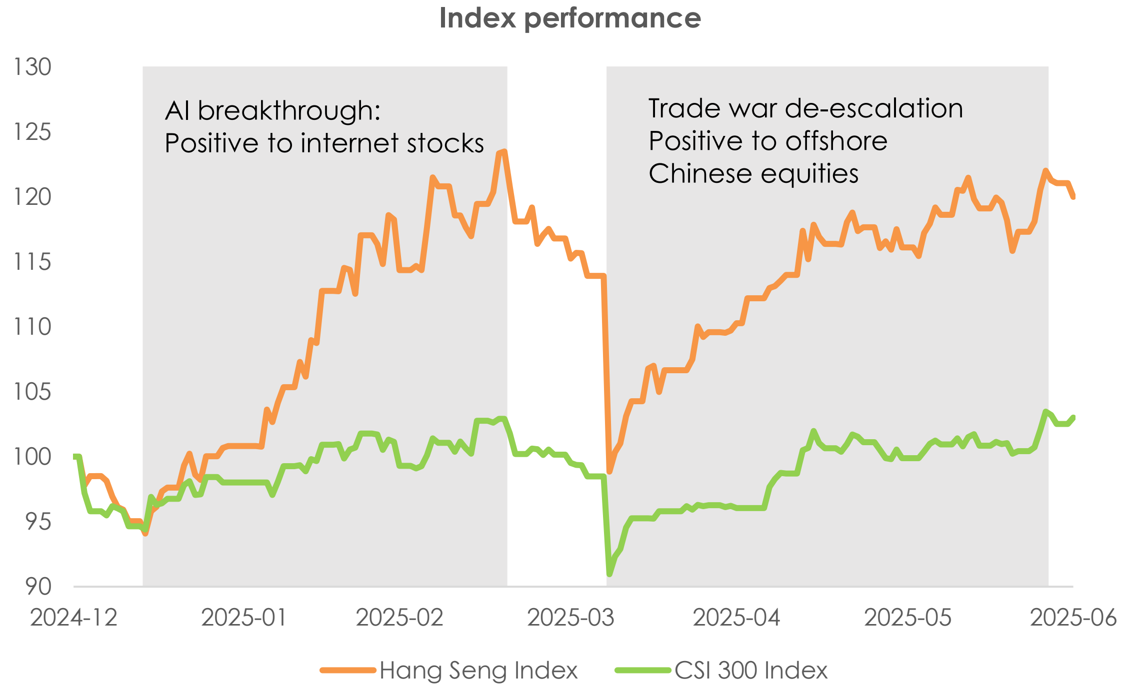
Why have Hong Kong-listed stocks outshined A-shares this year?

Summary:

- Many of the Hang Seng Index's non-A-share-listed constituents have performed well in the current macro environment.
- Improving fundamentals and inexpensive valuations have drawn investor interest.

Despite similar economic conditions, the year-to-date performance of the Hong Kong stock market and the A-share market has diverged. The Hang Seng Index rose by 20.0% in the first six months of the year, significantly outperforming the A-share benchmark CSI 300 Index's gain of 3.0% during the same period[1].

Chart 1: Performance comparison: Hang Seng Index and CSI 300 Index



Source: Bloomberg, HSVM, based on HKD price return, as of 30 June 2025. Rebased to 31 December 2024 as 100.

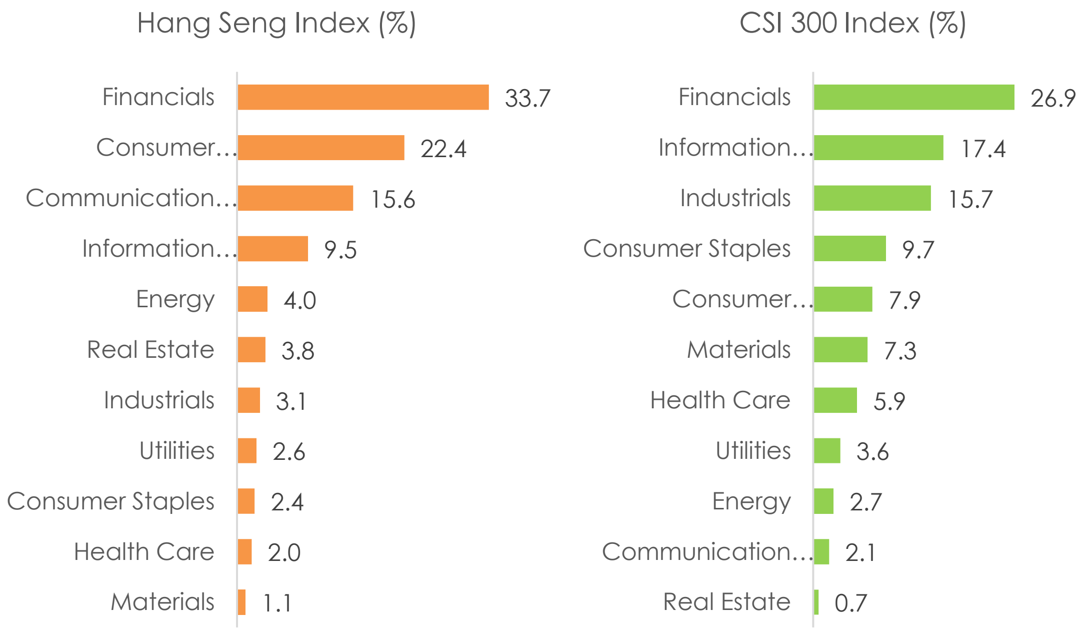
Taking a closer look at the market performance, the Hong Kong stock market has experienced two rounds of rallies this year: The first round was driven by the AI (artificial intelligence) development from January to March, when DeepSeek's technological breakthroughs prompted investors to re-evaluate the valuations of mainland new economy companies. As mainland new economy companies such as internet companies represent a heavy weight in the Hang Seng Index, these companies benefited the Hong Kong stock market directly. The second round of market rally began in early April after the US paused the implementation of reciprocal tariffs on some countries for 90 days. The risk-on sentiment returned to global financial markets.

The Hong Kong stock market also benefited more from the sentiment reversal as it is more affected by global capital flows.

A diversified composition with non-A-share exposure

Besides traditional sectors such as energy, **the Hang Seng Index stands out for its inclusion of many mainland new economy companies and Hong Kong enterprises that are not listed on the A-share market.** In fact, as of the end of June, among the more than 80 constituents of the Hang Seng Index, 68 companies were not listed on the A-share market. Among the Top 10 weighted stocks, seven companies were not listed on the mainland.

Chart 2: Sector allocation comparison: Hang Seng Index and CSI 300 Index



Source: HSVM, Hang Seng Index Company, China Securities Index Company, Bloomberg, as of 30 June 2025, according to GICS sector classification. "Cons. Disc."," Comm. Serv.", "Info Tech" and "Cons. Stap." refer to consumer discretionary, communication services, information technology and consumer staples sectors, respectively.

- **Mainland new economy companies:** In the Hang Seng Index, the new economy sectors, represented by consumer discretionary, communication services and information technology, accounted for 47.4% or about half of the index weight[2]. These three sectors bring together large internet companies, electric vehicle manufacturers and semiconductor companies that investors are familiar with. Among them, household names such as Alibaba, Tencent and Xiaomi are not listed on the A-share market. In addition to the mainland's AI breakthrough at the beginning of the year, which prompted investors re-rate new economy companies, a private enterprise symposium held by the government in mid-February was attended by representatives of private technology companies, demonstrating the mainland's support for the private sector. It is also one of the landmark events that boosted the performance of internet companies this year.

- **Hong Kong companies:** Although the largest sector in both the Hang Seng Index and the CSI 300 Index is financials, they differ in composition. In the Hang Seng Index, non-mainland financial companies included HSBC, Hong Kong Exchange and Clearing, AIA Group, Bank of China (Hong Kong) and Hang Seng Bank, which accounted for 17.7% of the index weight or about half of the financial sector weight[3]. These companies are closely tied to the health of the global economy or Hong Kong's financial market. For example, this year, the local Hong Kong stock exchange has benefited from the strong performance of the Hong Kong stock market, robust Southbound net inflows and the vibrant IPO market.

Meanwhile, compared to the CSI 300 Index, fewer companies in the Hang Seng Index are from sectors such as industrials, consumer staples and materials. These sectors are more exposed to the mainland's economy. This is also a reason why Hong Kong-listed stocks have outperformed A-shares this year.

Improving fundamentals and inexpensive valuations

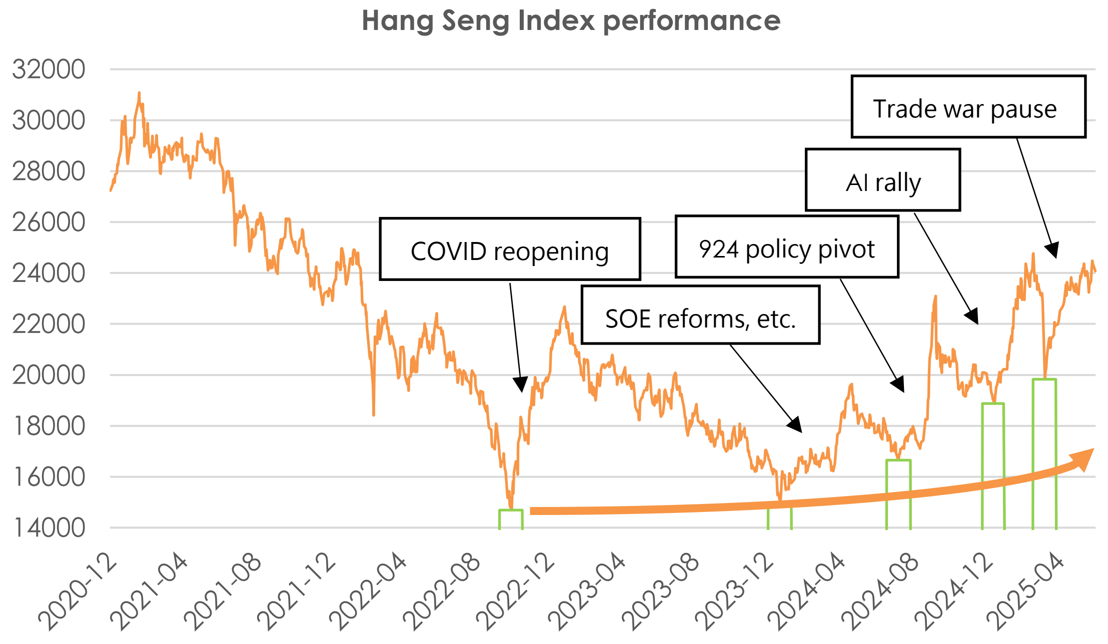
The sector distribution alone is not enough to explain the strong performance of the Hang Seng Index this year. Another reason for the outstanding performance of the Hong Kong stock market is the improvement in fundamentals and the inexpensive valuations.

On the one hand, the fundamentals of Hong Kong-listed companies continue to improve, and the earnings per share (EPS) expectations of the Hang Seng Index had been revised up by 5.9% in the first six months of this year. The appreciation of the renminbi against the Hong Kong dollar also helps. The strength of the renminbi is not only positive to market sentiment, but also increase the accounting value of the earnings and assets of offshore-listed mainland equities, which are priced in Hong Kong dollar or US dollar.

On the other hand, the price-to-earnings (P/E) valuation of the Hang Seng Index is still hovering around the 10-year average. Compared with other markets, especially developed markets such as the Europe, the US and Japan, the Hong Kong stock market is still undervalued. **In a highly volatile global financial market, improving earnings fundamentals and inexpensive valuations in Hong Kong have been drawing investor interest.**

Since the Hang Seng Index hit the bottom in October 2022, it has been successively boosted by the COVID reopening, state-owned enterprise (SOE) reforms and capital market policies, as well as the macro policy pivot since 24 September 2024. The Hong Kong stock market has been advancing despite fluctuations. Even the Trade War 2.0 did not disrupt the trend.

Chart 3: Hang Seng Index performance in recent years



Source: Bloomberg, HSVM, based on HKD price return, as of 30 June 2025.

As the 90-day US reciprocal tariff pause deadline nears and Middle East geopolitical risks escalate, we expect heightened volatility in the stock market this summer. Despite expected volatility, the Hang Seng Index's diverse composition and solid fundamentals ensure Hong Kong's stock market recovery persists.

Footnotes：

1. Source: Bloomberg, HSVM as of 30 June 2025. Index data are calculated in HKD price return.
2. Source: Bloomberg, HSVM, Hang Seng Indexes Company, as of 30 June 2025.
3. Source: Bloomberg, HSVM as of 30 June 2025.

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