

Research on the Fluctuation Factors of the Stock Market: Taking China's A-share Stock Market as an Example

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Abstract. The recent surge in China's A-share market has drawn widespread attention, with the Shanghai Composite Index surpassing 3800 points and remaining stable without a decline. The total market capitalization has exceeded 100 trillion RMB. This paper explores the complex interplay of global and domestic factors that influence the A-share market, from global monetary policies and capital flow to domestic structural reforms and investor sentiment. The aim is to provide a comprehensive analysis of the reasons for stock price changes by considering multiple factors. Research shows that global monetary policy such as US monetary policy, geopolitical tensions and international capital flows works together with China's monetary policies, investor sentiment and household wealth reallocation lead to the volatility in the A-share market. Although a substantial increase happens in short run, the risks still exist. This study believes that the Long-term sustainability of A-share market requires the balance between pressure from external factors and Internal policy or regulation.

Keywords: A-share market, Monetary policies, Wealth reallocation.

1. Introduction

In recent years, China's A-share market has taken on an increasingly important role in global asset allocation. As one of the largest emerging equity markets, the A-share market has become a critical channel through which international capital interacts with the domestic economy. Until now, A-share-market has a substantial growth with the Shanghai Composite Index surpassing 3800 points for the first time in a decade and fluctuating but holding relatively stable above.

The aim of this study is to analyze the multidimensional factors that have led to the recent surge in the A-share market. The full text explores the combined role of internal and external factors, including global monetary policies, capital flow, domestic structural reforms, geopolitical tensions, investor sentiment, and household wealth reallocation. By uncovering these driving forces, the study provides future investors with a basis on which to anticipate market trends more effectively and helps policymakers to design effective regulatory strategies. The significance of this research is not limited to improving financial returns in the A-share market; it also helps us to understand how China's economic system is able to cope with global uncertainties and ensure its own future sustainability.

The present study employs a mixed-method approach, integrating policy analysis, capital flow tracking and macroeconomic evaluation. Firstly, global liquidity conditions and cross-border capital inflows are examined as external factors influencing A-share dynamics. In the following section, the focus is on domestic policies, monetary easing, and structural adjustments as internal factors that shape the long-term trajectory of the market. Finally, the study evaluates potential risks and challenges, ranging from external shocks to domestic regulatory shifts, in order to provide a holistic perspective. The present paper employs the aforementioned framework to deliver a systematic, multi-layered explanation of the recent rally, while also shedding light on the uncertainties that may affect its sustainability.

2. Domestic and Foreign Policy Factors

2.1. Global Factors

Global macroeconomic conditions, international capital flows and other external factors will contribute to the fluctuations of China's A-share market. Through different dimensions, the rules can be discovered in the development of China's A-share market.

Firstly, global monetary policies, particularly the interest rate policies of the U.S. Federal Reserve, significantly affect the A-share market. Through Junbo's study of NYSE and NASDAQ to observe the U.S. stock market condition, we can find that the spillover effect of the U.S. stock market will be absorbed by the A-share market [1]. Market expectations of multiple potential Fed rate cuts in 2025 led to a weaker U.S. dollar index. This, on one hand, provided support for the RMB exchange rate, reducing pressure from capital outflows; on the other hand, it expanded the room for domestic monetary policy, alleviating concerns over the China-U.S. interest rate differential.

Secondly, international commercial relations and geopolitical developments continue to be important external variables. These elements frequently cause sudden, transient market fluctuations. In Baker Scott's research, he points out that policy news can have an impact on the stock market [2]. For instance, in the second quarter of 2025, former US President Donald Trump increased his threats of tariffs. Market confidence was quickly damaged by this. A-shares had a precipitous short-term decline as a result. Over 2,900 stocks dropped to the daily limit in one session. This episode demonstrates how investor risk appetite can be impacted by outside political events. But this shock also demonstrated the A-share market's increased resiliency. China's dependence on conventional trade has decreased as a result of its economic modernization and restructuring. Data shows that the proportion of A-share companies' revenue from the U.S. has fallen significantly. Domestic growth-stabilizing policies also provided a cushioning effect. Consequently, the market recovered all its losses in just over a month after the initial panic [3].

Furthermore, the inflow of the international capital will increase the fluctuations in the A-share market. In 2025, foreign investors have shown significantly greater enthusiasm for allocating to A-shares. Northbound funds have recorded net inflows for ten consecutive months. Their average daily trading volume has exceeded 300 billion yuan. These capital inflows are notably structural. Foreign investment concentrates heavily in specific sectors. Assets with high dividends are a key priority. Another important location is high-end manufacturing. Growth areas in technology, like artificial intelligence and semiconductors, draw a lot of international investment [4].

2.2. Domestic Factors

Besides the external factors which change the fluctuation of the A-share market, China's monetary policies, investor sentiment and structural reforms are all necessary to the A-shares. These things work together, and they decide where the market will go in the long run and how it will move in the short term.

First of all, the monetary policies decide the balance of the economic cycle. The People's Bank of China uses several key tools, including interest rates and reserve ratios. These changes affect how much money flows into the market. For example, the central bank sometimes lowers the reserve requirement ratio (RRR). This action releases more money for lending. It often leads to higher stock prices. Better liquidity helps the market. Lower interest rates also make borrowing cheaper. This encourages spending and investment. It supports company earnings and stock values [5].

In addition, structural reforms have long-term effects. The government has introduced new policies. These policies aim to improve market quality and openness. One example is the registration-based IPO system. It makes listing procedures simpler. It encourages more companies to go public. The government is also strengthening delisting rules. These rules help remove weak companies from the market. This raises overall quality. Programs like Stock Connect attract foreign investors. The international use of the renminbi also helps. These changes make the market more stable and mature over time [6].

Investor sentiment is another key driver. The A-share market has many individual investors. Their decisions are often based on short-term news and market mood. This can cause sudden rises or falls in stock prices. Yizhuo claims that investors' sentiment has a strong relationship with share price [7]. They use consumer confidence index (CCI) to demonstrate its impact on the A-share market. For example, good economic news boosts confidence. Instead, bad news can cause panic selling. Social media and online forums amplify group behavior, which creates herd behavior and increases market volatility.

3. Household Wealth Reallocation

Household wealth reallocation has emerged as one of the most important structural drivers of the A-share market in recent years. It is evident that the focus of general households has been on real estate. However, there has been a shift in focus towards equities for higher interests due to policy tightening and declining returns. Data from the National Bureau of Statistics of China (2025) indicate a decrease in the sales prices of commercial residential properties in cities of all tiers on a month-on-month basis, along with an increase in investments in stocks and mutual funds. This indicates a shift in the trend towards housing being used for residential purposes rather than speculation [8].

The reallocation of household wealth has been demonstrated to result in significant inflows into the A-share market [9]. The authors suggest that the cooling of the property sector has led to a natural rebalancing, thereby enhancing the development of China's market. These improvements have been shown to increase the proportion of stocks in assets, as well as to encourage diversified investments in accordance with national policies, including those related to technology, healthcare and renewable energy. Specifically, households are increasingly adopting a mixed allocation strategy that balances growth-oriented assets such as technology and renewable energy stocks with defensive assets like government bonds, high-grade corporate bonds, and stable dividend-paying equities. This structured approach not only mitigates risks but also aligns individual portfolios with the country's broader economic transformation goals.

4. Risks and Possible Challenges

Despite the evident potential for growth in the future, the A-share market continues to encounter challenges and risks from a combination of both external and internal factors. These risks have the potential to impact the market's stability in the short term, thereby influencing its long-term sustainability.

In the context of global uncertainties, the A-share market in China is subject to an indirect impact. Geopolitical tensions, including trade disputes and sanctions, have the potential to erode investor confidence. A case in point is the reciprocal tariffs imposed by the United States, which have been shown to have a detrimental effect on market sentiment and confidence. This has resulted in a significant number of investors divesting from stocks, contributing to a decline in global markets.

Furthermore, global monetary policy is one of the most significant external influences, especially those of the United States. Decisions by the Federal Reserve regarding interest rates and liquidity supply often create spillover effects. For instance, US cutting interest rates means weaken the U.S. dollar, it supports the stability of RMB exchange rate and prevents the loss of foreign capital from China [1].

Secondly, structural and behavioral issues persist as significant challenges in China. For instance, the high proportion of retail investors means that short-term sentiment frequently drives price movements, resulting in herd behavior and sharp fluctuations. Weaknesses in corporate governance, such as inadequate disclosure or irregular practices, continue to erode investor trust in certain sectors [10].

To summarize, the combination of external and internal risks has the potential to amplify market volatility. In order to mitigate the adverse effects of these as yet unidentified risks on the stock market,

it is incumbent upon the government to manage these risks and strike a balance between openness and stability. Specific measures that could be implemented with a view to achieving this include improving education, enhancing corporate transparency and maintaining effective supervision and communication.

5. Conclusions

This study discusses the different factors that affect the China's A-share stock market. We find that both the global and the domestic factors play important roles in the change of the market movement.

On a global scale, U.S. monetary policies, international capital flows and geopolitical events all have impacts on the A-share market. On a domestic scale, the monetary policies, investor sentiment and structural reforms work together to guide the direction of the A-share market. All these factors jointly determine the fluctuations in the stock market.

Another key point is related to household wealth recollection. Instead of investing in the real estate, more families now prefer the stocks and the funds. This change brings more money to the market and supports its positive development in the long run. Even so, the market faces high risks. Global uncertainties, domestic issues and the lack of company governance will all result in increasing market volatility.

In general, the A-share market has a strong potential but also real challenges. Therefore, it is vital to keep the market health over time by reaching a balance between open policies and steady supervision. It is also important to strengthen the investor education, guide the companies how to share the information properly and complete the market mechanisms. Only through a multi-faceted approach can the A-share market enhances its international competitiveness and risk resilience.

Authors Contribution

All the authors contributed equally and their names were listed in alphabetical order.

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