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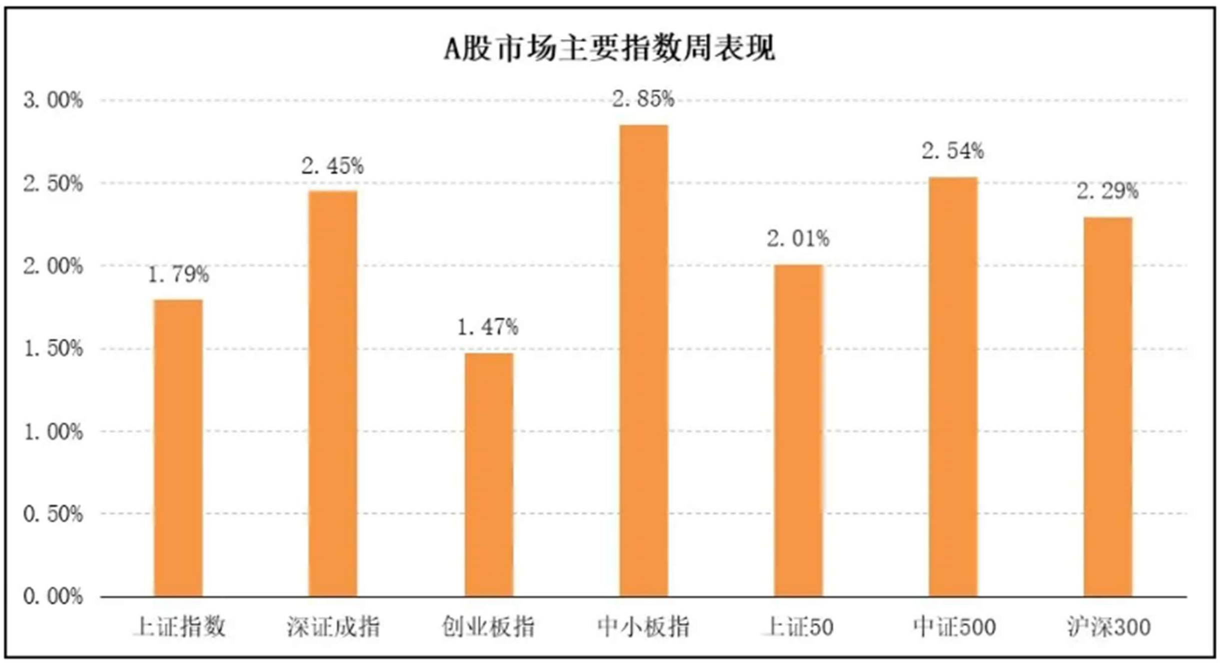
Rosefinch Weekly

"Taper" Rising With More Volatility in Hot Sectors Ahead

1. Market Review

Last week most A-shares rose with construction, home appliance, and machinery sectors leading the rally. For the week, SSE was +1.79%, SZI was +2.45%, GEM was +1.47%, SSE50 was +2.01%, CSI300 was +2.29%, and CSI500 was +2.54%.



数据来源：Wind，朱雀基金整理

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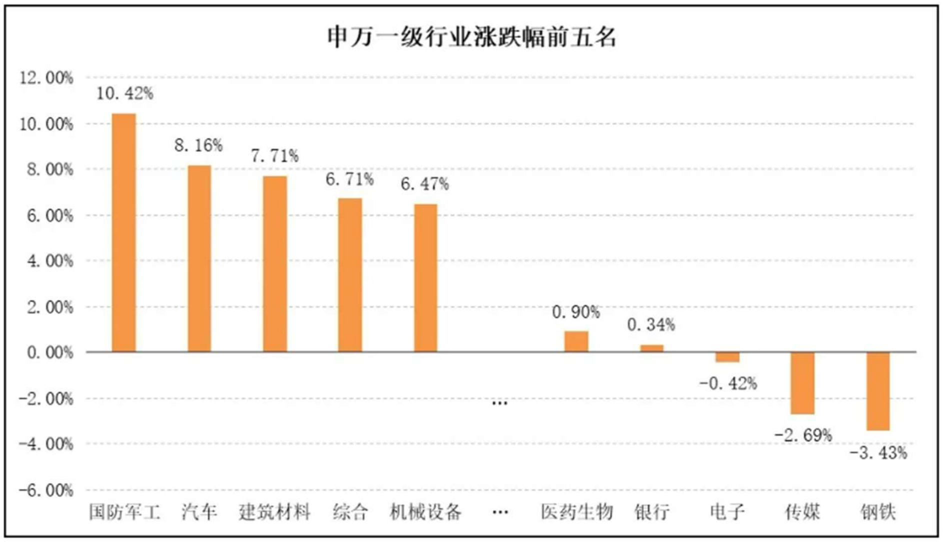
Amongst the ShenWan Primary industries, 25 out of 28 rose last week, led by defense, automobile, construction material, residual, and machinery equipment.



数据来源：Wind，朱雀基金整理

The market volume came off, with Northbound flow at net +10 billion RMB, and Southbound flow continued net selling.

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2. Market Outlook

In USD terms, China's July Export was 282.7 billion USD, or +19.3% YoY. The export growth is returning to normal ranges, as the pandemic-driven increase in export market share recedes. July Import was 226.1 billion USD, or +28.1% YoY. Both Import and Export growth rates were weaker than expected. China's export growth peaked in February, and import has been sliding since May, showing further signs of economic slowdown. In this scenario, the need for offsetting fiscal policy is increasing. This is consistent with the recent Politburo guidance to proactively use fiscal policy to ensure effective impact around turn of the year.

With higher raw material costs, monthly imports have been higher than exports since March. While the higher input cost is affecting profitability, the overall profit margin is still healthy and bodes well for the A-share market in the second half.

July US Non-Farm Payroll was better than expected, with unemployment at a new low since the pandemic. The prior months' data were also revised higher. Since US is already considering free movements for vaccinated people, the "Taper" possibility is rising.

China's monetary and fiscal policies will have slightly easing bias. For the equity market, we'll likely see more and faster sectoral rotations as flows gravitate toward more favorable sectors. This concentration will likely increase volatility in these sectors with high valuations. The risk is an acceleration in the "Taper" path which will cause downward stress to liquidity-sensitive high-valuation sectors. Overall, we see equity vs bond pricing to be about historical average, while cyclical stocks and commodities are near the high end of historical ranges.