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Rosefinch Weekly

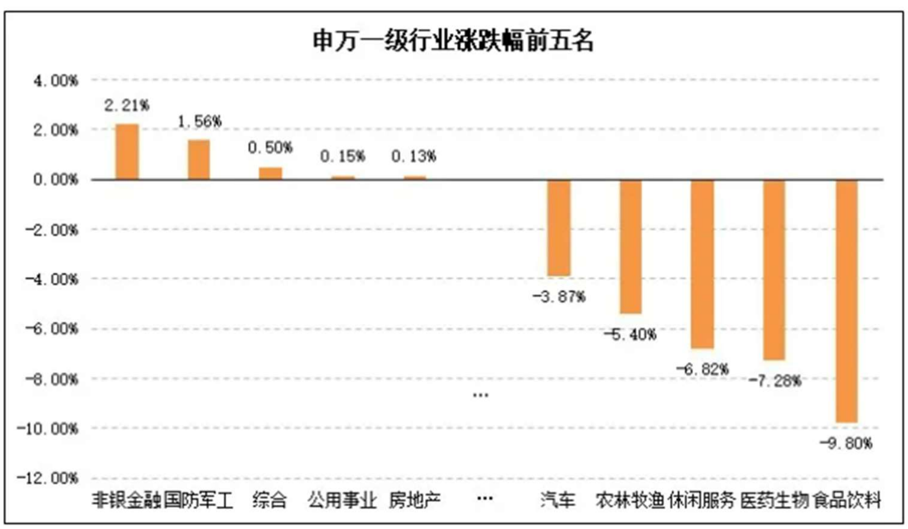
Increased volatility and excessive fears will lead to positive returns

1. Market Review

For the week, A-share dropped across the board: SSE was -2.53%, SZI was -3.69%, GEM was -4.55%, SSE50 was -4.51%, CSI300 was -3.57%, and CSI500 was -2.38%.

数据来源：Wind，朱雀基金整理

Amongst the ShenWan Primary industries, 6 out of 28 rose with non-bank financial, defense, comprehensive, public utility, real estate the top 5 performers.



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Market volume dropped slightly, with Northbound and Southbound flows both net sells.

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2. Market Outlook

We're not too worried about macroeconomic downside risk for now. Even though real estate sector has negative outlook due to policy factors, the export sector overall is still maintaining healthy growth at +19.3% on the back of resilient global demand. July retail sales was +8.5% YoY, lower than June's +12.1% and July unemployment rate remains steady at 5.1%. In 1H21, the average disposable income was 17,642 RMB, or +12.6% YoY. This clear rise signals more consumption potential remains.

The equity market liquidity is also improving marginally. The July trading volume rose for both Shanghai and Shenzhen. We're seeing net positive inflows for Stock Connect, while Mutual Fund issuance volume is also picking up. The 2Q results reported so far have decent profit increases, indicating healthy outlook.

In our previous Rosefinch weekly, we talked about cautious positioning in June, and continued monitoring of Taper Talk in July & August. Meanwhile, with China & US in different stages of recovery cycle, the supportive Chinese macro policies should reduce any potential shocks from US Tapering, which is widely expected now anyway. If we see 3Q China market retracement on back of global correction, it's healthy and bodes well for long-term entry point. When the market has excessive fear or worrying, that typically means the start of a new bull cycle. We saw some investors withdrawing after recent policy changes on education industry. It releases some pressure and reduces potential future shocks should US Tapering start. On the Carbon front, China's "3060" policy of Carbon-Peak by 2030

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and Carbon-Neutral by 2060 is a good initiative to offset the structural growth pressure from the aging demographics.

In terms of specific industries, within the advanced manufacturing industry there has been some volatility in the new energy sector. We are quite bullish on this sector. 2021 witnessed the launch of China's "3060" policy. For the photovoltaic industry, there are tremendous growth potential with the leading companies' profits in accelerating path thanks to their advantages in cost control, technological edge, and distribution networks. We'll be digging deep for best-in-class companies in new technology, new application, and supply chain links. For the new energy cars, we'll focus on energy storage and hydrogen vehicles.

For consumption industry, the high-end white liquor sector is facing high valuation, while the mass-consumption seasoning or food & beverage companies is facing changing demand outlooks. We believe under the government policy of promoting "common prosperity", the trend of higher and better consumption will not change. We can see some attractive companies emerging in areas like agriculture, domestic substitution, China-brand exporting, or new consumables. We're closely following companies that have strong leadership, core manufacturing edge, high cultural or brand values for future investment opportunities.

The pharmaceutical industry saw a four-year long bull run since the bottom in 2017. Some popular "core holdings" with high valuations are at risk of large adjustments if there's disappointing results or policy shifts. There's clear "fear" sentiment now in the pharmaceutical industry, with some stocks back in reasonable valuations. This is a good time to be "greedy". We're focusing on companies with favorable outlooks and will wait patiently for them to enter our target zone.

The recent anti-monopolistic polices on internet companies promote competition and innovation, with short-term benefit on consumers and long-term benefit in robust industry development. Due to stubborn pandemic waves, the electronic consumption has been soft since 2Q. On the other hand, we see continued strengthening in innovative VR/AR/MR products. The 5G network buildout is continuing and Internet-Of-Things is developing further. We believe technological innovation will not stop and new opportunities will arise. We are eagerly waiting for investment opportunities in areas like Apple supply chain, B2B, and IOT.