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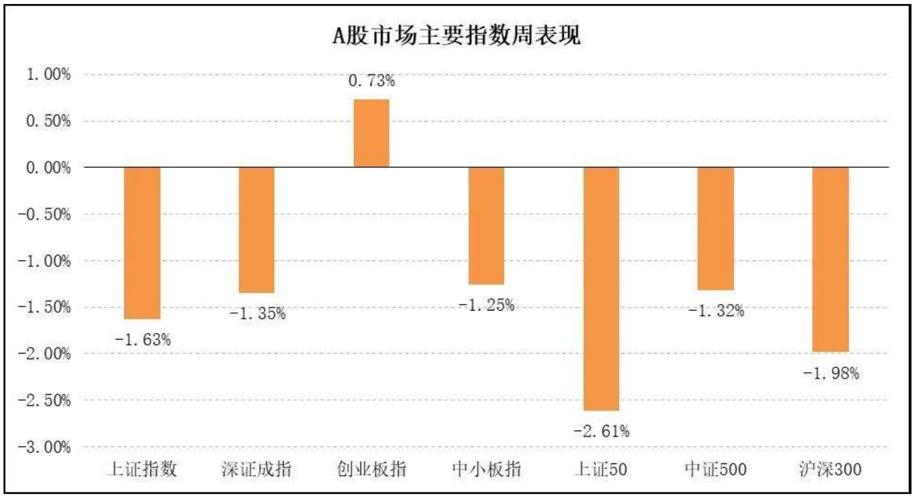
Rosefinch Weekly

Outlook Certainty Remains Valuable Driver

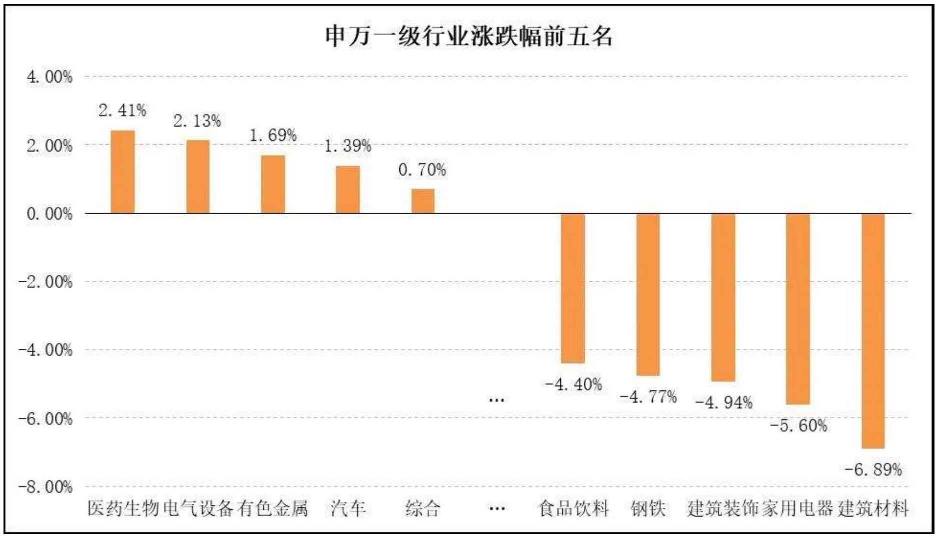
1. Market Review

For the last week: SSE was -1.63%, SZI was -1.35%, GEM was +0.73%, SSE50 was -2.61%, CSI300 was -1.98%, and CSI500 was -1.32%.



Source: Wind, Rosefinch.

Amongst the ShenWan Primary industries, 6 out of 31 rose with biopharmaceutical, electrical equipment, non-ferrous metals, automobiles, conglomerates leading the way.



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Market volume increased with last week Northbound net +7.4 billion RMB, and Southbound net +12.5 billion HKD.

Source: Wind, Rosefinch. Blue is cumulative Northbound flow and unit is 100 million RMB; yellow is cumulative Southbound flow and unit is in 100 million HKD.

2. Market Outlook

The inflationary data in China turned lower in December, with CPI at +1.5% yoy vs +2.3% in Nov, and PPI at +10.3% yoy vs +12.9% in Nov. Core CPI remained steady at +1.2% yoy, same as Nov. The coal supply increases had a noticeable impact on industrial commodity prices. With consumption demand weak and monetary supply increase steady, the pass-through effect of upstream raw material cost to downstream consumers will be subdued. This will put more pressure on manufacturer profits in mid- to down-stream. **Given China's core CPI is steady and demand is weak, inflation won't be a key concern for market nor for government policy.**

Meanwhile, in the US, the recent 10-year real yield has rose from historical low of -1% to -0.7% but still too low for actual economic growth. FED's normalization and marginal softening of inflationary pressure will continue push real rate higher, which in turn puts pressure on US growth stocks. Last week's FED official testimonies did not provide further guidance on hike or taper timelines. They did stress utilizing strong tools to check inflation, with likely 3 to 4 hikes in 2022. Market interpreted the comments as "market soothing", but the FED's normalization path will continue apace. **The global risks will center around over-optimism on severity of the pandemic, and the uncertain market reactions to the tightening monetary policies.**

Last week's A-share correction continued, but with a different structure than the prior week: the new economy stocks rebounded while the old economy stocks dropped. The market's back and forth reflects

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partly the lack of new liquidity – there hasn't been a big wave of new mutual fund product issuance at start of 2022. There's also a lack of confidence on prospect of steady growth, especially in light of disruptive domestic pandemic situation. Looking beyond the first few weeks, we expect the credit expansion and sufficient liquidity to kick in. There has been some market concern on magnitude of credit expansion, which has a bigger impact on the old economy stocks. Real estate indicators are showing signs of stabilization, though some specific entity risks are still showing up. The real estate sector still is not out of the woods yet: the real estate sales data in early Jan for top 30 markets is weaker than December. The infrastructure spending is expected to increase, which is reflected in higher raw material costs. However, we have not seen strong indication of project launches from the high-frequency data yet. The commodity prices are moving up on high expectation and down on low delivery. We are seeing building up in inventory as company anticipate post-Chinese New Year kick-offs and factor in potential pandemic induced interruptions to supply chain logistics.

Given both domestic and global uncertainties, market may see further volatile trading sessions ahead. With PBOC taking easing bias, A-share market has little downside-risk. Outlook certainty will remain a valuable driver to determine investment opportunities. We therefore favor sectors with certain outlooks as the preferred investments for 2022.

We have recently published a number of articles as part of our 2022 Research series: please see the Market Insight section at http://www.rosefinchfund.com/en/index.html

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