

Rosefinch Weekly

Technological Innovation is Key for Future Success

1. Market Review

The 2022 Jan manufacturing PMI was 50.1, 0.2 lower than Dec PMI of 50.3, signaling manufacturing sector activities are slowing. The Caixin service PMI was 51.4 vs Dec's 53.1, reflecting partly the surge in Covid containment measures. Domestic provincial GDP data was released with Guangdong Province leading with 12 trillion RMB. In terms of GDP growth target, provincial GDP growth targets ranged from "above 5%" in Beijing to 9% in Hainan. The national GDP growth target is due to be affirmed at the annual National People's Congress in March.

2. Market Outlook

While 2021 saw more range trading in major Chinese equity markets, there was large divergence among various sectors with a gapping 70% difference between the top and bottom sectors. Therefore picking the right sector and right theme will still give solid performance. At Rosefinch, we maintain our fundamental driven, industrial-chain analysis approach. Our investments will be driven by our in-depth research. At the moment, market has priced in the slowdown in Chinese economy and the complex global situation, with some bearish sentiments already released in the Jan pre-Chinese New Year sell-off. We saw quick responses from the government and expect no major macro risk this year. With macro policies focusing on maintaining stability, the loose monetary conditions will prevail and remain friendly to the equity market.

In 2021, we identified "3060" as the best long-term investment theme in China. "3060" refers to opportunities related to China's committed goals of Carbon-Peak by 2030 and Carbon-Neutral by 2060. We believe it's still the best strategy in 2022. **China's economic future depends on high-quality development, therefore the long-term trend in economic growth must be led by technologically innovative companies. This is exactly why Rosefinch emphasizes on industrial-chain research – we can identify early the future trends by following closely the entire industrial chain.** For the "3060" theme, most of the related companies are manufacturing companies, which shows the biggest difference between the New Energy sector and the traditional Energy sector. For new energy to replace the traditional carbon-energy complex, it'll depend on the continued cost-reduction by technological innovations. The innovations in photovoltaic sector and new energy vehicle will have lasting impacts to the upstream raw material, midstream products, and photovoltaic & lithium batteries. Our focus is to find technologically superior companies across these major industrial chains, follow them closely and we can capture the future developmental trends. **Their technological superiority will bring about production cost advantages and capture significant market shares. To maintain such superiority requires consistent innovative capabilities, which is a much rarer breed. At Rosefinch, we will continue to research deeply to uncover such future stars for long-term investment opportunities.**

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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