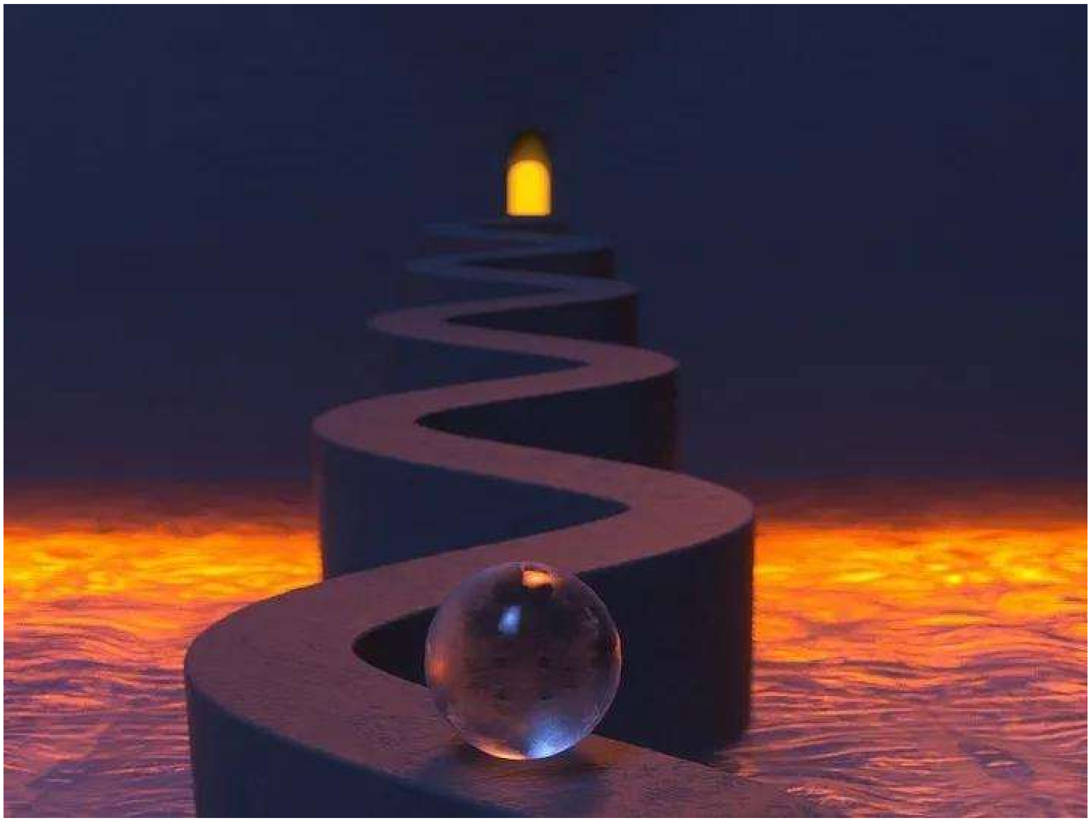
朱雀基金
Rosefinch Fund
[021]2030 5888 [021]2030 5999
58 Floor, New Bund Center, NO.555 West Haiyang Road/588 Dongyu Road, Pudong New Area, Shanghai
上海市浦东新区海阳西路 555 号/东育路 588 号前滩中心第 58 层，邮编：200126

Rosefinch Weekly

Which way will the market favor?

Note: Going forward, our weekly commentary will focus now more on market views rather than the market data that are commonly available via multiple local and global news sources. We hope these new insights and different perspectives will be valuable to you.



Last week saw A-shares rebound off the lows with GEM leading the gains. The current market's overall risk has been reduced through the selloffs, but there are still ongoing structural rotations. The defensive stocks were passed by growth stocks last week: non-ferrous metal, pharmaceutical, new energy names led the rally. Overall daily market volume was around 800 bio RMB a day, still lower than the previous 1 trillion RMB daily volume, thus showing slightly weaker liquidity. There's some recovery in market confidence, and we may see more consolidation ahead.

In the two weeks after Chinese New Year holiday, the main leaders were coal, non-ferrous metal, construction, steel, petrochemical sectors. What drove the market was not only the expectation of

[021]2030 5888 [021]2030 5999
58 Floor, New Bund Center, NO.555 West Haiyang Road/588 Dongyu Road, Pudong New Area, Shanghai
上海市浦东新区海阳西路 555 号/东育路 588 号前滩中心第 58 层，邮编：200126

infrastructural investments, but also the switch to value names with low market valuation and steady cash flows. The upstream price increases also carried related industries higher. The question then is: will these defensive names continue their upward trend after the Lunar New Year?

Which way will the market favor?

The key factor in determining the new star in the market is how steady the overall economy is. Right now, even though industrial material inflation pressure remains high, the policy makers are watching closely the basic industrial material supply and price control. Given the end demand is still weak, there's limited capacity to pass cost to downstream. The core CPI, at around 1.2% is still below pre-pandemic levels. Inflation is therefore not a main concern for the current economic environment. **Therefore when inflation and consumer prices are relatively steady, there's less constraint on government's policy on maintaining steady growth, giving further rooms for monetary and fiscal policies.**

The national newspaper People's Daily published Finance Minister LIU Kun's editorial, which stressed the need to frontload fiscal spending, including leading investments in key areas. There has been an acceleration in project approvals, as well as higher investment targets in various localities comparing to 2021 budgets. We'll likely see more active fiscal stimulus measures from both central and local governments. At the same time, the fiscal spendings should be "increasing effectiveness" and be "accurate and sustainable". This shows the government's focus on supporting social wellbeing, and improving key areas like manufacturing, environment protection, technology, and modern agriculture. The bar has been set higher: it's not just to spend, but to spend wisely. In the Finance Minister's article, he also emphasized the need to monitor debt situation. For example, Minister Liu highlighted the need to "maintain basic stability on overall government leverage" and "to continue prevent local off-balance sheet debt risk". This requires more vigilance on local government debts and LGFV. Based on this framework, the fiscal measures will be a combination of steady growth and risk prevention, thus infrastructure spending will increase but likely to be limited. **From Rosefinch's research view, we think short-term the defensive names may increase marginally. But as the economy stabilizes further, we may indeed see growth name back in the spotlight.**

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

Email ir@rosefinch.cn