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High-Quality Growth Policies Will Create the Slow Bull Market

The February market extended January's volatility. PBOC declared it's willing to maintain appropriate support; ECB repeated it won't rush into withdrawing stimulus measures; FED believe growth outlook is much better than 2015. The increased geopolitical tensions are pushing more global capital back towards US Treasury, thereby reducing upward pressure on the US yield curve. In the last 13 years, NASDAQ went from the low of 1265 in 1Q09 to high of 16212 in 4Q21. During this long rally, there were only 4 times when there was a double-digit seasonal retracement – which we are witnessing again in 1Q22.

Looking at China, it's interesting to see RMB appreciate slightly even as FED is starting hiking cycle and PBOC cut. It's too early to call RMB a safe-haven currency though, as local asset market saw the 2nd worst Jan-Feb return since the great financial crisis. The ChiNext saw retracement of over 18%, which shows there was relatively heavy positioning in the market both in mutual fund markets and in trend-following quant funds. On macro policy side, there was consistent message of "stability over all else" amongst the policy maker speeches. We saw PBOC reducing RRR and cutting rates, Ministry of Finance calling for early disbursement of fiscal funds, and social financing amount hitting historical highs in Jan. Looking back in history of A-shares, aside from the 2006-07 Shanghai stock rally that hit index peak of 6124, most of the other rallies had little to do with "stable economic growth" policy.

In our opinion, stabilizing economic growth can not change the fundamental make and quality of the economy, and is therefore unlikely to sustain growth for extended period. On the other hand, higher quality growth can give sustainable steady bull market. For example, after 2008 financial crisis, compare to NASDAQ's 13-year bull market, A-shares did rebound after the "4-trillion RMB stimulus" plan, but soon fell into a continuous decline till mid-2014. In that year, the central government economic conference called for prioritizing economic development which started the rally that reached 5178 in over a year. Subsequently, there was 3 years of correction that saw Shanghai index falling to 2500 in late 2018. Since 2019, even though Shanghai index remained in the 3000-3600 region that's far off the 6124 high, both the ChiNext and CSI300 have returned to near historical highs. It's interesting to note that these indices represent economic transformations (ChiNext) or market leading blue-chip companies (CSI300). Of particular note is the historical performance of the ChiNext which only came into existence in 2010. Since trading at 600 at end of 2012, it led the China stock rally by reaching 4000 at end of 2015. It then took 3 years to consolidate after the deleverage measures and digest the various reform policies that benefited the stock market. ChiNext took off again in early 2019, leading the move from 1200 to 3500 in 2021.

Given the current policy priority for high-quality developments, the macro environment is very different from 2008 or 2014 that saw liquidity flushed across the board. Real estate sector has been told to focus on living needs and not speculation, infrastructure projects are expected to support but not lift growth, and all these point to a more disciplined way of support. China's economic structure is also very different now compared to the last slowdown in 2012. Many Chinese companies have embraced technological innovation and formed impressive eco-systems in key areas like carbon-reduction, new energy cars, consumer semiconductors, etc. These companies' market capitalization and influence in capital market are much bigger than before. And in terms of the equity markets, the various domestic and global institutional investors have become the leading forces for China.

Given the supportive policies and more mature equity market, the chance of a wide-spread systemic risk in China is quite small despite the FED hike plans and Geopolitical tensions. We believe after the market correction in the last few months, the continued policy implementations towards a higher quality economy will shepherd in a more favorable environment for long-term investors. **In the last three months, Rosefinch has done numerous due diligence visits to outstanding companies in our core industries.** Most of them are highly confident of the new year, with our conversations focused on positioning for future developments, strengthening team dynamics, and targeting game-changing breakthroughs. We were impressed with these entrepreneurs' passionate engagements to embrace the changes and stay resilient in face of short-term setbacks. Indeed, after this round of market corrections, those that remain can become the leaders that make ChiNext repeat NASDAQ's historical growth.

Historically, the core reason we can generate strong investment returns is to concentrate our capital for the long term on a small number of companies that made giant leaps in their respective industries. **We will continue to start from our industrial-chain research, understand deeply companies' future development prospects, then find those few entrepreneurs with a strong purpose and sense of mission.** We want to grow with these entrepreneurs over the long term as they overcome challenges and reach new heights.

At Rosefinch, we pride ourselves at building in-depth knowledge of the industries that we cover. Our team of 100 staff and 40 analysts strive to sustainably create value for our investors, our team members, and our shareholders by utilizing our extensive market expertise and executing our disciplined investment process. We look forward to partner with like-minded long-term investors for the exciting and rewarding journey ahead. You can find more information on Rosefinch via LinkedIn at https://www.linkedin.com/company/75605133/ or via our website at http://www.rosefinchfund.com/en/index.html

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