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Invest for the Future

Long-term Opportunity comes from Economic Transformation

China's 1H22 "Steady-Growth" strategy saw challenges from real estate contraction, tightening FED, decoupling US-China trade, Russia-Ukraine conflict, and another pandemic wave. A-share saw three rounds of sell-off before rebounding in end-Apr/early-May. Meanwhile, US stocks entered bear markets in 2Q22 after a volatile 1Q22. USD index rose over 9% as GBP, EUR, JPY and RMB depreciated 9.7%, 7.7%, 17.3% and 5.4% respectively. Bloomberg US Treasury index and pan-Europe Bond index returned -10.3% and -15.2% so far YTD. Commodity impacted by the geopolitical stress shot up with crude +50% and agricultural products like wheat, corn and soybean are up +30%. Those commodities more related to fundamentals like copper and aluminum are actually down about -10% YTD.

The unlocking of Shanghai and reiteration of Steady Growth strategy stabilized market's future expectations. The May macroeconomic data was also helpful with manufacturing PMI was up 2.2 from April to 49.6, almost at the "50" threshold. Bank lending activities picked up with 1.3 trillion RMB new loans in May, doubling April's levels. There's even talk of US removing some China trade tariff to alleviate inflationary pressures. A-share has now rallied over 30 trading days and recovered to Mar-Apr range. While the ChiNext has gained 25% from the April low, it's still 20% below its Jan highs. We're seeing some profit-taking from some absolute-return investors.

Sell-side research on A-share historical performances summarized that in the 5 rallies from bear markets since 2005, SSE gained 25% on average after the initial recovery rally, and then retrace about 60% of the gain. The rebound may be due to overselling or favorable policies, but whether of not it's a true reversal of the trend will depend mostly on the fundamentals**. In the medium term, it's unlikely for the market to experience the V-shaped recovery we saw after the 2020 pandemic shock. But unlike the ongoing sell-off in oversea equity and bond market, A-share had already reached reasonable valuation levels after its 1Q sell-off. In fact, if we look across 2022 and 2023, it's possible for the Chinese economy to achieve an average 5% annualized growth.** We'd caution against naysayer about the future prospects of Chinese economy.

Transformations may be sparked from with-out, but true change can only happen from with-in. China's relative outperformance to US market will still depend on China's steady growth policy implementations. Chinese equity market's 2H22 and 2023 upside is closely related on the high-quality transformation of the Chinese economy. Long-term opportunities will come from economic transformation, which includes areas like debt restructuring, 3060-carbon reduction led energy revolution, digital economy advances, improved productivities, and common prosperity frameworks. Since May, we have upgraded our portfolio with companies that have high long-term certainty. There were some minor adjustments on exposures based on market movements to maintain our investment allocation ratios. Looking ahead, we'll maintain our focus on 3060-related companies, while still tracking leading companies in digital economy, consumption, and healthcare sectors.

Fortune magazine founder Henry Luce famously stated in 1941 that the 20th century is the American century. By 1950, 85% of the automobiles were manufactured in US, 40% of global GDP was from US. By 1960, 60% of the global Fortune 200 companies are headquartered in US, with 70% of their sales from US companies. Entrepreneurs were makers of the American dream. Entrepreneurs are the ones investing for our future! And what glories American entrepreneurs may have lost in manufacturing, it's being recaptured by the new tech innovators from Silicon Valley. Whether the 21st century can be the Chinese century remains to be seen.

In the last 100 years, Chinese economy achieved significant growth and development, as well as strong resilience. In the last 10 years, in fields like internet, communications, new energy, Chinese companies have blazed the trail to take up 40% of top 3000 global companies, with some ranked amongst the Global Fortune 500 or even 100. These companies are becoming the cornerstones of China's economic transformations. It's during difficult times that the crowd dispersion increases. **Rosefinch Fund Management will focus on our core capabilities, apply our long-term industrial development framework to assess companies' future 3- to 5- year growth prospects. This long-term approach allows us to position for excellent companies' future growth even during period of market sell-off.** China's push towards high-quality transformation will need a mature and effective domestic capital market. This means for asset management companies to truly excel and add values, we must have systematic services, mid- to back-office operational excellence, comprehensive and disciplined risk management, professional and focused research & investment team, healthy governance, and progressive corporate cultures. We will hold ourselves to the highest standards to deliver long-term value to our partners.

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From "Just in Time" to "Just in Case"

CICC's Dr Peng Wensheng recently highlighted that in the current anti-globalization trends, nations have shifted from low-cost production chains to economic safety and geopolitical stability. We're seeing impacts on both debt and assets: on debt front, more private and corporate debts are being replaced by increased sovereign debt; on asset front, the financial assets are being converted to real physical assets. And specifically for US & China, the shift from financial assets to physical assets will alleviate China's relative disadvantage in financial markets. The increase importance of physical assets will lead to more cooperation between US & China in areas such as carbon-neutrality, public health, digital economy, etc.

Since 2019, Rosefinch team has been positioning for the "slow-bull" market. There are two main reasons for our strategic call: firstly, there's clear government policy to maintain economic reform and support both public and private sector developments; secondly, a group of globally-competitive Chinese companies are emerging in key areas of carbon-reduction and digital-economy. These competitive companies will be the building blocks of Chinese economy's high-quality transformation.

Looking ahead, European and US stock markets may have further downside which may drag down A-share somewhat. The next few months' fundamental in China will likely see a U-shaped recovery, with market shifting focus from YoY data to MoM progress. In the medium term, the tighter financial regulations in US and other developed worlds will restrict its financial markets. The imposed financial sanctions will decrease UST's role as safety assets. Non-USD safety assets may increase in value. Given China's percentage of global asset allocation is still much lower than its share of global economy, CGB, A-share, and H-shares may have a bigger role to play as destination for global assets.

There are shifts in global geopolitical landscape that impact the supply chain. There's now talk of remodeling the globalized supply chain from "Just in Time" to "Just in Case." This new version of supply chain framework requires the same high-efficiency & low cost, as well as resilience. It also pushes companies and nations to look at stress-testing scenarios to ensure supply-chain stability. Recently, US Secretary of State Blinken stated Biden administration's strategy as IAC: Invest, Align, and Compete. Secretary Blinken said: "supply chains are moving now, if we don't draw them here, they'll be established somewhere else." Indeed, "migration" of supply-chain is just another manifestation of the human spirit. Human race migrated out of Africa about 100,000 years ago and has never stopped moving. The advances in technology and civilization further promotes interactions, influences, and collaborations amongst the world population. Chinese culture has interacted with global cultures throughout its history, with the famous Silk Road that was a truly global commercial route. **Rosefinch's name is taken after the main boulevard that marked the East and West halves of the ChangAn Capital during the Tang Dynasty at the peak of its global influences. As the world faces new global challenges, Rosefinch hopes to be the boulevard that again connects East and West towards a more prosperous future for all.**

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