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Rosefinch Weekly

The Game Between Weak Present and Steady Growth Future

This week saw broad correction in China equity market with SSE -3.9%, CSI300 -4.2%, ChiNext -6.6%. During the annual report and 1Q result reporting season, market is much more sensitive to the performances. In the present weak sentiments, the under-performance will be magnified and cause substantial corrections. Due to the pandemic impact, the March economic data has been weak, especially in real estate and consumption, which further added to market's concerns. With so many areas of concern, market is still trading sideways near the bottom. One would need plenty of patience to look at the big picture. There's always opportunities during a crisis, and we see some of the marginal changes happening:

- One highlight in the March economic data is the clear economic support from the high-tech manufacturing sector. The 1Q industrial value add was +6.5% yoy, led by high-tech manufacturing's +14.2%. In terms of investments, clean energy, high-tech manufacturing, and digital economy continue to have very high levels of increases. Overall, high-tech manufacturing saw investment increase of +32.7%, and high-tech services saw investment increase of 14.5%. **Clearly, manufacturing industry's upgrade and transformation has become a core driver of domestic economic growth.**

- The pandemic-induced production halts and supply chain interruptions are being addressed. On

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April 18th, government held a senior level meeting to discuss maintaining supply chain stability. Vice President LIU He announced 10 major measures to support the supply chain. As the issue has been highlighted at national government level, we'd expect relevant ministries to quickly implement the measures to alleviate the pressure on choke-points. Manufacturing industries will see gradual resumption to production, which in turn pulls the various links in the industry chain back online, thus bring back production to the extended eco-system across the Shanghai and surrounding areas.

- Shanghai had announced 666 enterprises as priorities on production resumption, with most of them related to automobile productions. Recent report suggests 70% has resumed production, with manufacturing capacity being utilized at a healthy pace. Pandemic's shock to industrial production has reached its turning point, we will now follow closely the pace of overall resumption. Aside from Shanghai, national transportation volume has also bottomed out.

- Internationally, the latest news from Ukraine conflict and energy prices has less marginal impact on the market. As market come to accept more hawkish FED, the US stocks are also behaving less intensely to latest FED tightening reports. Despite UST yields making new highs, US stocks have not made new lows. As UST and US stock market's correlations lessen, their impact to A-share is also weakening.

- In the 2022 Boao Forum for Asia, CSRC's Vice Chairman FANG Xinhai identified the main reason for the drop in Chinese ADR as the issue of regulatory requirements on company audits by US and China authorities. There has been good progress in the negotiation between CSRC and SEC so far. A cooperative framework is likely to be announced soon, which will remove this regulatory uncertainty. CSRC continues to support Chinese companies to list overseas, and support them to utilize both domestic and international market to develop. We also saw Chinese ADR outperforming the market last Friday.

- At end of April, there will be Politburo meeting to review current economic status, improve pandemic policy, and increase steady growth policy measures. All of these will have major impact on the market. So far, the pandemic has seriously impacted Shanghai area and beyond. To prevent further shock to the economy, the government will increase its policy response to achieve its pandemic goals while minimizing economic cost. Both monetary and fiscal policies have been actively engaged since 1Q, we will continue monitoring the future policy initiatives and implementations.

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Looking ahead, we believe after market bottoms, the immediate rebound will come from return of risk appetite. **The sectors that fell the most earlier will benefit the most.** Since March pandemic in Shanghai, most manufacturing stocks fell the most, including electric equipment, new energy, electronics, etc. These sectors will have more upside potential during the rebound.

In the medium term, excess returns will be driven by excess profitability. Even though energy prices and pandemic shocks may have long-term impacts, a lot of these negative impacts have been priced into the retracements. **Market will return to favor profitability, with those companies that have high certainty, and reasonable valuations enjoying the premium.**

Overall, the market is caught in the tussle between weak present economy and steady growth expectations. With annual growth goal at 5.5%, we expect more supportive policy to be announced. **Identifying those companies with more certain growth path is a good choice in this uncertain macroeconomic environment.**