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Rosefinch Weekly

Growth Stocks Leading the A-share Rebound

Last week saw much of April China data to be noticeably impacted by the pandemic: April retail sales dropped 11.1% YoY, Industrial Production dropped 2.9%, and urban unemployment went up to 6.7%, and YTD fixed-asset investment rose 6.8%. Overall the investment is relatively steady, with investments in manufacturing up by 12.2%. **Industrial production was mostly affected in the automobile related areas, but the consumption sector was more widely impacted.** On one hand, the consumption scene was clearly hit with restaurant receipts down 22% YoY. On the other hand, people's ability and willingness to consume have decreased. With the rise in urban unemployment rate, the relatively tough job market will cause concerns on future income certainty and increase the need for savings.

There is now more clarity on transitioning out of pandemic, with high-tech sectors providing support to manufacturing industry outlook. **The core issue now is about steady unemployment which is necessary to create stable domestic consumption demand.** Recent policies have demanded more support to SME, which will in turn stabilize employment. The consumption will return more slowly, but should recover as employment protection policies gain traction.

On policy front, 5y LPR was reduced from 4.60% to 4.45%. This is already matching the entire 15bp reduction in 1y LPR since end of 2021. Currently the housing loan rate level, where it's linked to 5y LPR, is already near the 2015-16 average, with local policies at relatively loose posture. Lowering of LPR will also reduce existing loan rates will be reduced in the subsequent pricing cycle, thus reducing interest costs for the borrowers. Last week, PBOC also announced the further reduction of 20bps on the first apartment purchase, which means the lowest rate on the 1st apartment purchase is 4.25%. **These two signals are very strong signs from PBOC to support the real estate market, encourage housing loans for residence purposes, and quickly stimulate the**

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economy. We continue to see incremental loosening real estate policies across local areas, and we'd expect more to be released to support market confidence and increase real estate volumes.

Global market is still highly volatile. **After US CPI peaked in March, the main market focus has turned from pricing in FED tightening pace to pricing recession risk and the associated potential profit risk.** US stock made new lows last week, with DOW -2.9%, S&P -3.05%, NASDAQ -3.82%. 2y UST yield was unchanged at 2.59%, but 10yr yield came off 14bp to 2.79%. It's come off 40bp since peaking at 3.20%, with the curve flattening. Long bond yield is now consolidating around 3% from the one-way rise previously, thus reducing the shock pressure to the A-share. Last week ex FED Chair Bernanke said that FED is moving too slowly on anti-inflation front, with recession a near certainty. In Powell's interview last week, he shared his admiration to Volcker's inflation battles in the 1970s, indicating a more hawkish stance. But there's lack of consensus on if a soft landing is possible, with investor concerns on persistent high inflation's chokehold on economic growth.

Last week saw A-share rebound continuing, showing further resilience despite oversea market's retracement. Last Thursday saw US stocks down 4%, but A-share's climbed on Friday from a low open, led by new energy sector for a net positive day. Similar to the previous week, last week's A-share showed less sensitivity to US stock drops, signaling further investor confidence in domestic market. On the one hand, A-share valuation has already dropped to attractive levels; on the other hand, market sees signs of bottom in domestic pandemic and economic growth. Investor focus is now turning from temporary event shocks to long-term profit growth. Those growth-oriented industries that suffered the most before will rebound even more strongly. These industries include new energy related electric equipment, non-ferrous metal, automobile, electronics. After UST yield and USD index peaked, RMB also stopped its slide as USDCNH exchange rate come off from 6.83 high to 6.7 now. The more stable exchange rate value will also increase market confidence.