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Rosefinch Outlook 2021Q1

In the fourth quarter of last year, we argued that this year was likely to be characterized by "slow rise and sharp fall". Looking back at the first quarter, there has been a sharp decline after a brief rise. Shares of photovoltaic, military, new energy vehicles, Internet and biomedicine companies fell sharply.

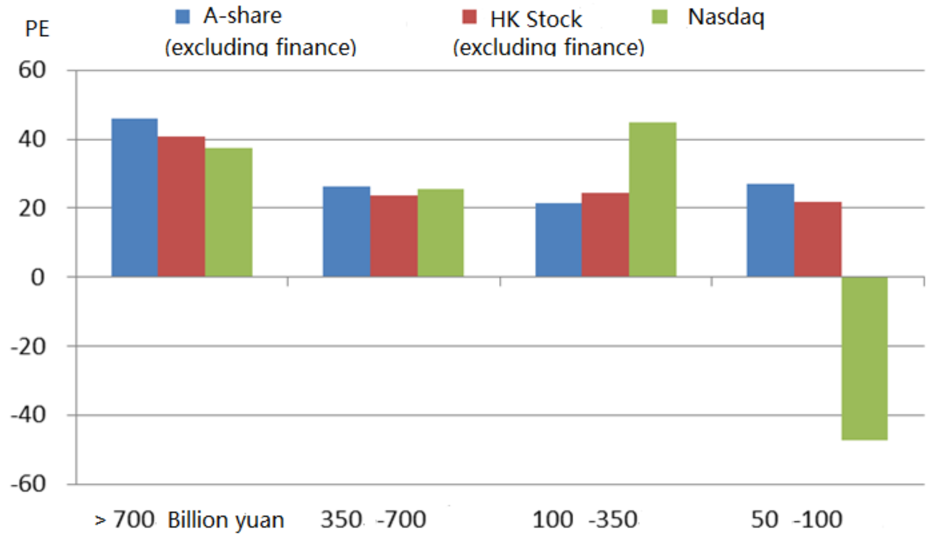
First of all, we remain our opinion of "slow rise and sharp fall". Among policy, fundamentals and funding, the first two are still friendly while the last one needs to be careful. The yield on the 10-year U.S. Treasury rose rapidly after the Spring Festival due to inflation expectations, which triggered a decline in stocks with high valuations. In the past two years, A-share market rose steadily, with foreign capital constantly flowing in. When their capital costs increased, it posed a threat to the stocks, especially mutual funds holding.

After a rapid increase, the yield on the 10-year U.S. Treasury has returned to the level before the outbreak. Looking forward, it depends on the relationship between economic growth and inflation. This year, in order to promote employment, economic growth will be the dominant factor while inflation is not the focus of attention. We believe that the US bond yields will become milder, and its impact on the market will decline. When the sell-off comes to an end, the medium and long-term trend remains unchanged: Household savings move into capital market, and institutional investors continues to grow.

As for Chinese market, we are not worried about liquidity. Central bank has stated many times that China is the only country in the world's major economies that adopts normal monetary policy and has more room for regulation. This is in great contrast to ten years ago, when the global financial crisis broke out and the Chinese government issued a series of strong stimulus policies. Credit grew sharply and caused inflation. Once monetary policy tightened, capital market came under pressure. This time we are in a better situation with little inflation pressure and stable liquidity. Sustainable profit growth becomes the dominant factor.

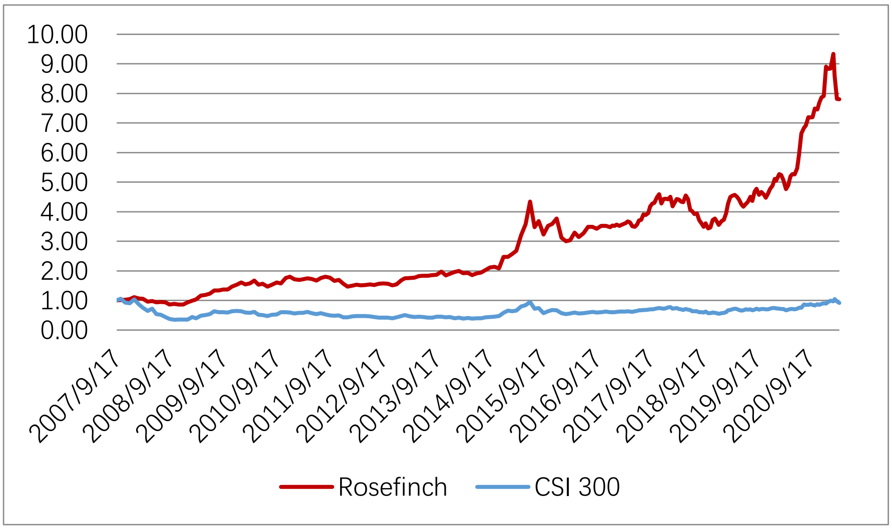
We remain optimistic about photovoltaics, new energy vehicles, big finance, agriculture, military industry, logistics, Internet, electronics manufacturing, biomedicine, catering and retail. The industries above have great potential for development. Through long-term study of enterprises and entrepreneurs, we have focused on a group of companies that are competitive in China and even in the world. These companies are endowed with more continuity and certainty, which are the micro foundation for the high-quality development of China's economy.

As of March 8th, the PE of the leading company has declined to about 40X; the PE of companies with capitalization of 100-300 billion yuan has come close to 20X. In contrast to that, the PE of small and medium-cap companies is not cheap. The upward momentum brought by short-term cyclical factors is difficult to sustain.



Source: Wind, Rosefinch

Performance



Source：Rosefinch，9/17/2007-3/31/2021

Return (2021) %	**-12.41**
Return (1Y) %	63.68
Return (3Y) %	81.43
Return (5Y) %	156.84
Return (Since Inception) %	680.29
Annualized Return (Since Inception) %	16.38

Maximum Drawdown %	-30.87

Source: Rosefinch, as of 2021/3/31

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