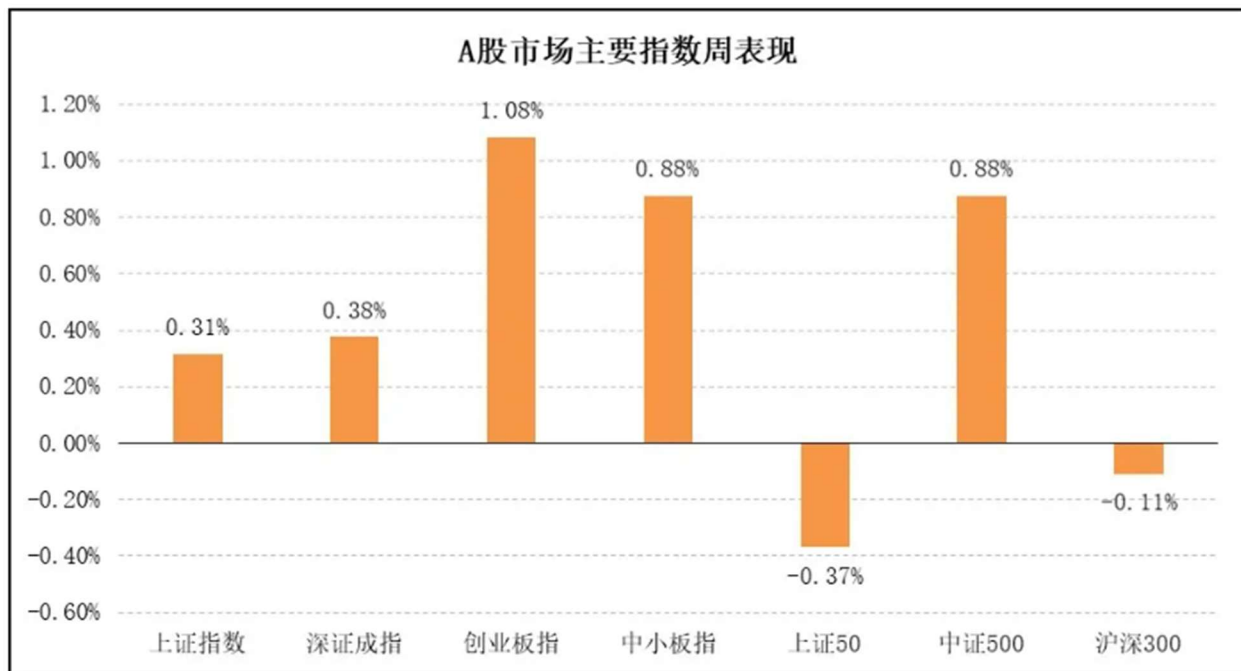


“Housing is for Living!” action nudges long-term capital flows towards real economy and financial assets

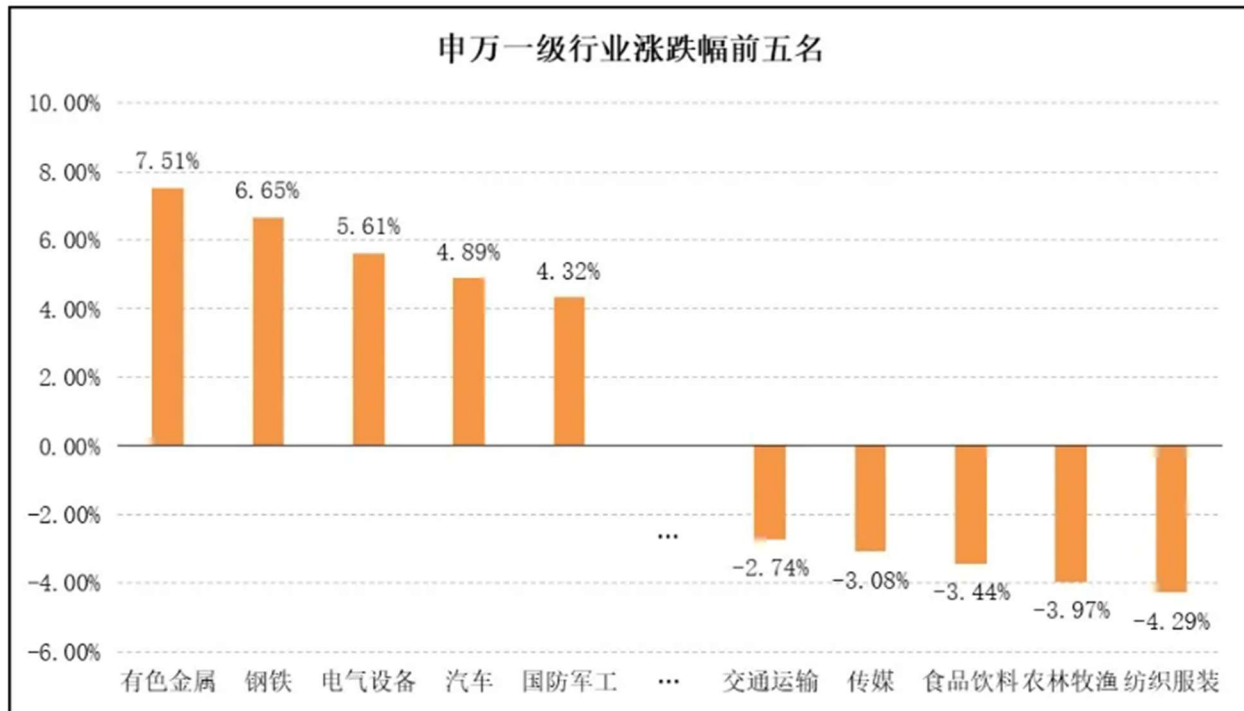
1. Market Review

For last week, SSE Composite Index was +0.31%, Shenzhen Component Index was +0.38%, GEI +1.08%, SSE50 was -0.37%, CSI300 was -0.11%, and CSI500 was +0.88%.



数据来源: Wind, 朱雀基金整理

From industry perspective, 12 out of 28 ShenWan Primary industries rose last week led by non-ferrous metal, steel, electrical equipment, automobile, and defense industries.



数据来源: Wind, 朱雀基金整理

2. Market Outlook

Covid contagion worsened as mutant virus' spread accelerated. Since the new mortality rates in Europe and US remain low like flu, we expect the economic impacts to be limited. In other regions like Southeast Asia and Latin America, the new mortality rates are almost ten times as high. This will cause increased governmental responses which will slow local economic growth and delay normalization of global supply chains. China deployed fast and mass-scale Covid testing whenever there is new unlinked cases. This has been effective in control the spread quickly so far. Domestic economy is basically unaffected, with export growth rates remain at above trend.

The severe flooding in Henan has slowed and under control. We're now witnessing frequent extreme weather patterns globally, which may push major economies to accelerate structural adjustments in energy sectors. China's industry adjustments have been quite determined with firm implementations. We expect two main industry policy considerations: for foreign sectors, improving efficiency to increase international competitiveness; for domestic sectors, stressing fairness in industries of large wealth disparity or over-competition. Given this backdrop, we are seeing more forceful actions in the "Housing is for living, not speculating!" campaign, which in turn helps to push capital into real economy and financial assets like equity or debt markets.

To better understand China's A-shares, we'd suggest looking at it from three perspectives: policy, cycle, and style. Once you identify the key characteristics from these perspectives, you can then look into appropriate investment strategy. The first perspective is policy, which lays the foundation for the long-term upward trajectory of the A-shares. The second perspective is cycle, which is exhibiting some downward pressure in the near term. The third perspective is style, which is a more underlying medium-term trend.

For the near term, the policy is widening the A-share structural dispersion, so it's important to search for investment ideas amongst the most prosperous industries. Externally, the ongoing meetings between US State Department and China foreign ministry may provide some headlines. While China did put forth some counter-sanctions on US persons last Friday, the US probably won't over-react with the possibility of making progress from the talks.

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