Fund Manager Perspective

October 2015

The market fluctuated narrowly in September. During the month, the Shanghai Composite Index lost 4.8% while the ChiNext Index gained 4.3%. Overall, the market moved in a very small range and turnover remained low during the month.

After the steep decline in June, July, and August, market trends showed minor divergence in September. The downtrend of the Shanghai Composite Index continued while the ChiNext Index experienced a rebound. Overall in September, due to the signing of the network security agreement and the carbon emission reduction agreement by President Xi with the United States, the network security, locally produced computers, big data, and environmental protection-themed stocks fared well, driving up relevant stocks on the ChiNext Board. Based on terminal feedback, relevant enterprises have been receiving additional orders against the backdrop of ceaseless policy support from the government—a highlight in an otherwise miserable environment.

Looking back at the policies and foreign market performance during the National Day holidays season, the Chinese government announced a 50% purchase tax cut for low-emission vehicles and a reduction of down payment ratio from 30% to 25% for first property purchases in cities without property purchase restrictions. We expect these policies to stimulate auto and real estate sales. If we look at the stock market performance in Hong Kong during the National Day holidays, we can see higher gains in real estate and auto stocks. In addition, 12 countries including the United States and Japan entered into the TPP agreement, such that there will be zero-tariff for trades among the relevant countries. We believe the agreement will have a certain impact on China's exports; for example, Vietnam may take some market share from China for textile exports. However, the tariff rate in the original WTO agreement for China's exports in developed countries was only 5%. Moreover, China may enter into independent free-trade zone agreements with these 12 countries. Furthermore, China's competitive sectors like electronics, may apply for zero tariff under the WTO framework. Therefore, we expect the TPP agreement to have a limited impact on China's overall exports, especially for already competitive sectors such as machinery and electronics. In terms of foreign market performance, the European, United States, and Asian markets all rebounded during the National Day holidays. The Hong Kong market did exceptionally well as the Hang Seng Index gained 8% and the SOE Index gained 10.5%. We think the stabilization of foreign markets will have a positive impact on China's stock market.

Overall, we are cautiously optimistic about market performance in October. On the one hand, the government's stimulating policies for the real estate and auto sectors should drive consumption in these sectors. As real estate and auto are the two most important sectors in China's national economy, these two sectors will stimulate a few other mid- to upstream industries, reducing concerns over economic downturn in the short term. On the other hand, terminal research shows that, against the grand backdrop of economic slowdown, some sectors will benefit from economic structural adjustments and industry developments and therefore orders of relevant enterprises should stay upbeat. Numerous companies are seeing their international competitiveness increase constantly, and are rapidly seizing market share from Japanese, Korean, Taiwanese and even European and American competitors. After the market crash between June and August, the valuation of most companies is now in-line with their growth potential. Share prices of companies with international competitiveness are now attractive. With the global stock markets stabilizing, we believe there should be interim rebounds in China's stock market during October.