

Fund Manager Perspective

April 2016

A-shares saw a sharp upturn in March: First, in early March, cyclical stocks extended their rebound seen in February, benefiting from the supply-side reform; subsequently, the market embarked on a steeper rally, tracking positive political cues from the annual NPC and CPPCC sessions; and in particular, the weakening of expectations for a rate hike by the Federal Reserve further fueled gains in A-shares.

The benchmark Shanghai Composite Index, a measure that is more representative of large-cap stocks, rose 11.75% in the month, while the ChiNext, a gauge of smaller companies, jumped 19.05%, highlighting an upturn notably driven by growth names. In particular, growth sectors including Internet finance, virtual reality, alternative energy vehicles and intelligent driving led the gains. Meanwhile, livestock and fuel sectors also posted notable gains, thanks to rising meat and fuel prices amid a pickup in CPI gains.

Following the sharp rally, the A-share market now finds itself hovering around a sensitive level: On the one hand, accommodative monetary policy and policymakers' stance towards steadying growth will remain intact, the economic transition will unlikely grind to a stop, and consumer upgrading and technology innovations remain the predominant themes; On the other hand, the uncertainty surrounding the external environment has yet to be eliminated, expectations for a rate hike in the U.S. are constantly changing, and there is also uncertainty when it comes to room for monetary policy maneuvers by the PBOC. Therefore, we anticipate that the possibility of intense volatility in April is rising.

In terms of specific investment themes, we remain upbeat on opportunities linked to growth names brought by consumer upgrading and technology innovations in the long run. We will be proactively looking for sectors with substantial improvement in supply and demand fundamentals against the backdrop of the supply-side reform and ongoing efforts to slash production capacity. Meanwhile, in light of China's debt-for-equity swap program and asset securitization push, we will also keep an eye on changes brought by improving expectations on the asset side of financial institutions.