

# Fund Manager Perspective

June 2016

The market had a weak start before embarking on a month-end rally in May. The interview of the so-called “authoritative figure” published by the *People's Daily* early in the month had affected risk appetite. The market saw relatively heavy losses in early May, before consolidating in a narrow range in mid-to-late May; and the market rose sharply in the last trading day. For the month, the Shanghai Composite Index fell 0.74%, the Shenzhen Component Index eked out a gain of 0.18%, the SZSE SME Price Index climbed 0.55%, and the ChiNext Price Index rose 0.98%.

Sectors including electronics and non-ferrous metals, which are closely related to alternative energy vehicles, as well as stable growth sectors including food and beverage fared better amid volatile trading in the broader market in May. By comparison, cyclical sectors including steel and mining were among top laggards.

We remain cautiously optimistic on investment opportunities in financial markets heading into June. We anticipate that the A-share market will probably consolidate with a weak bias in June and the medium-term trend is still hard to foretell. Despite positives including a possible inclusion of the A-shares into the MSCI index, we believe that the market still faces following risks in June: First, remarks by the “authoritative figure” could dent risk appetite in the short term. According to the interview of the so-called “authoritative figure” published by the *People's Daily* in early May, top policymakers have already had a clear view of the overall macroeconomic trend, set the policy tone characterized by “accommodative fiscal policy and stable monetary policy”, and will remain committed to the supply-side reform. While these all bode well for the Chinese economy in the longer term, such remarks could exert heavy influence on investor sentiment in the near term. Second, a possible decline in May economic data, frequent debt defaults, and a short-term rise in the risk-free rate of return could all have an impact on market confidence. And third, THE Federal Reserve’s FOMC meeting and the U.K.’s Brexit referendum in June may affect the overseas market environment.

Therefore, we continue to see a lack of trend-based opportunities across the market. In terms of strategy, it is advisable to remain cautious, rein in positions, and step up bottom-up stock picking. In particular, we suggest to handpick value stocks underpinned by rising business climate and growth stocks with visible growth potential and valuations well aligned to their earnings growth.