

2015 A-Share Market Outlook —— Rising Amid Higher Volatility

- **Economy's New Norm:** The Chinese authority will continue to impose a floor on economic growth; therefore any decline in growth is expected to be at a steady pace in 2015.
- **Loosening Monetary Policy to Stabilize Financing:** With the objective of continually lowering the funding cost of the market, there is room for further rate cuts. As a result, bond yield will also decline at a slower pace. The policy will be conducive in creating stable conditions which would help to create a floor for growth.
- **Reforms and Economic Transformation Expectation:** Both SOE Reform and Financial reform are expected to continue in 2015. **SOE Reform** will maintain its course to the directions of asset securitizations and mixed ownerships. Central and Western China, regions that may see relatively lower rate of asset securitizations and manufacturing, will be a key segment. Also, **Financial Reform** will drive the so called "Multi Layered and Multi faceted financing", in effect, increasing access to direct financing. Deposit Insurance, Listing Registration System and Interest Rate Liberalization are key focused areas of reform. Aside from reform, **traditional industries embracing the internet** such as internet financing, internet medical services are going to sow seeds of some new growth drivers.
- **Expectation of Increasing Fund Flows:** With the cost of financing trending lower, increasing capital flows exceed expectations. The asset allocation of investors will see an increase in equities. The Shanghai-Hong Kong Stock Connect Pilot Program is the first step taken to attract international capital into the A-Share market, a globalization for A-Share market is only the beginning.
- **Valuation:** Market sentiment is getting more optimistic. Current Forecast Price Earnings Ratio (動態市盈率) of CSI 300 in 2014 is 8.7 times, price to book ratio is about 1.25 times. **Overall valuation is still at low level.**
- **Risk: The Introduction of Listing Registration System** brings along risk which is likely to impact both supply and valuations of equities. Small mid caps with high valuations are likely to see some pressures, while there is limited impact on large caps
- As a whole, we remains optimistic on the A-Share market. We are going to see **upsides but market will remain bumpy** along the way. We recommend **a balance approach between large caps and growth stocks**. Our sector focus includes non-bank financials, information technology and internet, while thematic focus includes Financial Reform, SOE Reform and Industrial 4.0.

Source: CIFM; Data as of: 28 November 2014

View Point

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