

Annual Review and Outlook by Xu Wang, PM of Advantage Fund

From 2022 Annual Report

Looking ahead to 2023, we believe that, for the following reasons, there are more opportunities in the A-share market than risks, and the structural opportunities that can be grabbed are relatively clear. First, with the downward trend of inflation, the current interest rate increase cycle of the Fed is coming to an end. There might be 3 rate increases in 2023 based on expectations, with a range of 75 base points, and there is still a possibility of interest rate cuts in the second half of the year. The changes in the external financial environment will be less disruptive or even beneficial to the domestic financial market, and the net inflow of foreign funds through the Shanghai and Shenzhen Stock Connect in January 2023 has exceeded 140 billion yuan, which will have an impact on the overall valuation and structure of the A-share market. Secondly, the government attaches great importance to the recovery of the economy. Since this year, both the central and local governments have, on important occasions, repeatedly expressed their strong will to stimulate domestic demand and develop the economy. Although investors still have doubts about the prospect of economic recovery in 2023, it is only a matter of time before the economy recovers to the pivotal level as long as the policy trend remains unchanged. Third, some consumer and service industries that were severely affected by the COVID-19 epidemic are highly likely to recover, and some sectors may even experience a prosperity recovery beyond expectations. Fourth, the overall market valuation level is not high, and once the overall economy returns to normal, there is room for both valuation and profits to rise. Firstly, the recovery of the consumer and service sectors after the alleviation of COVID-19 epidemic is for sure, and there are lots of related high-quality companies with low valuation, which are expected to gain decent profits throughout the year. Secondly, technological innovation and industrial upgrading is the direction in the long term. Some domestic industries are already taking a lead all over the world, and the research in this area needs to be boosted. Thirdly, we should track the overall economic recovery and pay attention to the opportunities for reversal in cyclical value stocks.