

*Strictly Confidential*

# HUMAN OVER MACHINE

Monthly Report – February 2026



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## TRACE: Human over Machine

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“有机械者必有机事，有机事者必有机心。” – 《庄子·天地》

Theme: A Game “of, by, for” the people and “to, from, among” the people  
Today’s quote is much longer, the full translation works like this. *“Where there are mechanical devices, there arise clever efforts; where there are clever efforts, there inevitably arise calculating minds. Once a calculating mind takes root in the heart, pristine clarity is compromised; when pristine clarity is compromised, the spirit becomes unsettled; and when the spirit is unsettled, one can no longer be sustained by the Dao.”* – Zhuangzi, “Heaven and Earth”.

The rise of artificial intelligence has prompted many to ask whether human discretion still has a place in capital allocation. As we navigate another month of market volatility and technological disruption (OpenClaw mania), I find it necessary to step back from the daily noise and address a fundamental question that underpins our investment philosophy.

The prevailing narrative suggests that machines, with their superior processing power and lack of emotional bias, will inevitably dominate every field of decision-making. However, this view assumes that all decision-making environments are created equal. They are not. To understand where human intelligence retains an insurmountable edge, we must categorize the nature of the games we play.

In my view, there are four types of games defined by the structure of information and the stability of rules: symmetric information with fixed rules (Type I), asymmetric information with fixed rules (Type II), symmetric information with flexible rules (Type III), and asymmetric information with flexible rules (Type IV).

Artificial intelligence has proven superior in Type I games, where information is complete and rules are static, such as in chess or Go. Even Type II games, such as poker, are being systematically dismantled by algorithms capable of calculating game-theory-optimal paths through hidden variables.

The challenge of autonomous driving serves as a potent illustration of the complexity and challenge inherent in games with flexible rules, even with symmetric data and information. This scenario resembles the Type III game: information is largely symmetric and formal traffic rules appear fixed, yet the system remains elusive because these rules are only superficially stable. While sensors and LIDAR provide a transparent view of the physical environment, a shared reality for all actors, the actual rules of the road are inextricably tied to human reaction, which is characteristically fluid and sometimes irrational.

Here lies the threshold where mechanical logic begins to falter. An algorithm may master the rigid laws of physics and the static codes of the highway, but it struggles to compute the flexible social contract of a four-way stop or the unpredictable hesitation of a pedestrian. It is thus understandable that the industry struggles with this Type III game

because the solution demands more than processing symmetric inputs; it requires an intuition of intent. Though we are making inroads to L4, it is far cry from L5

In transitioning from the rigid precision of the first two categories to the total volatility of Type IV game, this intermediate stage proves that even when information is clear, the presence of a calculating mind among participants introduces a level of entropy that no inductive model can fully domesticate. It serves as a reminder that the discretionary investment field where information is asymmetric and the rules themselves are flexible, shifting, and prone to abrupt redefinition offers a much broader challenge to machines. In this specific arena, human judgment is not merely a legacy feature; it is the decisive edge. It is in this complex domain that human judgment will win, not despite our limitations, but because of the unique cognitive faculties we possess.

The distinction lies in the nature of reasoning required to succeed in each quadrant. Machines excel at inductive mechanical extension. They analyze vast datasets of past events to identify patterns and project them into the future. This works brilliantly when the future resembles the past and the rules of engagement remain constant. However, the global macroeconomic landscape is non-stationary. The rules change constantly due to shifts in monetary policy, geopolitical fractures, regulatory interventions, technology disruption and social sentiment.

When the rules themselves are flexible, inductive logic fails because there is no stable historical distribution to rely upon. In this environment, deductive logic trumps mechanical extension. Humans possess the ability to reason from first principles, to understand the causal mechanisms driving change rather than merely correlating data points. We can ask why a central bank might pivot despite inflationary data, or how a geopolitical shock might alter trade flows in ways never seen before, or why certain Silicon Valley dark-enlightenment zealots might want to act Godly. These are not patterns to be recognized; they are narratives to be understood.

This brings us to the psychological dimension of investing. The danger for modern investors is not that machines are smarter, but that humans are tempted to compete on the machine's terms. This temptation echoes an ancient warning from the Chinese philosopher Zhuangzi, who observed astutely the dynamic nature of interactions between humans and machines, not just altering the outcomes but the rules of the game.

When we try to out-compute the algorithm, when we strive for efficiency in a realm that requires wisdom, we engage in these clever efforts. We begin to treat the market as a fixed puzzle to be solved with a machine rather than a living ecosystem to be navigated. This calculating mind seeks to optimize every trade and hedge unwanted risk based on historical probabilities to enhance Sharpe ratio, offering a portfolio appeared to be stable, synthesized and optimized with a Swiss-clock precision.

But in a game of asymmetric information and flexible rules, optimization is often the enemy of resilience. The calculating mind becomes unsettled

when the rules change unexpectedly because its model of reality is broken. It loses what Zhuangzi called pristine clarity, the ability to see things as they are rather than as the data suggests they should be even when the old machine is failing and a new mechanism is creeping in. It is then and there the Sharpe ratio becomes “Sharpe Ratio Trap”.

This conviction extends beyond finance into the broader governance of our world, specifically the philosophical underpinnings of the G2 nations. Consider the American ideal of government “of the people, by the people, for the people.” In market terms, this affirms that investment is fundamentally a human game. It is driven by agency, intention, and moral responsibility and it works to enhance human utility. Machines cannot bear responsibility; only humans can. Machines execute, but they do not own the outcome. Humans do. This aligns with our view that deductive logic requires a moral actor who understands the “why” behind the move and owns the outcome.

Conversely, China’s “collectivist” organizational mantra of the ruling party goes with “from the people, to the people, among the people”, resonating with the market’s nature as a collective psychological exercise. It resembles Keynes’s beauty contest, where value is not intrinsic but determined by shifting consensus and opinion. The rules here are fluid, evolving with the mood of the masses, requiring an intuitive grasp of social currents that data might fail to capture. Yet, the goal remains unchanged “The great rejuvenation of the Chinese nation”. Hence, the way the games are played shifted from “standing up”, to “becoming rich”, and now “turning strong”. Along with it the growth model also went structural changes from “industrialization”, to “high speed growth” and now “high-quality development”.

Our investment game mirrors the social development, where today’s truth might become tomorrow’s anomaly, not because of goal change but because the change of “Principle Contradiction (主要矛盾)” demands the change of “Development Method (发展方式)”. Or alternatively, change of ways requires change of means. Despite their political differences, both philosophies converge on a single truth: the substrate of power is human. Investment works the same way, through individual agency or collective sentiment, it is to reflect human will. This is why AI cannot fully replace us. It lacks the “people” element. It cannot participate in the beauty contest because it does not derive utility from the outcome, nor can it utterly understand the shifting norms of the crowd.

Our strategy honors this duality. We respect the agency of the individual investor while navigating the collective sentiment of the masses. By anchoring ourselves in this human reality, we avoid the trap of believing markets are purely mechanical. They are political, psychological, and deeply personal. This is the asymmetric edge we protect. This is an edge we own and keep sharpening as new G2 order replaces the traditional G7-centricity, with the rupture driving global macro moves and creating cross asset opportunities. In a world of algorithms, the only true constant is the unpredictable nature of human society itself.

Nowhere is this flexibility of rules more evident than in the behavior of central bankers, whose reaction functions define the liquidity landscape for all asset classes. When rules flex during crises, as they did when Fed chairs change, the actual policy code matters less than its interpretation by the chair. Even under the same chair, the reaction function may differ dramatically depending on context and legacy considerations.

As we discussed in our "Polcker Rule" note (Investor Letter, August 2022), Chairman Powell embodies two distinctive sides that illustrate this very point. On one hand, he behaves like a lawyer: acting only on evidence, waiting for data to confirm a trend before moving. This explains why he waited so long in 2021 but then hiked rates aggressively in 2022 once inflation prints skyrocketed. He reacts to evidence, not forecasts. This is quite different from Volcker, an economist who relied heavily on models and maintained an extremely hawkish stance even after inflation had been tamed by the mid-1980s, leaving real interest rates elevated for years.

However, there is another side to Powell: he craves a legacy akin to Volcker's. In his most recent press conferences, he has acted super-hawkish based on expectations such as high oil prices driving inflation while giving little acknowledgment to the negative impact of those same oil prices on the US economy. It is apparent that external pressures, including fighting off political scrutiny and legal pressure, have pushed him to act more like Volcker on the pretense that oil prices will inevitably ignite inflation. Yes, they do. Only this time, the transmission mechanism is not that "transient" story we heard from Powell before.

This duality of evidence-based caution versus legacy-driven conviction creates a flexible rule set that no algorithm can fully anticipate. Machines trained on historical Fed behavior will struggle to price in a chair who shifts reaction functions based on political winds, personal legacy, and evolving data interpretations. This is precisely where human discretion adds value: by understanding not just what the rule is, but who is interpreting it, why, and when they might change their mind for what.

Our fund is built on the conviction that discretionary macro is the ultimate sanctuary for human intellect precisely because it demands this clarity over calculation. In our work, we do not rely on algorithms to make buy or sell decisions. We use technology to process information, but the synthesis of that information remains an immersed human endeavor.

When a regulatory regime shifts overnight, or when a political narrative overturns economic fundamentals, there is no training data for a machine to learn from. There is only the human capacity for analogical reasoning and ethical foresight. We look for the second-order effects that models miss, the human behaviors that quantifiers ignore. We understand that markets are not merely aggregation mechanisms for information but reflection pools of human psychology, fear, and greed, a set of asymmetric elements unquantifiable with their essence intact.

Consider the recent shifts in global liquidity conditions. A purely inductive model might have signaled continued tightening based on

historical inflation correlations. However, a deductive approach rooted in an understanding of political cycles and debt sustainability suggested a pivot was imminent despite the data. It is especially true when we will have a new Fed chair in a few months who has a close relationship with a president who excels at rule bending (more on this in risk section).

This is the edge of the human manager. We do not need to see the pattern emerge in the price action to understand the inevitability of the outcome. We can deduce it from the constraints facing politicians, policymakers and investors. We can judge their over or under reactions in their dynamic interactions and act accordingly. This ability to operate in the dark, without perfect but possessing incrementally superior information and without fixed rules but understanding better aspects of the new rules, is where we generate alpha. It is when we excel when the quantifiable risks materialize into unquantifiable crises, given time.

We believe that the future of investing will not be a battle of humans versus machines, but a clarification of domains. Let the machines have symmetric, fixed games where they can optimize execution and manage known risks. We will retain the asymmetric, flexible games where judgment, intuition, and philosophical grounding determine success. By refusing to succumb to the pressure of clever efforts, by maintaining a spirit that is not unsettled by the noise of efficiency, we preserve the cognitive flexibility required to win in this environment.

We are not trying to be faster computers; we are trying to be better humans. In a world increasingly dominated by mechanical thinking, the greatest competitive advantage is a mind that remains free enough to see what the machine cannot. This is our commitment to you, not just to deliver returns, but to do so through a process that honors the complexity of the world we inhabit. We remain steadfast in the belief that while tools may change, the nature of the game remains human, and those who understand the rules of flexibility with “pristine clarity” will outlast those who rely on the certainty of the past, i.e., machines.

#### **Risk: Stagflation, Triple Kill, and Polcker to Warcker**

This is one risk scenario that keeps me awake at night.

The structural fragility of the current macro regime lies in the market’s collective memory of the 1970s and the specific, agonizing conclusion of that stagflation era. The risk lies at the end. When inflation reached its terminal velocity at the turn of the following decade, Chairman Volcker forcefully hiked interest rate to a level that shattered the traditional correlation benefits of a diversified portfolio. The action culminated in the first three quarters of 1981, a rare and brutal period where equities, bonds, and commodities sold off simultaneously as the liquidity drain overrode fundamental value across every major asset class, the Triple Kill.

Despite fears of 1970s stagflation scenario of rising oil prices, higher bond yields along with dropping stock prices, Powell seemed to be aligned with many analysts that we are not in a “stagflation” for a variety of fundamental differences between now and then.

Today, while the "green shoots" of stagflation are beginning to emerge in global data, we are likely in the nascent stages of such a regime, if the transition has truly begun at all. This is what we heard from Powell in his recent press conference after monetary policy meeting, as well as reports by many sell-side analysts.

The simultaneous tumble of all three asset classes remains a historical outlier rather than a baseline expectation. In the early stage of stagflation, a portfolio that pairs bonds with commodities typically offers a robust hedge: commodities capture the upside of supply-side shocks and price pressures, while bonds provide a cushion as economic growth begins to decelerate. Our base case is for this portfolio to perform fine in the next few months, and we are inclined to hold such mix.

However, this "hedged" stance rests on the assumption that the Federal Reserve remains sensitive to growth trade-offs and that inflation, while elevated, has not yet reached the "breaking point" that necessitates a scorched-earth policy response.

But the R in TRACE keeps ringing. While low in probability, the scenario possesses the magnitude to derail even the most carefully hedged strategies and needs to be thought through. The primary risk to this balanced outlook is a "perfect storm" of geopolitical and political shifts that could accelerate our transition from "early-stage" to "terminal-stage" stagflation with alarming speed.

This scenario begins with the persistent instability in the Middle East, where a conflict lasting a few more months could push oil prices north of \$120 per barrel. Sustained triple-digit energy prices act as a regressive tax on global consumption while simultaneously de-anchoring inflation expectations, moving the needle from a manageable "pigeon centrist" environment toward a genuine inflationary crisis. If this energy shock coincides with a shift in the American political landscape, specifically, one where Donald Trump faces a clear and credible risk of losing the 2026 mid-term elections. Under such shift, we fear the institutional calculus of the Federal Reserve to undergo a sudden and profound transformation.

In such a scenario, the potential appointment or presence of Kevin Warsh as Fed Chair introduces a "Warcker Moment" (to be written in future letters) dynamic with a high-conviction twist toward Volcker. Warsh, historically a defender of the Fed's traditional mandate and a skeptic of the "wild character" of unconventional easing, would find himself in a position of unique leverage. A "lame-duck" presidency would strip away the immediate fear of political retribution for tight money, allowing Warsh to pivot toward his foundational beliefs.

Facing the dual threat of \$120 oil and a legacy of institutional overreach, he might conclude that the only way to preserve the Federal Reserve's legitimacy is to pre-emptively crush inflation through aggressive rate hikes and a rapid reduction of the balance sheet. This would be a move to preserve the "legacy and the legitimacy" of the central bank at the

expense of short-term market stability, leading to a Triple Kill which would effectively collapse the "stagflation hedge."

It is about time to replace the "Polcker Rule" of 2022 with a "Warcker Moment" of 2026. Stay tuned.

### Asset: February Day to Turn into March Night Looking for a Down

February's market action revealed a world increasingly split between narrative and reality. Chinese equities showed remarkable resilience, shrugging off pre-holiday selling by the so-called "national team" to rally across all major indices after the Lunar New Year. The market traded bimodal, with capital chasing high-certainty, high-dividend assets like coal and base metals on one end, and policy-catalyzed tech growth names in AI hardware and telecom on the other. This "barbell" allocation reflected strategic positioning as investors sought both ballast and upside in an environment where macro clarity remains elusive with threat of war lingering over the Middle East.

Meanwhile, U.S. markets faltered under their own weight. The Nasdaq and S&P 500 retreated as January's hotter-than-expected PPI data dented Fed rate-cut hopes, while concerns mounted over the sustainability of AI capex cycles. The late-month selloff in mega cap tech was a reckoning with diminished expectations.

Bond market saw one of the better months globally. 10-year CGBs, though trailing its global peers, also saw the yield breaking below 1.8%, supported by soft PMI data, muted inflation, and ample PBOC liquidity. The central bank injected 900 billion yuan via MLF and repos around the holiday, ensuring ample funding. Global market enjoyed bigger rally. 10-year UST yield tanked 30 bp with major European ones ~20 bp lowers.

The celebration party for bond investors in February quickly turned into a bloodbath. Closure of Hormuz and rising oil prices swiftly pushed 10-year UST yield up 45 bp in the first three weeks. Investors in France, Italy and UK experienced more pains with yields rising 54 bp, 70 bp and 76 bp, respectively. Even dull Japan sleep-walked JGB up 15 bp. China bond offered the only sanctuary, up a marginal 3 bp only.

Commodities also saw divergence in February. Black metals weakened as post-holiday restocking failed. Rebar inventories in Hangzhou surged past 1.3 million tons, setting a record. Simultaneously, hot-rolled coil faced a double bind: weak auto and appliance orders domestically, and export headwinds from both EU carbon tariffs and RMB appreciation. Mills turned to steel billet exports to relieve pressure, a tactical fix that masks structural oversupply. Iron ore, despite seasonal supply tightness, lacks pricing power. Global seaborne shipments remain abundant, and with winter restocking complete, spot demand has evaporated. The market now waits for steel margins to dictate iron ore's fate, not vice versa.

In base metals, copper's rally stalled under the weight of reality. Global inventories swelled by over 270,000 tons. Prices, hyped on strategic stockpiling rhetoric despite the steepest inventory buildup on record, become less unhinged. This is not organic industrial demand; it is state

induced/led inventory accumulation. Aluminum mirrored this tension: smelter output hit 44.8 million tons, yet downstream consumption lagged, pushing social stocks to multi-year highs. Both metals now hinge on March's real demand test when the country resumes working after the long Spring Festival holiday break.

Oil, however, already doing well in February, went hyperbolic in March as geopolitical noise exploded into full-scale conflict when the U.S. and Israel conducted a joint strike that killed Iran's Supreme Leader. Tehran's retaliation with missile barrages and a declared blockade of the Strait of Hormuz sent European dated Brent spot to as high as \$108. We see the war has turned \$80 level from risk premium pricing to a new baseline. Even if full closure is avoided, the threat alone reshapes global energy calculus. Saudi and UAE spare capacity can reroute 5 million barrels per day, but 7.5–10 million remain at risk. The path forward hinges on regime stability in Tehran and U.S. ground troop deployment, low-probability but high-impact scenarios that could push oil sustaining \$100 for extended period. Even if we see rapid de-escalation without the ground battle, the era of sub-\$70 oil is over.

We see value in the US natural gas. Depressed by current over-production, its demand will show up due to destruction of Qatar facility and the inauguration of Gold Pass, interestingly also related to Qatar. Summer European restocking will likely be the catalyst.

### **Capital: The Good, the Bad and the Speculation**

Capital flow for China is nuanced, demanding a balanced view that separates domestic liquidity dynamics from international currency usage and the emerging narrative of strategic capital reallocation. To focus solely on one dimension is to miss the fuller story of transition and potential.

On the domestic front, the liquidity picture has shown encouraging signs of stabilization. The February money supply data printed with quiet strength: M1 growth accelerated to 5.9% year-on-year, surpassing the consensus expectation of 5.1%, while M2 held steady at 9.0% versus forecasts of 8.9%.

More telling is the trajectory. M1 has now recorded two consecutive monthly bounces from its December 2025 low of 3.8%, suggesting a gradual revival bode well for both corporate activity and household readiness for investment. M2, for its part, has managed three months of steady recovery from its November low of 8.0%. The February M2 print is particularly noteworthy given that nearly half the month coincided with the Spring Festival holiday, a period when economic activity traditionally slows and liquidity typically contracts.

The resilience of broad money growth under these conditions points to underlying policy support and a banking system that continues to extend credit, providing a foundational buffer for the real economy. This domestic liquidity cushion is a positive, often underappreciated, factor that supports the case for gradual and continued fundamental improvement.

Globally, however, the narrative for the Renminbi appears more mixed. Recent data on the currency's international usage shows a seasonal pullback. The RMB's share of SWIFT payments declined from 3.13% in January to 2.74% in February. Its share in trade financing dropped sharply from 8.46% to 6.02% over the same period, falling behind Euro to third place after leading the latter by a large margin for five months.

While this retreat invites concern, we need to consider context. The Lunar New Year holiday leads to extended market closures in China, which mechanically reduces RMB trading liquidity and cross-border settlement activity. Therefore, the February data may reflect a seasonal artifact rather than a structural reversal in the currency's strive for internationalization. We will closely follow relevant data in the next few months to better understand whether the slowdown persists as business resumes in March. One data point does not make a pattern, but a few do.

Perhaps the most consequential flow story, however, is the one still unfolding: the potential redirection of capital from the Middle East toward Hong Kong and, by extension, Chinese assets. This narrative operates on two levels. First, there is direct interest from sovereign wealth funds and institutional investors in the Gulf, seeking diversification and exposure to Asia's growth story. Second, and potentially more significant, is the anticipated repatriation of capital by family offices both of Asia and GCC nature, i.e., funds that were deployed to or pre-planned for Middle East but may now be reallocated to Asia as Dubai and Abu Dhabi's prosperous financial centers shattered and free-of-worry playground bombed.

While estimates of the potential scale vary wildly, from tens to hundreds of billions of dollars, the trend seems increasingly clear. It is unmistakable that the dialogues are intensifying and the strategic rationale for both sides is strengthening. This is a flow that will unfold over quarters. We content that such possibility not only fits what have been calling for years, "In Disorder, Align with Power (乱世傍大国)", but also alters the long-term capital flow equation for the region, more HK over Singapore.

This tripartite view of capital flows with domestic liquidity stabilizing, international currency usage pausing seasonally, and strategic capital reallocation gathering momentum reinforces the value of a discretionary, multi-angle approach. We recognize that these flows are not contradictory but complementary pieces of a complex transition. With it, we see trend support for China assets which have been underweighted for years.

## **Economy: China's Positive Shock Drown in Global Turmoil**

Here is an eye-catching number: Citi's surprise index for CNY just rose from -20 in early February to 107 by mid-March!

The disconnect between China's equity performance in March and its underlying economic reality presents a classic opportunity for us. While markets remain paralyzed by myopic fear, extrapolating past headwinds into perpetuity, the hard data tells a divergent story. February's -20 reading reflected widespread pessimism. Mid-March's 107 indicates that economic releases were not merely meeting expectations but consistently

exceeding them by wide margins. Unfortunately, these numbers got drowned in the global turmoil with the ongoing war in Middle East.

The data sends a clear signal that the fundamental trajectory has shifted, confirmed by recent data releases. Industrial production grew 6.3% YTD versus Bloomberg consensus of 5.3%; retail sales expanded by 2.8% against expectations of 2.5%; and exports/imports all jumped around 20% YoY, way above 7% consensus. Even fixed asset investment (ex-rural), the perennial laggard turned into a positive 1.8% versus an -5.1% estimate, showing clear stabilization.

Combined car sales in January-February, however, showed a 14.1% drop from a year ago, due to last year's incentive which led to a higher base. However, the auto sector represents the clearest structural shift in global manufacturing hierarchy, even with domestic data appearing to be weak. It is a quite an achievement that China's car production has now exceeded Japan's, reaching 30.2 million units in 2025 versus Japan's 28.1.

More tellingly, Chinese brands are aggressively outselling Japanese counterparts in critical export markets: in Australia, Chinese brands moved 25,781 cars, up 50.5% from a year ago, outselling Japanese brands' 21,671 (-31.3% YoY). The fable is being repeated in Thailand, where Chinese manufacturers now hold over 60% of the EV segment, with BYD alone beating Toyota's entire electric lineup by a factor of three.

These set of numbers shows the result of supply chain depth, battery technology leadership, and agile product cycles that Japan's legacy industrial base struggles to match. For decades, Japan's economic stability relied on its trade surplus, anchored by automotive exports. As China captures this market share, the negative impact on Japan's economy is profound and structural. Automotive exports account for nearly 18% of Japan's total export revenue; a sustained erosion of this pillar will weigh on the yen, constrain domestic capital expenditure, and force a painful reckoning for a model built on manufacturing dominance in an era of electrification.

Furthermore, cheerleaders and defenders of Japan coming-back story tend to point to large amount of revenue generated by Japan's foreign direct investment. A large chunk of this investment is linked to automobile supply chain, started in 1980s when Japan was fighting trade wars. The revenue is being chipped away by Chinese competition as well, adding more threat to the country's fiscal sustainability.

In contrast, China's economic engine is diversifying beyond property into high-value manufacturing and green technology. The recent trade surplus underscores this resilience, demonstrating that external demand for Chinese goods remains robust despite geopolitical friction. The narrative of decoupling is being disproven by the flow of goods.

While sentiment remains fragile, partly due to lingering psychological scars of previous policy uncertainties, the physical economy is humming. Industrial production growth confirms that capacity utilization is rising, and retail sales indicate that domestic consumption is finding its footing,

supported by targeted fiscal measures and improving household confidence. The fear currently priced into assets assumes a stagnation that the data does not support.

Putting China and Japan together, recent negative reaction to high oil prices makes much less sense in the former, whose economy is more electrified, has lower dependence on oil in percentage terms, and much lower need on natural gas precisely due to its more diversified source for electricity. Furthermore, higher energy prices will translate to stronger demand for China's new energy product and further strengthen its dominance. Finally, China also excels in coal-chemical supply chain for which higher oil prices/rationed supply help China way more than Japan.

For investors with patience, this divergence is the alpha. The mechanical mind sees the noise and retreats; the human mind sees the fundamental shift and positions. We are witnessing a rotation of industrial power where China ascends as the manufacturing hegemon while Japan faces a structural decline in its pillar industry. This is not a trade for the faint of heart, as sentiment can remain irrational longer than expected. With data improving, we see "China discount" to turn "China premium" this year. With headwinds, we "sell US" capital driven "buy Japan" to fade.

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## End notes