

On the minds of investors

June 27, 2019

Does the Fed signal matter for Asia and EM?

At their most recent meeting the Federal Reserve (Fed) left key U.S. policy rates unchanged. However, in-line with market expectations, the Federal Open Market Committee (FOMC) has shifted to a more dovish view on their forecast for the U.S. economy and interest rates. The FOMC's statement suggests a more cautious outlook and a bias towards easing policy later this year, leaving open the possibility of a rate cut in July. We currently expect the Fed to cut rates twice this year, given persistently low inflation, slowing economic growth and continued trade uncertainty which will weigh on consumers and businesses.

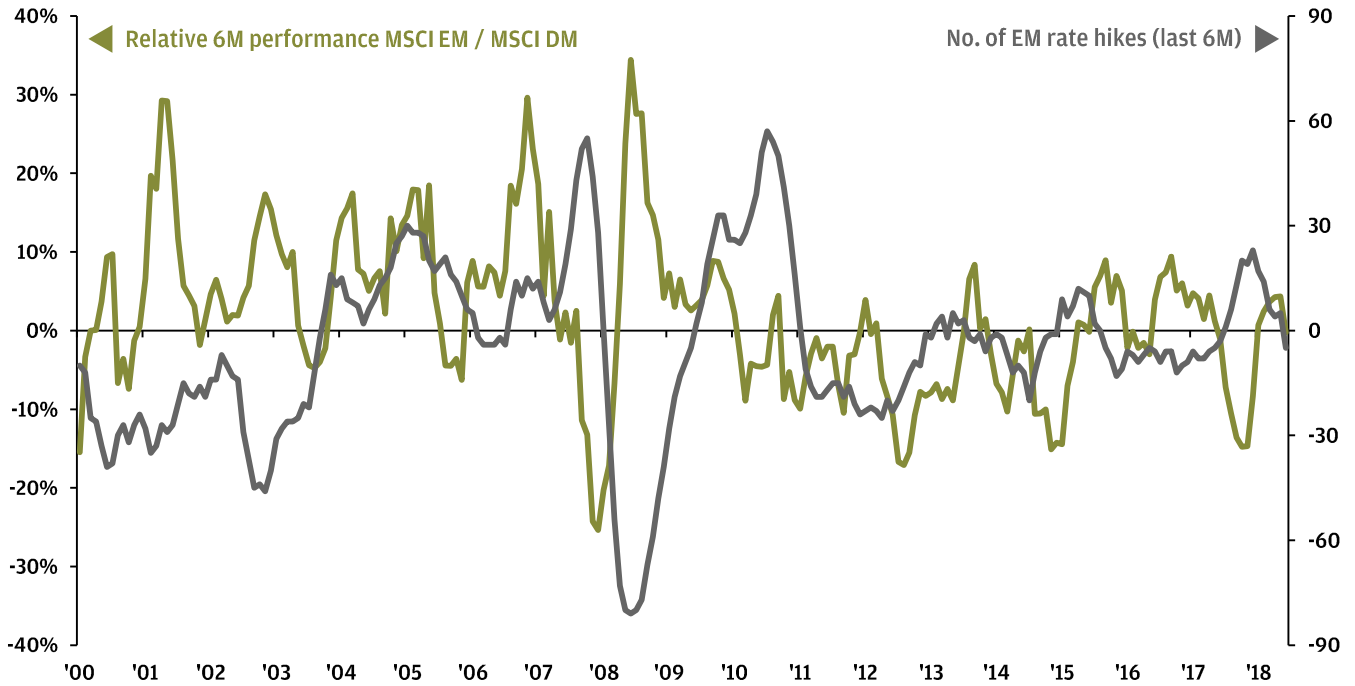
The European Central Bank and the Fed have acknowledged the risks to the global economy and shown a willingness to act. This shift to more monetary policy support continues globally and will likely influence policy in Asia, compelling central banks in the region to also make a move to cut rates. Low inflation has also allowed them to halt or reverse tightening cycles. Most central banks have already started signaling a dovish tilt. Amongst those that have yet to cut rates, such as Taiwan, they have lowered GDP growth projections, or adopted other liquidity injection measures, such as lowering the reserve requirement ratio for banks in Indonesia.

The return of rate cuts from the Fed or other central banks on the horizon doesn't always mean outperformance for Asia or emerging markets. Historically, U.S. rate cuts only appear to have significant consequences if the U.S. dollar (USD) is affected. A weak USD typically has meant that Asia and emerging markets will outperform relative to developed markets, but the USD does not always fall when the Fed cuts rates. Our long-term view on the USD is that it will still weaken due to issues with U.S. fiscal and current account deficits. However, other issues remain in play such as global growth momentum, commodity prices and domestic political idiosyncrasies that can drive currency movements in the shorter term. What may also have an influence on currency strength are interest rate differentials between countries and the impact on liquidity flows. With the Fed on pause and looking to cut rates, emerging markets are able to concentrate on their local issues and also cut rates to support slowing growth. Differentials have stabilized or may even widen in the case for countries where central banks will cut rates further than the Fed. We believe this will be more pronounced in Asia where low inflation and less political issues will give them an advantage over Latin America and Middle East countries.



Ian Hui
Global Market Strategist

EXHIBIT 1: MONETARY EASING IN EMERGING MARKETS IS LESS OF A SUPPORT FOR EQUITIES THAN ONE MIGHT THINK
 OUTSIDE OF RECESSIONS (2002-03 & 2008-09) NO SUSTAINABLE OUTPERFORMANCE OF EM WHEN CENTRAL BANKS ARE CUTTING RATES



Source: Bloomberg, J.P. Morgan Asset Management. Data reflect most recently available as of 26/6/19.

Investment implications

The Fed all but outright confirming a shift away from their next move being a rate cut is a helpful move for Asia and emerging markets. Other central banks have followed this shift, but just monetary easing in general is less supportive for emerging market equities than one might think. Other factors remain, but widening interest rate differentials in Asia is likely to give the region more of an equity market performance boost compared to other EM regions where issues still linger. Falling interest rates in the U.S. will also make USD emerging market debt more attractive due to the chase for yield. Higher coupons available will be a much more appealing proposition than the sub 2% rate on offer in the U.S. if the current situation continues.

The Market Insights program provides comprehensive data and commentary on global markets without reference to products. Designed as a tool to help clients understand the markets and support investment decision-making, the program explores the implications of current economic data and changing market conditions.

For the purposes of MiFID II, the JPM Market Insights and Portfolio Insights programs are marketing communications and are not in scope for any MiFID II / MiFIR requirements specifically related to investment research. Furthermore, the J.P. Morgan Asset Management Market Insights and Portfolio Insights programs, as non-independent research, have not been prepared in accordance with legal requirements designed to promote the independence of investment research, nor are they subject to any prohibition on dealing ahead of the dissemination of investment research.

This document is a general communication being provided for informational purposes only. It is educational in nature and not designed to be used as advice or a recommendation for any specific investment product, strategy, plan feature or other purpose in any jurisdiction, nor is it a commitment from J.P. Morgan Asset Management or any of its subsidiaries to participate in any of the transactions mentioned herein. Any examples used are generic, hypothetical and for illustration purposes only. This material does not contain sufficient information to support an investment decision and it should not be relied upon by you in evaluating the merits of investing in any securities or products. In addition, users should make an independent assessment of the legal, regulatory, tax, credit and accounting implications and determine, together with their own professional advisers, if any investment mentioned herein is believed to be suitable to their personal goals. Investors should ensure that they obtain all available relevant information before making any investment. Any forecasts, figures, opinions or investment techniques and strategies set out are for information purposes only, based on certain assumptions and current market conditions and are subject to change without prior notice. All information presented herein is considered to be accurate at the time of production, but no warranty of accuracy is given and no liability in respect of any error or omission is accepted. It should be noted that investment involves risks, the value of investments and the income from them may fluctuate in accordance with market conditions and taxation agreements and investors may not get back the full amount invested. Both past performance and yields are not reliable indicators of current and future results.

J.P. Morgan Asset Management is the brand for the asset management business of JPMorgan Chase & Co. and its affiliates worldwide.

To the extent permitted by applicable law, we may record telephone calls and monitor electronic communications to comply with our legal and regulatory obligations and internal policies. Personal data will be collected, stored and processed by J.P. Morgan Asset Management in accordance with our [Company's Privacy Policy](#). For further information regarding our regional privacy policies please refer to the [EMEA Privacy Policy](#); for locational Asia Pacific privacy policies, please click on the respective links: [Hong Kong Privacy Policy](#), [Australia Privacy Policy](#), [Taiwan Privacy Policy](#), [Japan Privacy Policy](#) and [Singapore Privacy Policy](#).

This communication is issued by the following entities: in the United Kingdom by JPMorgan Asset Management (UK) Limited, which is authorized and regulated by the Financial Conduct Authority; in other European jurisdictions by JPMorgan Asset Management (Europe) S.à r.l.; in Hong Kong by JF Asset Management Limited, or JPMorgan Funds (Asia) Limited, or JPMorgan Asset Management Real Assets (Asia) Limited; in Singapore by JPMorgan Asset Management (Singapore) Limited (Co. Reg. No. 197601586K), or JPMorgan Asset Management Real Assets (Singapore) Pte Ltd (Co. Reg. No. 201120355E); in Taiwan by JPMorgan Asset Management (Taiwan) Limited; in Japan by JPMorgan Asset Management (Japan) Limited which is a member of the Investment Trusts Association, Japan, the Japan Investment Advisers Association, Type II Financial Instruments Firms Association and the Japan Securities Dealers Association and is regulated by the Financial Services Agency (registration number "Kanto Local Finance Bureau (Financial Instruments Firm) No. 330"); in Australia to wholesale clients only as defined in section 761A and 761G of the Corporations Act 2001 (Cth) by JPMorgan Asset Management (Australia) Limited (ABN 55143832080) (AFSL 376919); in Brazil by Banco J.P. Morgan S.A.; in Canada for institutional clients' use only by JPMorgan Asset Management (Canada) Inc., and in the United States by JPMorgan Distribution Services Inc. and J.P. Morgan Institutional Investments, Inc., both members of FINRA; and J.P. Morgan Investment Management Inc.

In APAC, distribution is for Hong Kong, Taiwan, Japan and Singapore. For all other countries in APAC, to intended recipients only.

Copyright 2019 JPMorgan Chase & Co. All rights reserved.

Material ID: 0903c02a8261d0ea