Market Bulletin

August 13, 2020

Introducing our Asia COVID-19 tracker

COVID-19 has given us a glimpse of how different governments around the world manage the economic and social fallouts of a pandemic. As one of the first regions to be hit, Asia has also arguably, led the way in terms of dealing with the pandemic. A combination of strict social distancing measures and the willingness of people to comply with these rules, have generally helped to keep cases down, relative to other regions.

Nevertheless, even within Asia, there are varying degrees of success. It is important to consider the different experiences of each market, which will naturally result in different investment implications.

While it is certainly too early to label any economy as a success story, we think that now is an opportune time to take stock of how well economies in Asia have fared relative to each other. This should help provide an indication of how well they can respond should cases surge again, as well as the government's ability to support growth over this period.

Based on these objectives, we have developed a framework to better visualize the impact of COVID-19 on these economies.

Breaking down our COVID-19 framework

We think that the main factors which will impact economic recovery can be split into two broad categories.

First is the risk of a delay in economic reopening, which is largely dependent on infections and by extension, medical preparedness. Ultimately, the pandemic is a health issue at its core. Unless infection rates can be brought under control, recovery in economic activity will likely be delayed. The factors we looked at include recent infection and mortality rates, the positivity rate of testing, hospital bed availability, and social distancing measures. Each economy is ranked relative to others based on these factors, and the factors are weighted according to their relative importance to give an overall "risk" score.

Ian Hui
Global Market Strategist

Alex Yeo
Market Analyst

Second is the ability and effectiveness of governments to respond, which play a crucial role in ensuring that companies outlast the duration of the pandemic. As with the first approach, we ranked each economy based on several factors to come up with a "policy" score. The factors we looked at include fiscal and monetary policy, external vulnerability (reserve adequacy and current account deficits), and gross debt-to-Gross Domestic Product (GDP). Fiscal and monetary policy reflect the extent to which governments have responded so far. External vulnerability and gross debt-to-GDP are used as proxies for indebtedness to give us an indication of how much room these governments have left for additional stimulus in future.

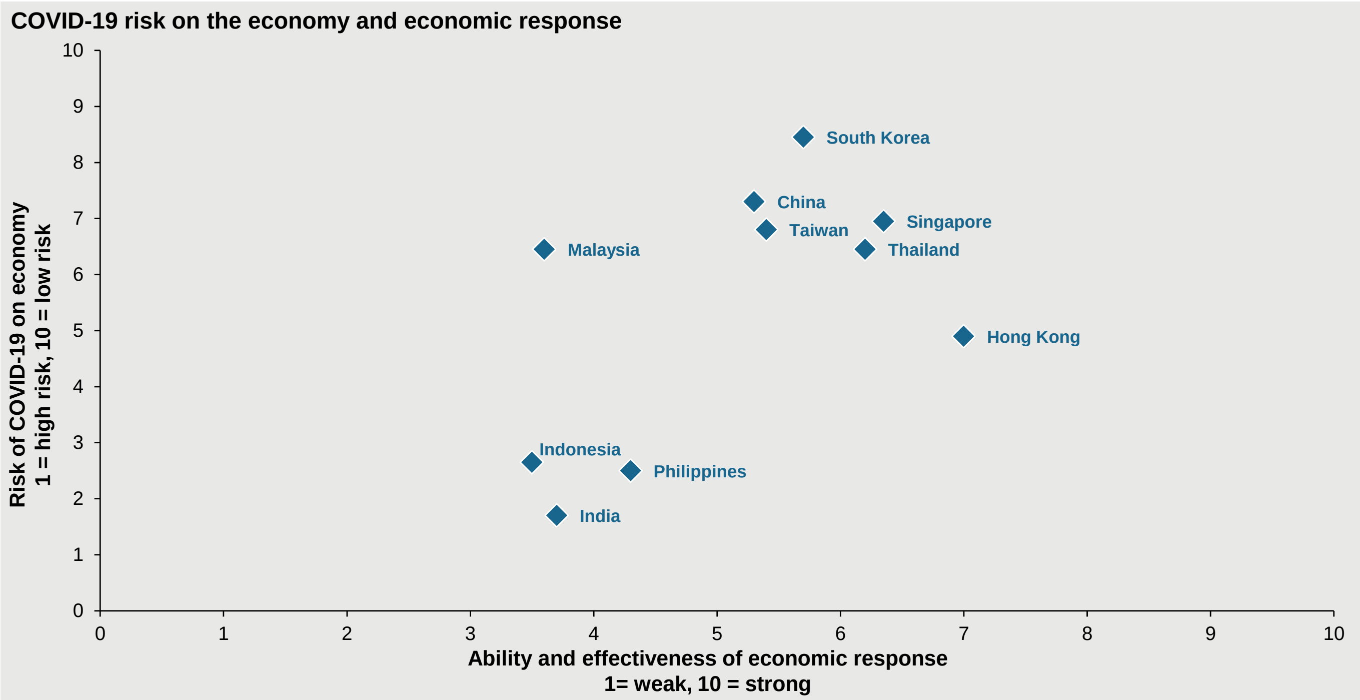
Aggregating the data, the "risk" score is then plotted on the Y-axis, while the "policy" score is plotted on the X-axis. For simplicity, each market is ranked between a score of 1-10. Economies that score higher in our framework are potentially better equipped to deal with the pandemic.

A way of looking at this framework is that the Y-axis tracks higher frequency data, while the X-axis tends to be more stable. This is because governments' ability to respond is dependent on their inherent financial and political health going into the crisis, which is less likely to change. On the other hand, the risk of infections can arise any time. Intuitively, this means that each market will likely stay within the same area along the horizontal axis, and move along the vertical axis as the pandemic develops.

Not all markets in Asia are equal

As shown in **Exhibit 1**, there is a clear divide between the experiences of Asian economies so far. Our framework acts a guide which we can use to examine these differences further.

EXHIBIT 1: COVID-19 FRAMEWORK



Source: FactSet, International Monetary Fund, Johns Hopkins University, Our World in Data, various central banks, J.P. Morgan Asset Management. Factors used to rank risk of COVID-19 on economy are weighted accordingly: infection rates (30%), social distancing (25%), hospital bed availability (20%), positivity rate of testing (15%), and mortality rates (10%). Factors used to rank ability and effectiveness of economic response are weighted accordingly: fiscal policy (30%), foreign reserve adequacy (20%), current account deficit (20%), gross government debt to gross domestic product ratio (20%), and monetary policy (10%).
Data reflect most recently available as of 09/08/20.

With the exception of Singapore and Thailand, South Asia has been relatively muted in their fiscal response to the pandemic compared to economies in North Asia. Within South Asia, the split between countries is largely due to external vulnerability factors. In particular, India, Indonesia, and Philippines all run current account deficits, which limit their ability to borrow from foreign sources without incurring a higher risk of default or currency volatility.

By the same token, economies that end up further to the right of our framework have shown the ability and willingness to enact strong responses so far. The split between economies here will largely lie in the risk of another wave of infections. Hong Kong, which had done relatively well in containing the virus until recently, moved down in our framework after the recent record spike in infections.

Investment Implications

Given that COVID-19 will continue to dominate much of the investment narrative for the year, it is useful for investors to look at Asian economies through a “COVID-19 lens” to guide their asset allocation decisions. With the framework outlined above, we take a more optimistic view on economies that have fared well, although there are some caveats. For instance, within ASEAN, Singapore and Thailand have fared favorably, but hardline social measures have also translated to weak economic numbers so far. Still, this may suggest a quicker recovery for both countries once their economies reopen.

Furthermore, there are elements of the pandemic that may not by captured by this framework which investors should still be aware of. For instance, the economic structures of Thailand and Hong Kong mean they are more dependent on tourism than other economies, such as India. This may make them more susceptible to the economic effects of the pandemic, especially if international travel continues to be restricted.

Lastly, although geopolitical tensions remain a key risk, we think that China still provides a good mix of lower COVID risk, strong policy response, and a favorable macroeconomic backdrop. Economic indicators show signs of promise, with consumption and exports picking up. In a sense, China has benefitted from being heavily impacted early on to learn how to manage the crisis effectively, which has contributed to the early restart of its economy.

J.P.Morgan
Asset Management