

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.

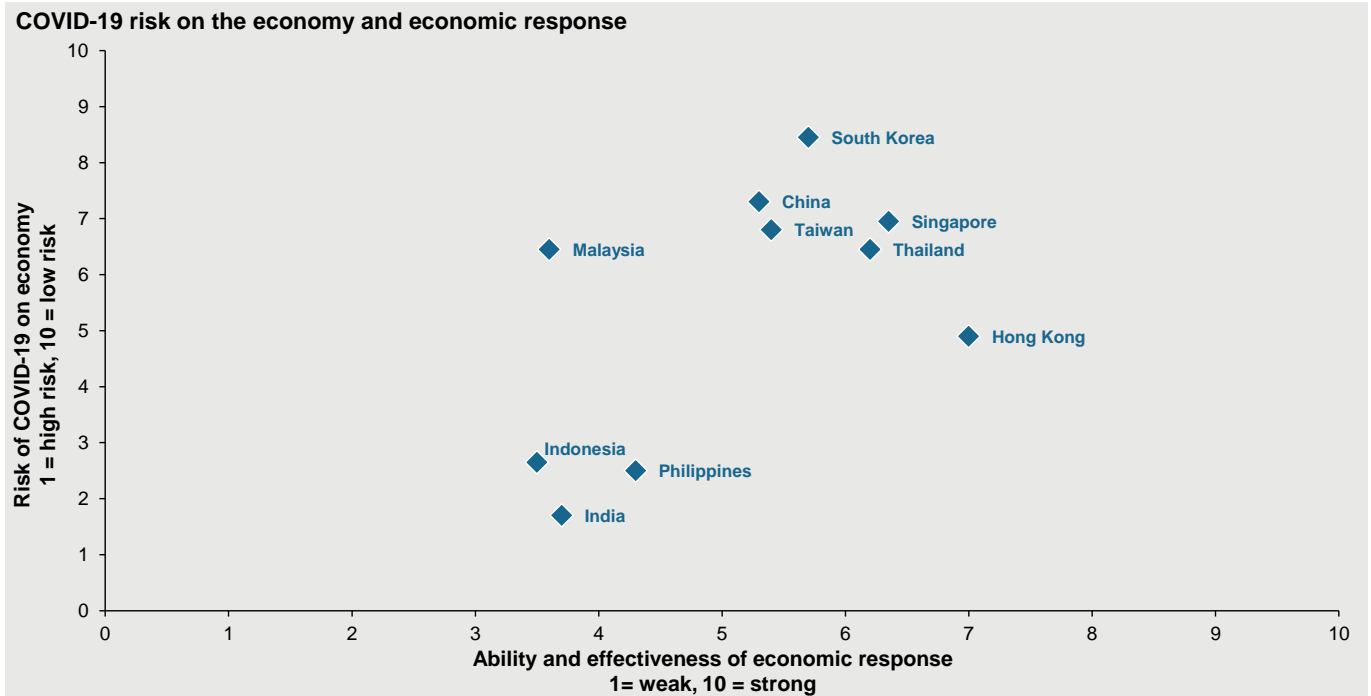
Aggregating the data, the “risk” score is then plotted on the Y-axis, while the “policy” score is plotted on the X-axis. For simplicity, each market is ranked between a score of 1-10. Economies that score higher in our framework are potentially better equipped to deal with the pandemic.

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 be 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.

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 taken 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 financial professional, if any investment mentioned herein is believed to be appropriate 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 privacy policies at <https://am.jpmorgan.com/global/privacy>.

This communication is issued by the following entities:

In the United States, by J.P. Morgan Investment Management Inc. or J.P. Morgan Alternative Asset Management, Inc., both regulated by the Securities and Exchange Commission; in Latin America, for intended recipients' use only, by local J.P. Morgan entities, as the case may be. In Canada, for institutional clients' use only, by JPMorgan Asset Management (Canada) Inc., which is a registered Portfolio Manager and Exempt Market Dealer in all Canadian provinces and territories except the Yukon and is also registered as an Investment Fund Manager in British Columbia, Ontario, Quebec and Newfoundland and Labrador. 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 Asia Pacific ("APAC"), by the following issuing entities and in the respective jurisdictions in which they are primarily regulated: JPMorgan Asset Management (Asia Pacific) Limited, or JPMorgan Funds (Asia) Limited, or JPMorgan Asset Management Real Assets (Asia) Limited, each of which is regulated by the Securities and Futures Commission of Hong Kong; JPMorgan Asset Management (Singapore) Limited (Co. Reg. No. 197601586K), this advertisement or publication has not been reviewed by the Monetary Authority of Singapore; JPMorgan Asset Management (Taiwan) Limited; 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 (Commonwealth), by JPMorgan Asset Management (Australia) Limited (ABN 55143832080) (AFSL 376919). For all other markets in APAC, to intended recipients only.

For U.S. only: If you are a person with a disability and need additional support in viewing the material, please call us at 1-800-343-1113 for assistance.

Copyright 2020 JPMorgan Chase & Co. All rights reserved.

Material ID: 0903c02a829a7a96