TICKERS: JREC*, JRDC

China: The Macro Case

JP Morgan ETFs (Ireland) ICAV

China A Research Enhanced Index Equity (ESG) UCITS ETF*

Macro policy remains supportive

A key difference between China and elsewhere is its policy bias, which is currently towards easing rather than tightening. With inflation below target – unlike in the West – the People's Bank of China has been able to commit to maintaining monetary support through 2023. This easing is helping boost credit growth, which should support both household and corporate spending. Fiscal stimulus is also set to continue. Local government bond issuance has already accelerated, with a focus on infrastructure investments, and further spending has also been announced. This policy support, which is likely to boost both consumption and corporate spending, suggests China's economy could prove a countercyclical bright spot in an otherwise slowing world economy.

Source: Bloomberg, MSCI, People's Bank of China, J.P. Morgan Asset Management. Credit growth is the 12-month change in the credit stock to the real economy as a percent of nominal GDP. Data as of 31 March 2023.

Exhibit 1: China credit growth

% of nominal GDP

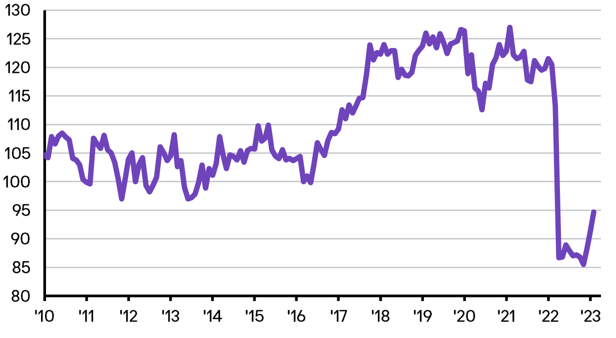
The growth outlook is positive

The loosening of 'zero-Covid' restrictions at the start of 2023 should continue to bolster Chinese consumer confidence and domestic consumption through the rest of this year. Pent-up demand from consumers whose spending was restricted led to a substantial build-up in household savings over the past three years: 2022 alone saw an increase of USD 2.5trn in consumer deposits. Now that restrictions have largely been removed, 'revenge spending' and the run-down of these excess savings will support consumption. A less constrained economy also increases the effectiveness of ongoing monetary and fiscal stimulus. Taken together, the near-term growth picture for the Chinese economy looks positive.

Source: National Bureau of Statistics of China, Refinitiv Datastream, J.P. Morgan Asset Management. Data as of 31 March 2023.

Exhibit 2: China consumer confidence

Index level



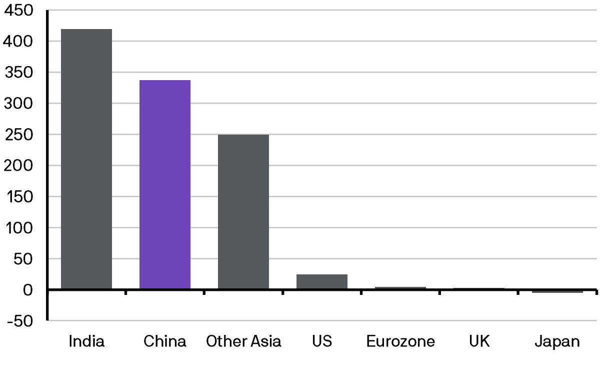
Structural trends create major opportunities

Cyclical tailwinds align with several positive structural trends underpinning investment opportunities in China. A growing middle class will support consumption in the medium term, providing a longer-term boost for domestic companies. Any renewed push to reduce income inequality could bring another round of middle-class income growth, strengthening the spending power of the average citizen and further aiding demand for consumer goods and services. Industrial policy to substitute tech imports is already attracting fresh investment. Alongside this, decarbonisation (both in China and globally) should contribute to growth in renewable energy, electric vehicles and industrial transformation over the coming decade, areas in which China already has an advantage.

Source: Brookings Institute, J.P. Morgan Asset Management. Change in "consumer class" is the change in the number of people from 2020 to 2030 living in a household and spending at least USD 11 per day per person. Other Asia includes Bangladesh, Indonesia, Pakistan, Philippines and Vietnam. Eurozone includes France, Germany, Italy and Spain. Data as of 31 March 2023.

Exhibit 3: Estimated change in "consumer class"

Millions of people, by 2030



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