JREM: The Macro Case

JP Morgan ETFs (Ireland) ICAV

Global Emerging Markets Research Enhanced Index Equity (ESG) UCITS ETF*

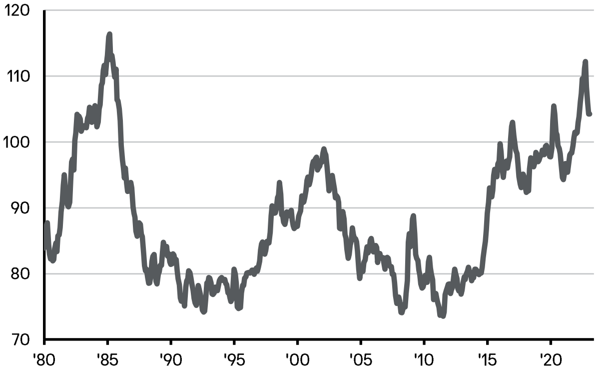
EM country fundamentals appear resilient

With developed market (DM) hiking cycles now maturing, a significant tightening of financial conditions has already been priced in for emerging markets. As DM central banks eventually pause, this could allow some EM countries – whose hiking cycles are, on average, well advanced – to begin cutting rates later in 2023. A softening US dollar is another potential support for EM, as are resilient growth projections – the IMF forecasts emerging economies to grow at triple the rate of developed markets in both 2023 and 2024. This is partly due to robust EM fundamentals. Improved current account surpluses and stronger reserve positions in EM Asia and other exporters should mean these economies prove more resilient this time around. China's countercyclical recovery is an additional help.

Source: Bank for International Settlements, Refinitiv Datastream, J.P. Morgan Asset Management. Real effective exchange rate is a geometric average of bilateral exchange rates, adjusted by relative consumer prices. Past performance is not a reliable indicator of current and future results. Data as of 31 March 2023.

Exhibit 1: USD real effective exchange rate

Index level



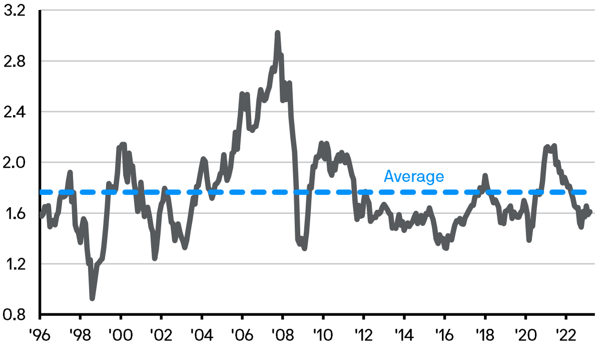
Valuations are reasonable

Emerging market equities were hit hard in 2022, dragged down by a substantial sell-off in China, geopolitical risks, recession fears, and developed market central bank tightening. However, tightening cycles are nearing their close and the all-important Chinese economy is now in full recovery mode, with a large cushion of surplus savings ready to be spent. EM valuations remain broadly below long-run averages, as well as sitting at a relatively large discount to developed markets versus history. While political risks have not disappeared, profits are also outperforming those in the developed world. Earnings downgrades are more advanced in emerging economies than elsewhere, and EM corporate balance sheets and cash buffers remain in a position of relative strength.

Source: IBES, MSCI, Refinitiv Datastream, J.P. Morgan Asset Management. Past performance is not a reliable indicator of current and future results. Data as of 31 March 2023.

Exhibit 2: MSCI EM price-to-book ratio

x, multiple



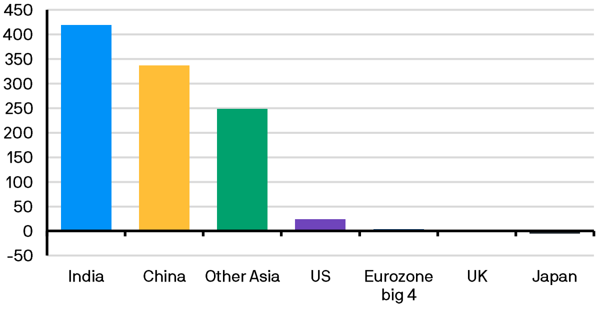
The long-term opportunity is compelling

Looking further out, long-term growth in the emerging consumer should provide a structural boost for EM equities. This is particularly the case in Asia, where over one billion people could be added to middle- and upper-income groups by 2030. Favourable demographics, urbanisation and the growth of this 'consumer class' will likely see consumption grow and domestic markets expand. Spending patterns are already shifting as emerging economies continue to move away from low cost, labour intensive industries and toward service-oriented sectors. This growth in domestic demand via an expanding middle class should provide a strong tailwind for EM corporate profits.

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. Data as of 31 March 2023.

Exhibit 3: Estimated change in the 'consumer class' by 2030

Millions of people



***For France only:** Investors should note that, relative to the expectations of the Autorité des Marchés Financiers, JREM presents disproportionate communication on the consideration of non-financial criteria in its investment policy.