

China's early start on the road to recovery

March 2021

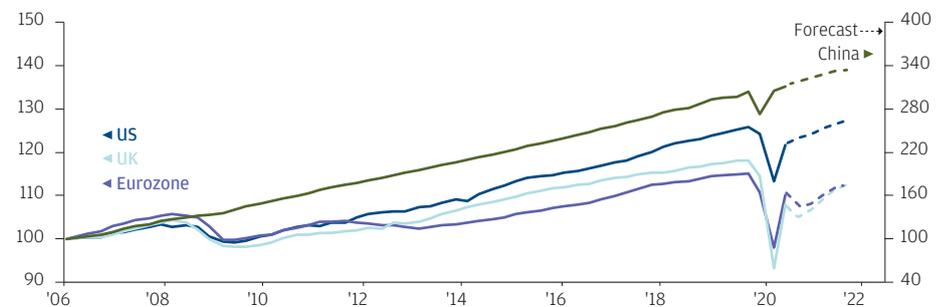
China is among the earliest economies to shake off the effects of the severe economic and social disruption caused by the global public health crisis. As the nation continues along its road to recovery, we believe a consolidating economy and a cautious central bank have made Chinese assets relatively attractive.

Year of the Ox

China - the first country hit by the pandemic - is also among the first to come out the other side. And, compared to its global peers, it has emerged relatively unscathed. Indeed, China was one of the few economies to actually grow in 2020: GDP in the final quarter was up 6.5%¹, with the economy growing 2.3% over 2020 as a whole, versus a global contraction of 3.5%.²

Most mobility restrictions have now been lifted, and mobile phone 'health codes' are being used to mitigate the risk of new waves of infection. With recent data releases also showing industrial output in the country expanding in the last three quarters of 2020 - bolstered by the manufacturing sector and steady exports³ - it certainly looks like a positive start to the Year of the Ox.

EXHIBIT 1: REAL GDP GROWTH INDEX LEVEL, REBASED TO 100 AT 1Q 2006



Source: BEA, Bloomberg, Eurostat, National Bureau of Statistics of China, ONS, J.P. Morgan Asset Management. Forecasts are from Bloomberg contributor composite. Past performance is not a reliable indicator of current and future results. Guide to the Markets - Europe. Data as of 31 December 2020.

¹ Thomas Hale, 'China's economy expands at faster rate than before coronavirus' (Financial Times, 18 January 2021)

² International Monetary Fund, 'World Economic Outlook Update' (January 2021)

³ <https://www.reuters.com/article/us-china-economy-activity-idUSKBN29N042>

Bulls in China

The Chinese government has taken a different approach from developed market governments in terms of fiscal stimulus, relying mainly on infrastructure investment instead of cash handouts to help stabilise its economy. Investment, particularly state-led infrastructure projects, has been the major contributor to the recovery since April. The consumption and services sectors are also picking up, strengthening the economic resurgence in the second half of 2020.

The recovery allows the People's Bank of China (PBOC) to carry out a balanced monetary policy, focusing on targeted support to the real economy. Since the PBOC has avoided large-scale liquidity injections and asset purchases, the renminbi has remained strong against the US dollar - hitting a 30-month high in January this year.⁴

With the US dollar forecast to weaken in the medium term, the PBOC should have more flexibility in allowing the renminbi to appreciate. While this may seem to undermine China's export competitiveness, a stronger RMB would also imply cheaper imports of consumer goods, raw materials and manufacturing components.

Moreover, China is looking to attract more international capital into its financial markets, so a modest appreciation could enhance the appeal of Chinese assets.

The real economy

Support to the real economy - particularly SMEs and the technology sector - remains the top priority for the PBOC.

China's cyclical upswing could add to a broad range of structural growth factors that would favour companies in the new economy. If anything, the public health crisis has accelerated technology adoption in finance, education, healthcare and other areas within the services sector. Beijing has committed USD 1.4 trillion of investment to accelerate digital growth infrastructure in its bid to become a global tech leader, reducing reliance on foreign names while strengthening local ones.

Five years forward

Chinese policymakers are focusing on long-term potential, with an emphasis on the quality (rather than quantity) of economic growth. In China's 14th five-year plan, domestic consumption and technological innovation are the focal points.

Domestic leaders in the consumer services and technology sectors - sectors that are key components of China's stock markets - could become the major beneficiaries of these new policies, creating a wealth of growth opportunities for investors.

⁴ Hudson Lockett, 'China's currency heads into Biden era on front foot' (Financial Times, 22 January 2021)

For the purposes of MiFID II, the JPM Market Insights and Portfolio Insights programmes 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 programmes, 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 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 a reliable indicator of current and future results. J.P. Morgan Asset Management is the brand name 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 EMEA Privacy Policy www.jpmorgan.com/emea-privacy-policy. This communication is issued in Europe (excluding UK) by JPMorgan Asset Management (Europe) S.à r.l., 6 route de Trèves, L-2633 Senningerberg, Grand Duchy of Luxembourg, R.C.S. Luxembourg B27900, corporate capital EUR 10.000.000. This communication is issued in the UK by JPMorgan Asset Management (UK) Limited, which is authorised and regulated by the Financial Conduct Authority. Registered in England No. 01161446. Registered address: 25 Bank Street, Canary Wharf, London E14 5JP..