J.P.Morgan
Asset Management

September 2020

Is the Fed's new framework a boon for Asia?

Key takeaways:

- The Federal Reserve (Fed) recently announced a new monetary policy framework which will allow for higher inflation temporarily to help sustain US economic growth.
- With rates likely to be lower for longer, we continue to see potential opportunities in Asian equities[1] backed by long-term structural growth, reinforcing our constructive view on risk assets such as equities.

"Don't fight the Fed" is a common saying in the market. Generally, the Fed's take on policies is considered by some investors as an indicator of the market's outlook. And recently, the Fed adjusted its monetary policy framework.

We share our views on three questions on the minds of investors about the investment implications of this new policy.

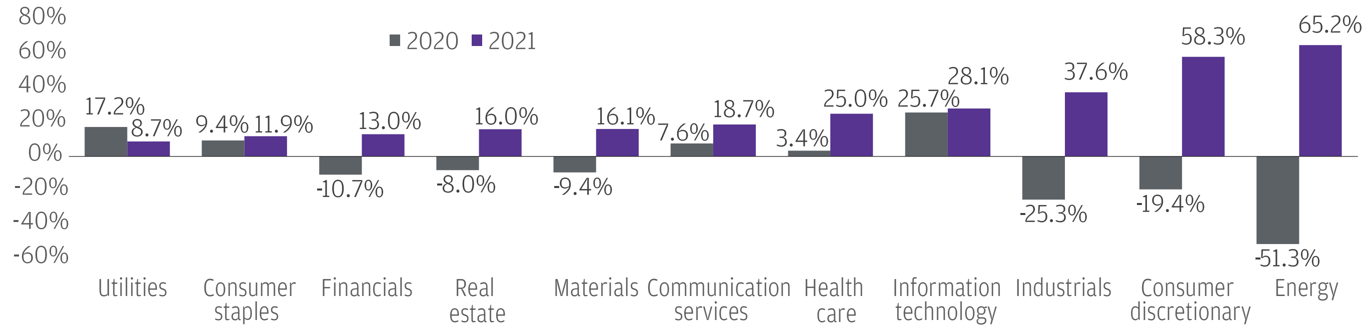
Q1. What do changes under the Fed's new framework mean for investors?

- The Fed announced on 27 August 2020 it will adopt a new monetary policy framework, where it will **move to an average inflation target of 2%.** If inflation has been below this target, the Fed would **tolerate a period of above 2% inflation to achieve this average target.**
- The core personal consumption expenditures deflator, **the Fed's preferred measure for inflation, averaged 1.7% in the past five years** and only rose above the 2% target for three quarters during this period.
- The Fed's latest change in monetary policy framework is a move to leverage its credibility to boost inflation expectations. The Fed is more tolerant of inflation and holding back on tightening monetary policy, including reducing asset purchases and raising interest rates, because its **most urgent task is to keep supporting the US economy.**

Q2. As monetary easing persists, where could investors find opportunities in risk assets[1]?

- With the Fed expected to keep rates lower for even longer, and employ a range of policies to achieve its inflation target, **our constructive view on risk assets such as equities and corporate debt is reinforced.**
- As growth in developed market economies stays sluggish, demographic change and urbanisation in Asia are driving long-term trends that make the region a compelling avenue for investors seeking growth opportunities.
- Asia Pacific (APAC) ex-Japan equities **rebounded in the second quarter with a 18.5% gain**, reversing a decline of 20.7% in the first quarter[2].
- A number of sectors in the APAC ex-Japan equities are also showing **improving earnings expectations[3].**

APAC ex-Japan equities: earnings expectations by sector[3]
Earnings per share, year-over-year change, consensus estimates



1. For illustrative purposes only based on current market conditions, subject to change from time to time. Not all investments are suitable for all investors. Exact allocation of portfolio depends on each individual's circumstance and market conditions.
2. Source: Bloomberg Finance L.P., MSCI, J.P. Morgan Asset Management. Index used is MSCI AC Asia Pacific ex-Japan Index. Indices do not include any fees or operating expenses and are not available for actual investment. Past performance is not a reliable indicator of current or future results. Data reflect most recently available as of 30.06.2020.
3. Source: FactSet, MSCI, J.P. Morgan Asset Management. Sector indices used are from the MSCI AC Asia Pacific ex-Japan Index. Indices do not include any fees or operating expenses and are not available for actual investment. Consensus estimates used are calendar year estimates from FactSet. Provided for information only to illustrate general market trends not to be construed as research or investment advice. Forecasts/ estimates are indicate and may or may not come to pass. Past performance is not a reliable indicator of current or future results. Data reflect most recently available as of 14.08.2020.

Q3. How do we seek to capture opportunities in Asian equities[1]?

1. Optimising opportunities across sectors

Asia's growing middle class is driving long-term demand growth across sectors, independent of the economic cycle.

Lifestyle upgrades

Changes in consumer behaviour, such as ecommerce and tourism demand, are driving cross-sector growth

Financial deepening

Demand is growing for savings products, pension plans and insurance

Demographic change

The transformation of population structures is creating a wide range of opportunities, from consumer services to healthcare

2. Focusing on quality and growth

A professional investment team with local expertise and long-term experience in the region is well positioned to identify companies that we believe could benefit from Asia's transformation trend.

Quality

Adopting a fundamental, bottom-up, research-driven approach

Growth

Focusing on profitable companies with sustainable return potential and growth prospects

Conclusion

As the US economy has seen its inflation running below target for an extended period of time, the latest shift implies the Fed is more tolerant of inflation and holding back on tightening monetary policy.

With US monetary policy likely to stay accommodative for even longer, we continue to see opportunities in Asian equities backed by long-term structural growth trends.

LET'S SOLVE IT.

Provided for information only based on market conditions as of date of publication, not to be construed as investment recommendation or advice. Forecasts/ estimates may or may not come to pass.

1. For illustrative purposes only based on current market conditions, subject to change from time to time. Not all investments are suitable for all investors. Exact allocation of portfolio depends on each individual's circumstance and market conditions.

The views contained herein are not to be taken as advice or a recommendation to buy or sell any investment 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 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. 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. 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.