In collaboration with: J.P.Morgan Asset Management

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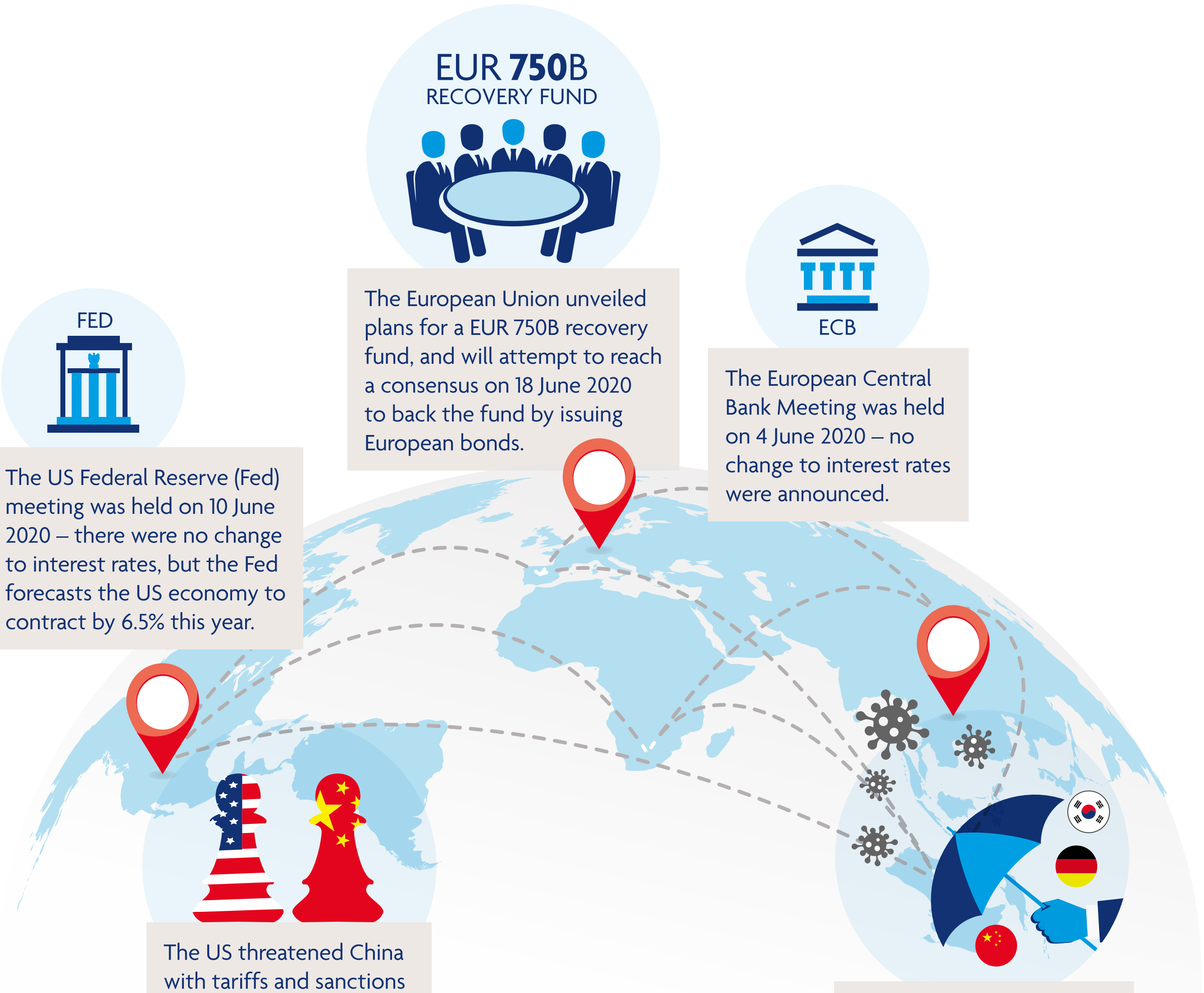
Market PowerBar

JUNE 2020

Key Events at a Glance



The European Union unveiled plans for a EUR 750B recovery fund, and will attempt to reach a consensus on 18 June 2020 to back the fund by issuing European bonds.

The US Federal Reserve (Fed) meeting was held on 10 June 2020 – there were no change to interest rates, but the Fed forecasts the US economy to contract by 6.5% this year.

The European Central Bank Meeting was held on 4 June 2020 – no change to interest rates were announced.

The US threatened China with tariffs and sanctions throughout May, with the Trump administration seeking punitive measures on China over the COVID-19 pandemic.

Global markets were generally optimistic in the months of May and June as more countries reopened their economies. However, second waves of infection were observed in **China**, **South Korea** and to a lesser extent, **Germany**.

Topic 1:

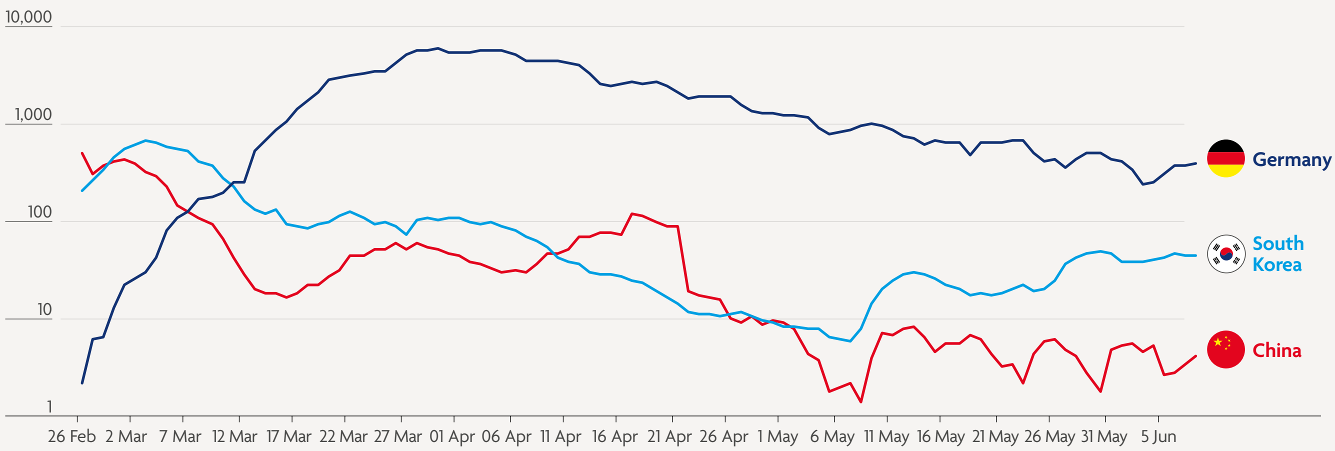
The risk of countries re-opening too early

The early re-opening of economies will bring about the possibility of a second wave of coronavirus infections. This will be a key downside risk to markets as reinstating lockdowns will cause further impact.

Even with economies re-opening, demand is expected to remain relatively weak. The unemployment rate remains near record high and consumer sentiment has fallen. Consumer behaviour has changed, with social distancing becoming the new norm.

Daily increase in COVID-19 cases

5-day moving average, logarithmic scale



Source: Johns Hopkins University, J.P. Morgan Asset Management. Data as at 8 June 2020. Forecasts or estimates provided for information only, may or may not come to pass.

Views & Implications:

- Economic activity will take many months to recover to pre-pandemic levels.
- Although equity markets have recovered quickly, investors should remain cautious on possible sell-offs caused by the return of lockdowns or geopolitical tensions.
- Fixed income assets, such as Asian investment grade bonds or BB-rated US high yield bonds, are possible options should you wish to diversify your portfolio.

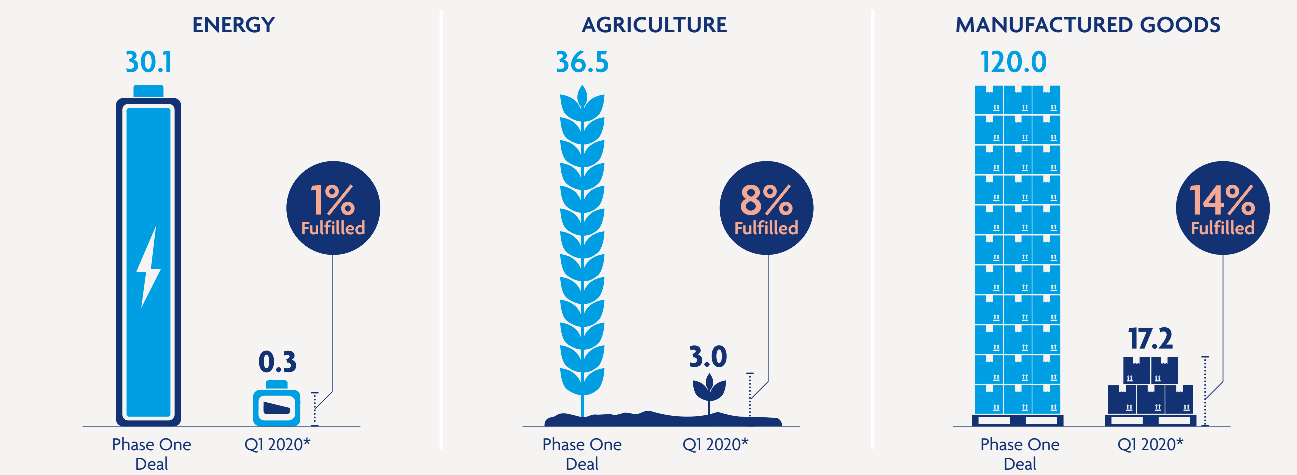
Topic 2:

China's progress on the Phase One trade deal amid rising tensions

Escalating tensions between the US and China are raising concerns as to whether the Phase One trade deal signed in January 2020 could be in jeopardy.

China's purchases of US goods and services year-to-date have been running behind the terms stated in the Phase One trade deal.

As the November US presidential election approaches, US politicians may feel the need to be 'tougher' on China. *(See Mapping Possible Implications of US-China Tensions, 29 May 2020 for a more in-depth insight in this area.)*



Source: U.S. Trade Representative, U.S. Census Bureau, J.P. Morgan Asset Management. *Estimates. Data as at 8 June 2020.

Views & Implications:

- It is unlikely that China will be able to meet its obligations within 2020.
- The US could use this as leverage to escalate tensions further.
- We continue to maintain a positive view on China equities for its long-term drivers, but investors should stay cautious in the near-term as some market volatility is expected.
- Any significant sell-off for China equity in the near-term could be a good opportunity to invest in the China megatrend.

Topic 3:

Why the US equity market does not reflect underlying economic weakness

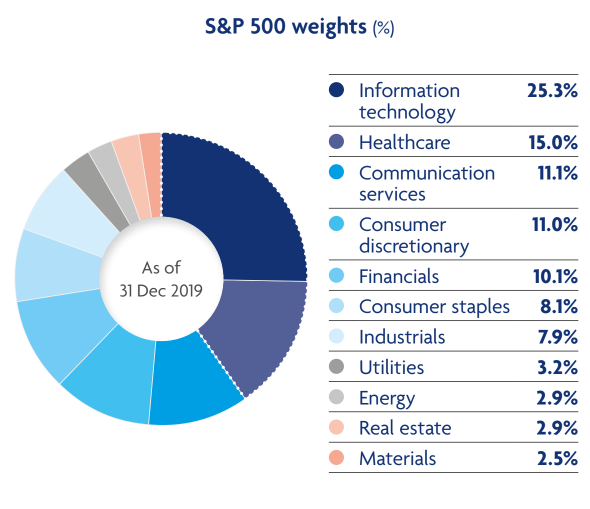
Some investors are wondering why equity markets have made a good recovery despite the poor economic numbers, such as high unemployment rates and negative economic growth rates.

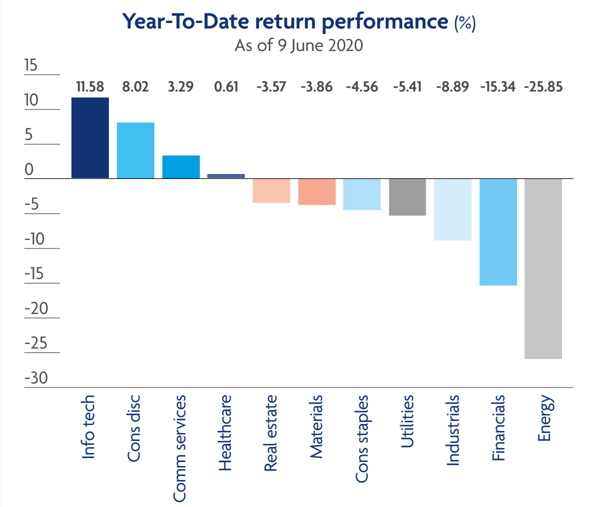
By delving deeper into the sectors, we can observe the uneven performance of the various equity sectors.

The breadth of the US stock market rally has been narrow, led largely by quality growth equities. Investors have been increasingly willing to pay a premium for growth stocks that have shown resilience in this low growth, low interest rates environment.

These quality growth stocks make up a disproportionate share of the S&P 500 index and as a result, they have helped to lift the index. Therefore, the overall equity market's performance does not reflect the broader economy.

S&P 500 weights vs year-to-date return performance





Source: Bloomberg.

Views & Implications:

- Investors are discriminating by buying into sectors that are more resilient during this recession. The rest of the sectors have not benefitted as much.
- A narrow market rally led by a few mega-cap companies can easily turn back down if negative surprises erupt.
- We remain positive on global quality growth equities over the long term. They should perform well as economic activity gradually recovers to pre-pandemic levels. Buy these in tranches or upon further drawdowns.
- In the short term, investors who have lower risk appetite can consider asset allocation solutions to reduce the risk of potential drawdowns.

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