

Monthly Market Review

Asia Pacific | December 2018

Global economy:

- Federal Reserve (Fed) Chairman Jay Powell surprised the market by suggesting that policy rate is “just below” neutral, compared with “a long way” from neutral back in October. Investors interpreted this as the Fed signaling that rate increases going forward would start to slow down. Powell’s view may also be influenced by the recent slowdown in economic data, including housing and corporate spending. There are also concerns that high corporate leverage could hurt growth going forward. (GTMA P. 21, 24, 25)
- The U.S. and China have agreed to postpone tariff increases for 90 days as the two sides continue to negotiate to reach a consensus. This reflects both sides are concerned about the potential negative growth impact from an escalating trade war. However, a sustained resolution continues to be difficult given the growing rivalry between the two sides over technology development and market access. (GTMA P. 15)

Equities:

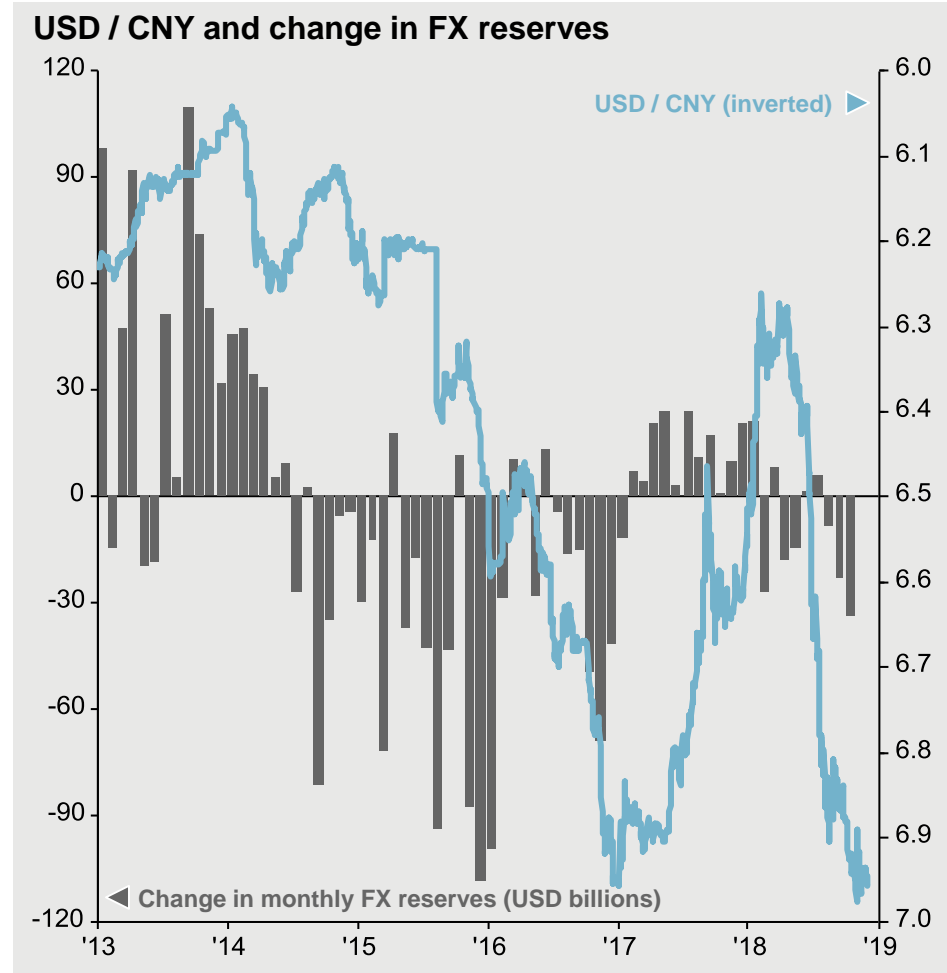
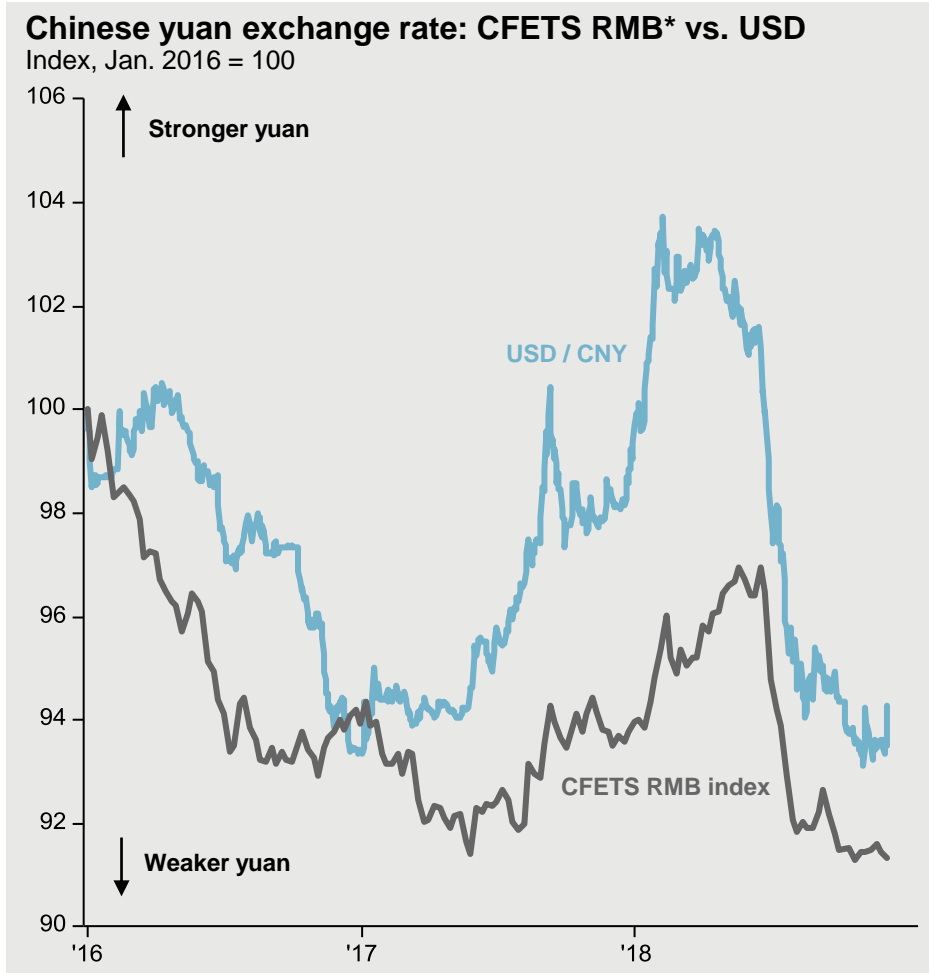
- Following a challenging October, the global equity market enjoyed modest recovery in November. Prospects of slower rate hikes by the Fed boosted investor sentiment in the U.S., with the S&P 500 up 1.4% in the month, even though the technology sector remains under pressure due to more cautious sentiment toward demand for consumer electronics and potential regulatory challenges facing a number of social media companies. (GTMA P. 28)
- Select Asian markets are recovering from the year’s underperformance relative to the U.S. In particular, India (+3.4%), Indonesia (+2.5%) and the Philippines (+3.2%) have benefited from a stabilization in the U.S. dollar. The temporary calm in the trade tension between the U.S. and China should also help to improve investor confidence. (GTMA P. 28, 34)

Fixed income:

- Having reached above 3.2% in early November, the 10-year U.S. Treasury yield fell on the back of the more dovish tone from the Fed’s chairman, as well as softer economic data. The 2-year UST yield also fell by 15bps as expectation of Fed hikes is tempered. In Europe, the German Bund yield also fell and approached the year’s low on the back of softer economic data and uncertainties from the Italian budget situation, despite the European Central Bank’s commitment to end quantitative easing by the end of 2018. (GTMA P. 43, 44, 48)
- The U.S. high yield corporate debt credit spread widened by 40bps in November as investors started to worry about the potential rise in defaults given the high level of leverage and rising rates. Spread widening also took place in emerging market (EM) debt, both sovereign and corporate, but this trend was slowly turning toward the end of the month given relatively attractive valuation and a more stable U.S. dollar. (GTMA P. 43, 50)

Other assets:

- The USD index moved sideways as the prospect of an aggressive rate hike by the Fed is tempered, along with a heavy long position and expensive valuation. EM currencies that were the worst hit in the summer, including Turkish lira, Indian rupee, Indonesian rupiah and South African rand, made strong recoveries. (GTMA P. 57, 59)
- Brent crude continued its decline in November due to excess supply worries and concerns over weaker demand growth. It fell below USD 60pb briefly until the Organization of the Petroleum Exporting Countries and Russia agreed to extend their coordination on production. (GTMA P. 60)



Source: FactSet, J.P. Morgan Asset Management; (Left) China Foreign Exchange Trade Center, J.P. Morgan Economic Research; (Right) People's Bank of China.
 *CFETS RMB index is the China Foreign Exchange Trade System basket of 24 currencies traded against the Chinese renminbi. Past performance is not a reliable indicator of current and future results.
 Guide to the Markets - Asia. Data reflect most recently available as of 30/11/18.

Monthly inflation trend

Year-over-year change

■ Falling inflation ■ Rising, or steady, inflation

Market	Oct 2017	Nov 2017	Dec 2017	Jan 2018	Feb 2018	Mar 2018	Apr 2018	May 2018	Jun 2018	Jul 2018	Aug 2018	Sep 2018	Oct 2018	Central bank target	Key policy rate* (↓ easing, ↑ tightening)
China	1.9	1.7	1.8	1.5	2.9	2.1	1.8	1.8	1.9	2.1	2.3	2.5	2.5	3.0	4.35 (↓10/2015)
India	3.6	4.9	5.2	5.1	4.4	4.3	4.6	4.9	4.9	4.2	3.7	3.7	3.3	2.0 – 6.0	6.50 (↑8/2018)
Indonesia	3.6	3.3	3.6	3.3	3.2	3.4	3.4	3.2	3.1	3.2	3.2	2.9	3.2	3.0 – 5.0	6.00 (↑11/2018)
Japan	0.2	0.6	1.0	1.4	1.5	1.1	0.6	0.7	0.7	0.9	1.3	1.2	1.4	2.0	-0.1 – 0.0 (↓2/2016)
Korea	1.8	1.3	1.5	1.0	1.4	1.3	1.6	1.5	1.5	1.5	1.4	1.9	2.0	2.0	1.75 (↑11/2018)
Malaysia	3.7	3.3	3.4	2.7	1.4	1.3	1.4	1.8	0.8	0.9	0.2	0.3	0.6	2.0 – 3.0	3.25 (↑1/2018)
Taiwan	-0.3	0.3	1.2	0.9	2.2	1.6	2.0	1.8	1.4	1.8	1.5	1.7	1.2	2.0	1.375 (↓6/2016)
Thailand	0.9	1.0	0.8	0.7	0.4	0.8	1.1	1.5	1.4	1.5	1.6	1.3	1.2	1.0 – 4.0	1.5 (↓4/2015)
U.S.	2.0	2.2	2.1	2.1	2.2	2.4	2.5	2.8	2.9	2.9	2.7	2.3	2.5	2.0	2.0 – 2.25 (↑9/2018)
Eurozone	1.4	1.5	1.4	1.3	1.1	1.3	1.3	1.9	2.0	2.1	2.0	2.1	2.2	2.0	0.00 (↓3/2016)
UK	3.0	3.1	3.0	3.0	2.7	2.5	2.4	2.4	2.4	2.5	2.7	2.4	2.4	2.0	0.75 (↑8/2018)

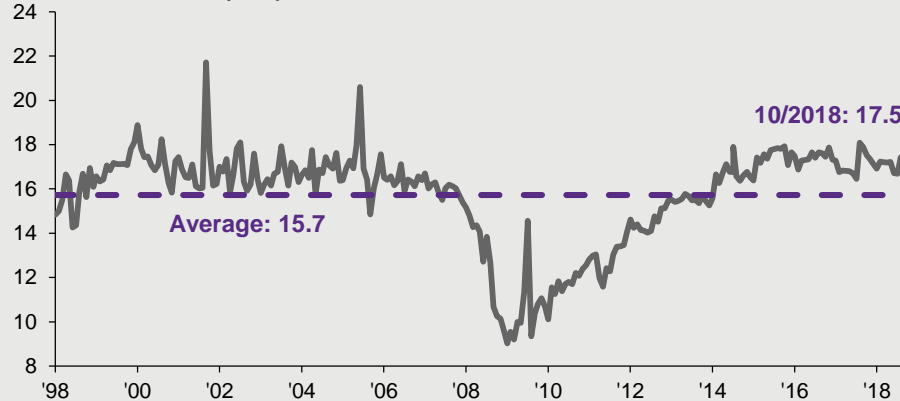
Source: FactSet, various central banks, J.P. Morgan Economic Research, J.P. Morgan Asset Management.

All inflation numbers refer to headline CPI inflation. *Arrows and dates indicate the direction and date of last change, respectively. The central bank's policy rates used are: the one-year benchmark lending rate (*China*), Reserve Bank of India policy repo rate (*India*), Bank Indonesia 7-day reverse repo rate (*Indonesia*), the Bank of Japan's (BoJ) policy rate on the aggregate balance of all financial institutions' current accounts at the BoJ (*Japan*), Bank of Korea base rate (*Korea*), overnight policy rate (*Malaysia*), discount rate (*Taiwan*), one-day repurchase rate (*Thailand*), fed funds rate (*U.S.*), eurozone main refinancing operations rate (*eurozone*) and Bank of England official bank rate (*UK*). Past performance is not a reliable indicator of current and future results.

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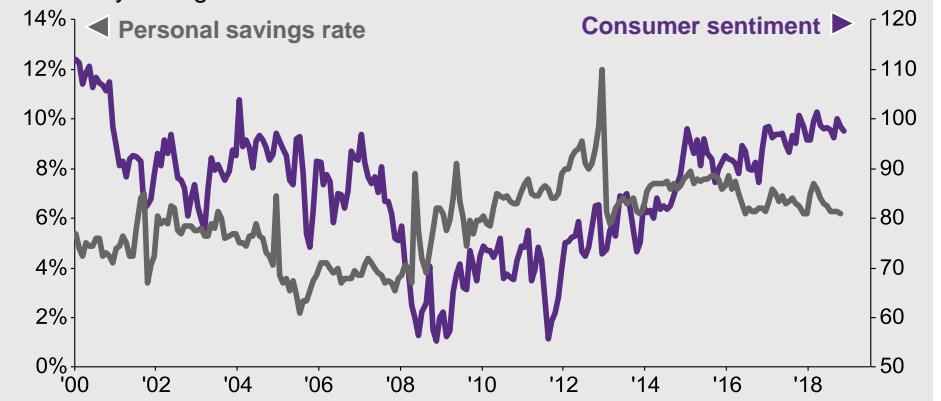
Light vehicle sales

Millions, seasonally adjusted annualized rate



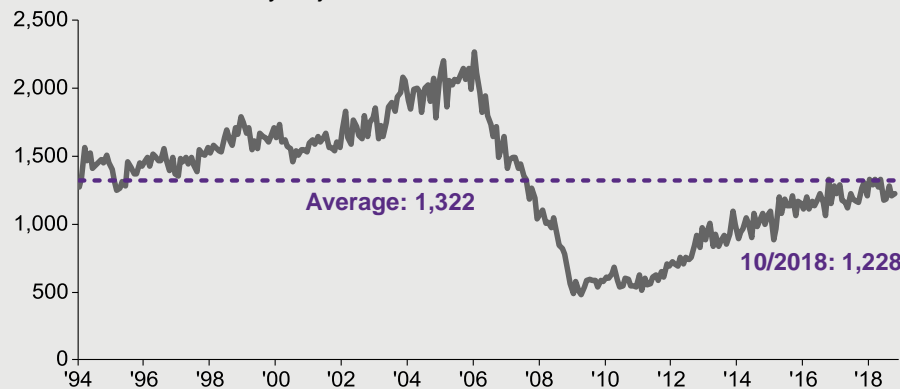
Savings and sentiment

Quarterly change



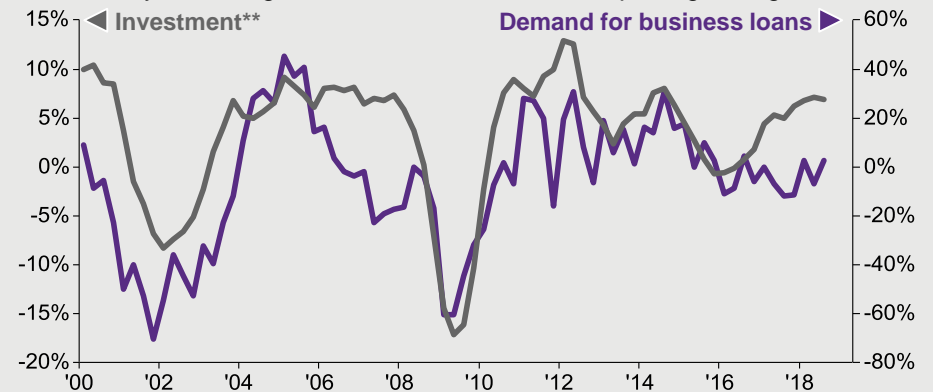
Housing starts

Thousands, seasonally adjusted annualized rate



Investment and demand for credit

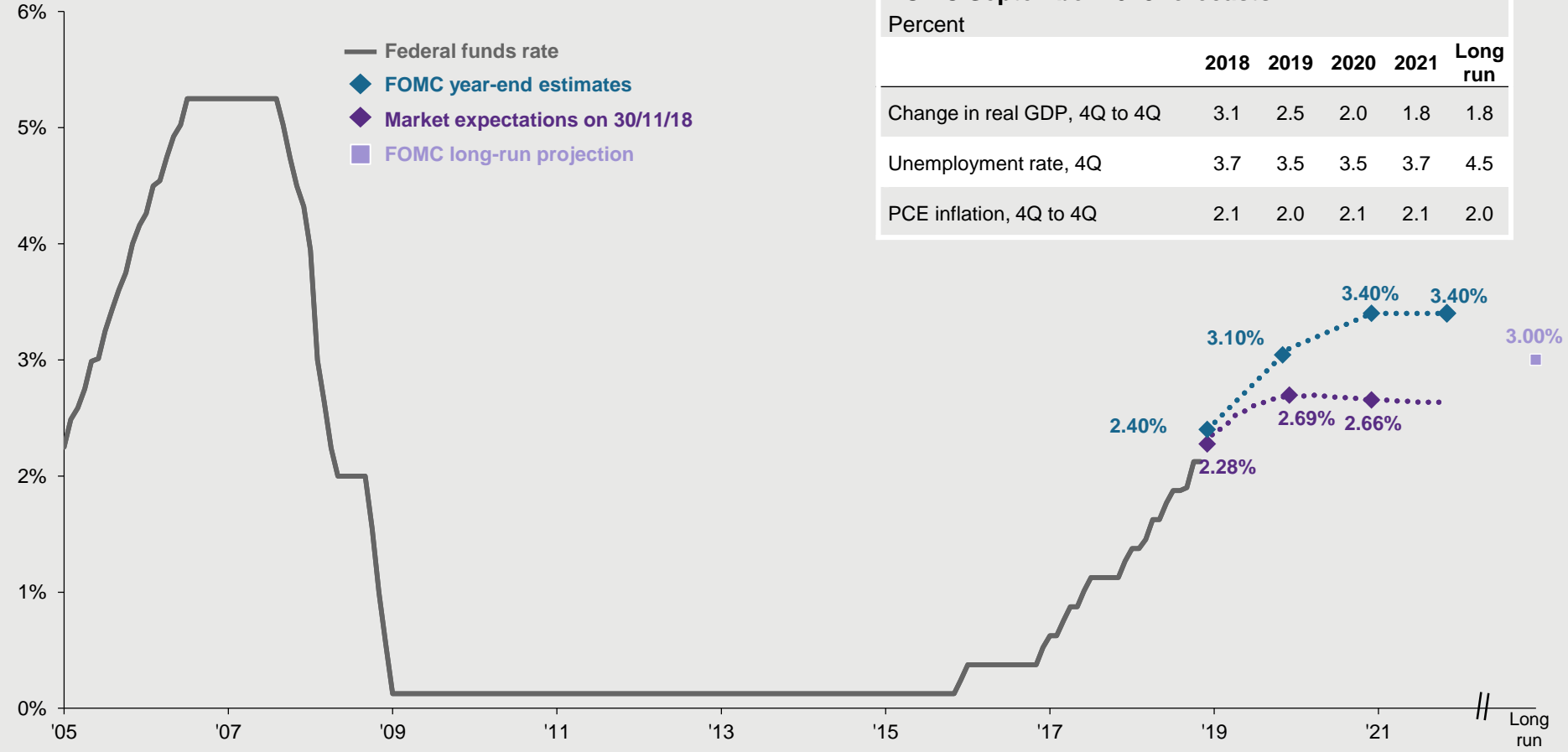
Year-over-year change



Source: J.P. Morgan Asset Management; (Top left) U.S. Bureau of Economic Analysis; (Top right, bottom left and right) FactSet; (Bottom left and right) U.S. Census Bureau. *Net percent of participants in the Senior Loan Officer Survey. **Private investment in non-residential fixed assets in real terms. Guide to the Markets – Asia. Data reflect most recently available as of 30/11/18.

Federal funds rate expectations

FOMC and market expectations for the fed funds rate



Source: Bloomberg Finance L.P., FactSet, Federal Reserve, J.P. Morgan Asset Management. Market expectations are the federal funds rates priced into the Fed Fund futures market as of 30/11/18. Federal Reserve projections shown are median estimates of FOMC participants. *Guide to the Markets - Asia*. Data reflect most recently available as of 30/11/18.

Global and Asia equity market returns

Equities

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	3Q '18	YTD '18	10-yrs ('08 - '18)	
													Ann. Ret.	Ann. Vol.
Japan	-29.1%	102.8%	32.4%	2.0%	26.0%	32.6%	52.1%	9.9%	19.6%	54.3%	7.5%	5.0%	14.4%	25.9%
India														
ASEAN														
U.S.														
China A														
Korea														
Europe														
APAC ex- JP														
Taiwan														
U.S.														
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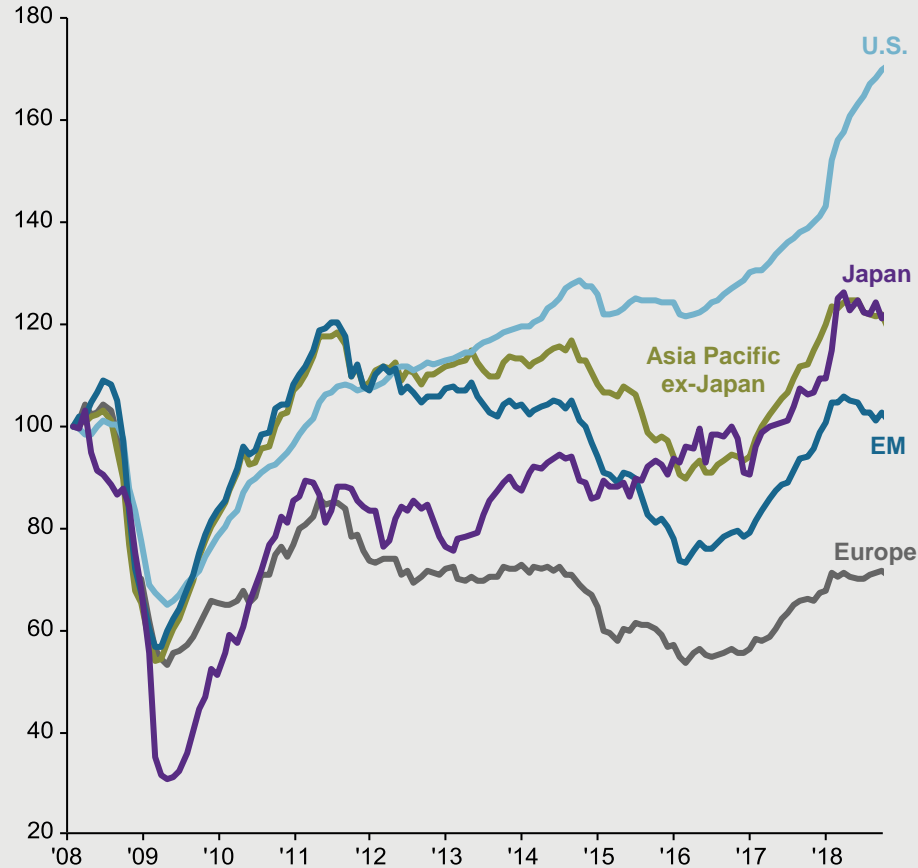
Source: FactSet, MSCI, J.P. Morgan Asset Management.

Returns are total returns based on MSCI indices and CSI 300 index in U.S. dollar terms. China A returns are based on the CSI300 Index while China return is based on the MSCI China index. 10-yr total (gross) return data is used to calculate annualized returns (Ann. Ret.) and annualized volatility (Ann. Vol.) and reflect the period 31/10/08 – 31/10/18. Past performance is not a reliable indicator of current and future results.

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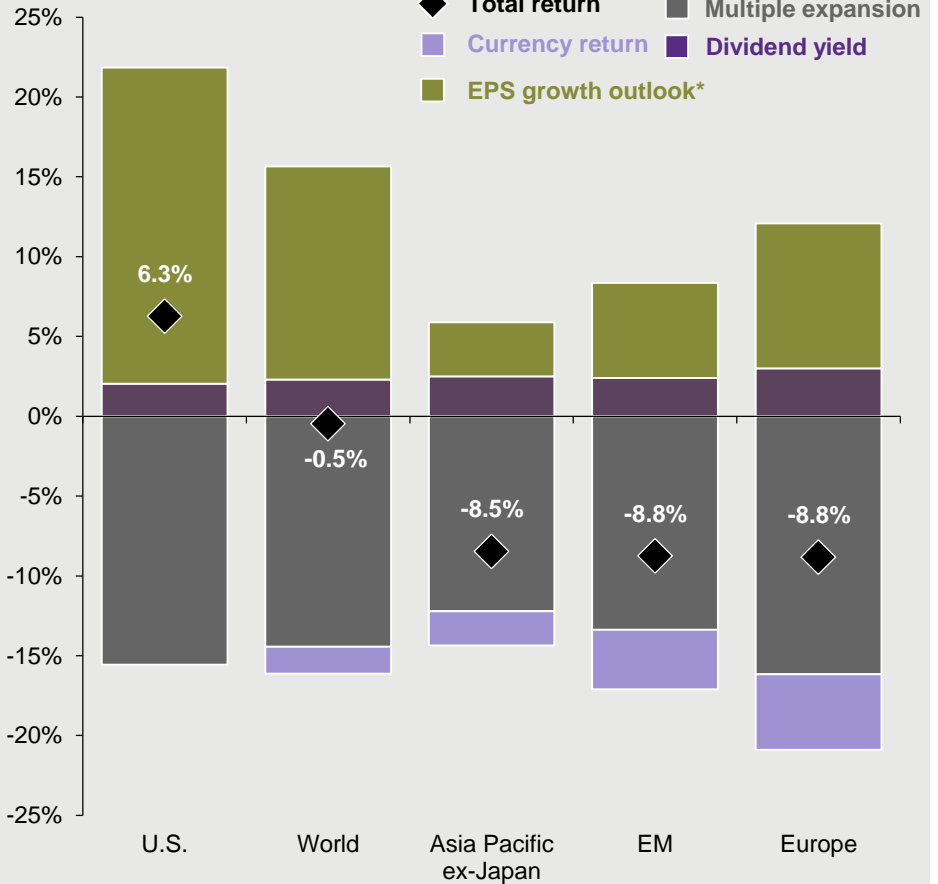
Forward earnings per share

Index, U.S. dollar, Jan. 2008 = 100



Return composition

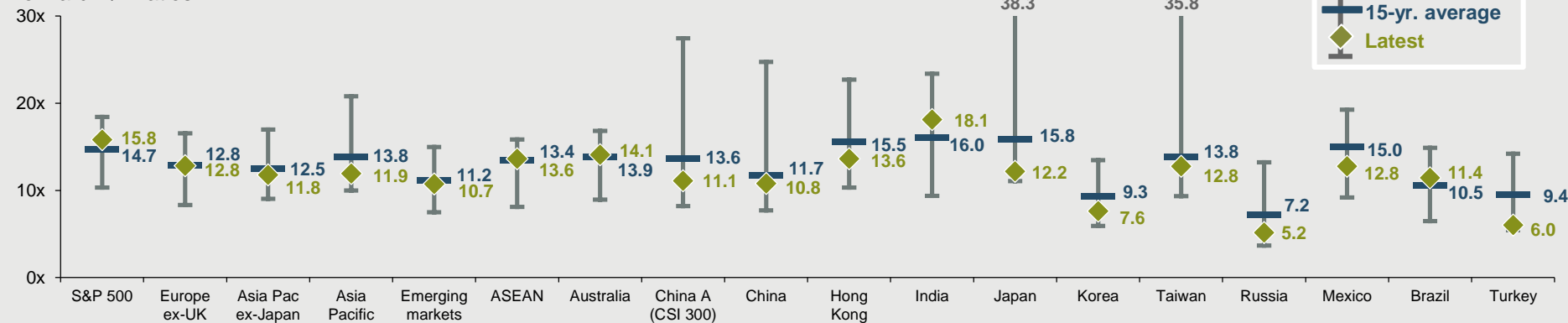
Last 12 months, U.S. dollar



Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management. *EPS growth outlook is based on next 12 month aggregate (NTMA) earnings estimates. Past performance is not a reliable indicator of current and future results. Guide to the Markets – Asia. Data reflect most recently available as of 30/11/18.

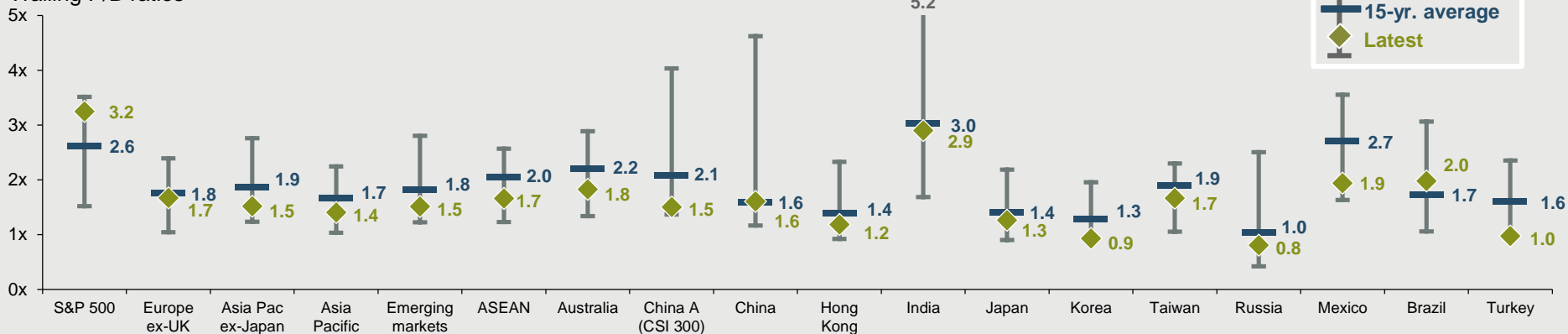
Equity market valuations – Price to earnings

Forward P/E ratios



Equity market valuations – Price to book

Trailing P/B ratios



Source: Bloomberg Finance L.P., China Securities Index, FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management. Price-to-earnings (P/E) and price-to-book (P/B) ratios are in local currency terms. China A valuations based on the CSI300 Index and use 10 years of data due to availability. China valuation is based on the MSCI China. 15-year range for P/E and P/B ratios are cut off to maintain a more reasonable scale for some indexes. Past performance is not a reliable indicator of current and future results. *Guide to the Markets – Asia*. Data reflect most recently available as of 30/11/18.

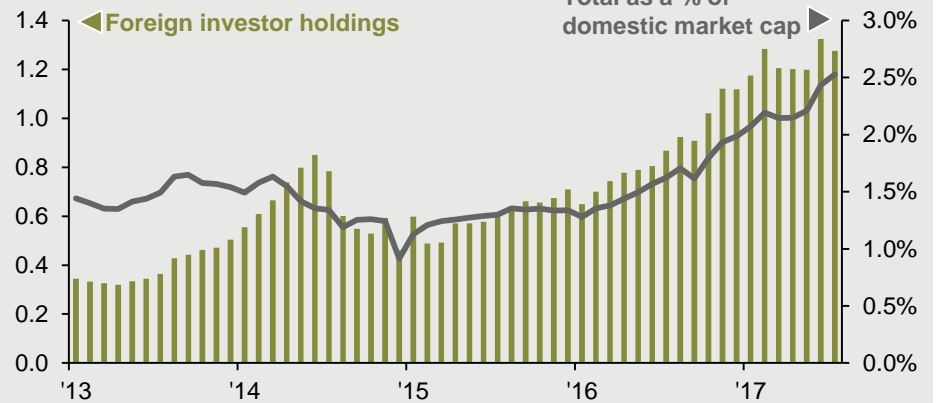
Corporate earnings

Next 12-month consensus earnings per share, USD, Jan. 2013 = 100



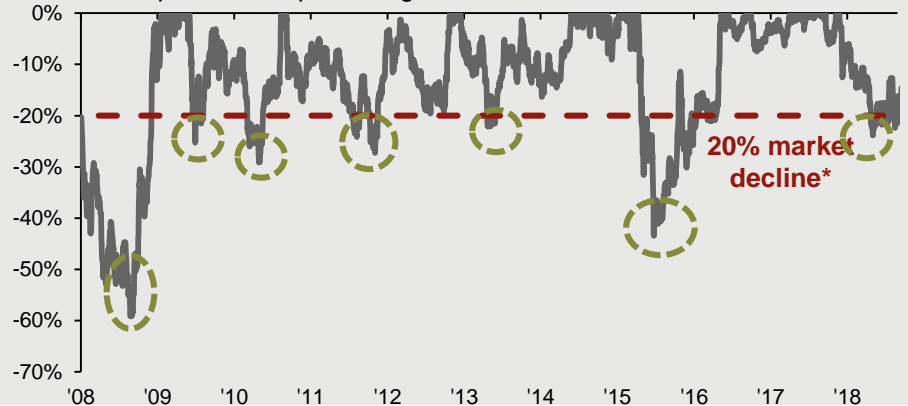
Foreign investors' holdings of onshore Chinese equities

RMB trillions



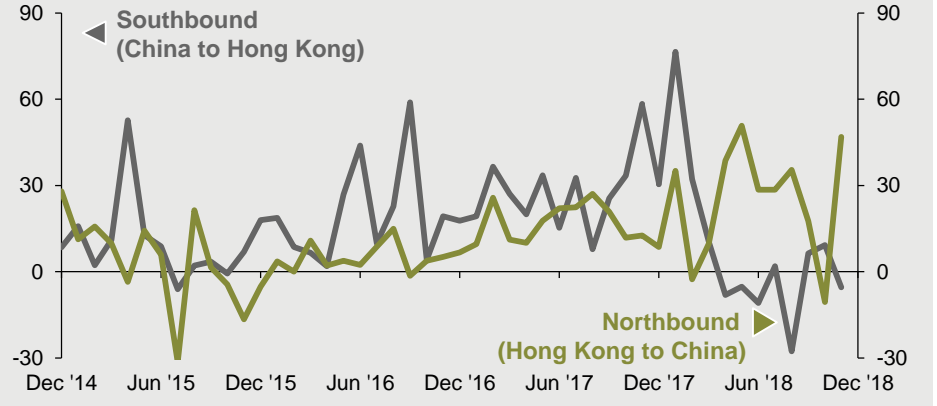
CSI 300 bear markets

Return from peak within preceding six months



Stock Connect monthly net flows

HKD billions



Source: J.P. Morgan Asset Management; (Top and bottom left) FactSet, MSCI; (Top right) CEIC, People's Bank of China; (Bottom right) CEIC, Hong Kong Exchanges and Clearing Limited. The CSI 300 represents onshore Chinese A-share large cap equities. MSCI China represents primarily offshore listed Chinese equities and the onshore equities included in MSCI benchmarks.

*A bear market represents a 20% or more decline from the previous market high using a monthly frequency.

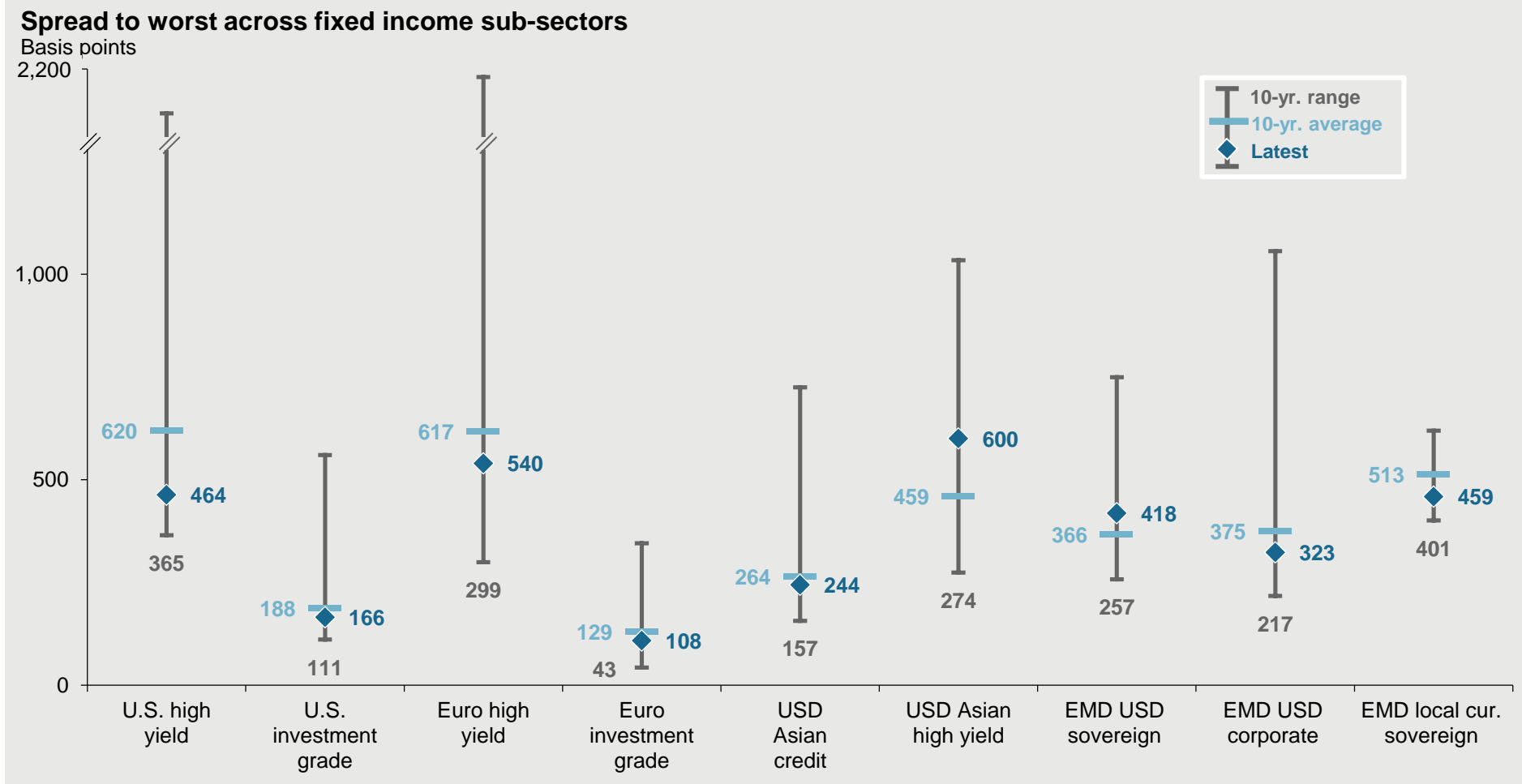
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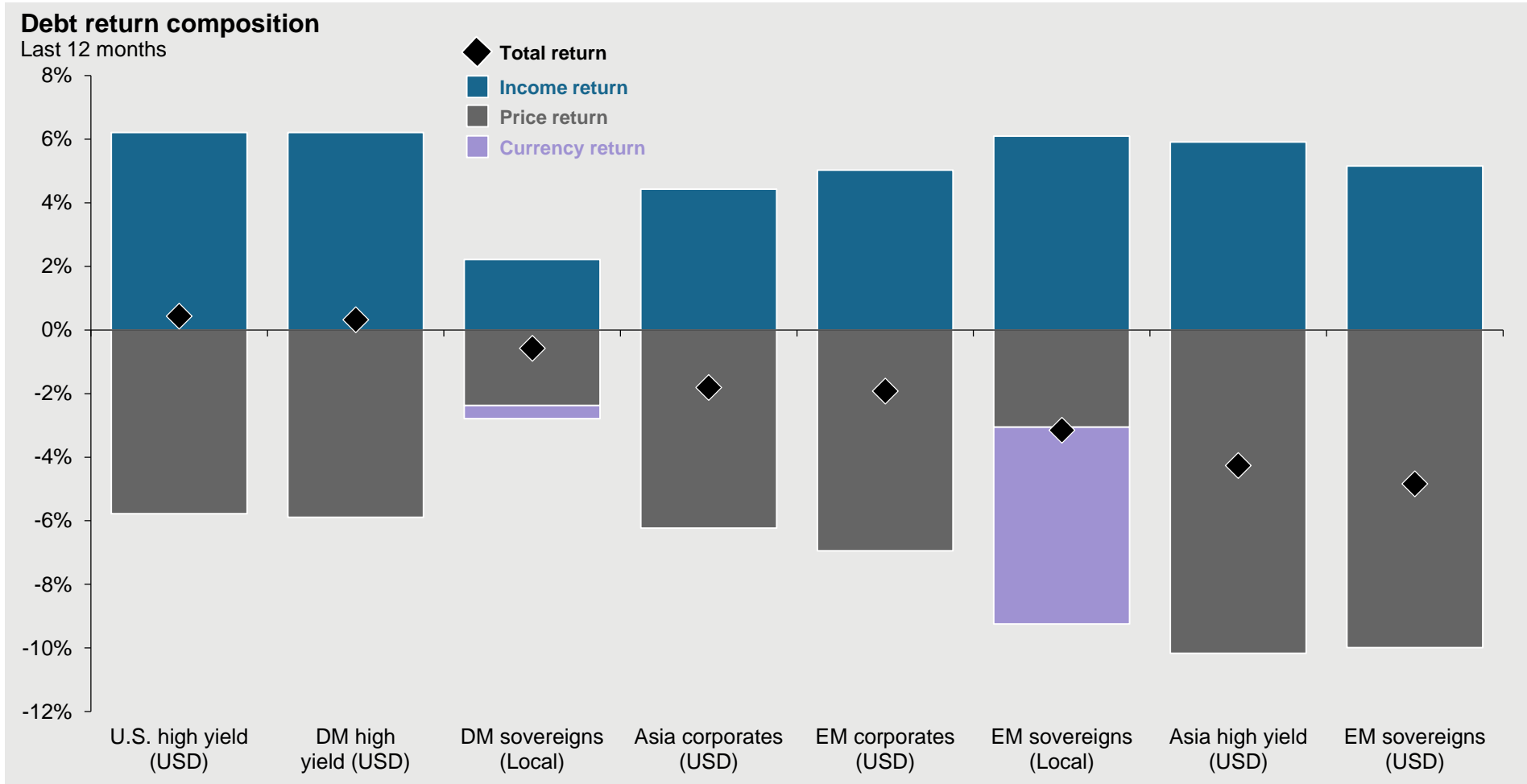
Global bond opportunities	YTM	Duration* (years)	Correl. to MSCI AC World**
Asia Corporate HY	9.2%	4.3	0.67
Local EMD	7.4%	4.5	0.71
U.S. Corporate HY	7.3%	3.9	0.71
USD EMD	7.2%	6.6	0.60
USD Asian Bond	5.8%	5.1	0.57
Europe HY	5.0%	3.8	0.78
U.S. Corporate IG	4.4%	7.1	0.35
U.S. Treasury	2.9%	6.0	-0.22
Cash	2.3%	0.2	-0.03
DM Government Bond	1.8%	7.9	0.31

Fixed income sector returns							
2013	2014	2015	2016	2017	3Q '18	YTD '18	5-ys Ann. Ret.
Europe HY 14.9%	USD Asian 8.3%	Asia HY 5.8%	U.S. HY 17.1%	Europe HY 21.0%	U.S. HY 2.4%	Cash 1.6%	Asia HY 4.9%
U.S. HY 7.4%	U.S. IG 7.5%	USD Asian 2.8%	Local EMD 11.4%	Local EMD 15.4%	Asia HY 2.1%	U.S. HY 0.1%	U.S. HY 4.7%
Asia HY 4.3%	Asia HY 5.5%	USD EMD 1.2%	Asia HY 11.4%	USD EMD 9.3%	USD EMD 1.9%	U.S. Treas -1.3%	USD Asian 3.8%
Cash 0.0%	USD EMD 5.5%	U.S. Treas 0.8%	USD EMD 10.2%	U.S. HY 7.5%	USD Asian 1.2%	USD Asian -2.1%	USD EMD 3.6%
USD Asian -1.4%	U.S. Treas 5.1%	Cash 0.0%	U.S. IG 6.1%	DM Gov't 6.8%	Europe HY 1.0%	DM Gov't -3.1%	U.S. IG 2.9%
U.S. IG -1.5%	U.S. HY 2.5%	U.S. IG -0.7%	USD Asian 5.8%	U.S. IG 6.4%	U.S. IG 1.0%	U.S. IG -3.9%	U.S. Treas 1.1%
U.S. Treas -2.7%	DM Gov't 0.7%	DM Gov't -2.6%	Europe HY 3.4%	Asia HY 6.2%	Cash 0.5%	Asia HY -4.5%	Europe HY 0.9%
DM Gov't -4.5%	Cash 0.0%	U.S. HY -4.5%	DM Gov't 1.6%	USD Asian 5.8%	U.S. Treas -0.6%	USD EMD -6.0%	Cash 0.5%
Local EMD -5.5%	Europe HY -6.0%	Europe HY -7.6%	U.S. Treas 1.0%	U.S. Treas 2.3%	Local EMD -1.7%	Local EMD -8.2%	DM Gov't 0.1%
USD EMD -6.6%	Local EMD -6.1%	Local EMD -18.0%	Cash 0.3%	Cash 0.8%	DM Gov't -1.7%	Europe HY -8.6%	Local EMD -2.7%

Source: Bloomberg Finance L.P., FactSet, J.P. Morgan Economic Research, J.P. Morgan Asset Management. Based on Bloomberg Barclays U.S. Aggregate Credit – Corporate High Yield Index (U.S. Corporate HY), Bloomberg Barclays U.S. Aggregate Credit – Corporate Investment Grade Index (U.S. Corporate IG), J.P. Morgan Government Bond Index – EM Global (GBI-EM) (Local EMD), J.P. Morgan Emerging Market Bond Index Global (EMBIG) (USD EMD), J.P. Morgan Asia Credit Index (JACI) (USD Asian Bond), Bloomberg Barclays Pan European High Yield (Europe HY), J.P. Morgan Government Bond Index – Global Traded (DM Government Bond), J.P. Morgan Asia Credit Non-investment Grade Corporate Index (Asia Corporate HY), Bloomberg Barclays Global U.S. Treasury – Bills (3-5 years) (U.S. Treasury) and Bloomberg Barclays U.S. Treasury – Bills (1-3 months) (Cash). 5-year data is used to calculate annualized returns (Ann. Ret.). Returns are in U.S. dollar and reflect the period from 30/11/13 – 30/11/18. *Duration is a measure of the sensitivity of the price (the value of the principal) of a fixed-income investment to a change in interest rates and is expressed as number of years. Rising interest rates mean falling bond prices, while declining interest rates mean rising bond prices. **Correlation to the MSCI AC World Index is a measure over 10 years of data. Positive yield does not imply positive return. Past performance is not a reliable indicator of current and future results. Guide to the Markets – Asia. Data reflect most recently available as of 30/11/18.



Source: BofA/Merrill Lynch, iBoxx, J.P. Morgan Economic Research, J.P. Morgan Asset Management. Based on J.P. Morgan Domestic High Yield Index (*U.S. High Yield*), J.P. Morgan U.S. Liquid Index (JULI) (*U.S. Investment Grade*), BofA/Merrill Lynch Euro Non-Financial High Yield Constrained (*Euro High Yield*), iBoxx EUR corporates (*Euro Investment Grade*), J.P. Morgan Asia Credit Index (JACI) (*USD Asian Credit*), J.P. Morgan Asia Credit High Yield Index (*USD Asian High Yield*), J.P. Morgan EMBI Global (*EMD USD Sovereign*), J.P. Morgan Corporate Emerging Markets Bond Index – CEMBI (*EMD USD Corporate*), J.P. Morgan GBI-EM (*EMD Local Cur. Sovereign*). Positive yield does not imply positive return. Past performance is not a reliable indicator of current and future results. *Guide to the Markets – Asia*. Data reflect most recently available as of 30/11/18.



Source: J.P. Morgan Economic Research, J.P. Morgan Asset Management.
 Based on J.P. Morgan Developed Market HY (DM USD high yield), J.P. Morgan Domestic High Yield (U.S. USD high yield), J.P. Morgan EMBIG (EM USD sovereigns), J.P. Morgan CEMBI (EM USD corporates), J.P. Morgan Asia Credit High Yield Index (Asian USD high yield), J.P. Morgan GBI-EM (EM local cur. sovereigns), J.P. Morgan Asia Credit Corporates Index (Asian USD corporates), J.P. Morgan GBI-DM (DM local cur. sovereigns). Past performance is not a reliable indicator of current and future results.
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												10-yrs ('08 - '18)	
2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	3Q '18	YTD '18	Ann. Ret.	Ann. Vol.
Global Bonds 4.8%	EM ex-Asia 91.3%	U.S. REITs 28.5%	U.S. REITs 8.7%	APAC ex-JP 22.6%	DM Equities 27.4%	U.S. REITs 30.4%	Asian Bonds 2.8%	EM ex-Asia 27.1%	APAC ex-JP 37.3%	DM Equities 5.1%	U.S. REITs 3.9%	U.S. REITs 15.0%	EM ex-Asia 23.1%
Cash 1.8%	APAC ex-JP 73.7%	APAC ex-JP 18.4%	EMD 8.5%	Global Corp HY 18.9%	Global Corp HY 8.4%	Asian Bonds 8.3%	U.S. REITs 2.5%	Global Corp HY 14.0%	DM Equities 23.1%	EM ex-Asia 4.3%	Cash 1.6%	Global Corp HY 12.0%	U.S. REITs 21.4%
Asian Bonds -9.8%	Global Corp HY 63.9%	EM ex-Asia 16.6%	Global Bonds 5.6%	EMD 18.5%	Diversified 5.6%	EMD 5.5%	EMD 1.2%	EMD 10.2%	EM ex-Asia 20.3%	Global Corp HY 2.1%	DM Equities -0.7%	DM Equities 11.5%	APAC ex-JP 18.7%
EMD -10.9%	Diversified 41.0%	Global Corp HY 13.8%	Asian Bonds 4.1%	U.S. REITs 17.8%	APAC ex-JP 3.7%	DM Equities 5.5%	Cash 0.0%	U.S. REITs 8.6%	Diversified 17.0%	EMD 1.9%	Asian Bonds -2.1%	APAC ex-JP 11.4%	DM Equities 14.2%
Global Corp HY -27.9%	DM Equities 30.8%	Diversified 13.1%	Global Corp HY 2.6%	EM ex-Asia 17.0%	U.S. REITs 2.5%	Diversified 4.1%	DM Equities -0.3%	Diversified 8.3%	Global Corp HY 10.3%	Diversified 1.5%	Global Corp HY -2.2%	Diversified 9.6%	Diversified 10.2%
Diversified -27.9%	U.S. REITs 28.6%	DM Equities 12.3%	Cash 0.1%	DM Equities 16.5%	Cash 0.0%	APAC ex-JP 3.1%	Global Bonds -3.2%	DM Equities 8.2%	EMD 9.3%	Asian Bonds 1.2%	Global Bonds -3.2%	EMD 8.4%	Global Corp HY 9.0%
U.S. REITs -38.0%	Asian Bonds 28.3%	EMD 12.0%	Diversified -2.4%	Diversified 15.9%	Asian Bonds -1.4%	Global Bonds 0.6%	Diversified -3.2%	APAC ex-JP 7.1%	Global Bonds 7.4%	U.S. REITs 1.1%	Diversified -3.8%	Asian Bonds 8.0%	EMD 7.2%
DM Equities -40.3%	EMD 28.2%	Asian Bonds 10.6%	DM Equities -5.0%	Asian Bonds 14.3%	Global Bonds -2.6%	Global Corp HY 0.2%	Global Corp HY -4.9%	Asian Bonds 5.8%	Asian Bonds 5.8%	Cash 0.5%	EM ex-Asia -5.4%	EM ex-Asia 5.2%	Global Bonds 5.4%
APAC ex-JP -51.6%	Global Bonds 6.9%	Global Bonds 5.5%	APAC ex-JP -15.4%	Global Bonds 4.3%	EMD -6.6%	Cash 0.0%	APAC ex-JP -9.1%	Global Bonds 2.1%	U.S. REITs 5.1%	Global Bonds -0.9%	EMD -6.0%	Global Bonds 2.9%	Asian Bonds 5.0%
EM ex-Asia -57.2%	Cash 0.1%	Cash 0.1%	EM ex-Asia -21.2%	Cash 0.1%	EM ex-Asia -8.5%	EM ex-Asia -20.2%	EM ex-Asia -22.7%	Cash 0.3%	Cash 0.8%	APAC ex-JP -1.3%	APAC ex-JP -11.2%	Cash 0.3%	Cash 0.2%

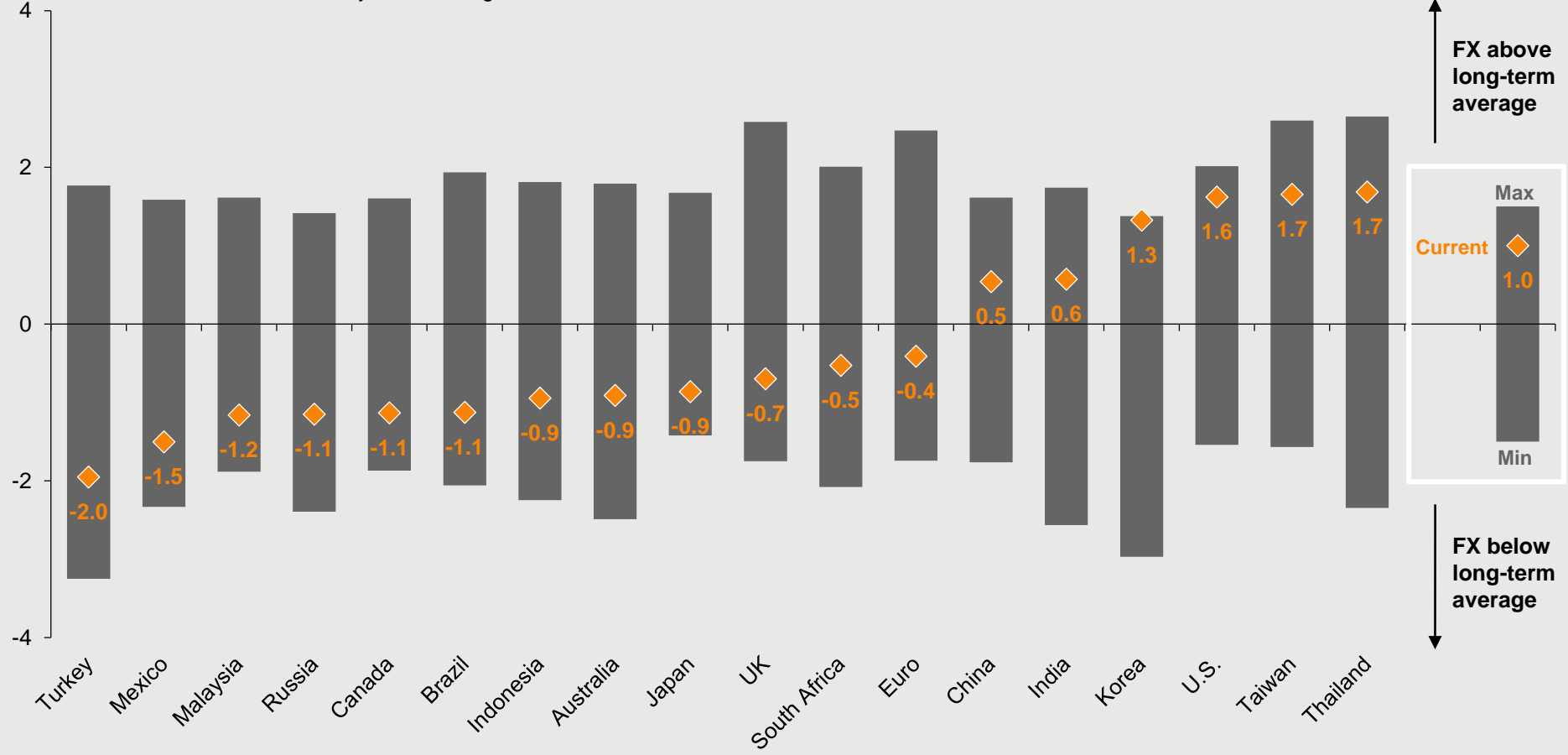
Source: Bloomberg Finance L.P., Dow Jones, FactSet, J.P. Morgan Economic Research, MSCI, J.P. Morgan Asset Management.

The "Diversified" portfolio assumes the following weights: 20% in the MSCI The World Index (*DM Equities*), 20% in the MSCI AC Asia Pacific ex-Japan (*APAC ex-JP*), 5% in the average of the MSCI EM Latin America and MSCI EM EMEA Indices (*EM ex-Asia*), 10% in the J.P. Morgan EMBIG Index (*EMD*), 10% in the Bloomberg Barclays Aggregate (*Global Bonds*), 10% in the Bloomberg Barclays Global Corporate High Yield Index (*Global Corporate High Yield*), 15% in J.P. Morgan Asia Credit Index (*Asian Bonds*), 5% in MSCI U.S. REITs Index (*U.S. REITs*) and 5% in Bloomberg Barclays U.S. Treasury – Bills (1-3 months) (*Cash*). Diversified portfolio assumes annual rebalancing. All data represent total return in U.S. dollar terms for the stated period. 10-year total return data is used to calculate annualized returns (Ann. Ret.) and 10-year price return data is used to calculate annualized volatility (Ann. Vol.) and reflects the period 30/11/08 – 30/11/18. Please see disclosure page at end for index definitions. Past performance is not a reliable indicator of current and future results.

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Currency deviation from 10-year average in real effective exchange rate* terms

Number of standard deviations away from average

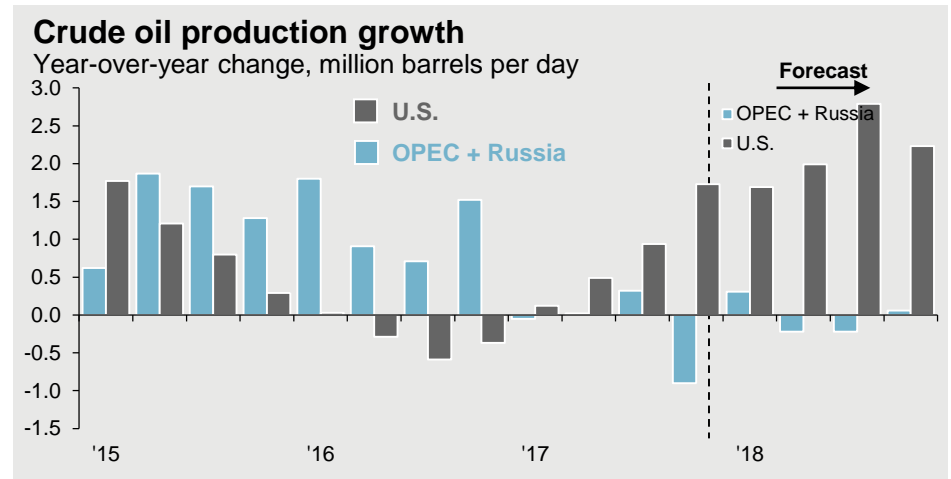
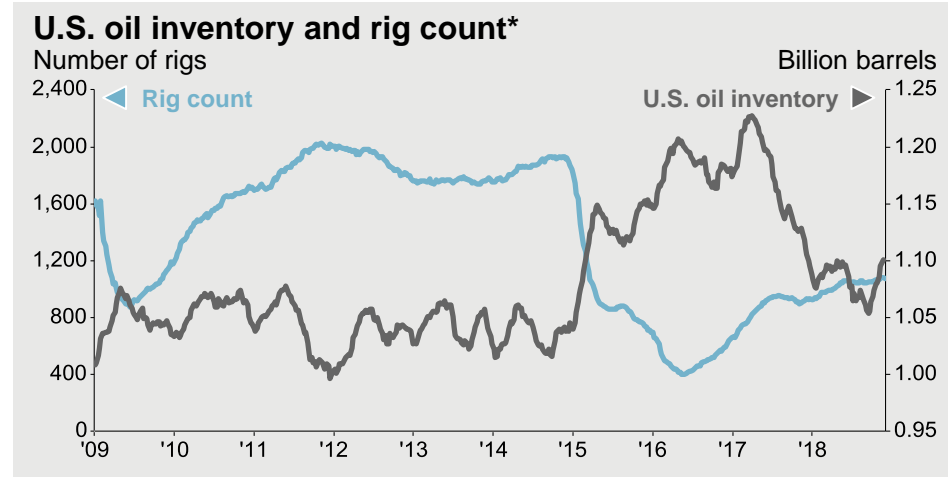
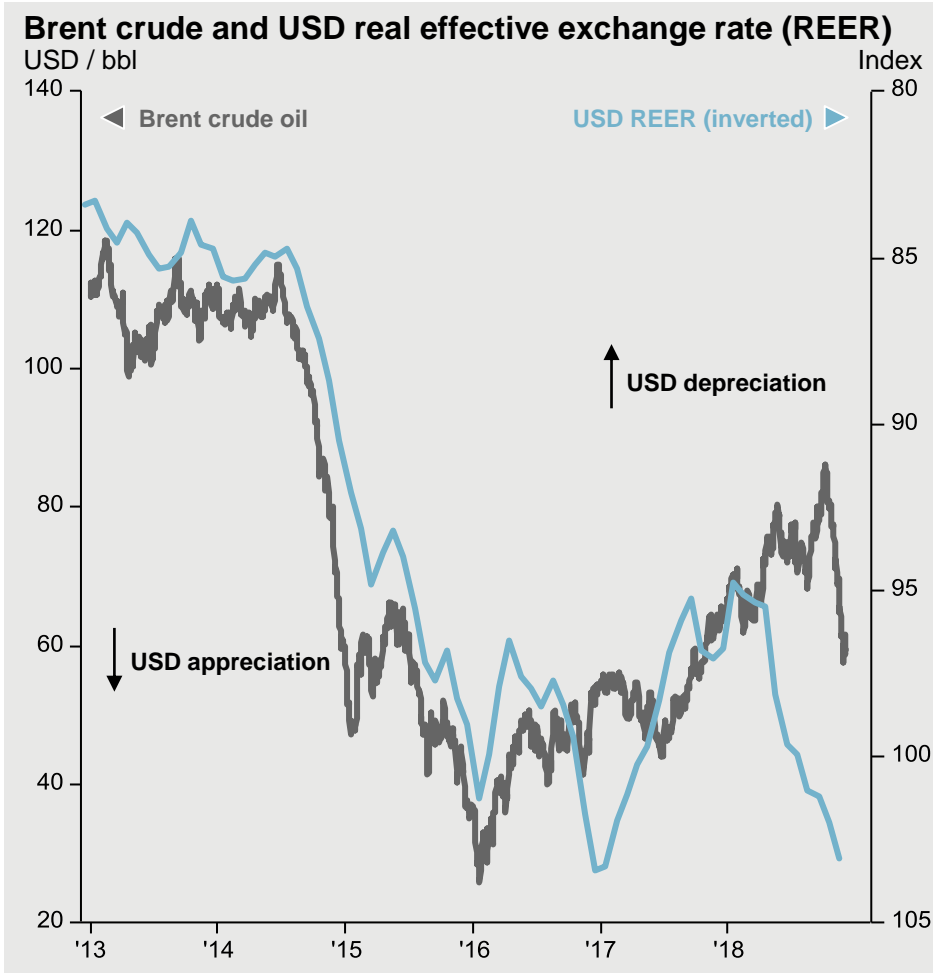


Source: FactSet, J.P. Morgan Economic Research, J.P. Morgan Asset Management.

*The real trade-weighted exchange rate index is the weighted average of a market's currency relative to a basket of other major currencies adjusted for the effects of inflation. The weights are determined by comparing the relative trade balances, in terms of one market's currency, with other markets within the basket.

Past performance is not a reliable indicator of current and future results.

Guide to the Markets – Asia. Data reflect most recently available as of 30/11/18.



Source: FactSet, J.P. Morgan Asset Management; (Top right) Baker Hughes, U.S. Department of Energy; (Bottom right) U.S. Energy Information Administration.
 *Weekly U.S. crude oil and petroleum ending inventory includes strategic petroleum reserve, and active rig count represents both natural gas and oil rigs. Past performance is not a reliable indicator of current and future results.
 Guide to the Markets – Asia. Data reflect most recently available as of 30/11/18.

Monthly Market Review

Asia Pacific | December 2018

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