JPMorgan Funds – Asia Pacific Income Fund

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Topline

Monthly commentary – October 2024

Markets – The MSCI AC Asia Pacific ex Japan index fell during the month. The US elections and the "higher for longer" rates expectations resulted in the markets falling.

Helped – Underweight allocation in India and stock selection along with an underweight in consumer staples.

Hurt – Stock selection in information technology and an overweight allocation to communication services.

Outlook – China's economic recovery remains uneven, with weak consumer confidence while policy action finally seems to be broadening out. North Asian technology companies appear to be entering a new cycle, led by structural demand for AI and cloud adoption. Yet, after a strong run, differentiation is crucial.

Fund Overview

Investment objective

The Fund aims to provide income and long term capital growth by investing primarily in income generating securities of countries in the Asia Pacific region (excluding Japan).

Fund launch	15 June 2001
Benchmark	50% MSCI All country Asia Pacific ex Japan Index (Total Return Net)/50% J.P. Morgan Asia Credit Index (Total Return Gross)
Market capitalization	All Cap

Month in Review

- The MSCI AC Asia Pacific ex Japan index fell during the month. The US elections and the "higher for longer" rates expectations resulted in the markets falling. Returns across Asian markets were mostly detracted, with Taiwan being the only market to appreciate. Taiwan saw inflows as third-quarter results for many companies beat expectations. Robust AI demand also brought in inflows to the market. The bottom performing markets were India and China. The Indian market paused after strong year-to-date returns as valuations became more stretched and the earnings cycle showed signs of a slowing economy. Chinese markets detracted following stimulus policy announcements, as investors awaited further developments after the US elections.
- Stock selection in the information technology sector detracted the most. Our holdings in Samsung Electronics detracted due to the slow recovery of the memory cycle. Not owning a Taiwanese electronics manufacturer, a Chinese consumer electronics company and a Taiwanese semiconductor company detracted, as stocks unrelated to memory or AI demand gained during the month. Stock selection and an overweight allocation to communication services detracted. Netease detracted due to weaker-than-expected gaming revenue. The share price of Maruti Suzuki India detracted as investors took profit from the automobile sector. On the fixed income side, security selection and allocation to China detracted performance.
- The underweight allocation to India added to performance. Not owning an Indian multinational conglomerate contributed to performance. We do not own the name due to governance concerns. Our holdings in HDFC Bank and ICICI Bank added to performance as the banking sector contributed over the month. HDFC Bank reported solid quarterly results. The underweight allocation and stock selection in consumer staples also contributed to relative performance. Other contributors included Fuyao Glass and TSMC, which benefited from earnings beat. On the fixed income side, security selection in India offset some of the losses.
- In terms of portfolio activities, we exited an energy position in Australia, and a Korean financial position, contributed. We added to a Korean tech hardware name and a materials name. Within China, we detracted in well-performing names and reallocated to those with higher expected returns.

Looking Ahead

- The outcome of the US election is likely to have far-reaching consequences on US deficits, trade tariffs and geopolitics, thereby influencing the trajectory of the USD, global trade and emerging markets.
- With many EM central banks having relatively high policy rates, especially compared to domestic inflation, they are generally in a position to cut rates faster assuming inflation remains on its current downward trajectory: Mexico, China, Czechia, Chile, Hungary and now South Africa have cut rates in 2024.
- China's economic recovery remains uneven with consumer confidence weak amid clear signs of consumers trading down as they adjust to lower real estate prices, a key store of wealth. Policy action finally seems to be broadening out, with leaders calling for "halting the real estate decline" and speculation about announcements following the NPC meeting in early November. Valuations seem supportive, but earnings revisions remain negative. While government policies can be erratic, they are increasingly pro-growth and pro-business, with stimulus measures expected to deliver cumulative benefits into 2025. There now seems to be a focus on underwriting a broader-based recovery rather than just managing risks to growth.
- In India and Indonesia, while valuations appear stretched in the near term, the new governments seem poised to continue the policy support of recent years, likely maintaining their respective investment-led expansions.
- North Asian technology companies appear to be entering a new cycle, driven by structural demand for AI and cloud adoption. However, following a strong run, differentiation is crucial, and higher valuations imply that any earnings shortfalls will be penalized.

NEXT STEPS

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