J.P. Morgan’s Joyce Chang: “De-Globalization is a Policy Choice.”
Andrew Schwartz: You're listening to The Reopening, a podcast that asks, "How will America work through the COVID-19 pandemic? How will we innovate, and how will it change our global economy?" Each week we invite top business leaders to share their insights on the road to economic revival, here at home and around the world.

Scott Miller: Joyce Chang, head of global research for JP Morgan joins the podcast today. Joyce is a member of the management committee of JP Morgan's corporate and investment bank, and is ranked by American banker magazine as one of the most powerful women in finance. She offers her insights on the tectonic shift in world markets, strained relations between the U.S. and China, and the economic consequences of populism.

Andrew Schwartz: I'm Andrew Schwartz.

Scott Miller: And I'm Scott Miller.

Andrew Schwartz: And this is The Reopening.

Scott Miller: Joyce Chang, chair of global research at JP Morgan, thank you so much for joining the podcast. We’re excited to talk to you today. Let me start off by taking you back about six months, say February of 2020, which doesn’t seem that long ago but it was pre-COVID for practical purposes. And at that time markets, particularly equity markets, were thought to be sort of priced for perfection. Now in the six months since then, we’ve had the public health crisis, we’ve got a near shutdown of the economy. And low and behold equity prices are about where they were when we thought they were priced for perfection. And it’s anything but perfect out there in today’s economy. So what’s going on in your view?

Joyce Chang: Well, it’s great to be with you today and I’ve so much to talk about in the markets and in the global economy. So in response to COVID-19, you had an unprecedented policy response. We’ve had enormous policy support put into place by central banks around the globe. We estimate now that the central bank balance sheets for the G-4 countries has increased by about $6 trillion dollars. And if you put this all together, the balance sheet of the central banks are about two-thirds of GDP, like 66 percent of GDP altogether. On top of that you’ve had tremendous fiscal measures put into place around the globe as well, around 11 trillion dollars. So, in the face of that much policy support, between the fiscal measures and the Central Bank support, you’ve seen the markets rally. We’ve also seen a demand for yield because yields have come down so tremendously. When we take a look at our global government bond index, 83 percent of developed market government debt now has a yield of 50 basis points or less. So that’s what’s been fueling money into the equity market, the policy support, and the search for yield.

Scott Miller: Okay, cause there is no yield in bonds these days. In fact, governments are still issuing negative interest rate bonds. Which seems unusual to me but then again, we’re in a world where what we thought was sort of, maybe
unconventional now seems like the regular order. How long are we going to
be in this situation, do you think?

Joyce Chang: Well we think the balance sheet expansion continues at a faster pace than it
did after the global financial crisis through 2021.

Scott Miller: And that’s when this started, is 2008-2009 basically.

Joyce Chang: Well, you know, a lot of people talk about this crisis, as you know, the event
of the century, without precedent, a recession like no other, and much of that
is true. But really, if you take a look at the key things that we are focused on
in this crisis, they all started right after the 2008 global financial crisis. And
what COVID-19 does as accelerated these paradigm shifts. So we really see
four paradigm shifts that have come about since the 2008 global financial
crisis. The first one we already talked about, that unconventional monetary
policy is here to stay. We’ve gone from quantitative easing to credit easing,
and we’re not going to leave that world anytime soon. That’s the first
paradigm shift. The second one that we’ve seen is the decline in market
liquidity and the way that market structure has changed as we’ve moved
from active investment to more passive investment, and as we’ve already
seen that the market you can move on just very little volume. And the third
paradigm shift that we’ve seen is the relationship between the U.S. and China
that continues to evolve into a great power competition beyond trade into
technology, geopolitical issues. And finally, the fourth paradigm shift:
deglobalization and the rise of populace and national forces.

Scott Miller: Well let’s go – let’s talk about those individually if we can. We pretty much
covered that unconventional is now ordinary, in the least the behavior of the
central banks. You make the point very clearly that with this much effort,
with this much money really being thrown at the problem, there’s no sense
fighting it. But let’s talk a little bit about liquidity. How does this affect the
average consumer, the average investor, someone with a 401K but who
watches the markets. What’s the effect? What’s likely to happen in the next
several months to years?

Joyce Chang: Well, I think much of what pushed us into this period of unconventional
monetary policy has been decline in market liquidity. So what happened in
March is COVID-19 was becoming a global pandemic and all the lockdowns
were beginning. You had liquidity demand, from hedge funds, from central
banks, from corporates and others that just could not be met by the private
market. And this compelled the central banks to come in and become the
lender of the last resort. The Central Banks became the first line of defense,
and what the concern has been is that, you know, if you lose this policy
support, will you leave the treasury market susceptible to another bout of
reduced liquidity? And will we really have a situation where you don’t have a
safe haven asset that we need at a point where we’re going through a global
recession and a global crisis of this nature. So it really does have an impact
on the ordinary citizen, even though it may seem like market liquidity is
something that is about algorithms and machines, it made a real difference
to what policy makers had to do to step in and make sure that you had a safehaven asset at a time of crisis.

Scott Miller: Well, it looks like the Central Banks did a good job of cooperating around the world. The big banks seem to have developed the habit of working together, which I think does bode well for managing a crisis like this. It also seems to me that the US Treasury Department did a pretty good job of ensuring stability, and at the same time trying some pretty unusual or unproven methods to sort of protect businesses and consumers. I think the PPP and programs like that were novel, but they seemed to be well regarded, they seemed to do about the right thing. And I think they're much better than doing nothing. So, what's your assessment of sort of the performance of both worldwide central banks and the Fed, but also the US Treasury and Congress, how they approached it?

Joyce Chang: Well, I think you had a playbook that was already in place from the 2008 financial crisis, so there was no hesitation in activating that playbook. There was already a clear template that was in place. But beyond that template, central banks took even more extraordinary actions, things like the corporate credit facility used allowing high yield debt to be purchased. All of this has meant that you've had a very sharp market sell-off that was extraordinary. You hit a lot of the lost limits, but you also have this very rapid rebound as a result. And you did have in the case of the US, the Fed and the Treasury's cooperation, you came immediately. So, many of these things in the 2008 crisis took months to play out. But having that playbook in place really did provide a template during this crisis. But we have seen that this is not going to necessarily last forever. I mean, the Congress has adjourned without passing the last fiscal package. And we think that the executive orders that Trump has put into place provide about 100 billion of the one to one and a half trillion dollars that had been the target. So you have this extraordinary cooperation in response to an emergency and unlike the global financial crisis, nobody put the blame on any side. It is a global pandemic, so everybody acted very quickly. But you are seeing now, as we look at just the cost of this crisis, more hesitation by the Congress to put in the kinds of measures that they approved, you know, several months ago. So we're going to have to see how this plays out. This is something that looks like it's going to extend into the whole September, end of September government refunding discussion that will come up.

Scott Miller: Yes, and definitely deeply involved in politics at this point, which may not bode well but we'll watch this space closely. But let me shift to U.S.-China relations. Because for me, I read a lot of your work where you talk about these paradigm shifts sort of coming along slowly and then COVID is the accelerant. It's pouring the gasoline on the fire. And my view is in U.S.-China relations this has happened almost to a tee, because there was for a long time, maybe 30 years of sort of U.S. foreign policy consensus. The bringing China into the global international architecture sort of rules-based trade and rules-based organizations was in American interests and that things would work out well as China embraced markets. And that storyline started to fall apart maybe around 2005 with a policy change, the most noticeable for
American companies was indigenous innovation. And it became very clear that China was much more focused on sort of a China-first policy. That as she took power and has retained power, that has become more clear and sharper that there’s less reform going on and more China-first behavior. Then, Donald Trump comes on the scene with the America-first policy, which is immediately at loggerheads with China and dramatizes whatever conflict’s there. And then COVID, which starts in Wuhan and among the early mistakes was the lack of transparency about what was going on, both in China and in global organizations like the WHO. There were lots of other mistakes too, for instance, I'd like to have a little chat with the modelers who predicted millions of deaths and were completely wrong. Were awesomely, indescribably wrong cause they drove a lot of bad policy that way. But that aside, you’re absolutely right. The gap between U.S. and China is bigger now. What do you see happening? What’s going to come out of this? And do we get back together on any issues?

Joyce Chang: I think the U.S.-China tensions are here to stay and they’re going to intensify as we approach the November elections. But you’re absolutely right. For the last 30-40 years, you really had three components of U.S.-China policy in place that are now being challenged. So what are those three components? First, it was that U.S. and China had a relatively stable relationship. China was opening up to reforms, and you also had a relatively benign external periphery. So those three things are all being challenged right now. We see that negative views towards China are bipartisan on the Republican and Democratic side, and 73 percent now have a negative view of what China is doing. You know, we also see a lot of concerns that are getting intertwined on human rights and democracy and what’s going on in Hong Kong right now, and congressional actions that have been taken against those measures as well. So, it is not just the issues related to trade and tariffs, it’s also issues related to technology, the human rights and democracy, and also greater geopolitical risk when we look at what’s happening in the South China Sea. So I think that pivot and turning point actually did start during the global financial crisis back in 2008. Now, China played an extraordinary role in stabilizing the global economy. In 2008, they ran an enormous fiscal deficit and were a source of stability. And I think at that point China looked at it and said, what they did was outsized, as far as the role that they played after the global financial crisis. And I think they’ve become more protective of their domestic interests. At the same time, where the U.S. has taken the same stance; what they want is more equal footing now on the global stage. So this, then, has deteriorated further as the U.S. has put in trade tariffs and blames China for a lot of the loss of American jobs in the manufacturing sector. But it’s also transformed into technology as we see in the discussions that are going on today. And then, it’s been more complicated as well by the democracy and human rights issues that have arisen from the conflict between China and Hong Kong.

Scott Miller: This is a situation that’s unusual in terms of great power conflict for the United States. We had a long period of tension with the Soviet Union, which was a major security threat, but they were never our economic equal or thought to be an economic threat to the United States. We had trade wars
with Japan, but Japan was a treaty ally and so there was no geopolitical conflict, but a lot of tensions and trade in the 80’s in particular with Japan. Now we have both, we have the economic tensions and the economic rivalry, and the geopolitical security rivalry going on at the same time. How do you see this playing out? I mean, there’s a pocket of Washington about decoupling. I prefer your idea of coop-etition or that we’re going to cooperate on some things and compete on other.

Joyce Chang: Well, we do call it the coop-etition, a combination of co-operation and competition. Now, the competition is going to be very loud and the cooperation is going to be very quiet but both are going to occur. Because when we take a look at the global economy today, the U.S. and China are the first and second largest economies in the world. So you’re right. It’s completely different than looking at the example of Japan or of Russia. And they really do both need each other. So when we take a look at surveys from U.S. businesses and European businesses, they talk about China plus one, that they need to diversify. But exiting from China really isn’t an option. First, everybody still wants access to the China market. That’s still a fast growing market where urban incomes are increasing the size of the middle classes. But secondly, it’s very hard to move the supply chain. China has a lot of advantages that other countries don’t offer. They have 1.4 million STEM graduates per year. They have better infrastructure than most emerging markets countries. And the government has supported a number of different sectors. So, when you talk to U.S. companies about, you know, exiting China, they really don’t talk about that, they talk about the need to diversify beyond China. So I think you’re going to see periods of competition that are going to be very loud, but you also see periods of cooperation. And I think what everybody’s looking at right now as we go into the elections is you know what happens to the Phase One trade agreement. We’ve got important discussions that are coming up this weekend. But will that be something that both sides really try to keep in place? Because they know they have to have some baseline where they can still reach agreements and that may be harder to achieve on some of these other issues related to technology and to human rights and democracy. So will they keep this agreement in place?

Scott Miller: Sure, we’re all watching that carefully. It’s one of the things though, in some ways, China would benefit economically by abiding by the agreement. Other words, buying U.S. goods would actually be economically good for them, at least over the medium term. And it also may provide the one source of stability in the relationship. As tough as the rhetoric has been on trade, at least there’s been a fair amount of consistency and I think mutual respect, particularly between the key negotiators Ambassador Lighthizer and Liu He of China. That they know each other, they respect each other, they seem to be dealing frankly, and in some ways that’s a piece of stability that could be beneficial.

Joyce Chang: I completely agree with that. Now, I think it’s going to be very hard to meet the targets, which were already very ambitious before COVID-19. But just given where global demand is right now it’s going to be very hard to meet the targets, but are there good faith effort that are happening? And it’s also
something that is beneficial for Trump. If the Chinese are doing a lot of their agricultural purchases and other products from some of the states that have his key base of support. So I think there is enough mutual interest there, that you will see neither side wants to walk away from this. And that's what we're seeing in the statements that have come out of many of the trade negotiators who are directly working on this particular issue. So this is an example of competition and cooperation. The one thing that's at the six month review that has been signed by both sides, and I think they will work to try to keep this in place as we approach the U.S. elections.

Scott Miller:

Good point. Let's switch to populism, because it's not just an American phenomenon by any means. And in some respects, rising trends in politics are – need context. And for me, the context is sort of the general failure of what went on before the populism rose. That the sort of bigger government structures and the operations by elites, whether it's the European Union or approaches in the United States, which were more toward globalization, more toward international order, didn't deliver for citizens to the extent that it was expected to. And in some ways that's the roots of populism, much as if you do enough 90's rock, if you did enough glam band, sooner or later you'd get grunge [laughs]. There's a reaction to it. The guys with the hair and makeup studio looks were replaced by the guitarist in the flannel shirt. So this is kind of a push and pull that happens in politics. How do you see it playing out? And what are you looking at worldwide as you examine these issues, from the financial standpoint?

Joyce Chang:

I do go back to the 2008 global financial crisis, once again, because you had the globalization really, you know, had accelerated through the 90's and then it stalled after the global financial crisis. I wouldn't say that it necessarily reversed but it's stalled. That had been just a great growth engine up until the global financial crisis and now what we've seen is a stalling and then real concerns about a reversal as you see a more populous set of leaders come into power. But I would say this: deglobalization is a policy choice. It's not a preordained outcome. And when we look at what's happening in the U.S. and in other countries, we see that the appeal of populace has actually declined during this pandemic. And so if you take a look at world leaders who are associated with the most extreme left or the extreme right of the political spectrum, we see this across the board. We see approval ratings that have come down by five to 15 percentage points, whether it's Boris Johnson, whether it's looking at AMLO in Mexico, whether it's looking at Bolsonaro, and we don't see many populace leaders who have really gained support. Now, this doesn't diminish the underlying concerns that brought about populism, which is related to income inequality, immigration, corruption, all these types of issues. But what we've seen is real questions about whether these populace leaders have been able to address a crisis, and that's coming up across the board as a global trend. So, I think, we've got two immediate flashpoints that we're looking at: the U.S. elections, but we also have Brexit on the agenda as well. But I would just say, this shows that it's not preordained. So they're – the paradigm shifts we look at those which we view as being, for all intents and purposes, semi-permanent, like the unconventional monetary policy, the fact that market structure has changed.
And then we look at others, where we think that the political actors really do make a big difference. And deglobalization is one of those where the political actors make a very big difference. U.S., China, there are more structural issues, but this is one also where, as we talked about with the trade negotiations, the political actors will make a big difference.

Scott Miller: That’s fascinating because one of the – one of the things that while this is a global pandemic, the solutions may be global as well. There’s certainly a worldwide effort going on for both treatments and vaccines and at some point someone will wake up. I’m hoping it’s the American people wake up and realize that partners and thinkers and scientists and researchers all around the world have contributed to getting us to the end point we all desire. So, this all continues to be a moving target. But it’s good to know that you’re looking at this data and saying this is a choice, not a permanent state of affairs.

Joyce Chang: Well, I mean, the leadership really does make a difference, the political actors really do make a difference. So we do try to separate what are going to be trends that are in place for a longer duration of time. And for an investor, there are some real paradigm shifts that are going on. I mean, over the last 40 years, you could really look at a combination of 60-40 for your equity fixed income allocation being something that could generate a 10 percent return. Now that’s really being thrown into question. We’re looking at the next decade for our U.S. fixed income index, you know the U.S. aggregate index, maybe a one percent return. So I think you are going to see from financial markets, this is actually a paradigm shift that changes the way that investment will occur. Will there be more allocations to equities? Will there be more allocations to higher yielding fixed income like emerging markets and high yield, as we stay in this zero interest rate world? So, we do try to separate what is something where we see as more of a structural paradigm shift and those where we do see it as something where it is more dependent and not preordained on the political actors and the decisions that they take.

Scott Miller: Fair enough. Joyce, thank you so much for joining us today. This has been a wonderful conversation. I always learned something when we interact. I definitely learned something today, so thank you so much.

Joyce Chang: It’s wonderful to be with you Scott.

Andrew Schwartz: Thanks for listening to The Reopening. If you liked this episode, please write us a review and subscribe wherever you find your podcasts. You can also find other podcasts from the Center for Strategic and International Studies at csis.org/podcasts.