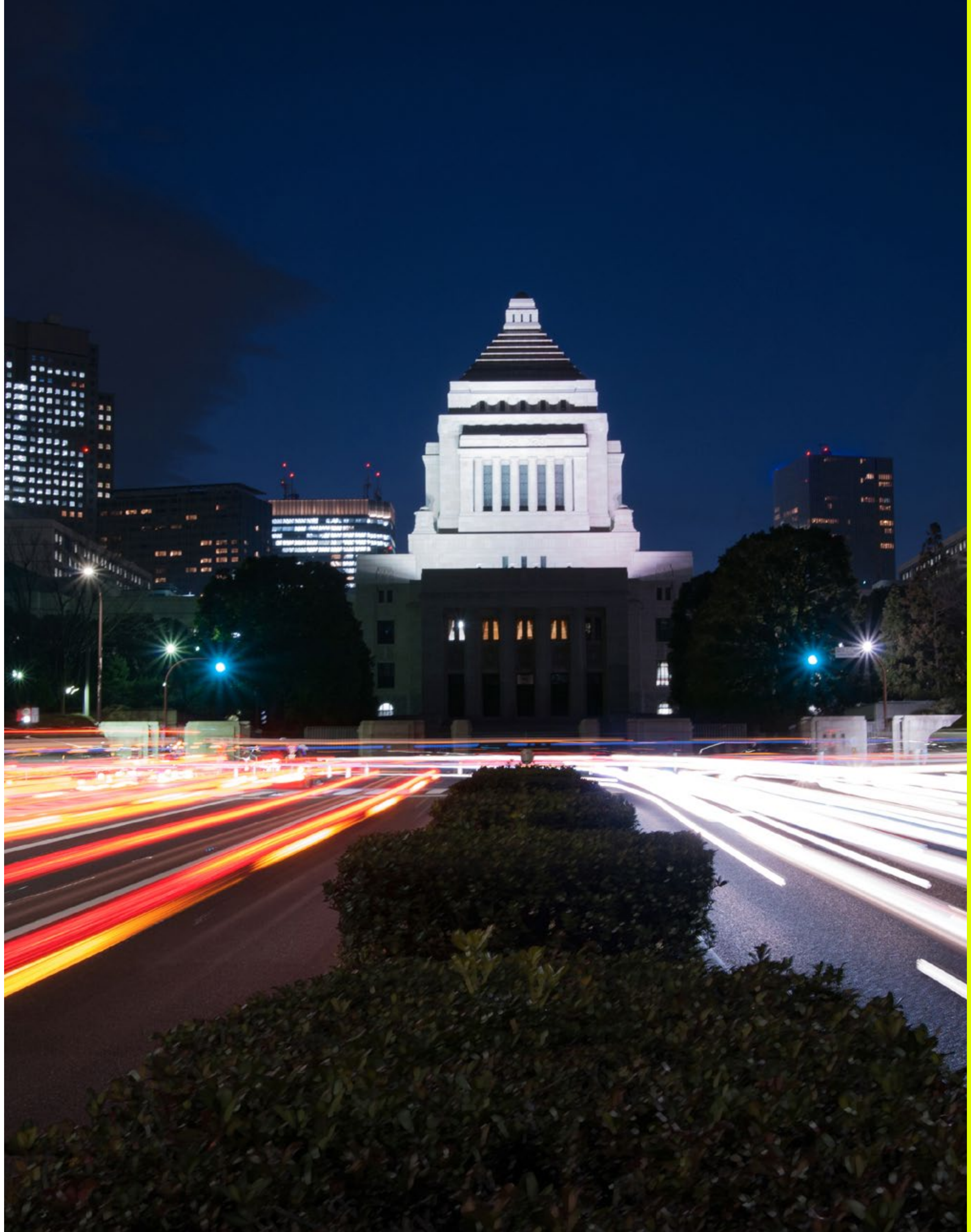
Midyear Global Policy Outlook 2024

This marketing communication is for Professional Clients, Financial Advisers, Qualified Clients/Sophisticated Investors (as defined in the important information at the end); for Sophisticated or Professional Investors in Australia; Institutional Investors in the United States; in Canada, this document is restricted to Institutional Investors and Advisors; for Qualified Institutional Investors in Japan; for certain specific institutional investors in Malaysia upon request, in New Zealand for wholesale investors (as defined in the Financial Markets Conduct Act); for Professional Investors in Hong Kong, for Institutional Investors and/or Accredited Investors in Singapore, for certain specific sovereign wealth funds and/or Qualified Domestic Institutional Investors approved by local regulators only in the People's Republic of China, for certain specific Qualified Institutions and/or Sophisticated Investors only in Taiwan, for Qualified Professional Investors in Korea, for certain specific institutional investors in Brunei, for Qualified Institutional Investors and/or certain specific institutional investors in Thailand, for certain specific institutional investors in Indonesia and for qualified buyers in the Philippines for informational purposes only. It is not intended for and should not be distributed to or relied upon by the public or retail investors and is not for consumer use.



Global Overview

Andy Blocker
Global Head of Public Policy & Strategic Partnerships

As we assess the public policy landscape at mid-year, the 2024 US presidential election casts an increasingly large shadow over almost every issue — from the fate of US aid to Israel and Ukraine to the implementation of clean energy and climate initiatives. A rematch between presumptive nominees Joe Biden and Donald Trump (we can drop the "presumptive" after this summer's party conventions) promises to come down to the wire — likely to be decided by less than 10% of voters in just six swing states.

But the US election is hardly the only contest to watch.

Europe. Election of the European Commission president and the appointment of 26 commissioners will take place this year, along with the development of the EU's policy agenda for 2024-2029. Incumbent President Ursula Von der Leyen appears to be in a strong position for re-election.

United Kingdom. In the UK, the next general election will be held on July 4. We expect the Labour Party to win that election due to public disillusion with the current government and a desire for change.

Asia Pacific. Elections were a key story in the first half across the region, with contests taking place in Taiwan, Indonesia, Korea, and India. And now the world watches as Japanese Prime Minister Fumio Kishida seeks re-election as his party's leader in the autumn, despite political challenges and plummeting poll ratings over a corruption scandal.

On the geopolitical front, it is interesting to note the continued commitment to Ukraine in both the US and Europe. Despite the long delay and political tussling needed to achieve the next tranche of funding from the US – $60 billion – it nevertheless got done. Likewise, in Europe, there seems to be even more resolve to continue the effort to support Ukraine than in the US. Also of note is the fact that both the US and Europe acted to use sanctioned Russian assets to help fund efforts in Ukraine. Going forward, however, it seems like Ukraine will need to show some progress on the battlefield to maintain this level of support from the West, especially support from the US.

In the following pages, we share our midyear outlook for each region's political contests, fiscal initiatives, geopolitical issues, and regulations in the areas of defense and security, financial stability, and energy and sustainability. What does the landscape look like now, and what could change as voters take to the polls to determine winners and losers? Read on to find out what we see ahead.

United States

Jennifer Flitton
Head of US
Government Affairs

Political outlook

- As the nation heads toward another presidential election, it is clear now that 2024 will look very similar to 2020 with a rematch between Joe Biden and Donald Trump.
- While the presidential primaries will be finished up in June, many members of the House will be fighting primary battles well into August.
- It is at the Republican National Convention and Democratic National Convention that the parties formally choose their presidential candidates to run in the general election. This year, the Republicans will hold their convention July 15-18 in Milwaukee, Wisconsin. The Democratic National Convention will take in Chicago, Illinois, August 19-22.
- The consensus among top strategists is that the battleground states of Arizona, Georgia, Michigan, Nevada, Pennsylvania, and Wisconsin will again encompass the swing-state map. Like 2020, this presidential election will likely be decided by less than 10% of voters in these six states, with both campaigns spending a massive amount of money to target these states' swing voters.
- At this point, RealClearPolitics' average has Trump up in all battleground states but still within the margin of error in Michigan, Nevada, Pennsylvania, and Wisconsin.

Fiscal outlook

- Congress is close to finishing up its priority legislation, having funded the government through September and passed a defense supplemental bill that will provide aid to US allies around the world.
- With all 435 House members and one-third of Senate seats up for election, members of Congress will soon be hankering to get out of Washington and return to their states and districts to campaign.
- After a long and arduous spending fight between the two chambers with incredibly tight margins, Congress was able to pass appropriations packages in March that will keep the federal government funded until the end of September.
- Come September, it is widely believed that Congress will pass a continuing resolution extending the government funding deadline past the November election, likely into December.
- Additionally, in April, Congress was able to work with the White House to pass a $95 billion package of emergency aid for Israel, Ukraine, and the Indo-Pacific, as well as other humanitarian needs.
- The Biden administration is working diligently to direct the funding contained in the legislative achievements from its first two years in office. The bipartisan infrastructure bill, the CHIPS and Science Act, and the Inflation Reduction Act allocated hundreds of billions of dollars, much of which has been allocated in loans, grants, and tax credits meant to revive the economy, especially the manufacturing and technology sectors.

Geopolitical outlook

- For months, the fate of US aid for Israel and Ukraine was in question, as concerns on both sides (albeit for different reasons) made a bipartisan resolution difficult. More than two years into the war in Ukraine, several Republicans in Congress are expressing their opposition to continuing to support the region with US arms and equipment. Among many of the more progressive-minded Democrats, the high death toll from the war in Gaza and the deep humanitarian need of the Palestinian people have led them to oppose further aid to Israel without commitments to a cease-fire. These dynamics are already beginning to play out as key political issues in US elections.
- Nevertheless, in late April, the House was able to break through the stalemate and move a $95 billion defense supplemental bill in three separate but bipartisan bills, which was then promptly passed through the Senate. The Ukraine Security Supplemental Appropriations Act included $60 billion—allocating $13.8 billion for the Ukrainians and $13.4 billion to replenish US stockpiles. The Israel Security Supplemental Appropriations Act included a total of $26.4 billion to Israel, including $9 billion in humanitarian aid to the region. The Indo-Pacific Security bill included $8.1 billion in aid to support Taiwan.
- Additionally, the final package included a fourth supplemental bill put forward by Speaker Mike Johnson (R-Louisiana) that would ban TikTok in the US unless its Chinese owners divest from the app. The bill also transferred $5 billion in Russian assets repossessed by the US government to Ukraine, as well as increasing sanctions on Russia and Iran.
- A few weeks later, TikTok and its parent company Byte Dance filed a lawsuit in the US Court of Appeals in the District of Columbia, challenging the constitutionality of the new law on First Amendment grounds.

United States

Policy and regulatory outlook:

Defense and security

- The Pentagon was successful in the first half of 2024 achieving support for a full year of military appropriations and the passage of a $95 billion foreign aid package. And yet, the next round of budget discussions is already underway as the administration's $895 billion defense budget request is being considered on Capitol Hill.
- Biden's budget reflects the debt ceiling deal struck last year, and Congressional defense hawks are already criticizing the low number. Those defense hawks will likely have to spar with Democrats, who will demand an increase in domestic discretionary spending for any defense increases.
- Meanwhile, consideration of the annual must-pass National Defense Authorization Act (NDAA) is currently underway in the House Armed Services Committee. With the US buildup in the Middle East that could cost upwards of $1.6 billion, it is expected that the Pentagon will need to request supplemental funding on top of the recently passed aid package.
- However, it is unlikely that this next spending package will be resolved until after the November elections.

Financial stability

- In July 2023, US federal banking regulators proposed rules to "strengthen capital requirements for large banks" that have been deemed the Basel III endgame.
- The proposal is the result of an international accord with bank regulators to reform how banks consider their risk and how much capital and liquidity they should hold against potential losses.
- In Washington, these new rules have been met with fierce and high profile opposition from both the banking industry and Capitol Hill.
- The chief concern expressed by both Republican and Democratic lawmakers is that the proposal will restrict lending and access to credit, which is made worse by high inflation and high interest rates.
- In early March 2024, Federal Reserve Chairman Jerome Powell testified in Congress, and after hearing bipartisan concerns over the Basel III endgame proposal, the chairman expressed that material and broad changes to the proposal will need to happen before it is finalized.
- Policymakers on Capitol Hill and the banking industry are calling on regulators to repropose the rule. While Powell did not rule out a reproposal, he did not confirm that a reproposal was imminent. Such a step could significantly delay the regulatory reform. However, if the proposal is materially and broadly overhauled, not reproposing could open it up to litigation.

Energy and sustainability

- In March, the SEC approved a final rule on the enhancement and standardization of climate-related disclosures for investors, significantly scaling back from its original 2022 proposal.
- The SEC dropped the requirement to disclose Scope 3 emissions (those occurring as a consequence of the company's activities but generated from sources that are neither owned nor controlled by the company) in response to stakeholder feedback and potential litigation risk. Opponents had argued that the Scope 3 requirement goes beyond the SEC's statutory authority and would impose significant cost burdens throughout the supply chain, including on smaller non-public companies.
- The final rule also softens the requirement for disclosure of Scope 1 and 2 (direct) emissions. While the proposed rule mandated Scope 1 and 2 disclosures for all issuers, the final rule only requires Scope 1 and 2 emissions disclosures if such information is material to investors. The Scope 1 and 2 requirements would only apply to large, accelerated filers (LAFs) and accelerated filers (AFs), while smaller reporting companies (SRCs), emerging growth companies (EGCs), and non-accelerated filers (NAFs) would be exempt.
- The final rule includes other changes from the proposal, including eliminating the requirement to disclose board climate expertise, extending the Private Securities Litigation Reform Act to certain forward-looking statements, eliminating the proposed requirement to disclose any material change to the climate-related disclosures, and extending certain phase-in periods.
- Since the SEC finalized its climate disclosure rule on March 6, multiple suits have been filed against the rule.
- Considering the multiple filings, the SEC asked the US Judicial Panel on Multidistrict Litigation to consolidate the legal challenges into a single circuit through a lottery process. The Eighth Circuit was randomly selected as the venue that will hear all the petitions. Following the appointment of the Eighth Circuit, the court issued an administrative stay, which will essentially delay the rule from taking effect until it works its way through the legal process.
- Meanwhile, the president's premier climate law, the Inflation Reduction Act (IRA), which incentivizes clean energy, electric cars, and electric homes and invests in clean energy technology manufacturing, is currently being implemented. As of April, the Biden administration has announced roughly $60 billion in tentative funding decisions out of the total $145 billion in direct spending on energy and climate programs. The IRA also incentivized private company investments in clean energy and manufacturing through tax breaks that are estimated at roughly $525 billion. However, despite the subsidies from the IRA, high interest rates, barriers to permitting, and supply chain limitations have resulted in high profile companies delaying or canceling a number of the EV battery, solar, and wind projects that would have otherwise utilized these tax incentives.

United Kingdom

Graham Hook
Head of EMEA Government Relations and Public Policy

Political outlook

- The next general election will take place on July 4. We expect the Labour Party to win that election due to public disillusion with the current government and a desire for change.
- The May local elections – in which the Conservatives lost nearly one in every two council seats they were defending – confirmed that the Labour Party remains on course to win power. If anything, the results downplayed the extent to which the Reform Party could further dent the Conservatives' electoral fortunes, given that they fielded candidates in only one in six council wards.
- In Scotland, the former first minister's decision to unilaterally end his party's power-sharing agreement with the Green Party, which led to his resignation, will mean the ruling Scottish National Party (SNP) will struggle to maintain its authority in office through to the Scottish Parliamentary elections scheduled for May 2026. This effect will be exacerbated if, as expected, the SNP loses significant ground to the Labour Party in the UK general election.
- Assuming Sir Keir Starmer is appointed prime minister on July 5, key announcements in his first 100 days in office are likely to center on a new industrial policy, plans to accelerate the UK's transition to net-zero, and a reset in UK-EU relations.

Fiscal outlook

- Even as the UK emerges from a shallow recession, despite stronger-than-expected growth in Q1 2024, the overall fiscal outlook remains gloomy: The UK is still heading for the highest debt-to-GDP ratio in seven decades, with debt interest payments close to all-time highs.
- With rising costs to the public finances arising from individuals moving onto health- and disability-related benefits, combined with public service spending pressures, legacy costs from dealing with an infected-blood scandal, plus additional spending pledges on defense and security, we expect the new administration to raise taxes to meet the wide range of immediate spending pressures.
- We also expect the new administration to publish a combined Budget and Spending Review in autumn, which will set the path for public spending in the next years, with fiscal policy likely to remain extremely tight for much of the forthcoming parliament.

Geopolitical outlook

- We expect the next government to make rebuilding relations with the EU its number one trade and foreign policy priority – with a reduction in frictions at the border a key plank of its medium-term growth strategy. However, given the political cycle of the EU, serious negotiations will likely be delayed until the start of 2025. Having ruled out a return to membership of the single market, customs union, or the return of free movement of people, incremental improvements will likely be limited in their economic impact.
- UK Parliamentary sentiment continues to harden against China in the wake of allegations in the spring that Chinese state actors conducted malicious cyber activity against MPs' email accounts. In parallel, the government is considering whether to instruct the UK's Trade Remedies Authority to open an investigation into Chinese state subsidies for electric vehicle manufacturers, with clarity on any investigation expected in the second half of the year.
- Following the signature of the accession protocol to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the UK expects the protocol to come into force (following formal ratification by the UK and six other CPTPP members) in the second half of 2024 (likely Q4).

Policy and regulatory outlook:

Defense and security

- The continuing war in Ukraine, the threat of declining US support for European security under a potential Trump presidency, and wider geopolitical instability have combined to raise defense and security spending up the UK political agenda.
- In April, the Labour Party leader pledged to increase the UK's defense spending to 2.5% of GDP "as soon as resources allow" if elected to office. In April, the prime minister announced the Conservatives would steadily increase defense spending to the same level by 2030, with higher spending funding and expanded munitions production, amongst other things.
- For both parties, continued support for the war effort in Ukraine remains a priority, with the government pledging to maintain the current level of support for as long as required.
- Along with AUKUS partners (Australia and the US), the UK is in talks with Japan about a potential collaboration to develop the so-called "Pillar 2" advanced defense capabilities under the AUKUS umbrella: Cyber, artificial intelligence, quantum technology, and undersea capabilities.

United Kingdom

Financial stability

- We expect the Bank of England to publish the results of its first System Wide Exploratory Scenario (SWES) in Q4, which aims to improve regulators' understanding of the behaviors of banks and other financial market participants (including asset managers) in stressed market conditions. The results will likely inform the development of policy recommendations in the course of 2025.
- In addition, we expect the Financial Conduct Authority (FCA) to confirm its final reforms to the UK Money Market Regulations by the end of Q4. Specifically, we expect the FCA to increase MMFs' liquidity buffers and to remove provisions linking breaches of those buffers to the potential application of liquidity fees or redemption gates, with the discretion of the MMF manager to use such tools made clearer.

Energy and sustainability

- If it forms the next government, the Labour Party has pledged to reinstate the 2030 ban on the sale of new petrol and diesel cars and to bring forward the current commitment to make domestic electricity generation (net) carbon-free by 2035 to 2030, despite doubts about whether such a commitment is deliverable in just five years.
- Where the current government has delayed the rollout of certain elements of its Green Finance Strategy – such as the rollout of a UK Green Taxonomy – we expect the next government to push forward with additional sustainability tools and disclosures but aligned with the broad parameters of the existing Strategy, retaining the focus on alignment with international standards.
- At the end of June, the independent Committee on Climate Change is expected to deliver its next report on the government's progress towards reducing greenhouse gas emissions, which is likely to conclude that the government is off track to meet its post-2030 emissions reduction targets, despite having met the 2020-2025 carbon budget with a considerable margin to spare.
- In the meantime, the government continues to consult on the details of a new Carbon Border Adjustment Mechanism (CBAM) to prevent carbon leakage, due to come into force by 2027. In the event of a Labour win at the election, we expect the Labour Party to look to link the UK's Emissions Trading Scheme and CBAM with those of the EU.

European Union

Michael O'Shea
Director
EU Public Policy

Political outlook

- With the European Parliament elections having taken place in early June, attention will shortly turn to the formation of the new political layer of the European Commission – the election of the president and the appointment of 26 commissioners – and the development of the EU's policy agenda for the 2024-2029 political mandate.
- In launching her campaign for a second term as president of the European Commission back in February, Ursula Von der Leyen set out what she believes should be the EU's policy priorities for the years ahead, including enhancing the bloc's defense and security capabilities, improving its global economic and industrial competitiveness, and delivering fair and effective climate and digital transitions.
- Having since received the backing of the European Parliament's largest political group – the centre-right European People's Party (EPP) – Von der Leyen appears to be in a strong position for re-election at the end of this year. In the meantime, however, there remain several sensitive political and geopolitical issues for the EU to navigate, including delivering support to Ukraine using interest garnered from frozen Russian assets (see below).

Fiscal outlook

- Following a three-year suspension due to the COVID-19 pandemic and the Russian invasion of Ukraine, a revised and more flexible version of the EU's Stability and Growth Pact (SGP) –rules that ensure Member States pursue and coordinate responsible and sustainable economic and fiscal policies – has been in force since the spring. The impact of the resumption of the SGP on Member States' medium-term fiscal and economic discipline and longer-term sustainability, however, will be assessed in the coming months and years.
- While the European Central Bank (ECB) has recently revised downwards its growth expectations for the euro area for 2024, it is hoped that inflation will continue to fall in the coming months and align with the ECB's medium-term target of 2% in mid-2025 and ultimately fall just below that target in 2026.

Geopolitical outlook

- EU leaders remain steadfast in their political, economic, and military support of Ukraine in the face of continued Russian aggression. In recent weeks, the EU proposed a 14th package of sanctions against Russia, which includes a potential ban on the re-exportation of Russian liquefied natural gas (LNG) in Europe (particularly Belgium, France, and Spain).
- Moreover, the EU has also approved the seizure of profits generated from Russian assets in Europe, which have been frozen because of previous sanctions. It is anticipated that the move will raise between €2.5 billion and €3.0 billion per year, the majority of which would be allocated to the provision of support for Ukraine. The European Commission calculates that, since February 2022, the EU has provided around €98.5 billion in assistance to Ukraine, and it is expected that this figure will top €100 billion by the end of the year.

Policy and regulatory outlook:

Defense and security

- Earlier this year, the EU reached a historic agreement on the establishment of a European Defense Industrial Strategy (EDIS), which will see the development, coordination, and promotion of the bloc's defense technological and industrial base.
- The EDIS requires that, by 2030, at least 50% of Member States' defense procurement budgets are spent within Europe, rising to 60% by 2035. In addition, Member States will be expected to better coordinate the procurement of defense equipment, with 40% of procurement expected to be undertaken jointly by the end of the decade.
- In rolling out the EDIS, the EU hopes to reduce reliance on non-EU countries' defense sectors, including the US and, to a lesser extent, the UK.

Financial stability

- The ongoing development of the EU's detailed regulatory framework governing the use of liquidity management tools by managers of open-end investment funds is expected to continue in the second half of the year and into 2025.
- On top of this, EU policymakers are embarking upon an assessment of the effectiveness of its macroprudential framework for banks, with consideration being given to extending the framework to non-bank financial institutions (NBFIs), including investment funds.
- In addition, following a recent review of the European Market Infrastructure Regulation (EMIR), the EU will now focus on implementing regulatory provisions that will require some market participants to clear a minimum volume of trades in specific euro- and Polish złoty-denominated derivative contracts, under certain conditions, via EU central counterparties (CCPs).
- It is hoped that this so-called active account requirement (AAR) will reduce EU reliance on overseas market infrastructures and supervisory institutions in areas of the market deemed to be of 'systemic importance' to the EU.

European Union

Energy and sustainability

- While much progress has been made over the last five years on laying the legislative foundations of the EU Green Deal – the bloc's climate and energy transition plan – some senior European policymakers, including French President Emmanuel Macron, are calling for a regulatory pause.
- With a more right-leaning European Parliament, it is expected that this call for a period of consolidation – not deregulation – will grow in volume as the next European Commission sets out how it intends to build on the implementation of the EU Green Deal.
- Meanwhile, at a regulatory level, there will be a focus on the finalization of the EU's Corporate Sustainability Due Diligence Directive (CSDDD), as well as the rollout of the European Sustainability Reporting Standards (ESRS), which, taken together, will increase the level of transparency by corporates operating in the EU regarding the environmental impact of their activities, and actions they are taking to address adverse impacts in relation to human rights and sustainability in their operations and corporate governance.

Asia Pacific

Iris Zhang
Senior Legal
Counsel,

Political outlook

Several elections have taken place across the APAC region in the first half of 2024:

- **Taiwan:** Lai Ching-te won the election for the Democratic Progressive Party (DPP). Although this is the first time in Taiwan's democratic history that a party has won a third consecutive term, Lai's vote share was significantly lower than his predecessors, driven by increasing discontent over economic opportunity for young people and the cost of housing. Furthermore, the DPP lost its majority in the Legislative Yuan – the mainland-leaning party Kuomintang now has the greatest number of seats, which means the DPP will need the support of opposition parties to pass legislation, which may have muted Beijing's response.
- **Indonesia:** Prabowo Subianto, a former army general belonging to the populist and nationalist Gerindra Party, was elected with around 60% of the vote. Prabowo has signaled continuity with outgoing president Jokowi's policies, such as critical minerals downstream and the Nusantara project (the new capital) – though questions remain about the extent to which that was election posturing or a move away from his previous reputation as being highly nationalistic and associated with hardline Islamist groups.
- **Korea:** In mid-term legislative elections, the opposition Democratic Party of Korea retained its majority in the national assembly. Key issues in the election campaign were inflation and a weak domestic economy. In addition, several party leaders, including the president, were mired in corruption allegations.
- **India:** Incumbent Prime Minister Narendra Modi will be re-elected for a third term in early June, in an election that spans six weeks and nearly 1 billion voters. Modi is expected to continue his pro-business approach, which contributed to strong economic growth. India has also benefited from global trends, including "de-risking" by Western companies, who have diversified manufacturing away from China.
- **Japan:** Prime Minister Fumio Kishida continues to face political challenges and plummeting poll ratings over a corruption scandal in which lawmakers are alleged to have kept profits from a Liberal Democratic Party (LDP) fundraiser. Despite acting in December 2023 to remove those linked to the scandal from his cabinet and other key political posts, the LDP continues to suffer, with the party losing three by-elections in late April. The defeats represent a setback for Kishida, who will seek re-election as his party's leader in autumn.

Fiscal outlook

- The Chinese government has set a GDP growth target of 5% for 2024, which is in line with last year's target but the lowest such figure for decades. Additional fiscal stimulus is expected to be deployed to achieve the country's economic goals. The 2024 Government Work Report (GWR) calls for proactive fiscal policies and utilization of "ultra-long-term special Treasury bonds" for areas pertinent to China's economic security, as well as "special purpose bonds" that are often used to fund infrastructure investments.
- The Bank of Japan (BoJ) increased interest rates for the first time in 17 years in March, a historic shift as the country attempts to put decades of deflation behind it. However, inflation has weakened in recent months, and the decision not to raise rates in April led to the yen reaching a 34-year low against the dollar. Looking ahead, the BoJ faces a challenging environment as it continues to support economic growth and manage inflation within target levels while navigating a weak yen.
- India's Interim Budget announced in February reflects the government's goal to reduce fiscal deficit to 5.1% of the GDP in 2024-25 and further to 4.5% by 2026. This reduction will be achieved without reining capital expenditures and infrastructure investments but leaning on higher tax revenues and some subsidy cuts (e.g., fertilizer, food). The Interim Budget, serving as a temporary budgetary measure, does not contain material changes to taxation or economic policy and is expected to be replaced by a full budget post-election.

Geopolitical outlook

- North Korea's decision in January to abandon its commitment to unifying the Korean peninsula and to designate South Korea as the "number one hostile state" marks a significant shift in the region's geopolitical landscape. This shift is further emphasized by North Korea's strengthened alliance with Russia and its military exercises, which have led to civilian evacuations and heightened tensions in the region. In South Korea, President Yoon Suk Yeol's conservative government has prioritized building stronger diplomatic ties with the US and Japan to counter the influence of China and North Korea.
- However, Yoon's hawkish foreign policy agenda will be challenged, and he will likely focus on addressing domestic concerns following large losses for his ruling party in the April legislative elections. In addition, Kim Jong Un's "power for power" policy, which involves North Korea's responding to perceived threats with equivalent or greater force and hints of unwillingness to provoke a conflict, suggests that the Korean Peninsula would likely remain relatively stable in the short term.
- The passage of Hong Kong's domestic national security law in March was a significant development as the city moves to prevent acts of "foreign interference." So far, the impact on the business community has been limited, while the US response has been muted due to a desire to avoid escalating tensions in an election year. Looking ahead, as the law is implemented, it may raise questions about the longer-term viability of Hong Kong as an international financial center, especially as regional competitors such as Singapore continue to attract talent and capital away from the city.

Asia Pacific

- Although tensions around Taiwan remain elevated, at present, governments in Taipei, Beijing, and Washington have an incentive to avoid escalation. Since Lai Ching-te's victory in elections in January this year, all sides have avoided ratcheting up tensions further. Even Lai's inauguration in May has yet to generate further tension. While Lai has historically supported Taiwanese independence, his comments during the campaign and after the election have been more moderate, indicating support for the status quo. Public reports further suggest that the US has privately lobbied him to take a less antagonistic approach. However, there remains a delicate balance in the Taiwan Strait.

Policy and regulatory outlook:

Defense and security

- The US is preparing for contingencies and arming allies to protect its interest in the region. It signed a $95 billion military aid package that includes $8.1 billion for the Indo-Pacific and Taiwan. The funds, which may be spent on military equipment or training, have not yet been allocated and remain subject to negotiation between Taiwan and the US.
- Japan also strengthened its military alliance with the US in April, agreeing to set up a joint military command structure and a new air missile defense network developed alongside Australia. The partnership covers about 70 defense agreements aimed at improving crisis response capabilities.
- In a first-ever US-Japan-Philippines summit in April, security in the Indo-Pacific was high on the agenda. The countries pledged to strengthen military ties, with plans to conduct a trilateral Coast Guard exercise and deploy additional personnel to patrol the Indo-Pacific. Additionally, the US and Japan have committed to accelerating investments in the Philippines, focusing on sectors critical to economic and security resilience, such as infrastructure, the digital economy, and the semiconductor supply chain.
- The upcoming US presidential election will add another layer of uncertainty. With both presidential candidates taking a tough stance on China, there will be practical difficulties in how much Biden can maintain the recent thaw in US-China relations. The prospect of a Trump victory will also raise additional concerns about the stability of the US alliance with key regional partners such as Japan and Taiwan.

Financial stability

Digital finance

- Hong Kong will list the first spot cryptocurrency exchange-traded funds (ETFs) as part of its bid to develop into a digital asset hub, including spot bitcoin and Ether funds. It already permits crypto-future ETFs.
- Central Bank Digital Currencies (CBDCs): Hong Kong, Singapore, New Zealand, and India are all jurisdictions in which progress on CBDC adoption has been made. The Hong Kong Monetary Authority (HKMA) has launched a wholesale CBDC project to develop its local tokenization market, while Singapore looks to do the same later in 2024. New Zealand opened a consultation into a CBDC in mid-April as part of a multi-stage exploration, which will run until 2030. In addition, the Reserve Bank of India has indicated that it is now testing programmable and offline CBDC usage.

Several jurisdictions are actively looking to attract new investors to their shores and have set out a number of elements of regulatory reform to do so:

- **China:** Following the publication of the 24-point strategy to enhance China as a destination for global capital, boosting foreign investment was also mentioned as an important task in the 2024 GWR released during the Two Sessions. Among other directives, the GWR called for removing market access restrictions in manufacturing fields and relaxing market access for telecommunications, medical, and other service industries.
- **India:** Further developments in GIFT City included exploring reforms to develop a market for exchange-traded currency derivatives and allowing foreign funds to set up there to take full investments from non-resident Indians and other Indian-origin citizens.
- **Japan:** Ongoing reforms to develop Japan's asset management sector and attract new international asset managers to the country, including new areas in Tokyo where administration would take place in English.

Market structure regulatory reforms

- **China:** Following the appointment of Wu Qing as the new chair of the China Securities Regulatory Commission (CSRC) in February, the CSRC announced in April its legislative work plan for 2024, which reflects the new CSRC leadership's regulatory agenda. The work plan aims to strengthen the supervision, risk prevention, and high quality development of the capital market in China. Fourteen regulatory projects were announced, spread across nine key initiatives and five urgent research projects. Key changes expected include revising rules for private investment funds, futures companies, and the management of IT within securities companies. Additionally, new regulations will be introduced for shareholder reduction management in listed companies, securities investment consulting, and derivatives trading supervision. The CSRC also plans to revise the Securities Investment Funds Law.
- **India:** The Securities and Exchange Board of India (SEBI) planned to move to an optional T+0 settlement system in early 2024. However, in March, its board instead approved a beta version of the change for a "limited set of 25 scrips" and "with a limited set of brokers." This is a step back from its plans for a full rollout in spring 2024, reflecting resistance from foreign investors, especially about the operational challenges it would pose. Nevertheless, SEBI Chair Madhabi Puri Buch said that instant settlement was necessary to prevent investors from moving to alternatives like crypto, which does allow for instant settlement, with plans for wider instant settlement to be launched by March 2025.

Asia Pacific

Energy and sustainability

Energy

- After a seven-year hiatus, China's voluntary carbon credit trading platform – the China Certified Emission Reduction (CCER) scheme – reopened in January, serving as a supplementary mechanism to the existing national emissions-trading scheme (ETS). The CCER is currently only available for projects approved before 2017, but the government has announced plans to approve new projects at a later date. For the ETS, new regulations were introduced in May, focusing on the allocation of responsibilities and addressing issues related to the falsification of carbon emission data.

Sustainability

- Major stock exchanges in China (Shanghai Stock Exchange, Shenzhen Stock Exchange, and Beijing Stock Exchange) implemented sustainability reporting guidelines for listed companies in May. The guidelines are largely aligned with the International Sustainability Standards Board (ISSB)'s International Financial Reporting Standards (IFRS), Sustainability Disclosure Standards, and Global Reporting Initiative Standards. A double materiality principle on "financial materiality" and "impact materiality" is adopted in the guidelines. While only large listed enterprises are scoped in on a mandatory basis, the updated regulations could result in adjustments in valuations as Chinese policymakers look to embed sustainability factors in the economy.
- Australia and Singapore are in the process of introducing mandatory climate disclosures that are in line with international frameworks such as the Task Force on Climate-Related Financial Disclosures (TCFD) framework and ISSB Standards. Australia introduced a draft bill on climate reporting to parliament in March, mandating disclosures from FY 2025 for the largest firms. The specific content of the new disclosure requirements will be set out in new accounting standards currently under development by the Australian Accounting Standards Board. In March, Singapore consulted draft mandatory sustainability reporting standards, building on its existing requirements for financial services firms. As part of this initiative, the government is launching a grant that covers up to 30% of the cost of producing the first sustainability reports for eligible companies.

Investment risks

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations), and investors may not get back the full amount invested.
Past performance is not a guide to future returns.

Important information

This marketing communication is for Professional Clients only in Dubai, Jersey, Guernsey, Isle of Man, Ireland, Continental Europe (as defined below) and the UK; for Institutional Investors only in the United States, for Sophisticated or Professional Investors in Australia; in New Zealand for wholesale investors (as defined in the Financial Markets Conduct Act); for Professional Investors in Hong Kong; for Qualified Institutional Investors in Japan; in Taiwan for Qualified Institutions/Sophisticated Investors; in Singapore for Institutional/Accredited Investors; for Qualified Institutional Investors and/or certain specific institutional investors in Thailand; for Qualified Clients/Sophisticated Investors in Israel; for certain specific sovereign wealth funds and/or Qualified Domestic Institutional Investors approved by local regulators only in the People's Republic of China; for Qualified Professional Investors in Korea; for certain specific institutional investors in Brunei; for certain specific institutional investors in Malaysia upon request; for certain specific institutional investors in Indonesia; and for qualified buyers in the Philippines for informational purposes only. in Canada this document is for use by Advisors and Institutional Investors. It is not intended for and should not be distributed to, or relied upon by, the public or retail investors. Please do not redistribute this document.

For the distribution of this document, Continental Europe is defined as Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Israel, Italy, Liechtenstein, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden and Switzerland.

This marketing communication is not intended as a recommendation to invest in any particular asset class, security, strategy or product for a particular investor. Investors should consult a financial professional before making any investment decisions. This report contains general information only and does not take into account individual objectives, taxation position or financial needs. Nor does this constitute a recommendation of the suitability of any investment strategy or product for a particular investor. Investors should consult a financial professional before making any investment decisions. It is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or instrument or to participate in any trading strategy to any person in any jurisdiction in which such an offer or solicitation is not authorized or to any person to whom it would be unlawful to market such an offer or solicitation. It does not form part of any prospectus. While great care has been taken to ensure that the information contained herein is accurate, no responsibility can be accepted for any errors, mistakes or omissions or for any action taken in reliance thereon.

The opinions expressed are those of the individuals expressing them personally and may differ from the opinions of other Invesco investment professionals. Opinions are based upon current market conditions, and are subject to change without notice. As with all investments, there are associated inherent risks. Please obtain and review all financial material carefully before investing. Asset management services are provided by Invesco in accordance with appropriate local legislation and regulations. This material may contain statements that are not purely historical in nature but are "forward-looking statements." These include, among other things, projections, forecasts, estimates of income, yield or return or future performance targets. These forward-looking statements are based upon certain assumptions, some of which are described herein. Actual events are difficult to predict and may substantially differ from those assumed. All forward-looking statements included herein are based on information available on the date hereof and Invesco assumes no duty to update any forward-looking statement. Accordingly, there can be no assurance that estimated returns or projections can be realized, that forward-looking statements will materialize or that actual returns or results will not be materially lower than those presented. By accepting this document, you consent to communicate with us in English, unless you inform us otherwise.

This document may not be reproduced or used for any other purpose, nor be furnished to any other person other than those to whom copies have been sent. Nothing in this document should be considered investment advice or investment marketing as defined in the Regulation of Investment Advice, Investment Marketing and Portfolio Management Law, 1995 ("the Investment Advice Law"). Investors are encouraged to seek competent investment advice from a locally licensed investment advisor prior to making any investment. Neither Invesco Ltd. nor its subsidiaries are licensed under the Investment Advice Law, nor does it carry the insurance as required of a licensee thereunder.

All data as May 31, 2024, unless otherwise stated. All data is USD, unless otherwise stated.

Restrictions on distribution

Australia

This document has been prepared only for those persons to whom Invesco has provided it. It should not be relied upon by anyone else. Information contained in this document may not have been prepared or tailored for an Australian audience and does not constitute an offer of a financial product in Australia. You may only reproduce, circulate and use this document (or any part of it) with the consent of Invesco.

The information in this document has been prepared without taking into account any investor's investment objectives, financial situation or particular needs. Before acting on the information the investor should consider its appropriateness having regard to their investment objectives, financial situation and needs.

You should note that this information:

- may contain references to dollar amounts which are not Australian dollars;
- may contain financial information which is not prepared in accordance with Australian law or practices;
- may not address risks associated with investment in foreign currency denominated investments; and does not address Australian tax issues.
- issued in Australia by Invesco Australia Limited (ABN 48 001 693 232), Level 26, 333 Collins Street, Melbourne, Victoria, 3000, Australia which holds an Australian Financial Services Licence number 239916.

Canada

In Canada this document is for use by Advisors and Institutional Investors. It is not intended for and should not be distributed to, or relied upon by, the public or retail investors. Please do not redistribute this document. All material presented is compiled from sources believed to be reliable and current, but accuracy cannot be guaranteed. This is not to be construed as an offer to buy or sell any financial instruments and should not be relied upon as the sole factor in an investment making decision. As with all investments there are associated inherent risks. Please obtain and review all financial material carefully before investing.
- Issued in **Canada** by Invesco Canada Ltd., 120 Bloor Street East, Suite 700, Toronto, Ontario, M4W 1B7.

Continental Europe, Dubai, Guernsey, Ireland, the Isle of Man, Jersey and the UK

The document is intended only for Professional Clients in Continental Europe, Dubai, Ireland, the Isle of Man, Jersey, Guernsey, and the UK and is not for consumer use. Marketing materials may only be distributed without public solicitation and in compliance with any private placement rules or equivalent set forth in the laws, rules and regulations of the jurisdiction concerned. This document is not intended to provide specific investment advice including, without limitation, investment, financial, legal, accounting or tax advice, or to make any recommendations about the suitability of any product for the circumstances of any particular investor. You should take appropriate advice as to any securities, taxation or other legislation affecting you personally prior to investment. No part of this material may be copied, photocopied or duplicated in any form by any means or redistributed without Invesco's prior written consent.

Further information is available using the contact details shown:

- Issued in **Belgium, Denmark, Finland, France, Greece, Ireland, Italy, Netherlands, Norway, Portugal Spain, Sweden, Liechtenstein,** and **Luxembourg** by Invesco Management S.A., President Building, 37A Avenue JF Kennedy, L-1855 Luxembourg, regulated by the Commission de Surveillance du Secteur Financier, Luxembourg.
- Issued in **Dubai** by Invesco Asset Management Limited, Index Tower Level 6 - Unit 616, P.O. Box 506599, Al Mustaqbal Street, DIFC, Dubai, United Arab Emirates. Regulated by the Dubai Financial Services Authority.
- Issued in **Austria** and **Germany** by Invesco Asset Management Deutschland GmbH, An der Welle 5, 60322 Frankfurt am Main, Germany.
- Issued in **Switzerland** by Invesco Asset Management (Schweiz) AG, Talacker 34, 8001 Zurich, Switzerland.
- Issued in the **Guernsey, Israel, Isle of Man**, **Jersey**and the **United Kingdom** by Invesco Asset Management Limited which is authorised and regulated by the Financial Conduct Authority. Invesco Asset Management Ltd, Perpetual Park, Perpetual Park Drive, Henley-on-Thames, RG9 1HH, UK.

Hong Kong
This document is provided to professional investors (as defined in the Securities and Futures Ordinance and the Securities and Futures (Professional Investor) Rules) only in Hong Kong.
It is not intended for and should not be distributed to or relied upon by the members of the public or the retail investors.

- Issued in Hong Kong by Invesco Hong Kong Limited Limited 景順投資管理有限公司 45/F, Jardine House, 1 Connaught Place, Central, Hong Kong.

Isreal
This document may not be reproduced or used for any other purpose, nor be furnished to any other person other than those to whom copies have been sent. Nothing in this document should be considered investment advice or investment marketing as defined in the Regulation of Investment Advice, Investment Marketing and Portfolio Management Law, 1995 ("Investment Advice Law"). Neither Invesco Ltd. nor its subsidiaries are licensed under the Investment Advice Law, nor does it carry the insurance as required of a licensee thereunder.

Japan
This document is only intended for use with Qualified Institutional Investors in Japan. It is not intended for and should not be distributed to, or relied upon, by members of the public or retail investors.

- Issued in **Japan** by Invesco Asset Management (Japan) Limited, Roppongi Hills Mori Tower 14F, 6-10-1 Roppongi, Minato-ku, Tokyo 106-6114; Registration Number: The Director-General of Kanto Local Finance Bureau (*Kin-sho*) 306; Member of the Investment Trusts Association, Japan and the Japan Investment Advisers Association, and/or 2) Invesco Global Real Estate Asia Pacific, Inc., Roppongi Hills Mori Tower 14F, 6-10-1 Roppongi, Minato-ku, Tokyo 106-6114; Registration Number: The Director-General of Kanto Local Finance Bureau *(Kin-sho)* 583; Member of the Investment Trusts Association, Japan and Type II Financial Instruments Firms Association.

New Zealand
This document is issued only to wholesale investors (as defined in the Financial Markets Conduct Act) in New Zealand, to whom disclosure is not required under Part 3 of the Financial Markets Conduct Act. This document has been prepared only for those persons to whom it has been provided by Invesco. It should not be relied upon by anyone else and must not be distributed to members of the public in New Zealand. Information contained in this document may not have been prepared or tailored for a New Zealand audience. You may only reproduce, circulate and use this document (or any part of it) with the consent of Invesco. This document does not constitute and should not be construed as an offer of, invitation or proposal to make an offer for, recommendation to apply for, an opinion or guidance on Interests to members of the public in New Zealand. Any requests for information from persons who are members of the public in New Zealand will not be accepted.

- Issued in **New Zealand** by Invesco Australia Limited (ABN 48 001 693 232), Level 26, 333 Collins Street, Melbourne, Victoria, 3000, Australia, which holds an Australian Financial Services Licence number 239916.

Singapore
This document may not be circulated or distributed, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 304 of the Securities and Futures Act (the "SFA"), (ii) to a relevant person pursuant to Section 305(1), or any person pursuant to Section 305(2), and in accordance with the conditions specified in Section 305 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. This document is for the sole use of the recipient on an institutional offer basis and/or accredited investors and cannot be distributed within Singapore by way of a public offer, public advertisement or in any other means of public marketing.

- Issued in **Singapore** by Invesco Asset Management Singapore Ltd, 9 Raffles Place, #18-01 Republic Plaza, Singapore 048619.

Taiwan
This material is distributed to you in your capacity as Qualified Institutions/Sophisticated Investors. It is not intended for and should not be distributed to, or relied upon, by members of the public or retail investors.

- Issued in Taiwan by Invesco Taiwan Limited, 22F, No.1, Songzhi Road, Taipei 11047, Taiwan (0800-045-066). **Invesco Taiwan Limited is operated and managed independently.**

United States
- Issued in the **US** by Invesco Advisers, Inc., 1331 Spring Street NW, Suite 2500, Atlanta, GA 30309.