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**OUTSOURCED CHIEF INVESTMENT OFFICE**
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# CIO Pulse

WRITTEN AS OF MAY 12, 2024

## 1Q 2024: Asset class performance at a glance

**EXHIBIT 1: ASSET CLASS RETURNS**

| | QUARTERLY RETURN | | |
|---|---|---|---|
| Asset Class Index | USD | EUR | GBP |
| MSCI AC World | 8.20% | 10.67% | 9.18% |
| S&P Global REIT | -0.92% | 1.61% | 0.21% |
| HFRI FoF Diversified | 4.08% | 6.73% | 5.26% |
| Bloomberg Commodity TR | 2.19% | 4.52% | 3.09% |
| Global Aggregate Bonds (Hedged) | 0.01% | -0.37% | -0.05% |

Source: Bloomberg Finance L.P. Data as of March 31, 2024. **Past performance is not indicative of future results. It is not possible to invest directly in an index.** See “Index Definitions” at the end of this article for a list of the indices and abbreviations used.

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## Stable inflation, slowing growth, benign market rotation

**In our base case, U.S. inflation remains stable but does not recede, growth slows in the United States and stabilizes (and may marginally improve) outside the United States. In equity markets, we see a benign rotation from the Magnificent 7 to a more cyclical cohort of economic sectors and capitalizations.**

U.S. real economic growth has been slowing since the third quarter of 2023 saw hyper growth of 4.9%.[1] But growth remains resilient so far at an above-trendline pace, as consumers' animal spirits and fiscal spending continue to work their way through the economy.

Consumers continue to benefit from federal largess, which has translated into excess savings, a healthy job market and strong wage gains, all of which are reflected in recent data. For a portion of the population, the notable rise in the equity market and home prices has added to their net worth—another contributor to reasonably strong current conditions overall.

Some clouds are forming, of course. The greyest clouds are in consumers' and companies' perceptions of current conditions. Warning signs include:

- **Consumers'** loss of purchasing power is biting after accumulated inflation of 18% over the past three years. Confidence fell recently, as measured by the University of Michigan Consumer Sentiment Index, while one- and five-year inflation expectations have ticked up
- **Auto and credit card** defaults continue to rise among the lower half of U.S. earners
- **Corporations'** credit defaults are also rising among sub-investment grade debt issuers, and small business sentiment, as captured by the National Federation of Independent Business (NFIB) latest readings, recently fell to a 10-year low.

Excluding the angst associated with high food costs, consumers' and companies' rising debt service costs and concern about upcoming elections, we think current conditions average out to a tolerable investment proposition. Hence our neutral weight to equities in our asset allocation.

Outside the U.S., economic growth is tentative, ranging from around zero real growth in Japan and Europe to a reported 5.30% in China.[1]

We do see several signs of spring, however. German industrial production is ticking up, Japanese wages are the highest in a few decades and have the potential to revitalize domestic consumption and China continues its torturously small, ongoing half measures that at some point, we think, will catalyze a more robust increase in consumer demand, along with stable real estate activity and pricing.

Across these important economic blocs, there's some probability of greater fiscal and monetary stimulus ahead, in various sizes and via different tools. Positive economic change appears more likely to be a non-U.S. affair during the remainder of 2024.

[1] Bloomberg Finance L.P.

## Inflation, interest rates and the central bank's expected course of action

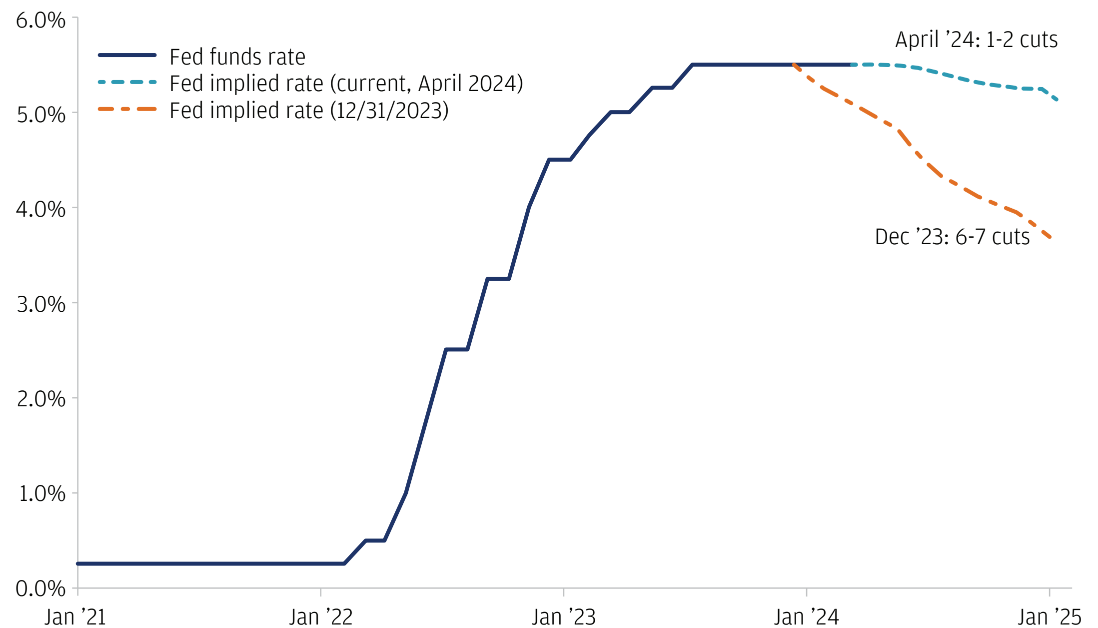
U.S. inflation remains problematic, as evidenced by the latest U.S. inflation report in March. We maintain our outlook that inflation will remain sticky, around 3% or higher, until the economy weakens further. What might that involve? Consumer spending trailing off as savings runs low, an uptick in unemployment or the Federal Reserve (Fed) hanging tough with no rate cuts in the next few months might be necessary to find the growth-inflation balance.

Sticky inflation at the 3%–4% level could prompt a further rise in 10-year U.S. Treasury yields, toward 5%. Should that occur, it would likely catalyze a U.S. equity market correction of some consequence, even as a 5%–10% correction (the average annual correction historically) was sidestepped in 2023 and so far in 2024, as well.[2]

Our base case for when the Fed cuts rates remains relatively unchanged, and the market's expectations have moved in our direction (**Exhibit 2**). We see slightly better than even odds of a one and done rate reduction likely coming after the November election.

**EXHIBIT 2: MARKET PRICING FOR FED RATE CUTS HAS MOVED IN OUR DIRECTION SO FAR THIS YEAR**

Federal funds rate and market-implied rate projections




Source: J.P. Morgan Global Investment Strategy Team, Bloomberg Finance L.P., data as of April 5, 2024.

We do expect policy rate reductions by mid-year from the European Central Bank (ECB) and the Bank of England (BoE), to reflect the steep declines in inflation in the eurozone and the United Kingdom alongside weak to recessionary growth conditions in the regions. We expect China, likewise, to cut rates further to stabilize (if not accelerate) growth rates toward the government's target. The Bank of Japan will most likely raise rates slightly to reflect its success in achieving a sustainable 2% rate on inflation.

These globally divergent policy rate paths partially drive our expectations for better near-term growth trajectories outside the United States.

[2] Bloomberg Finance L.P., as of April 26, 2024.

## Equity markets outlook: Positive globally

Our economic outlook is one key pillar supporting our continuing positive outlook for equities globally, on a one-year forward basis. U.S. equity valuations are on the high side but earnings are likely to grow sufficiently through 2024 and into 2025 to rationalize these prices.

As we have discussed with clients this year, the S&P 500 should support higher price-earnings ratios than have prevailed historically. The reason: Large cap growth stocks (such as Microsoft, Nvidia and the Magnificent 7)[3] — index constituents that are higher growth, capital light and have strong balance sheets—will likely increase their weight in the index over time, from their current 29% weight.

We believe these growthier, AI- and productivity-related companies will continue to drive the secular bull market, with occasional intermissions, while corporate America generally benefits from what might be the start of a secular productivity surge. But the skeptics should get their day in court. As we saw in the 1990s and other past periods of innovation, it could take time to put the infrastructure in place before users can capture the new technologies' benefits. And even once the infrastructure is in place, the macroeconomic data will likely lag the real-time progress.

We have expressed our favorable point of view on Japan through an overweight in Japan equities for the past one year-plus and see no reason to downgrade our enthusiasm. Shareholder-friendly corporate restructuring continues apace in the country. A national economic revival is underway, with inflation greasing the wheels of economic growth and fiscal spending likely to continue. Another positive is that Japan's key stock index has a relatively heavy technology and automation component—behind the S&P 500's but well ahead of Europe's. What yet needs to happen is a consumer spending revival, one built on a restored sense of national economic confidence.

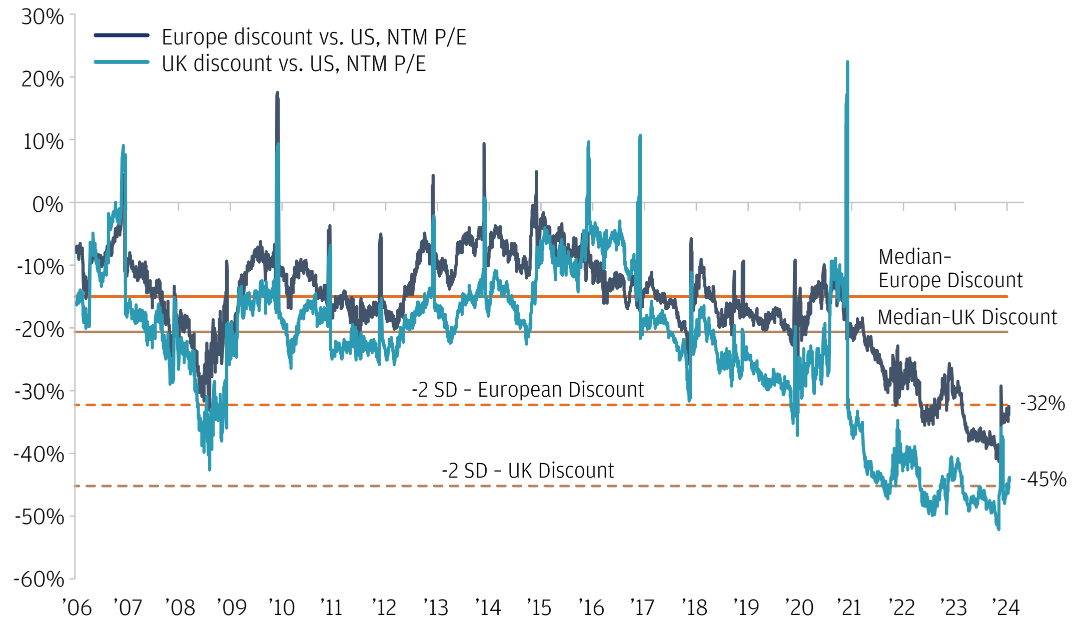
To be sure, we note that Japanese valuations have risen considerably over the past year, in sync with its returns outpacing global equity markets (in local FX terms). Some equity market consolidation seems likely, probably catalyzed by a rise in the yen exchange rate or rising Japanese interest rates.

We have added to our European equity markets allocation recently, specifically by reducing our underweight to U.K. equities. We believe that attractive valuations will be catalyzed by rate cuts, consistent with falling inflation and a stagnating U.K. economy, at least for now. European equity valuations are absolutely and relatively attractive versus the United States, and building up a higher allocation on potential market weakness seems reasonable (**Exhibit 3**).

[3] All companies referenced are shown for illustrative purposes only, and are not intended as a recommendation or endorsement by J.P. Morgan in this context.

**EXHIBIT 3: UK AND EUROPEAN EQUITIES ARE TRADING AT A LARGER-THAN-AVERAGE DISCOUNT TO THE U.S.**

FTSE 100 (UK) and Stoxx 600 (Europe) next 12 months P/E relative to S&P 500




Source: J.P. Morgan Endowments & Foundations CIO Team, Bloomberg Finance L.P., data as of April 5, 2024.

As noted, we expect rate cuts from the ECB as well as the BoE, as eurozone inflation has fallen precipitously and the European economy has been flatlining for over a year. But green shoots are emerging, including a pickup in domestic demand and, possibly, a mildly accelerating Chinese economy that may demand more European imports.

## Commodities as a potential source of return and diversification

Not all portfolio mandates include an allocation to commodities, but commodity market performance in 2024 year-to-date, and our longer-term assumptions, highlight the potential benefits that may accrue from such an allocation. And we see dynamics now that have not been in place since the 1970s, giving commodities a potentially more valuable role. Among the various drivers:

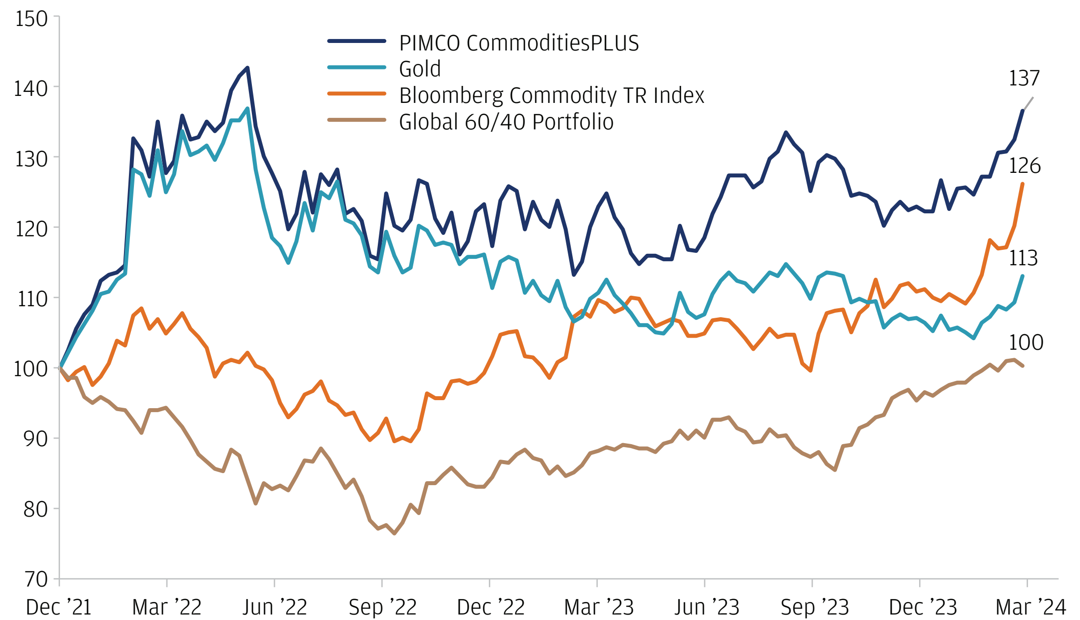
- Geopolitical and inflation risk may create demand for gold, both a real asset and a portfolio diversifier
- Energy markets are being driven by elevated demand and supply risks
- The dawning green economy and the AI buildout may create longer-term elevated demand for the “new gold”—copper

Gold, for example, has added value to a 60/40 portfolio mix historically, on a 1-, 3-, 5- and 20-year basis.[4] Investors could tap further returns that may lie in relative trades, such as precious metals versus energy. Each commodity segment’s unique characteristics offer ample opportunity to add potential tactical alpha (**Exhibit 4**).

[4] Bloomberg Finance L.P., as of March 31, 2024.

**EXHIBIT 4: TAIL RISK HEDGES IN GOLD AND COMMODITIES HAVE IN RECENT YEARS BEEN ADDITIVE TO TRADITIONAL PORTFOLIOS**

Commodities performance versus 60/40; index, 100=December 2021




Source: J.P. Morgan Endowments & Foundations CIO Team, Bloomberg Finance L.P., data as of April 5, 2024.

## Summary

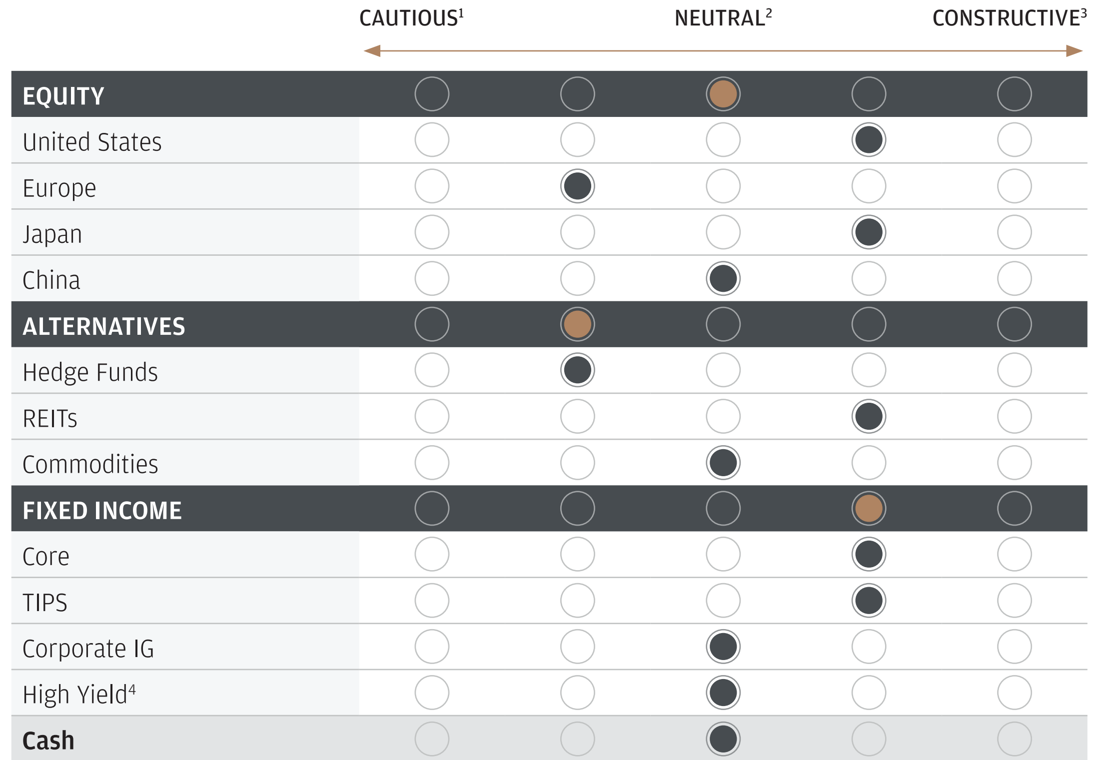
As hype about the AI theme quiets down to a dull roar, we expect a rotation from the Magnificent 7 to a more cyclical cohort of economic sectors and capitalizations in the coming 12 months. As the longer-term themes of AI and capital-light growth stocks take a backseat, we expect a benign rotation to more traditional value stocks for a time. We do not think markets will experience an outsize correction.

Importantly, we maintain our tail risk exposures in our present allocations. We expect geopolitical concerns, inflation, revamped national interests and new economic blocs to drive heightened risk and also consequent opportunities for portfolios. Seasonal market risks and traditional election year anxieties will likely generate elevated volatility for a period of time. We believe that will create opportunities for patient investors to consider buying the stocks poised to be potential performance leaders over the longer term and which could capture the next phase of the cyclical bull market.

## Asset class outlook

**EXHIBIT 5: OUR PORTFOLIO REFLECTS A CAUTIOUSLY OPTIMISTIC OUTLOOK AS THE GROWTH ENVIRONMENT RETURNS TO NORMALCY**

Asset class views



| | CAUTIOUS[1] | | NEUTRAL[2] | | CONSTRUCTIVE[3] |
|---|---|---|---|---|---|
| **EQUITY** | | | ● | | |
| United States | | | | ● | |
| Europe | | ● | | | |
| Japan | | | | ● | |
| China | | | ● | | |
| **ALTERNATIVES** | | ● | | | |
| Hedge Funds | | ● | | | |
| REITs | | | | ● | |
| Commodities | | | ● | | |
| **FIXED INCOME** | | | | ● | |
| Core | | | | ● | |
| TIPS | | | | ● | |
| Corporate IG | | | ● | | |
| High Yield[4] | | | ● | | |
| **Cash** | | | ● | | |

Source: J.P. Morgan Endowments & Foundations CIO Team. Data as of April 5, 2024.

[1] Performance is expected to be below average and/or portfolios have below average allocation and/or cautious execution.

[2] Performance is expected to be in line with other asset classes, no major execution bias.

[3] Performance is expected to be above average and/or portfolios have above average allocation and/or aggressive execution.

[4] We do not have an allocation to credit across most portfolios but may consider adding exposure.

**For illustrative purposes only. This does not reflect the performance of any specific investment scenario and does not consider various other factors which may impact actual performance. Estimates, forecasts and comparisons are as of the dates stated in the material.**

## APPENDIX: HISTORICAL INDEX PERFORMANCE

### CALENDAR YEAR TOTAL RETURNS

| Index | Q1 2024 | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|---|---|---|---|
| MSCI ACWI Net Total Return USD Index | 8.2% | 22.2% | -18.4% | 18.5% | 16.3% | 26.6% | -9.4% | 24.0% | 7.9% |
| S&P 500 Total Return Index | 10.6% | 26.3% | -18.1% | 28.7% | 18.4% | 31.5% | -4.4% | 21.8% | 12.0% |
| MSCI EAFE Net Total Return USD Index | 5.8% | 18.2% | -14.5% | 11.3% | 7.8% | 22.0% | -13.8% | 25.0% | 1.0% |
| MSCI Emerging Markets Net Total Return USD Index | 2.4% | 9.8% | -20.1% | -2.5% | 18.3% | 18.4% | -14.6% | 37.3% | 11.2% |
| HFRI Fund of Fund Diversified Index | 4.1% | 6.0% | -3.2% | 5.9% | 10.6% | 8.1% | -3.3% | 6.9% | 0.4% |
| S&P Global REIT Total Return Index | -0.9% | 11.5% | -23.6% | 32.5% | -8.2% | 24.5% | -4.8% | 8.6% | 6.9% |
| Bloomberg Commodity Index Total Return | 2.2% | -7.9% | 16.1% | 27.1% | -3.1% | 7.7% | -11.2% | 1.7% | 11.8% |
| Bloomberg US Aggregate Total Return Index | -0.8% | 5.5% | -13.0% | -1.5% | 7.5% | 8.7% | 0.0% | 3.5% | 2.6% |
| Bloomberg Global Aggregate Total Return Index (Hedged) | 0.0% | 7.1% | -11.2% | -1.4% | 5.6% | 8.2% | 1.8% | 3.0% | 3.9% |

Source: Bloomberg Finance L.P. Data as of March 31, 2024. **Past performance is not indicative of future results. It is not possible to invest directly in an index.** See "Index Definitions" at the end of this article for a list of the indices and abbreviations used.

## INDEX DEFINITIONS

All index performance information has been obtained from third parties and could not be relied upon as being complete or accurate. Indices are not investment products available for purchase. Indices are unmanaged and generally do not take into account fees or expenses. Furthermore, while some alternative investment indices may provide useful indications of the general performance of the alternative investment industry or particular alternative investment strategies, all alternative investment indices are subject to selection, valuation, survivorship and entry biases, and lack transparency with respect to their proprietary computations. A Benchmark is a standard against which the performance of a security, mutual fund or investment manager can be measured. Generally, broad market and market-segment stock and bond indices are used for this purpose.

**Bloomberg Euro-Aggregate Index** consists of bonds issued in the euro or the legacy currencies of the 16 sovereign countries participating in the European Monetary Union (EMU). All issues must be investment grade rated, fixed-rate securities with at least one year remaining to maturity. The Euro-Aggregate Index excludes convertible securities, floating rate notes, perpetual notes, warrants, linked bonds and structured products. German Schuldscheine (quasi-loan securities) are also excluded because of their trading restrictions and unlisted status, which results in illiquidity. The country of issue is not an index criterion, and securities of issuers from outside the Eurozone are included if they meet the index criteria. The minimum outstanding amount for all bonds in the index is €300 million equivalent. Bloomberg Capital uses both issue and issuer ratings by three agencies (Moody's Investors Service, Standard & Poor's Ratings Group, and Fitch Ratings) to determine if a bond is investment grade (Baa3/BBB- and above) and therefore eligible for inclusion. The major sectors of the Euro-Aggregate Index are the government, credit and collateralized indices. (Source: Bloomberg Capital)

**Bloomberg Capital United States Aggregate Index** securities that are SEC-registered, taxable and dollar-denominated. The index covers the United States investment grade fixed-rate bond market, with index components for government and corporate securities, mortgage pass-through securities and asset-backed securities. Index rules include: (1) Must have at least one year to final maturity regardless of call features. (2) Must have at least $250 million par amount outstanding. Asset-backed securities must have at least $500 million deal size and $25 million tranche size. For commercial mortgage-backed securities, the original transaction must have a minimum deal size of $500 million, and a minimum tranche size of $25 million; the current outstanding transaction size must be at least $300 million to remain in the index. (3) Must be rated investment grade (Baa3/BBB- or higher) by at least two of the following ratings agencies: Moody's, S&P, Fitch. If only two of the three agencies rate the security, the lower rating is used to determine index eligibility. If only one of the three agencies rates a security, the rating must be investment grade. (4) Must be fixed rate, although it can carry a coupon that steps up or changes according to a predetermined schedule. (5) Must be dollar-denominated and non-convertible. (6) Must be publicly issued. However, 144A securities with Registration Rights and Reg-S issues are included. (Source: Bloomberg Capital)

**Bloomberg Capital United States Corporate High Yield 2% Issuer Index** measures the performance of high yield corporate bonds, with a maximum allocation of 2% to any one issuer. (Source: Bloomberg Capital)

**Bloomberg Capital United States Long Government Index** includes fixed income securities issued by the United States Treasury (not including inflation-protected bonds) and United States government agencies and instrumentalities, as well as corporate or dollar-denominated foreign debt guaranteed by the United States government, with maturities greater than 10 years. (Source: Bloomberg Capital)

**Bloomberg Commodity Spot Index** measures price movements of the commodities included in the DJ-UBSCI and select sub-indexes. The Bloomberg Finance L.P. Commodity Spot Index provides a general estimate of trends in commodity prices. It does not account for the effects of rolling futures contracts or the costs associated with actually holding physical commodities, and is thus not replicable with positions in the underlying commodity futures contracts. (Source: Bloomberg Finance L.P.)

**S&P Global REIT Index** is a comprehensive benchmark of publicly traded equity REITs listed in both developed and emerging markets. (Source: S&P Dow Jones Indices)

**HFRI Hedge Fund of Funds ("FOF") Diversified Index** includes multiple managers through funds or managed accounts. The strategy designs a diversified portfolio of managers with the objective of significantly lowering the risk (volatility) of investing with an individual manager. The Fund of Funds manager has discretion in choosing which strategies to invest in for the portfolio. A manager may allocate funds to numerous managers within a single strategy, or with numerous managers in multiple strategies. The minimum investment in a Fund of Funds may be lower than an investment in an individual hedge fund or managed account. The investor has the advantage of diversification among managers and styles with significantly less capital than investing with separate managers. HFRI performance is an estimate for the most recent 180 days. (Source: HFRI)

**J.P. Morgan CEMBI/CEMBI Broad Index ("EM Corp")** series was created in response to investor demand for a liquid global emerging market corporate benchmark and the rapid increase in corporate issuance. A diversified version for CEMBI/CEMBI Broad is also available, providing a more evenly distributed weighting among the countries, decreasing larger countries and increasing the smaller ones. The CEMBI defines emerging market countries with a combination of World Bank-defined per capita income brackets and relevant OECD status. The CEMBI Broad is a more inclusive global corporate benchmark and serves to expand upon CEMBI. (Source: J.P. Morgan)

**MSCI All Country (AC) Asia ex-Japan Index ("Asia ExJ")** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of Asia, excluding Japan. As of March 2008, the MSCI AC Asia ex-Japan Index consisted of the following 11 developed and emerging market country indices: China,

Hong Kong, India, Indonesia, Korea, Malaysia, Pakistan, the Philippines, Singapore, Taiwan and Thailand. (Source: MSCI Barra)

**MSCI All Country (AC) World Index ("ACWI")** is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets. (Source: MSCI Barra)

**MSCI EAFE Index ("EAFE": Europe, Australasia, Far East)** is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the United States and Canada. As of June 2007, the MSCI EAFE Index consisted of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom. (Source: MSCI Barra)

**MSCI Emerging Markets Index ("EM")** is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. As of November 2008, the MSCI Emerging Markets Index consisted of the following 24 emerging market country indices: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Korea, Malaysia, Mexico, Morocco, Pakistan, Peru, the Philippines, Poland, Russia, South Africa, Taiwan, Thailand and Turkey. (Source: MSCI Barra)

**MSCI Eurozone Index ("EUR LC")** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the developed markets in Europe. As of June 2007, the MSCI Europe Index consisted of the following 16 developed market country indices: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom. (Source: MSCI Barra)

**MSCI Japan Index ("Japan")** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the Japanese developed market. (Source: MSCI Barra)

**MSCI USA INDEX ("United States")** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the large- and mid-cap segments of the United States market. (Source: MSCI Barra)

**Russell 2000 Index ("United States SC")** measures the performance of the small-cap segment of the United States equity universe. The Russell 2000 Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. The index is constructed to provide a comprehensive and unbiased small-cap barometer, and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set. (Source: Russell Indexes)

**S&P 500 Index ("United States LC")**, widely regarded as the best single gauge of the United States equities market, includes a representative sample of 500 leading companies in leading industries of the United States economy. Although the S&P 500 focuses on the large-cap segment of the market, with 75% coverage (based on total stock market capitalization) of United States equities, it is also an ideal proxy for the total market. (Source: Standard & Poor's)

**Bloomberg U.S. Long Corporate Bond Index** measures the investment grade, fixed-rate, taxable corporate bond market that has a maturity of 10 years or longer. It includes USD-denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers. (Source: Bloomberg Finance L.P.)

**Bloomberg Global-Aggregate Total Return Index Value Hedged to USD Index** is a flagship measure of global investment grade debt from 24 local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers. (Source: Bloomberg Finance L.P.)

**Bloomberg U.S. Treasury Index** measures USD-denominated, fixed-rate, nominal debt issued by the U.S. Treasury. Treasury bills are excluded by the maturity constraint, but are part of a separate Short Treasury Index. STRIPS are excluded from the index because their inclusion would result in double-counting. (Source: Bloomberg Finance L.P.)

**Bloomberg Euro-Aggregate Corporate Index Value Hedged to USD** is a benchmark that measures the corporate component of the Euro Aggregate Index. It includes investment grade, euro-denominated, fixed-rate securities. (Source: Bloomberg Finance L.P.)

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**Investing in fixed income products** is subject to certain risks, including interest rate, credit, inflation, call, prepayment and reinvestment risk. **High yield bonds** are speculative, non-investment grade bonds that have higher risk of default or other adverse credit events, which are appropriate for high-risk investors only. **Investments in commodities** may have greater volatility than investments in traditional securities, particularly if the instruments involve leverage. The value of commodity-linked derivative instruments may be affected by changes in overall market movements, commodity index volatility, changes in interest rates, or factors affecting a particular industry or commodity, such as drought, floods, weather, livestock disease, embargoes, tariffs and international economic, political and regulatory developments. Use of leveraged commodity-linked derivatives creates an opportunity for increased return but, at the same time, creates the possibility for greater loss. **Hedge funds** (or funds of hedge funds) often engage in leveraging and other speculative investment practices that may increase the risk of investment loss. These investments can be highly illiquid, and are not required to provide periodic pricing or valuation information to investors, and may involve complex tax structures and delays in distributing important tax information. These investments are not subject to the same regulatory requirements as mutual funds, and often charge high fees. Further, any number

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These are ONLY supplementary information and MUST be read together with the fund factsheets, prospectus and/or other relevant offering materials. The funds described herein are not available to the general public and may only be promoted in Hong Kong to Professional Investors and in Singapore to Accredited Investors.

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