J.P.Morgan

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CIO Pulse

WRITTEN AS OF AUGUST 14, 2024

Navigating risk: Uncertainty surrounds trendline economic growth and normalizing inflation

2Q 2024: Asset class performance at a glance

EXHIBIT 1: ASSET CLASS RETURNS

	QUARTERLY RETURN		
Asset Class Index	USD	EUR	GBP
MSCI AC World	2.87%	3.66%	2.80%
S&P Global REIT	-1.18%	-0.51%	-1.35%
HFRI FoF Diversified	0.64%	1.33%	0.46%
Bloomberg Commodity TR	2.89%	3.70%	2.84%
Global Aggregate Bonds (Hedged)	0.12%	-0.27%	0.05%

Source: Bloomberg Finance L.P. Data as of June 30, 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.

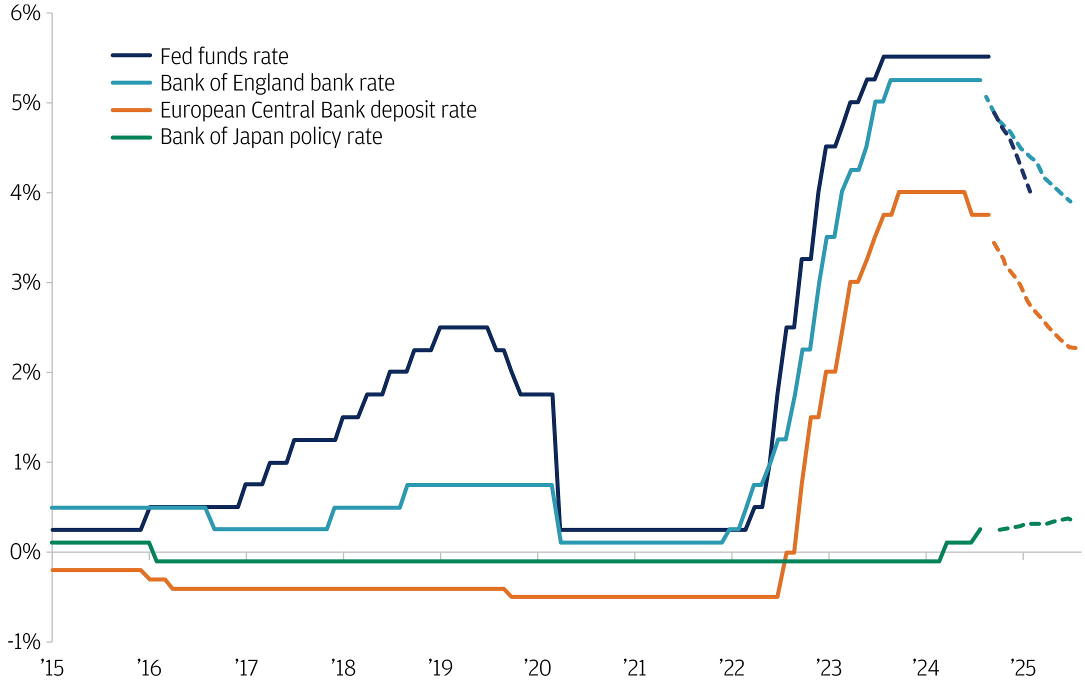
The core outlook

U.S. economic growth is slowing to its historical trendline, employment growth is weakening and inflation—still lingering stubbornly around the 2.5% mark, depending on the metric used—continues to fade. In Europe and the UK, economic growth rates are percolating between zero and 1%. In China, growth is now a disappointing 4.7% due to a weak year-over-year comparison.[1]

The prevailing economic data, including the slackening pace of U.S. job creation and rising unemployment, supports our opinion that the U.S. Federal Reserve (Fed), European Central Bank, Bank of England and Bank of China are likely to cut rates in September. The Bank of Japan, on the other hand, unexpectedly raised rates at the end of July, which contributed to the strengthening of the Yen—a move that may prove to be supportive for Japanese consumer spending and the overall economy in the long term **(Exhibit 2)**.

EXHIBIT 2: MARKET PARTICIPANTS' EXPECTATIONS ABOUT CENTRAL BANK CHANGES HAVE MOVED IN LINE WITH OUR VIEW

Market-implied forward policy rates (by region)



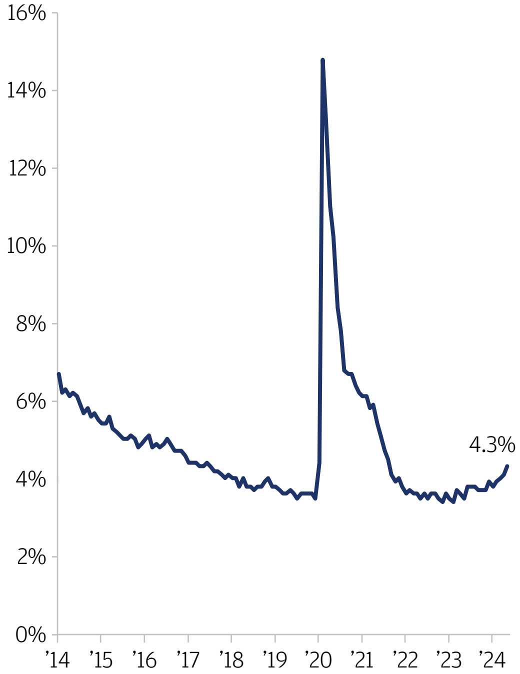
Source: Bloomberg Finance L.P., J.P. Morgan Global Investment Strategy Team. Data as of August 6, 2024.

[1] Bloomberg Finance L.P.

Our core outlook is generally supportive of further positive risk asset performance, albeit with higher volatility ahead, as befits a seasonal pattern of equity risk. Hazards are still present, however, and some economic facts and market trends warrant close attention. We focus in particular on slowing U.S. consumer spending, rising consumer credit card and auto delinquencies, flatlining manufacturing statistics and slumping housing activity, to name a few **(Exhibits 3A and 3B)**.

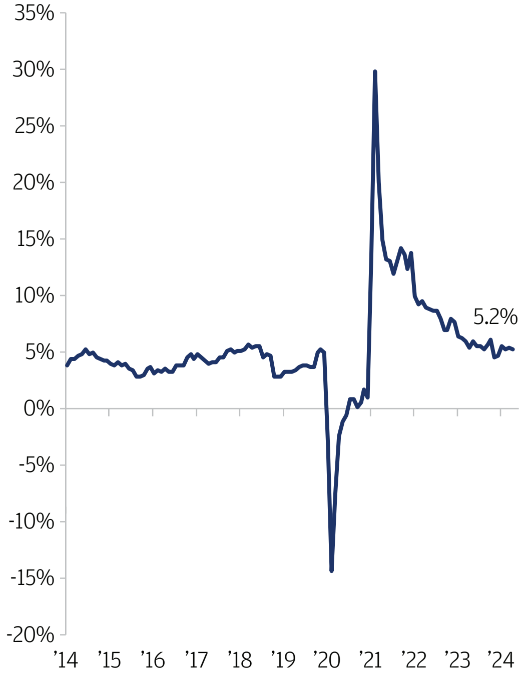
EXHIBIT 3: WEAKENING U.S. LABOR TRENDS AND NORMALIZING CONSUMER SPENDING SHAPE OUR OUTLOOK FOR TRENDLINE ECONOMIC GROWTH

3A: The U.S. unemployment rate



Source: Bloomberg Finance L.P., U.S. Bureau of Labor Statistics. Data as of July 31, 2024.

3B: Year-over-year change in U.S. consumers' aggregate personal spending



Source: Bloomberg Finance L.P., U.S. Bureau of Economic Analysis. Data as of June 30, 2024.

We are also cognizant of the possibility of errant inflation prints in the next couple of months, even though persistent U.S. services inflation finally appears to be easing. But the risk of a truly negative economic scenario—one characterized by higher-for-longer rates and a continuation of weakening labor trends, for example—appears to have moved to the middle of 2025 or slightly beyond.

Although reserves of excess savings appear to be mostly depleted after three years of above-trend, post-COVID spending, household balance sheets are still in notably good shape. Indeed, they're better than they have been historically, thanks to government largesse during the pandemic—and financial assets' performance since.

For now, asset prices continue to make a positive contribution to our near-term outlook. While the impact of this factor may be more prevalent across the upper half of the income pyramid, its effect on consumer balance sheets is considerable.

The disconnect in Q2 between economic and stock market performance

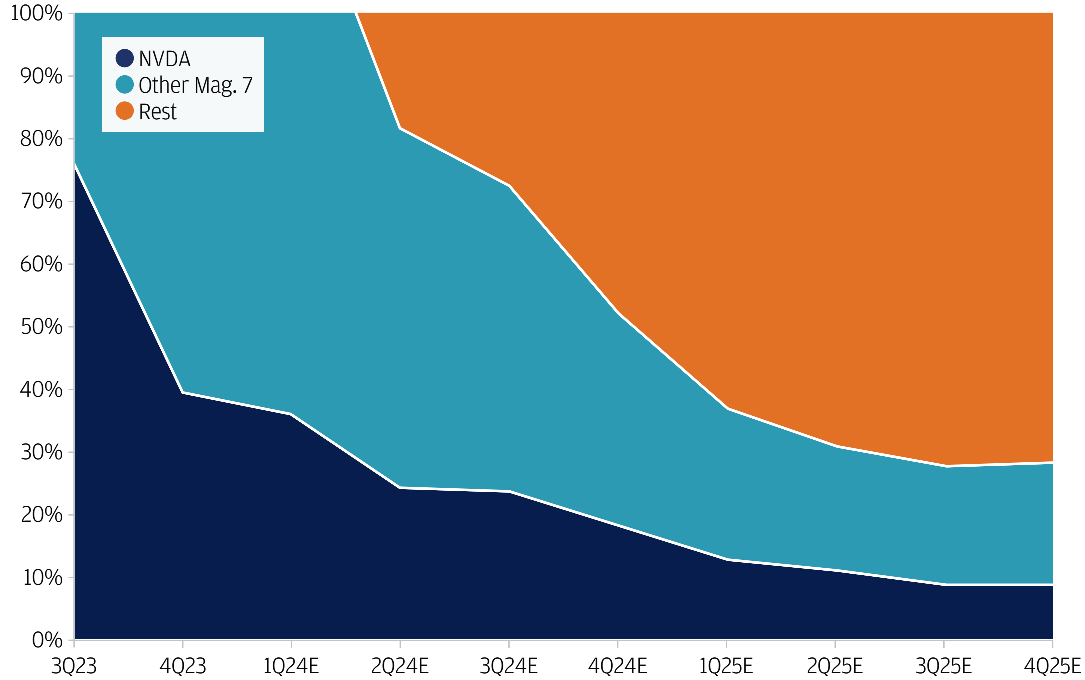
In general, the U.S. economy's performance in the first half of 2024 has been consistent with our outlook. U.S. final demand (GDP excluding inventories and net trade balance) appears to be running above its historical trendline through the first half of the year,[2] and inflation appears to have settled.

Of course, a subset of the stock market—tech giant Nvidia and the Magnificent Seven,[3] have been the key drivers of the S&P 500's highly skewed performance. Powerful investment themes and the earnings associated with the top seven tech stocks underpin the bifurcation evident in the S&P 500's recent performance. Earnings from the remaining 493 have been improving but not up to the pace of the top performers year to date.

As the year continues, and focus shifts toward 2025 earnings outlook, we expect to see previously overlooked companies—today's equity market bystanders—gain greater favor with investors. Meanwhile, investors that have fully discounted the rapid earnings trajectories of the winners risk overlooking the possibility that the laggards' performance may catch up. As 2025 earnings come into view, the other 493 stocks are expected to again contribute the bulk of the S&P 500 earnings growth **(Exhibit 4)**.

EXHIBIT 4: COME 2025, STOCKS IN "THE REST OF THE MARKET" ARE EXPECTED TO DRIVE THE BULK OF THE S&P 500 INDEX'S EARNINGS

S&P 500 year-over-year earnings growth contributions from specific stock cohorts



Source: BofA Securities Global Research. Data as of August 2, 2024

Before the market correction in early August, the equity market's broadening performance through the month of July had already begun to validate our outlook.

[2] U.S. Bureau of Economic Analysis; data as of June 30, 2024.

[3] The phrase the "Magnificent Seven," which borrows from the 1960s Western movie of the same name to describe a list of mega-cap technology-centric stocks, includes Alphabet, Amazon, Apple, Meta Platforms, Microsoft, Nvidia and Tesla.

Normal risks versus uncommon, or "fat tail" risks

Alongside expected market and economic risks, such as equity market corrections, central bank policy pauses or errors, and investor exuberance, we see several multi-decade challenges that have the potential to upend markets in the near term. We are paying particular attention to:

U.S. and global elections

We remain optimistic that—despite the political polarization evident in many regions, including the United States—most voters are likely to take a pragmatic, balanced approach to constructing their political future. Most recently, in France and India, voters chose to check the potential power they were willing to grant the executive branch and ruling party.

U.S./China trade policy

We think it's unlikely that tariffs of 50% or more will define U.S. economic policy vis-à-vis China, because the inflation implications for U.S. consumers would be too onerous. Neither country really wants to cross that economic Rubicon. We do expect more economic competition, however, which will add to China's challenges and weigh on our estimation of the Chinese equity outlook.

Two "hot" wars, in the Middle East and Ukraine

As tail risks go, these two regional crises still hold the greatest potential to disrupt global markets. Although we have no inherent ability to forecast the timing and extent of these conflicts, we design our hedges appropriately to preserve portfolios specifically against these risks.

In aggregate, these risks can have overlapping effects on the economy and markets. We strive to mitigate any potential negative impacts by allocating to gold, gold miners, energy and energy equity exposures and treasury inflation-protected securities (TIPS). Within the overall fixed income portfolio, we also make a slightly lower-than-benchmark duration allocation.

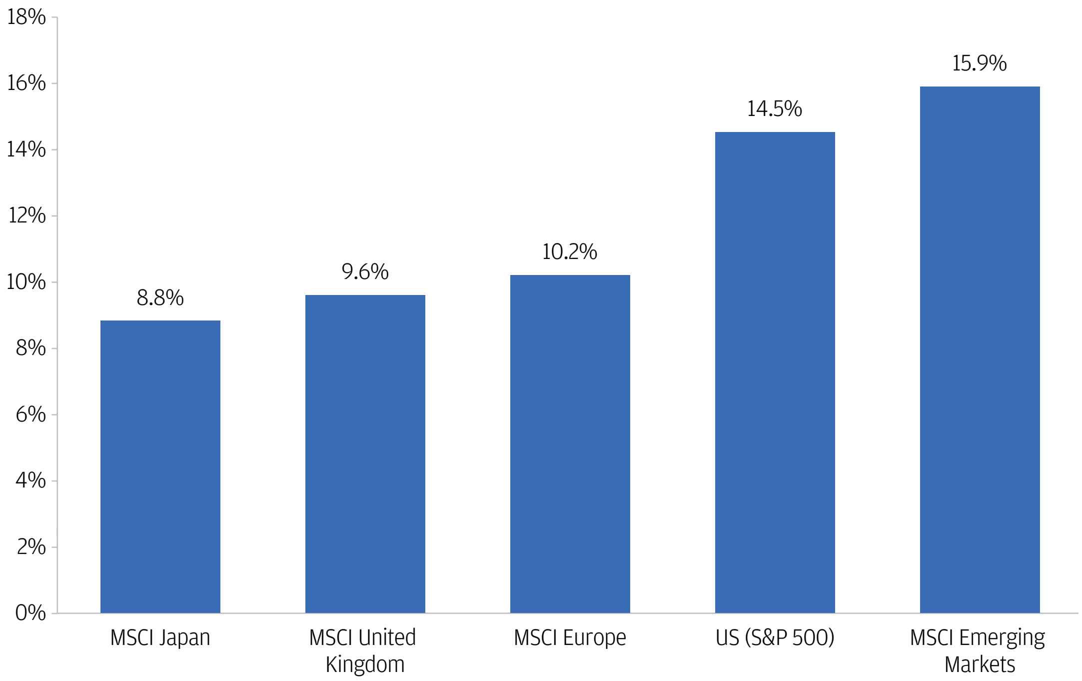
Intermediate and long-term positives

Investors may be best served now by focusing on the long-term fundamentals, specifically, economic growth and asset return outlook. J.P. Morgan Asset Management's *2024 Long-Term Capital Markets Assumptions* present forecasts over a 10- to 15-year investment horizon. They point to a solid return outlook for both stock and bonds driven by trendline real GDP growth of 1.5% to 2%; the outlook also anticipate slightly elevated inflation versus most central bank mandates.

The intermediate-term earnings outlook is, likewise, supportive of equity risk. We expect 2025 year-over-year equity market earnings across the United States, Europe, UK and Japan to rise by 14%, 10%, 9% and 9% respectively **(Exhibit 5)**.

EXHIBIT 5: ATTRACTIVE INTERMEDIATE-TERM EARNINGS GROWTH WARRANTS FULL EXPOSURE TO EQUITY RISK

2025 calendar-year consensus EPS growth, by region



Source: FactSet. Data as of August 3, 2024.

Summary

The start of August brought a sudden renewal of equity market volatility. In the context of a market that appears likely to exhibit higher volatility going forward, we believe we are reasonably positioned to participate in the broadening of investment themes and stock performance, which should continue for several more months. At the same time, the intermediate and longer-term potential of artificial intelligence (AI) and its impact on the economy and markets prompt us to remain fully invested in those equities that could benefit the most.

APPENDIX: HISTORICAL INDEX PERFORMANCE

CALENDAR YEAR TOTAL RETURNS

Index	YTD 2024	2023	2022	2021	2020	2019	2018	2017	2016
MSCI ACWI Net Total Return USD Index	11.3%	22.2%	-18.4%	18.5%	16.3%	26.6%	-9.4%	24.0%	7.9%
S&P 500 Total Return Index	15.3%	26.3%	-18.1%	28.7%	18.4%	31.5%	-4.4%	21.8%	12.0%
MSCI EAFE Net Total Return USD Index	5.3%	18.2%	-14.5%	11.3%	7.8%	22.0%	-13.8%	25.0%	1.0%
MSCI Emerging Markets Net Total Return USD Index	7.5%	9.8%	-20.1%	-2.5%	18.3%	18.4%	-14.6%	37.3%	11.2%
HFRI Fund of Fund Diversified Index	4.9%	5.5%	-3.2%	5.9%	10.6%	8.1%	-3.3%	6.9%	0.4%
S&P Global REIT Total Return Index	-2.1%	11.5%	-23.6%	32.5%	-8.2%	24.5%	-4.8%	8.6%	6.9%
Bloomberg Commodity Index Total Return	5.1%	-7.9%	16.1%	27.1%	-3.1%	7.7%	-11.2%	1.7%	11.8%
Bloomberg US Aggregate Total Return Index	-0.7%	5.5%	-13.0%	-1.5%	7.5%	8.7%	0.0%	3.5%	2.6%
Bloomberg Global Aggregate Total Return Index (Hedged)	0.1%	7.1%	-11.2%	-1.4%	5.6%	8.2%	1.8%	3.0%	3.9%

Source: Bloomberg Finance L.P. Data as of June 30, 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.)

JPMAM Long-Term Capital Market Assumptions

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