J.P.Morgan

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CIO Pulse

WRITTEN AS OF NOVEMBER 15, 2024

Beyond the U.S. election: American exceptionalism, opportunities and risks in the year ahead

3Q 2024: Asset class performance at a glance

EXHIBIT 1: ASSET CLASS RETURNS

	QUARTERLY RETURN		
Asset Class Index	USD	EUR	GBP
MSCI AC World	6.61%	2.38%	0.47%
S&P Global REIT	16.33%	11.82%	9.74%
HFRI FoF Diversified	1.47%	-2.46%	-4.28%
Bloomberg Commodity TR	0.68%	-3.33%	-5.12%
Bloomberg Global Aggregate Bonds (Hedged)	4.24%	3.77%	4.11%

Source: Bloomberg Finance L.P. Data as of September 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 year ahead: 2025's pulse

As the uncertainty and speculative extremes that swirled around the U.S. election begin to settle, investors are turning their focus to macro and microeconomic fundamentals. But an unanswered question still looms: Can U.S. exceptionalism prevail?

Over the past few years, U.S. financial markets have been powered by an economy with above trendline growth, surging technological and biologic innovation and—at the microeconomic level—superior corporate margins and earnings results, especially in 2024.

These trends appear likely to continue in 2025. We note, too, that President-elect Donald Trump's new economic policy agenda, which features deregulation, tariffs and tax cut extensions, could—if the new administration succeeds in realizing its aims—result in a growing economic and equity performance gap between the United States and the rest of the world.

Near term, the United States' rising national deficit, higher debt costs, potential resurgence of cyclical inflation and numerous geopolitical challenges may create periods of abrupt market volatility. Although our base-case outlook remains positive, we expect to see a widening band of potential economic and market outcomes as the new administration refines and implements policy changes—and global players respond.

Outside the United States, economic conditions, while currently below their historical trendline growth, tend to participate in U.S. economic strength and may respond positively to more Chinese domestic fiscal stimulus, too. With less expensive international equity market pricing, there is room for improved absolute stock returns.

Overall, Japan remains our favored destination for non-U.S. equity allocations. With a long history of posting U.S.-equivalent earnings growth, a gradual shift toward corporate governance reform and positive inflation dynamics, Japanese stocks continue to look attractive. We are also paying attention to long-underperforming emerging markets, which are currently positioning 2024 returns well above ex-U.S. developed market equities, and may do so again in 2025.

Don’t expect a free lunch, even in a strong economic environment

In searching for historical analogs for perspective—while remembering that history rhymes but doesn’t repeat—we may be moving into a 1990s-style U.S. economic environment. Robust consumer health and recent technological and biologic innovations are driving solid real growth, which remains our base case. Artificial intelligence (AI) will likely enhance productivity, infrastructure will be needed to support it, and healthcare innovations, such as glucagon-like peptide 1 (GLP-1) medications, will proliferate—all these may be powerful economic drivers over the next few years.

These developments are among the forces behind the rise of the stocks known as the Magnificent 7 (or even 8).[1] One benefit of having such a large economic and financial concentration in such a limited number of companies may be their ability to build on innovation in a more stable, timely way. These are mega cap leaders with strong balance sheets, powerful cash flows, experienced management teams and notable competitive advantages.

We remain alert to the likely emergence of a few potholes, however. To borrow a phrase from Donald Rumsfeld, the former U.S. Secretary of Defense, “unknown unknowns” will likely surface as geopolitical risks emerge and morph in intensity, social and political divisions widen, and the broader economic implications of AI spark wider debate.

If interest rates do spike, fixed income markets could experience a sell-off similar to the one that occurred in 1994—and we don’t completely rule out the potential emergence of other market dislocations, either. A 1998-style foreign bond market crisis, much like the one that triggered the collapse of hedge fund Long-Term Capital Management, comes to mind. The recent volatility sparked by the Yen carry unwinding offers a glimpse of what could be in store.

[1] 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.com, Apple, Meta Platforms, Microsoft, Nvidia and Tesla; the eighth stock is, arguably Broadcom (referred to later as Mag 7).

Assessing the case for intermediate term inflation

U.S. Inflation has been waning, but that may not be the case for long. We doubt that the combination of across-the-board tariffs, pro-growth policies and reshoring trends, which are occurring alongside strong current economic and financial conditions, will leave inflation drifting downward. Recently, inflation break-evens, which provide insight into market expectations for future inflation,[2] have notched upward without signaling too much concern **(Exhibit 2)**.

Inflation expectations have rebounded in the wake of the U.S. presidential election.

EXHIBIT 2: U.S. FIVE-YEAR BREAK-EVEN INFLATION RATE (2024–YTD)

Source: Bloomberg Finance L.P. Data as of November 15, 2024. Breakeven inflation rates are calculated by subtracting the real yield of the inflation-linked maturity curve from the yield of the closest nominal Treasury maturity.

Looking ahead, however, the United States' need to finance large, expanding and costlier deficits will likely be a growing issue over the next few years. The new administration may pursue a weak dollar policy as a possible recourse, although it could come at the cost of higher inflation and reduce offshore buying interest in U.S. debt. Over the past two years, we have noted that some of the largest foreign national buyers have been slightly less enthusiastic about purchasing U.S. Treasuries and have been increasingly interested in buying gold.

Fixed income markets are already dialing back some anticipated 2025 U.S. policy rate cuts as the first recognition the economy is stronger than the Federal Reserve projects, given its current rate-cutting path. We are not suggesting that inflation will reignite and reach the levels seen over the past few years, but we certainly see potential for inflation to rise above the benign levels achieved over the past few months.

In response, we are letting our portfolio's inflation-capture allocations, such as REITs, gold and energy equity, remain in place awhile longer. Shorter-term TIPS, which we used successfully in 2021–23, may also have value again in this scenario. Structural disinflationary trends such as broad-based, AI-instigated productivity improvements, are still down the road.

[2] Breakeven inflation rates are calculated by subtracting the real yield of the inflation linked maturity curve from the yield of the closes nominal Treasury maturity.

Fixed income positioning

This year, we have maintained a constant lower-than-benchmark duration in fixed income portfolios. A few months ago, however, we increased duration at lower yields without considering the possibility that policy-induced inflation might pick up in a new Trump era. Across all positions in our fixed income portfolios, we are currently at around 97% of our benchmark duration.

As mentioned previously, we are concerned that—given the potential for higher inflation, deficit financing challenges and tariff impacts—we may see 10-year U.S. Treasury note yields climb to 4.75%-5.0% before markets fully price in the risk of higher rates. We plan to continue our slightly cautious positioning until the U.S. inflation and deficit picture becomes clearer.

High yield bonds have produced noticeable alpha for portfolios year to date but yield spreads to the similar maturity Treasury rates are back down to their 2004-06 long-term lows **(Exhibit 3)**. However, high yield credit quality is better than it was during that era, while economic fundamentals look solid. We remain vigilant to any danger signals indicated by widening credit spreads, from both a fixed income and an overall risk perspective.

Extremely low spreads in high yield warrant a cautious approach, but we believe credit risks remain contained in the near term.

EXHIBIT 3: AVERAGE SPREAD OF THE BLOOMBERG U.S. CORPORATE HIGH YIELD INDEX (2000–YTD)

Source: Bloomberg Finance L.P. Data as of November 15, 2024.

Anticipating near term changes

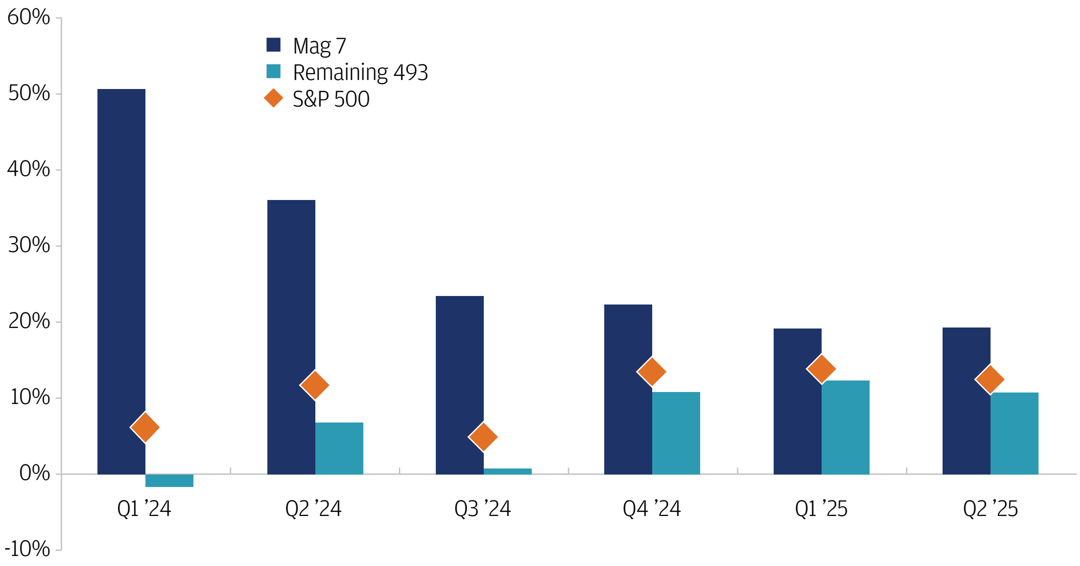
Cyclical conditions appear healthy and may get a further boost from the new administration's pro-growth policies. Come 2025, the range of beneficiaries of that economic growth may finally start to broaden as small-cap companies and more cyclical businesses are expected to see their earnings accelerate. This would mark a change because recent periods of above trendline economic growth have not coincided with robust earnings growth for manufacturing and industrial-oriented enterprises.

Few companies can compare to the success of the Mag 7 in 2024—certainly not smaller companies, whose earnings growth over the past year has been very modest. Mag 7 companies' earnings, by contrast, have been truly exceeded expectations, and the equity market performance concentration of this group has few, if any, historical antecedents.

Lately, however, 2025 earnings growth estimates for the Mag 7 have started to fade, while earnings outlooks for companies beyond that core group have improved, potentially accelerating the timing of a relative performance rotation **(Exhibit 4)**. The risk, at least in the short term, is that higher borrowing costs will weigh heavily on lower margin and more cyclical companies—particularly small-cap companies, since they are more reliant on expensive sources of debt financing, such as private credit, as opposed to cheaper, publicly sourced funds.

As the Mag 7's relative earnings power diminishes, we expect to see the other 493 companies in the S&P 500 deliver more.

EXHIBIT 4: QUARTERLY EARNINGS GROWTH OF MAG 7 VS. S&P 500 PEERS (YEAR OVER YEAR)



Source: FactSet, J.P. Morgan Global Investment Strategy Team. Data as of October 31, 2024.

Conclusion

Our positive outlook for 2025 is not without notable risks. Percolating inflation, the possibility of economic dislocations arising from a future tariff war, polarized politics in the United States and elsewhere, and geopolitical risks—which may be here to stay—continue to influence our view. Although we see real potential for AI-derived productivity and efficiency gains, notably in the United States, those gains are not likely to materially impact economic growth in the near term.

For the next few quarters, market participants will be left to consider above-trendline U.S. growth, slowing growth outside the United States and the potential for breakthrough AI applications. Expensive segments of the U.S. markets may become even pricier, but we see attractive valuations elsewhere and global earnings outlooks that are growing around their trendlines (except for consensus about double-digit U.S. stock market growth in 2025 and 2026).

Large language models have their uses, but we don't need one to conclude that positive returns are still likely in the year ahead, despite heightened market volatility. We also expect to see sectoral—and possibly regional—rotations and recognize a strategic need to diversify outside of traditional 60/40 stock-bond portfolio allocations where possible. Over the next quarter or so, the best positioned asset classes and market segments may be small-cap equity, value, cyclical equity, broad commodities and gold.

Looking ahead, we have positioned our portfolios for normalizing, average growth while maintaining tail risk hedges.

EXHIBIT 5: 2025 OUTLOOK BY ASSET CLASS

	CAUTIOUS[1]		NEUTRAL[2]		CONSTRUCTIVE[3]
EQUITY				●	
United States			●		
Europe		●			
Japan				●	
Emerging Markets			●		
ALTERNATIVES		●			
Hedge Funds		●			
REITs				●	
Commodities			●		
FIXED INCOME			●		
Core			●		
TIPS			●		
Corporate IG			●		
Extended Cash[4]				●	
Cash			●		

Source: J.P. Morgan Endowments & Foundations CIO Team. Data as of November 15, 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	YTD 2024	2023	2022	2021	2020	2019	2018	2017	2016
MSCI ACWI Net Total Return USD Index	16.0%	22.2%	-18.4%	18.5%	16.3%	26.6%	-9.4%	24.0%	7.9%
S&P 500 Total Return Index	21.0%	26.3%	-18.1%	28.7%	18.4%	31.5%	-4.4%	21.8%	12.0%
MSCI EAFE Net Total Return USD Index	6.8%	18.2%	-14.5%	11.3%	7.8%	22.0%	-13.8%	25.0%	1.0%
MSCI Emerging Markets Net Total Return USD Index	11.7%	9.8%	-20.1%	-2.5%	18.3%	18.4%	-14.6%	37.3%	11.2%
HFRI Fund of Fund Diversified Index	6.9%	5.5%	-3.2%	5.9%	10.6%	8.1%	-3.3%	6.9%	0.4%
S&P Global REIT Total Return Index	8.8%	11.5%	-23.6%	32.5%	-8.2%	24.5%	-4.8%	8.6%	6.9%
Bloomberg Commodity Index Total Return	3.9%	-7.9%	16.1%	27.1%	-3.1%	7.7%	-11.2%	1.7%	11.8%
Bloomberg US Aggregate Total Return Index	1.9%	5.5%	-13.0%	-1.5%	7.5%	8.7%	0.0%	3.5%	2.6%
Bloomberg Global Aggregate Total Return Index (Hedged)	3.0%	7.1%	-11.2%	-1.4%	5.6%	8.2%	1.8%	3.0%	3.9%

Source: Bloomberg Finance L.P. Data as of October 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.)

JPMAM Long-Term Capital Market Assumptions

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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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