J.P.Morgan

INVESTMENT INSIGHTS

The Global Investment Strategy View

We explore the outlook for economies and markets and provide year-ahead views across asset classes.

August 2024

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KEY TAKEAWAYS

- **How worrisome is the labor market slowdown?** The unemployment rate increased to 4.3% in July, from a cycle low of 3.4% in 2023. Historically, when the unemployment rate rose by 0.5 percentage points or more relative to its low point in the previous 12 months, a recession was underway. The labor market is certainly cooling, but the holistic evidence that a recession is underway is less compelling. In either scenario, rate cuts are likely coming soon.

- **A fixed income investors guide to rate cuts.** Cash yields are set to start declining this quarter on the back of Federal Reserve rate cuts. Our clients hold about five percentage points more cash today than they did pre-COVID. We like >5% yields as much as the next investor, but they might not be around for long. Lock in potential yields while you can.

- **Finding clarity amid the volatility.** The VIX, a real time estimate of expected S&P 500 volatility over the coming 30 days, surged to highs last seen in early 2023. We remain constructive on U.S. equities, but the landscape shifted significantly in July. Given where current prices are relative to our year ahead outlook and the recent rise in volatility, you should consider using derivatives as a way to get invested or stay invested.

- **Trading the US election.** At the start of July, betting markets assigned a near zero probability that Vice President Kamala Harris would be the next President of the United States. Now she is neck-and-neck with former President Trump. At the macro level, the upcoming election will likely have little impact; we advise clients to stick with their long-term plan. But at the company level, we expect the election outcome to generate winners and losers.

- **Chinese overcapacity fuels global protectionism.** Chinese supply of batteries and solar cells is expected to be two times greater than global demand in 2024. Surging Chinese production is driving down global prices and raising fears that a flood of Chinese exports will disrupt (or even wipe out) manufacturing capacity in the rest of the world. In the U.S., protectionism, with the use of tariffs and incentives, aims to benefit critical U.S. industries as well as exporters in Latin America and Southeast Asia.

OUR HIGH-CONVICTION TACTICAL INVESTMENT IDEAS INCLUDE:

EQUITIES

Potential for alpha in the U.S. We favor the technology, healthcare, and industrial sectors**.**

Consider **structured notes** to either get invested or stay invested during a potentially bumpy second half of 2024.

FIXED INCOME, CURRENCIES, & COMMODITIES

Core fixed income. We advocate for a neutral duration as we expect lower U.S. Treasury rates by mid-2025. For U.S. taxpayers, municipal bonds appear attractive relative to investment grade bonds where spreads are near historic tights.

Private credit. Seeking high absolute yields and attractive risk-reward in extended credit.

Gold. We aim for double digit returns into mid-year 2025.

OPPORTUNISTIC TRENDS

Artificial intelligence. Global security and infrastructure. And commercial real estate opportunities. Powerful forces will likely drive potential returns over short-term and long-term investment horizons.

Our Global Investment Strategy View integrates the knowledge and analysis of our economists, investment strategists and asset class strategists. The View takes shape at a monthly Forum where the team debates and hones its views and outlooks.

All outlook estimates represent the midpoint of our range. Rates have a +/-25bps range, and all other outlooks are within the range that is provided**. Estimates, forecasts and comparisons are for illustrative purposes and are as of the dates stated in the material.** Please refer to “Definition of Indices and Terms” for important information. **Outlooks and past performance are no guarantee of future results and investors may get back less than the amount invested.** It is not possible to invest directly in an index.

THE VIEW

How worrisome is the labor market slowdown? The unemployment rate increased to 4.3% in July, from a cycle low of 3.4% in 2023. Historically, when the unemployment rate rose by 0.5 percentage points or more relative to its low point in the previous 12 months, a recession was underway (Figure 1).[1]

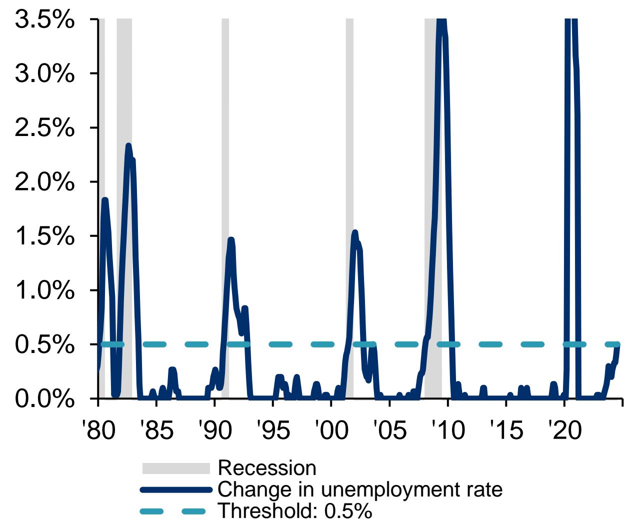
Why it matters: The labor market is certainly slowing, but the holistic evidence that a recession is underway is less compelling. Either way, rate cuts are likely coming soon. Here's how we see it:

1) **Payroll growth.** Over the past three months, payroll growth has averaged 170k jobs per month; a material slowdown from earlier in the year, but consistent with levels prevailing pre-COVID (Figure 2).
2) **Unemployment.** The rise in the unemployment rate is not solely from layoffs. Rather, new entrants to the workforce (immigration) are a large driver, which helps us differentiate between a labor market slowdown and something worse. Initial jobless claims have risen of late, but that's mostly in the seasonal adjustment; non-seasonally adjusted initial claims are in line with recent non-recession years (Figure 3).
3) **Wages.** The gold standard, Employment Cost Index, touched a two-year low in Q2 at 4.1%, but remains above pre-COVID trends. The falling quit rate suggests wage growth will continue to slow, which we view as a requisite for a soft landing (Figure 4).

Bottom line: If the Fed had the July Employment Report for last week's FOMC meeting, they would have cut rates; the question now is "how many cuts?" We now expect the Fed to cut 25bps at every meeting starting in September, with the cut cadence slowing in the 1H 2025. That said, given how restrictive rates are starting with 50bps rate cuts looks to be very plausible; that was the play book post-dot com and post-GFC. Further, as we write, market pricing puts greater odds of a 50bps cut in September than a 25bps cut. We adjust our Treasury outlook numbers lower to reflect a swifter expected cutting path and now see the 10yr Treasury rate at 3.75% at mid-year 2025, with downside risk.

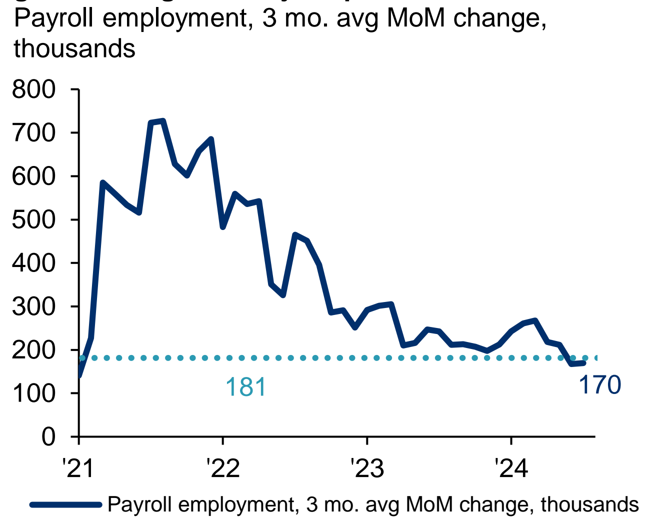
The bigger zoom out, with inflation back near target, the Fed can prioritize the employment mandate – the Fed put is back in the money. Should growth/labor market deteriorate, or financial conditions tighten more than expected, the Fed has the ability (and the ammo) to cut aggressively to support the economy and financial assets.

Figure 1: The Sahm rule was triggered
% difference to 12 mo. low in unemployment rate, 3-MMA



Sources: BLS, Haver Analytics. Data as of July 31, 2024.

Figure 2: Over the last 3 months, NFP payroll gains averaged 170k jobs per month
Payroll employment, 3 mo. avg MoM change, thousands



Source: Haver Analytics. Data as of July 31, 2024.

[1] The Sahm Rule is a simple economic indicator used to identify the start of a recession. The rule states that a recession is likely underway if the three-month moving average of the national unemployment rate rises by 0.5 percentage points or more relative to its lowest point in the previous 12 months.

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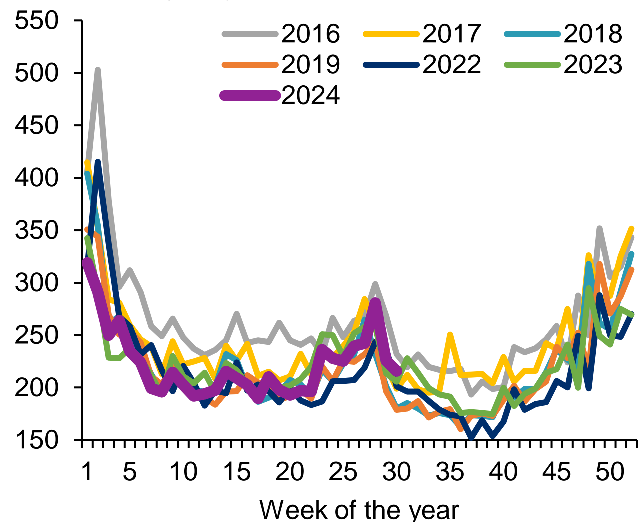
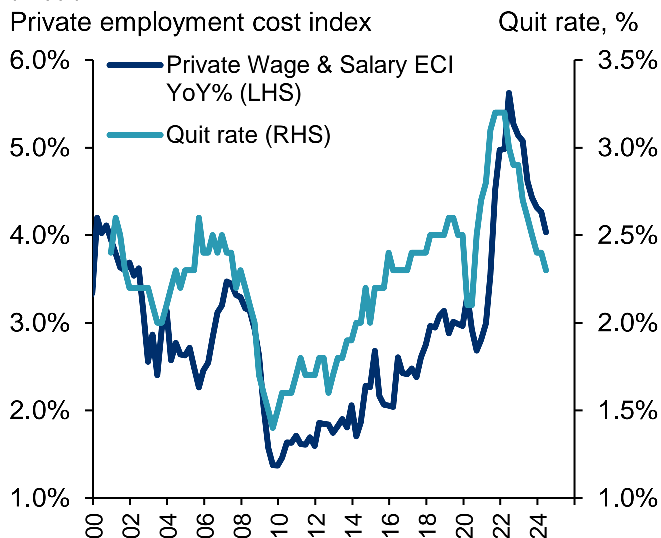
Figure 3: Nonseasonally adjusted initial jobless claims are in line with recent non-recession years
Initial claims (NSA), thousands



Source: Haver Analytics. Data as of July 27, 2024.

Figure 4: Fewer quits suggest wage deceleration ahead



Sources: BLS, Haver Analytics. Data as of June 30, 2024.

A fixed income investors guide to rate cuts. Cash yields are set to start declining this quarter on the back of Fed rate cuts.

Why it matters: The JP Morgan Wealth community holds about 5 percentage points more cash today than we did pre-COVID (Figure 5). We like >5% yields as much as the next investor, but they might not be around for long.

1) History suggests investors should step out of cash into both bonds and stocks. History favors bonds over stocks in the year after the first rate cut (Figure 6).
2) >5% yields are still available in near zero default assets. Consider locking in yields! You should consider a neutral duration position and we think municipal bonds are an attractive option for US taxpayers (Figure 7).
3) In extended credit, hybrids and preferreds have outperformed U.S. high yield, delivering year-to-date (YTD) returns of +7% and +4%, respectively. Credit spreads are historically tight in both markets (Figure 8). Looking forward we anticipate potential carry-like returns for both; that said, we continue to favor hybrids and preferreds due to their balance sheets and lower impairment risk. Private credit is our other high conviction extended credit alternative.

Go deeper on preferreds here and private credit here.

Bottom line: Cash yields are set to start declining this quarter on the back of Fed rate cuts. If you are overweight cash (like most of your peers) it's not too late to consider locking in potential yields across the fixed income space.

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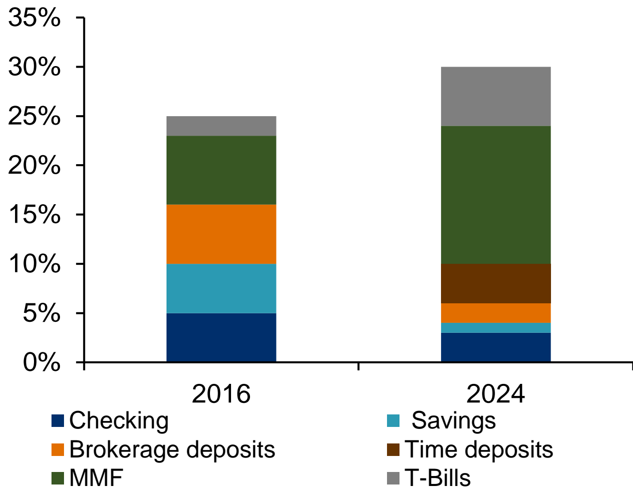
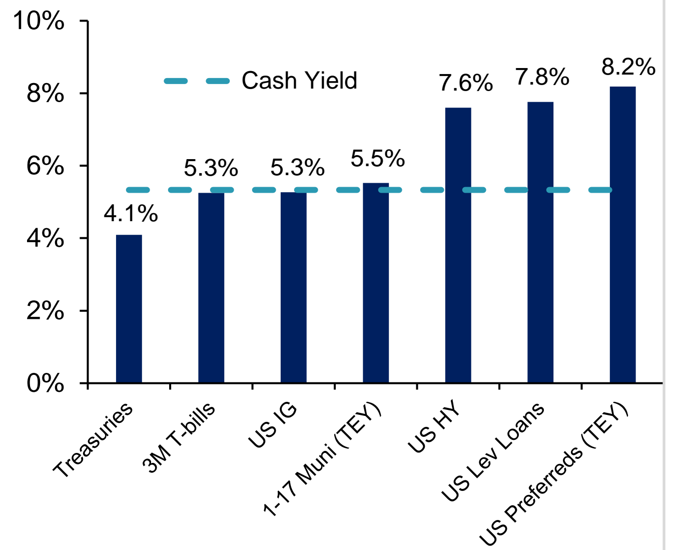
Figure 5: The J.P. Morgan Wealth community holds about 5% more cash today than pre-COVID
USPB deposits and cash alternatives, bps, % of AUS



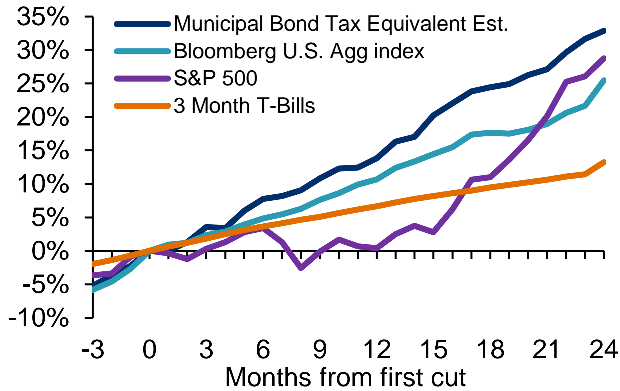
Source: J.P. Morgan Private Bank. Data as of March 31, 2024.

Figure 7: Consider locking in yields
Yield, %



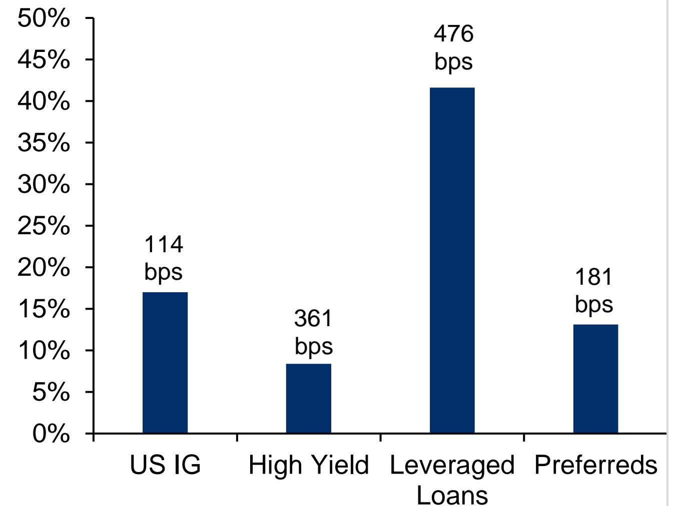
Source: Bloomberg Finance L.P. Data as of August 2, 2024.

Figure 6: History favors bonds over stocks after the first rate cut
Average total return from first Fed cut over the last seven hiking cycles, %



Sources: J.P. Morgan, Bloomberg Finance L.P. Data as of July 31, 2024. Cumulative returns for the U.S. Aggregate Index and 3M T-bill Index in 1981, 1984, 1989, 1995, 2000, 2006, 2018. Muni tax equivalent return adjusts coupon income for the current top federal tax rate.

Figure 8: Corporate bond spreads remain extremely tight
Credit spread percentiles & current basis point level



Source: Bloomberg Finance L.P. Data as of August 1, 2024.

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Finding clarity amid the volatility. The VIX, a real time estimate of expected S&P 500 volatility over the coming 30 days, surged to highs last seen in early 2023.

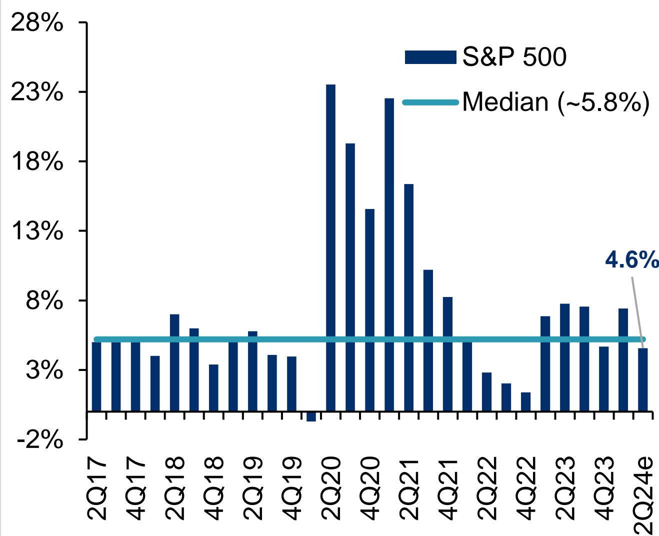
Why it matters: We remain constructive on U.S. equities, but the landscape shifted significantly in July. Here is the clarity we found:

1) **Q2 earnings have been solid.** With 75% of companies reported, earnings are tracking ~11% YoY growth. However, the expected macro growth slowdown is making it increasingly difficult for firms to raise their earnings guidance (Figure 9). We reiterate our mid-2025 S&P 500 price outlook of 5,750.
2) **The highly anticipated broadening of U.S. equity performance played out in a one-month rage and now it's largely over.** In July, the small cap index surged by over 10%, while the S&P 500 was little changed; the largest monthly small cap outperformance since 2000. YTD returns have converged (Figure 10). Further, price-to-earnings multiples (P/E) have converged to historic averages and the Nasdaq P/E is lower than the small cap P/E first time since 2021 (Figure 11 and 12). We no longer look for smaller capitalization firms to outperform larger peers. In the search for alpha, quality/profitability is most important.
3) **Derivatives are attractive after the surge in volatility.** Globally, JPM Wealth Management structured note volumes were up 60% YoY in July. The buffered downside offered by structured notes can help clients have confidence to add or maintain equity exposure amidst market selloffs, particularly because pricing typically improves as volatility rises. For investors who wish to reduce equity risk without selling existing assets, options are also worth considering.

Go deeper on how derivatives can help enhance your portfolio here and here.

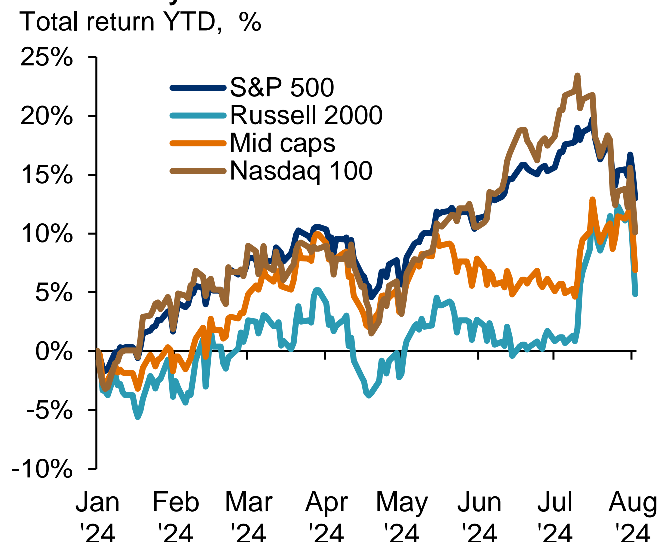
Bottom line: Given where current prices are relative to our year ahead outlook and the recent rise in volatility, you should consider leveraging derivatives as a potential means of getting invested or staying invested.

Figure 9: Average earnings surprise
S&P 500 earnings beat spread (% surprise)



Source: FactSet. Data as of August 2, 2024.

Figure 10: YTD performance has narrowed considerably
Total return YTD, %



Source: Bloomberg Finance L.P. Data as of August 2, 2024.

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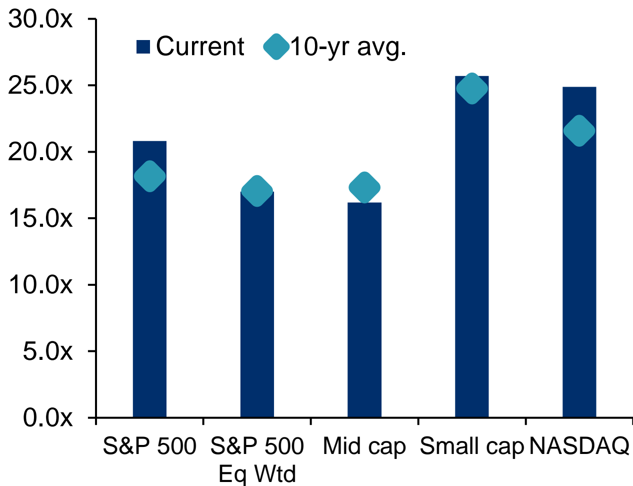
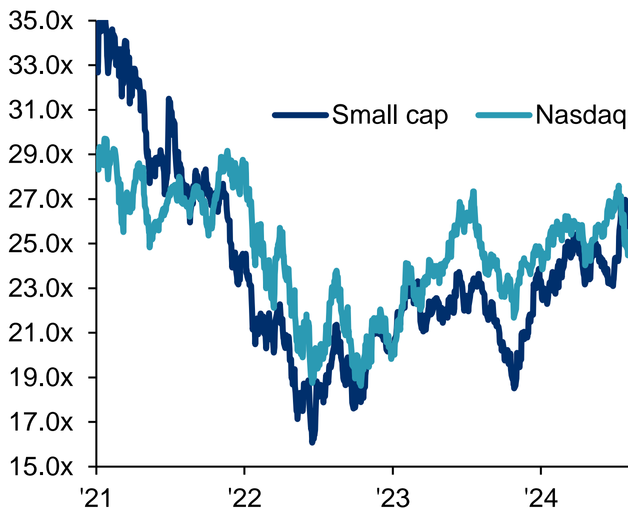
Figure 11: Price to earnings multiples have converged
Price to earnings (P/E) multiple



Source: Bloomberg Finance L.P. Data as of August 2, 2024.

Figure 12: Nasdaq P/E is below small cap for the first time since 2021
Price to earnings (P/E) multiple



Source: Bloomberg Finance L.P. Data as of August 2, 2024.

Trading the US election. At the start of July, betting markets assigned a near zero probability that Vice President Harris would be the next President of the United States; now she has a narrow lead over former President Trump (Figure 13).

Why it matters: The swings in Presidential election odds shine a light on the policies that matter to investors.

1) At the macro level, the shifting election odds haven't been the dominant driver of Fed funds rate expectations (Figure 14). A simple regression shows that changes in inflation and growth expectations, not the election, have been the dominant drivers YTD. This is another way to show that "elections don't matter in the long run".
2) At the micro level, the shifting election odds have driven asset prices consistent with the policy priorities of each party (Figure 15 and 16). Former President Trump has prioritized energy in any form and deregulation; as such oil and gas stocks and financial stocks have outperformed on days where President Trump's re-election odds have surged. Conversely, the Democratic party has prioritized clean energy and private sector incentives to stimulate domestic manufacturing; as such, renewable stocks and CHIPS Act beneficiaries have outperformed on days where Vice President Harris' odds have surged.

Bottom line: The election should not derail your long-term plan, but we expect winners and losers at the company level based on the election outcome.

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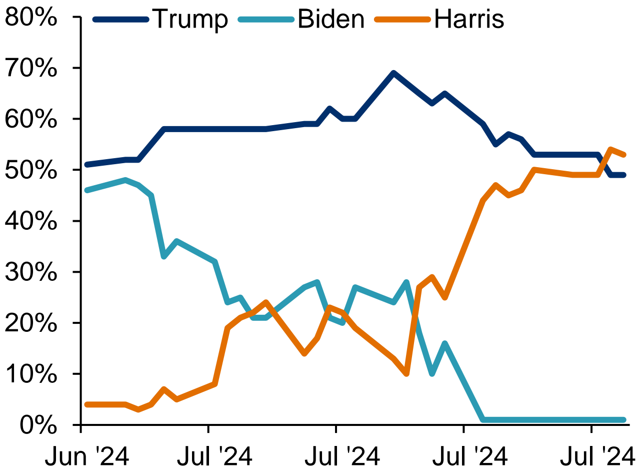
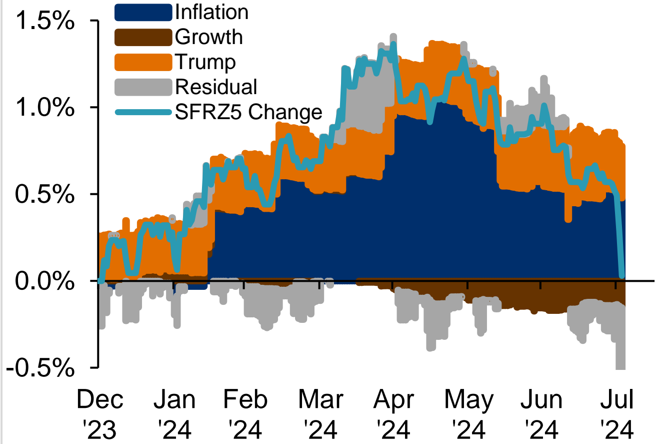
Figure 13: Vice President Harris has a narrow lead over former President Trump
2024 U.S. President betting average



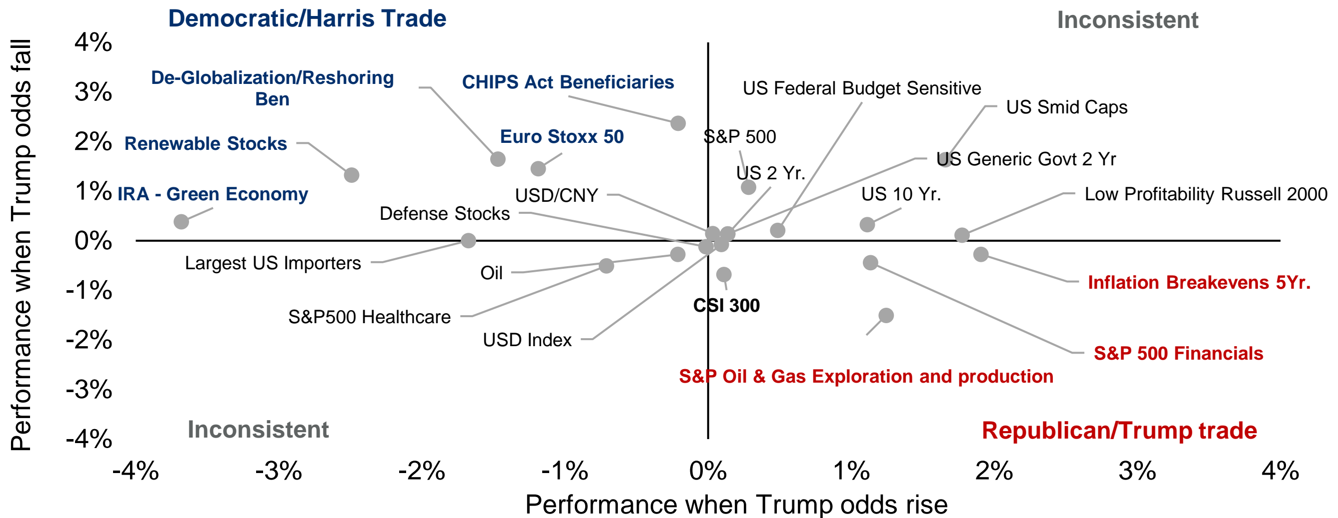
Sources: Bloomberg Finance L.P., PredictIt. Data as of August 2, 2024.

Figure 14: Shifting election odds haven't been the dominant driver of fed funds rate expectations
Contribution to YTD change in the expected fed funds rate in December 2025



Note: Inflation based on Bloomberg surprise index, Growth based on Bloomberg surprise index, Trump based on PredictIt Odds. Source: Bloomberg Finance L.P. Data as of August 2, 2024

Figure 15: Shifting odds have driven asset prices consistent with policy priorities of each party
1 day performance post event, %



Note: Performance of equity baskets are excess returns relative to the S&P500. Trump odds rise = post assassination attempt on July 13, 2024. Trumps odds fall on July 21, 2024. Source: Bloomberg Finance L.P. Data as of July 22, 2024.

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Figure 16: U.S. election policy proposals

In terms of policy, they could potentially…

Key issues	Potential Democratic stance	Potential Republican stance
Taxes	Partial extension of the 2017 tax cuts but allowing cuts to expire for households making $400K+. Potential tax hikes for wealthy individuals and corporations.	Aim to extend 2017 tax cuts.
Trade	Continuation of tough on China status quo. Focus on developing domestic manufacturing.	Intend to increase tariffs on trading partners, especially China. Focus on developing domestic manufacturing.
Defense	Steady emphasis on alliances and multilateralism.	Potential push for more self-reliance from NATO members.
Energy	Aim to reduce emissions and increase energy efficiency. Raise taxes on the fossil fuel industry.	Aim to increase traditional energy production by drilling on federal land and extending pipelines. Roll back some IRA incentives.
Healthcare	Aim to protect and build on Affordable Care Act.	Aim to undo Affordable Care Act.
Regulation	Heightened regulation of energy, technology, and financial services.	Aim to reduce regulation of energy and financial services.
Immigration	Continue to pair legal pathways for migrants with some stricter deterrence measures.	Much stricter immigration measures, including an effort to deport asylum seekers to other countries.

Sources: Tax Foundation, J.P. Morgan. Views as of July 26, 2024.

Chinese overcapacity fuels global protectionism. Chinese supply of batteries and solar cells is expected to be two times global demand in 2024 (Figure 17).

Why it matters: Surging Chinese production is driving down global prices and raising fears that a flood of Chinese exports will disrupt (or even wipe out) manufacturing capacity in the rest of the world – further integrating China to global supply chains. A rising share of unprofitable Chinese industrial firms suggest government subsidies are fueling production (Figure 18). President's Trump and Biden leveraged tariffs and incentives to increase the profitability of select U.S. manufacturing. As a result, U.S. imports from China have declined and regardless of the election outcome we expect both tools to continue to be used to further decouple and secure supply chains (Figure 19). Here is what it might mean for macro and markets:

1) **Tariff implications are unevenly distributed.** Tariffs have a greater impact on inflation for net importers (like the US), while tariffs have a greater impact on growth for net exporters (like Europe). In our analysis, Trump's proposed 10% surcharge on the world and 60% tariff on China would likely lead to relatively higher inflation in America and lower growth in Europe (Figure 20).

   The threat of tariffs, weak Eurozone GDP in Q2—especially in manufacturing—and recent negative earnings revisions prompt us to lower our outlook for the euro and Euro Stoxx 50 and adopt a neutral stance on European equities.
2) **There are likely to be winners and losers.** Latin America and Southeast Asia would likely benefit from protectionism. Goldman Sachs estimates that Vietnam, Mexico, India, Cambodia and Italy accounted for 80% of the supply chain relocations from the 2018-2019 trade war. We expect the U.S. to further integrate with these trading partners.
3) **Critical industries are protected but export industries could suffer**. President Biden's May 2024 tariff highlighted the industries the U.S. is focused on protecting –energy, microchips, healthcare, and critical minerals. Should China retaliate with its own tariffs, US agricultural would likely suffer as it did under the first trade war. China is the largest agricultural export market for the U.S.[2]

[2] In 2022, China accounted for approximately 18% of total U.S. agricultural exports, making it the largest single-country market for these products. https://www.bis.doc.gov/index.php/country-papers/3268-2022-statistical-analysis-of-u-s-trade-with-china/file

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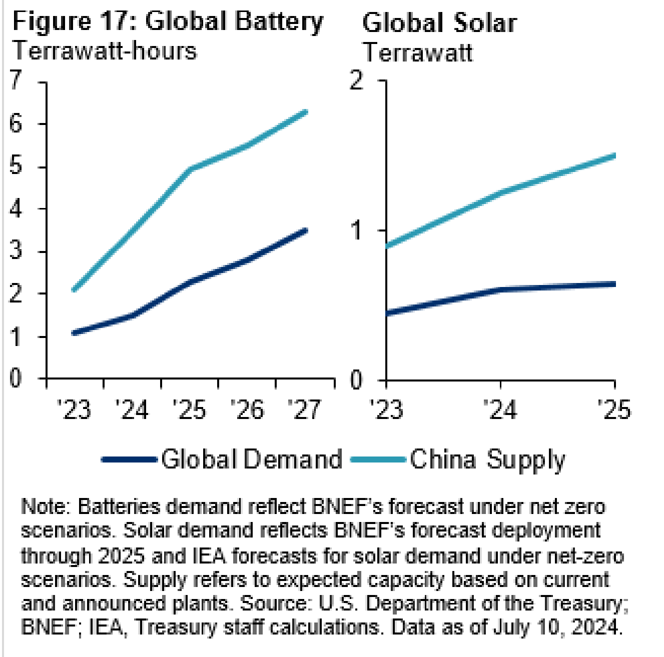
Bottom line: Protectionism looks set to continue regardless of the U.S. election outcome. We believe critical industries in the U.S. as well as exporters in Latin America and Southeast Asia are best positioned to capture the supply chain shifts. Significant capital investment will be necessary, targeted to critical areas such as energy, supply chain security, and defense.



Note: Batteries demand reflect BNEF's forecast under net zero scenarios. Solar demand reflects BNEF's forecast deployment through 2025 and IEA forecasts for solar demand under net-zero scenarios. Supply refers to expected capacity based on current and announced plants. Source: U.S. Department of the Treasury; BNEF; IEA, Treasury staff calculations. Data as of July 10, 2024.

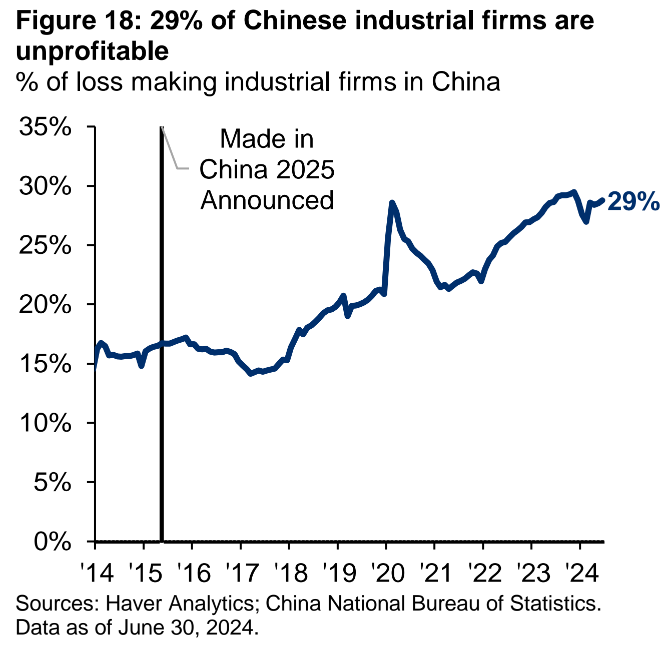


Figure 18: 29% of Chinese industrial firms are unprofitable

% of loss making industrial firms in China

Sources: Haver Analytics; China National Bureau of Statistics. Data as of June 30, 2024.

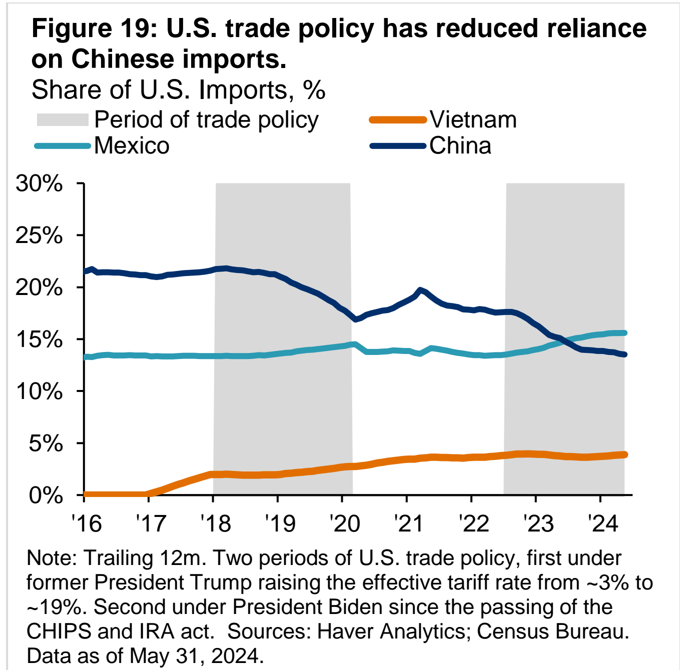


Figure 19: U.S. trade policy has reduced reliance on Chinese imports.

Share of U.S. Imports, %

Note: Trailing 12m. Two periods of U.S. trade policy, first under former President Trump raising the effective tariff rate from ~3% to ~19%. Second under President Biden since the passing of the CHIPS and IRA act. Sources: Haver Analytics; Census Bureau. Data as of May 31, 2024.

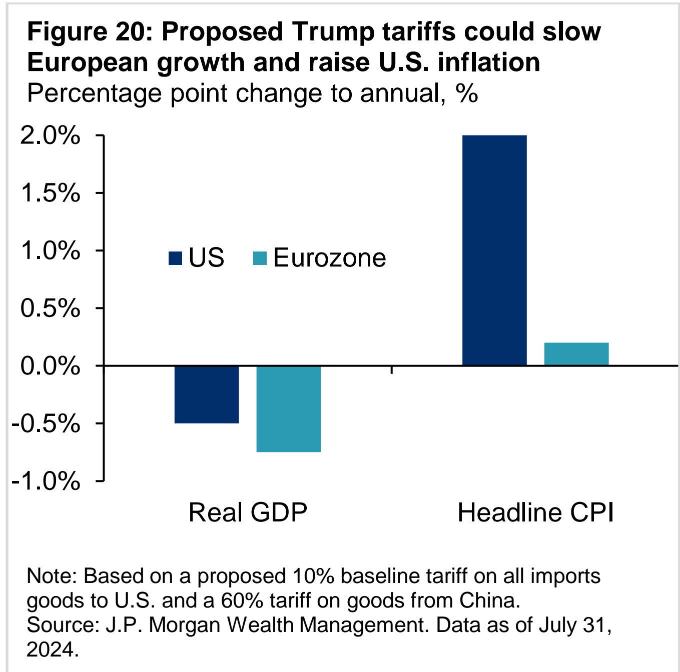


Figure 20: Proposed Trump tariffs could slow European growth and raise U.S. inflation

Percentage point change to annual, %

Note: Based on a proposed 10% baseline tariff on all imports goods to U.S. and a 60% tariff on goods from China.
Source: J.P. Morgan Wealth Management. Data as of July 31, 2024.

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Here's a summary of Wall Street views for 2024 & 2025.

Street Outlook Year-End 2024					
	Fed Funds Q4 '24	Real GDP Q4 '24	Core PCE Q4 '24	10Y Q4 '24	SPX $ YE 2024
JPM WM	4.75	1.75	2.70	3.90	5,500
JPM IB	4.25	1.60	2.70	3.50	4,200
Bank of America	5.00	2.30	2.80	4.25	5,400
Morgan Stanley	4.75	2.20	2.70	4.10	5,400
Goldman Sachs	4.75	2.30	2.60	4.25	5,600
Wells Fargo	4.25	1.50	2.60	4.00	5,535
UBS	5.00	1.60	2.60	4.00	5,600
Average (ex-JPM WM)	4.67	1.92	2.67	4.02	5,289
FOMC	5.25	2.10	2.80	-	-

Street Outlook 2025					
	Fed Funds Mid-2025	Real GDP Q4 '25	Core PCE Q4 '25	10Y Mid-2025	SPX $ Mid-2025
JPM WM	4.00	2.00	2.20	3.75	5,750
JPM IB	3.25	1.90	2.10	3.15	
Bank of America	4.50	2.00	2.30	4.25	
Morgan Stanley	3.75	2.10	2.00	4.10	5,400
Goldman Sachs	4.25	2.30	2.10	4.20	5,700
Wells Fargo	3.50	2.30	2.30	3.85	
UBS	4.25	1.30	2.10	4.00	
Average (ex-JPM WM)	3.92	1.98	2.15	3.93	5,550
FOMC	-	2.00	2.30	-	-

Sources: JPM, BoA, MS, GS, WF, UBS, Federal Reserve. Data as of August 5, 2024.

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THE GIS SNAPSHOT

A summary of high conviction views

August 2024

Note: MoM = Month over month

*This snapshot summarizes conviction across key GIS views. It is not meant to constitute portfolio management or to be used as a portfolio construction tool.

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YEAR END (YE) 2024 & MID-2025 OUTLOOK NUMBERS

August 2024

Macro^				
Inflation	**2024 YE**	Old 2024 YE	**2025 YE**	Old Mid-25
U.S.	2.60-2.80%		2.10-2.30%	
Eurozone	2.10-2.30%		2.00-2.20%	
China	1.00-1.20%		0.80-1.00%	
Real GDP Growth				
U.S.	1.50-2.00%		1.75-2.25%	
Eurozone	0.50-1.00%		1.00-1.50%	
China	4.00-4.50%		4.20-4.70%	
Equities				
S&P 500	**2024 YE**	Old 2024 YE	**Mid-2025**	Old Mid-25
Price	5,450-5,550		5,700-5,800	
P/E forward multiple	20x		20x	
Stoxx Europe 50				
Price	4,950-5,050	~~5,400-5,500~~	5,050-5,150	~~5,500-5,600~~
P/E forward multiple	13.25x	~~14.25x~~	13.25x	~~14.25x~~
TOPIX				
Price	2,900-3,000		3,025-3,125	
P/E forward multiple	15.25x		15.5x	
MSCI Asia ex-Japan				
Price	700-720		720-745	
P/E forward multiple	12.5x		12.5x	
MSCI China				
Price	58-59	~~63-64~~	60-61	~~65-67~~
P/E forward multiple	10.3x	~~10.5x~~	10.3x	~~10.5x~~

Currencies	**2024 YE**	Old 2024 YE	**Mid-2025**	Old Mid-25
U.S. Dollar Index (DXY)	106 (104-108)		103 (101-105)	~~102~~
EUR/USD	1.06 (1.04-1.08)		1.09 (1.07-1.11)	~~1.11~~
USD/JPY	153 (151-155)		145 (143-147)	~~153~~
GBP/USD	1.25 (1.23-1.27)		1.30 (1.28-1.32)	
USD/CNY	7.40 (7.30-7.50)	~~7.35~~	7.35 (7.25-7.45)	

Rates & Credit Spreads				
U.S.	**2024 YE**	Old 2024 YE	**Mid-2025**	Old Mid-25
Eff. Fed Funds rate	4.50%-4.75%	~~5.00-5.25%~~	3.75%-4.00%	~~4.50-4.75%~~
ON SOFR	4.65%	~~5.15%~~	3.90%	~~4.65%~~
2-year UST	3.80%	~~4.45%~~	3.50%	~~3.85%~~
5-year UST	3.70%	~~4.45%~~	3.60%	~~3.90%~~
10-year UST	3.90%	~~4.50%~~	3.75%	~~4.00%~~
30-year UST	4.30%	~~4.75%~~	4.00%	~~4.30%~~
2s/10s spread	0.10%	~~0.05%~~	0.25%	~~0.15%~~
JPM U.S. Investment Grade	115		115	
JPM U.S. High Yield	400		400	
Europe				
ECB deposit rate	3.25%		2.75%	
5-year German Yield	2.00%		2.00%	
10-year German Yield	2.25%		2.15%	
BoE Bank Rate	4.75%		4.50%	
10-year UK Gilt	4.00%		3.80%	
EUR IG	125		125	
EUR HY	450		400	
EM				
EM Sovereign Index (EMBI)	350		325	
EM Corporate Index (CEMBI)	325		275	
JPM Asia IG (JACI IG)	125		110	
JPM Asia HY (JACI HY)	1,200		1,000	

Commodities	**2024 YE**	Old 2024 YE	**Mid-2025**	Old Mid-25
Gold ($ / oz)	$2,700-$2,800		$2,700-$2,800	
Brent ($ / barrel)	$81-$86		$81-$86	
Commodity Index (BCOM)	105.5-107.5		105.5-107.5	
Natural gas ($/MMBtu)	$3.50-$4.50		$3.30-$4.30	

^GDP and core inflation estimates represent Q4 year over year growth rates. Core inflation in the US is core PCE.

Indices are not investment products and may not be considered for investments.

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MACRO VIEWS

U.S. Growth

Recent data have shaken some of the ongoing concerns about growth and the sustainability of the cycle. The Q2 GDP data came in solidly, with topline growth rising above expectations at 2.8% annualized. In his latest FOMC press conference, Chair Powell referenced Private Domestic Final Purchases (PDFP), which is GDP but excluding inventory swings, government spending, and net exports. PDFP continues to run solidly, up 2.6% annualized in Q2 and 2.9% over the last year. Recent data have shown steady consumer spending of around 2% annualized and an improvement in fixed investment (notably in equipment spending, which is likely being driven by both AI-related capex and by recent industrial policy bills).

That said, a serious concern is the recent rise in the unemployment rate, which has risen from a cycle low of 3.4% to 4.3% at present. Looking under the surface shows the rise isn't being primarily driven by permanent layoffs, which makes it less threatening. Nevertheless, the data surrounding layoffs needs to be closely monitored as we could be at an important inflection point.

We remain constructive on US growth. Pockets of weakness such as in commercial real estate are likely to persist but should be manageable from a business cycle perspective.

What we're watching: Job and income growth, unemployment dynamics, business sentiment, credit and lending standards, risks related to the 2024 US elections.

Our view: 1.50-2.00% (Q4 YoY) real GDP growth in 2024

1.75-2.25% in 2025

U.S. Inflation

After the large upside inflation miss in Q1, which pushed out the timeline of the first Fed rate cut, disinflationary forces have re-emerged. An especially recent development is that we are finally seeing the shelter disinflation we expected, with the important subcomponent growing in Q2 by 1.1% vs. an average of 1.4% for the prior 4 quarters. Based on our modelling, we think shelter disinflation will continue and by Q2 2025 we expect shelter inflation to move down to a pace of about 0.85% QoQ, which is just above the pre-pandemic pace.

In his latest FOMC press conference, Chair Powell described the disinflationary forces today as broader than in 2023, when disinflation was concentrated in goods sectors as supply chains became untangled. We agree.

Nevertheless, there is still some concern about wage growth and services inflation. The latest Employment Cost Index (ECI) data for Q2 showed wage growth stabilizing at just above 4% annualized, a pace that is still inconsistent with the Fed's inflation target. We ultimately think wages will cool off further over the next year and we don't think the recent wage trends will prevent the Fed from cutting its policy rate at the next FOMC meeting in September. But the pace of wage disinflation from here could have important implications for the overall path of Fed rate cuts in 2025.

What we're watching: Wage growth, services ex-shelter inflation, shelter inflation, JOLTS hiring, quits and layoff rates.

Our view: 2.60-2.80% (Q4 YoY) core PCE in 2024

2.10-2.30% in 2025

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Eurozone Growth

After an impressive rebound to start the year, recent activity data in Europe has started to show some signs of moderation. Second quarter GDP data showed a 1% annualized growth rate, but told a story of disconnect between different sectors of the economy – something that the PMI surveys have also shown.

The weakness in manufacturing – particularly in Germany – looks to be intensifying. Meanwhile, consumers are being bolstered by real income gains, falling inflation and now the addition of lower interest rates. On the whole, we continue to see the economy growing at a 0.5-1.0% pace this year, but the recent loss of momentum skews the risks towards the lower end of that range.

The UK has meanwhile showed little evidence of slowing. PMI surveys have been broadly consistent with a 1.5% growth rate. Elevated real wage growth is keeping consumption strong, and the recent injection of political stability should come with a “dullness dividend” in the second half. BoE cuts are another tailwind.

What we’re watching: Real wage growth, geopolitical conflict, manufacturing weakness, fiscal measures.

Our view: 0.50-1.00% (Q4 YoY) real GDP growth in 2024

1.00-1.50% (Q4 YoY) in 2025

Eurozone Inflation

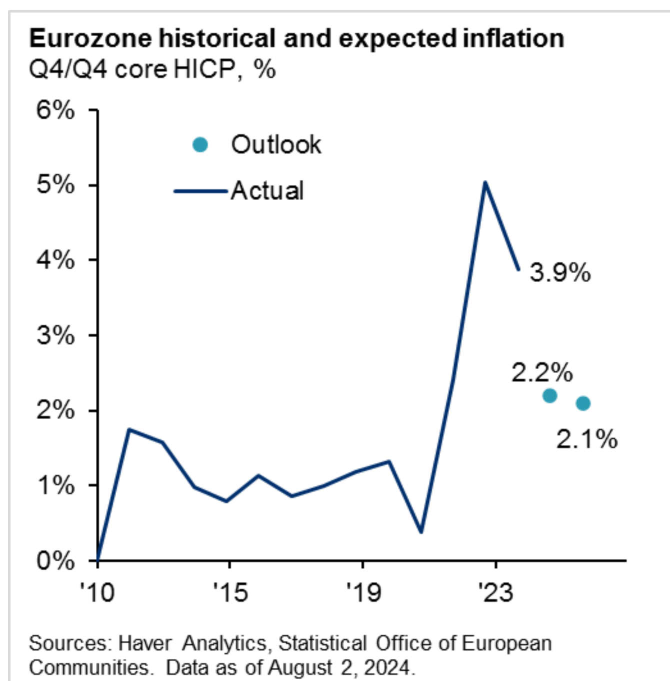
European inflation data has been noisy in recent months, but the broad disinflation trend remains intact. Core inflation has halved since its peak last year. Like other developed economies though, most of that progress has been led by deflation in areas like goods and energy prices. As we start to see price gains accelerate in areas like goods, it has been encouraging to see the momentum of services inflation slow in recent months – albeit still at high levels. The moderation in economic activity that we have started to see should keep a lid on prices in the second half. Risks still skew towards the top-end of our 2.1-2.3% range as things stand today.

In the UK, headline inflation has already returned to 2%. However, the decline in core prices has been slower, largely due to domestic price pressures. Like in Europe, we expect that to normalize as the labor market and wages cool, but the evidence to date suggests that might take longer to come to fruition for the Bank of England.

What we’re watching: Wage growth, energy prices, services inflation.

Our view: 2.10-2.30% (Q4 YoY) core HICP in 2024

2.00-2.20% (Q4 YoY) in 2025



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China Growth

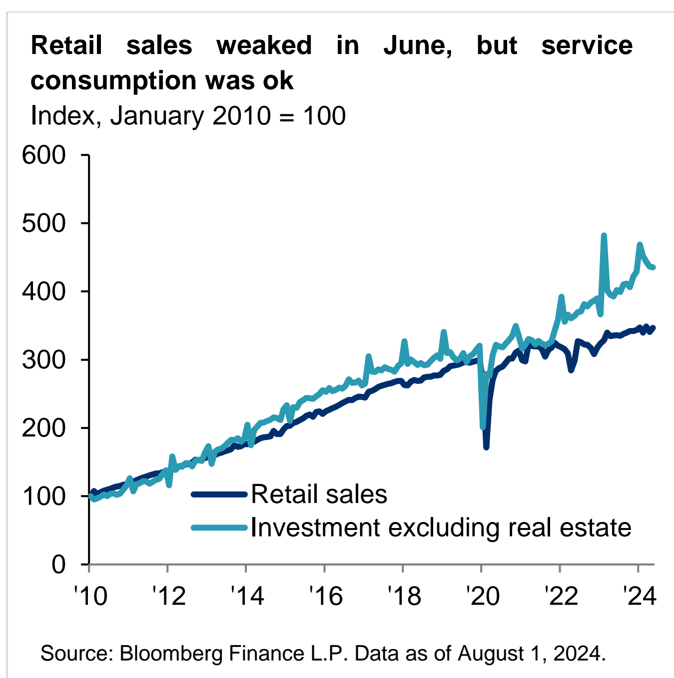
Q2 GDP missed to the downside, and the monthly data for June was mixed showing the continued dual track economy of strong production/exports and weak domestic consumption. The GDP deflator remained negative for the fifth straight quarter reflecting the challenge policymakers face to prevent entrenched deflation. From a monthly data perspective, growth momentum is remaining stable at weak levels. Sequentially, investment and production accelerated. Retail sales of goods weakened in June, but service consumption was ok. The housing sector remains very weak but there is some hope we're nearing a bottom.

The Third Plenum and Politburo reaffirmed the current policy path while paying lip service to the need to boost consumption. The focus remains on long term priorities of supporting future technologies and achieving self-sufficiency. The overarching message was one of continuing to pursue a transition away from property through ramping up technology and manufacturing-related investments. This strategy is overshooting in the near-term: the property crisis has opened a big hole in aggregate demand, which is not being filled up fast enough by other parts of the economy. Even with successes like the surge in auto exports, the sectors favored by industrial policy are not large enough to fully offset the drag from property, leaving the economy with slack and emerging trade tensions rising from overcapacity.

What we're watching: Policy decisions to boost consumption

Our view: 4.00-4.50% (Q4 YoY) real GDP growth in 2024

4.20-4.70% in 2025



Source: Bloomberg Finance L.P. Data as of August 1, 2024.

China Inflation

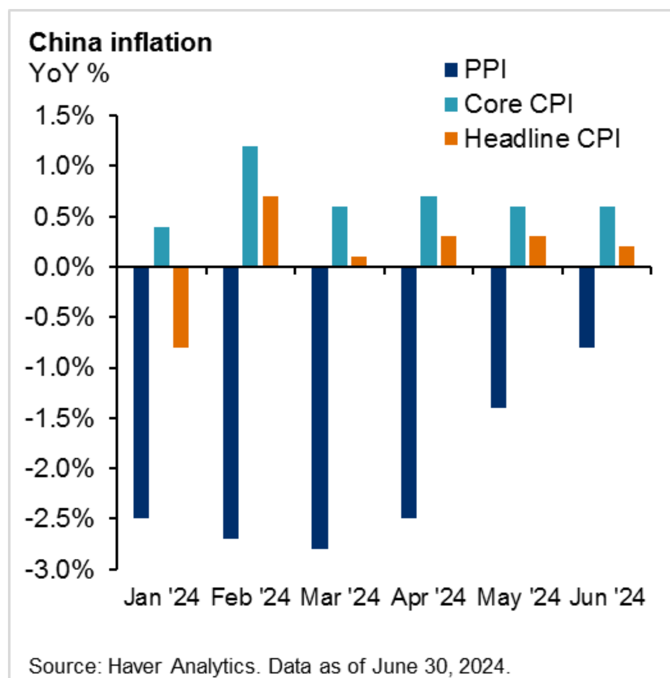
China's June CPI inflation rate eased modestly to 0.2% year-over-year (YoY) (0.0% month-over-month (MoM) seasonally adjusted (sa)). The overall pricing environment remains rather weak: taking the first six months together, headline CPI inflation has averaged 0.1% YoY. Core CPI inflation also remained soft, rising 0.6% YoY in June (or 0.0% MoM sa).

Overall, we expect the low inflation environment to stay through 2H24. Steady outlook on global commodity prices and moderate recovery in domestic pork prices, along with low-base effect from last year, would help to avoid the return of CPI deflation in 2H24. Meanwhile, demand-supply imbalance and excess capacity concerns remain significant The GDP deflator will likely stay in negative territory through 3Q.

What we're watching: Property market, commodity prices, and exports

Our view: 1.00-1.20% (Q4 YoY) core HICP in 2024

0.80-1.00% in 2025



Source: Haver Analytics. Data as of June 30, 2024.

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EQUITY VIEWS

U.S. Equities

July was a volatile month with large cap leadership under pressure and small caps rallying on hopes for accelerated Fed cuts. Said another way, winners and losers in the 1H24 flipped in July, even though a late surge narrowed that convergence. Earnings have not been the reason for the turn in leadership as S&P earnings are tracking to 10% growth, revisions have been immaterial while the lion's share of smaller company earnings are still to come. The Mega cap tech firms reported solid results and the economy seems to be slowing at an acceptable pace toward normalization. Yet, there is still an election to go through and the slowdown can worsen. While we maintain a positive outlook longer-term, short-term volatility is likely to increase. Our base case scenario views the S&P 500 at $5,500 at the mid-point, within the range of $5,450-5,550, and incorporates an economic deceleration and soft landing. Our optimism is underpinned by the continued improvement in earnings growth as most sectors emerge from the 2022-2023 "rolling earnings recession."

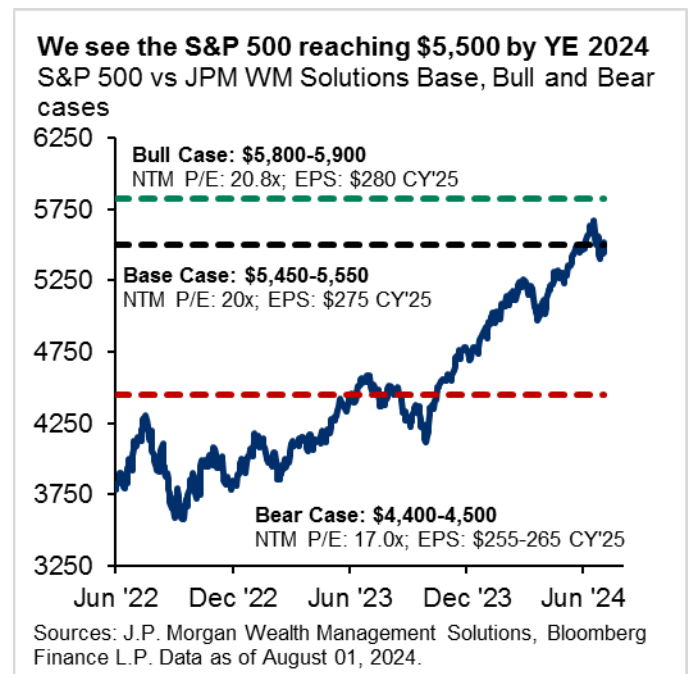
In a more optimistic scenario, we envision the equity markets potentially reaching approximately $5,800 to $5,900, driven by stable economic growth, subdued short-term inflation, and relaxed financial conditions, which would enhance valuations and yield better-than-expected earnings. In this scenario, smaller companies are expected to outperform within the S&P 500. Conversely, our bear case for 2024, with outlooks ranging from $4,400 to $4,500 and a midpoint of $4,450, accounts for a more pronounced economic slowdown or an event-driven market disruption that could depress earnings and valuations.

Our strategy focuses on a bottom-up analysis, bolstered by positive indicators from first half earnings, which supports expectations for above-average growth in 2024. Consumer spending on goods is slowing more than analysts expected which is something we are clearly hearing from companies in the consumer sector. Given the large impact of autos and restaurants on the S&P 500 sector groups, we are removing that sector from recommendation to focus on Tech, Healthcare, and Industrials (upgraded in June). The technology sector has shown promise through investments in Artificial Intelligence, which alongside significant infrastructure upgrades, is expected to enhance revenue streams and reduce costs over time. You should consider leveraging market volatility through strategic asset allocation, structured products, and derivatives. Given the current stage of the economic cycle and the anticipated long-term returns, we advise investors to consider large-cap stocks, with a strategic investment in U.S. Mid-caps due to their lower valuation relative to large caps and accelerating earnings growth as the year progresses.

What we are watching: We continue to look for signs that the macro is changing. Absent large changes, earnings in August will be very important in determining sector leadership for the second half.

Our view: S&P 500 $5,450-$5,550 by year-end 2024

$5,700-$5,800 by mid-25



Sources: J.P. Morgan Wealth Management Solutions, Bloomberg Finance L.P. Data as of August 01, 2024.

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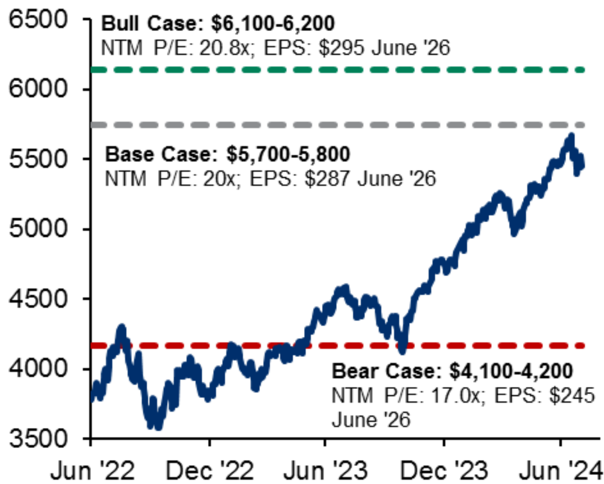
We see the S&P 500 reaching $5,750 by Mid '25
S&P 500 vs JPM WM Solutions Base, Bull and Bear cases



Source: J.P. Morgan Wealth Management Solutions, Bloomberg Finance L.P. Data as of August 01, 2024.

Sector and subsector views
S&P 500

Overweight	Neutral	Underweight
Technology	Comm. Svcs.	Media
Industrials	Financials	Staples
Diversified Financial Services	Energy	Materials
Data Center & Industrial RE	Utilities	Office RE
Healthcare	Discretionary	
Global Themes		
Artificial Intelligence	Global Security & Infrastructure	Healthcare Innovation

Note: Overweight, neutral and underweight categorization is based on relative preferences. RE = Real Estate.
Source: J.P. Morgan Wealth Management Solutions. As of August 01, 2024.

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Europe Equities

Outperformance has stalled since the beginning of June, just before French snap election. A lot has impacted SX5E's recent underperformance, including weak European macro data, volatility around US election and an underwhelming earnings season. SX5E has underperformed S&P since beginning of June.

We are removing our overweight call on the European market and reducing our year-end 2024 and mid-2025 views. Our new year-end outlook is EUR 4,950-5,050 (EUR 5,000 in the middle). Our new mid-2025 outlook is EUR 5,050-5,150 (EUR 5,100 in the middle). We are reducing our 2024, 2025 and mid 2026 EPS. We are now expecting a 2-3% earnings growth in 2024, 3-5% in both 2025 and 2026. European PMI data disappointed for 2 months in a row, which suggested weaker growth momentum. Macro data from China has also been weak recently. Positive earnings revisions in European equities have also stalled and we have started to see some negative earnings revisions in the last month. We are also reducing our expected P/E multiple to 13.25x, as the market starts getting worried about a political risk associated with the US election, potential tariffs, and potentially weaker growth. More than ever, the focus should be on alpha generation in the region, especially after recent underperformance of many of the European "National Champions". We think there are many opportunities in the sectors like Industrials, Technology, Luxury and Healthcare sectors. Thematically, we like exposure to aerospace, electrification, semiconductors/artificial intelligence, luxury and weight loss drugs.

We currently like three sectors: Industrials, Technology and Luxury. We continue to focus on European "National Champions", multinational companies that have large competitive moats and market-leading positions, based out of Europe.

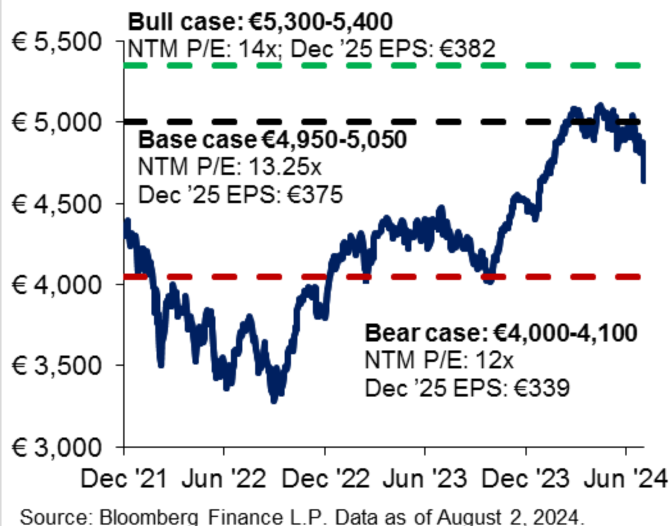
What we're watching: US elections, global macro-economic data, global consumer sentiment, geopolitical tensions in the Middle East and Eastern Europe

Our view: €4,950-5,050 by year-end 2024

€5,050-5,150 by mid-2025

We see the Euro Stoxx 50 reaching €5,000 by YE 2024

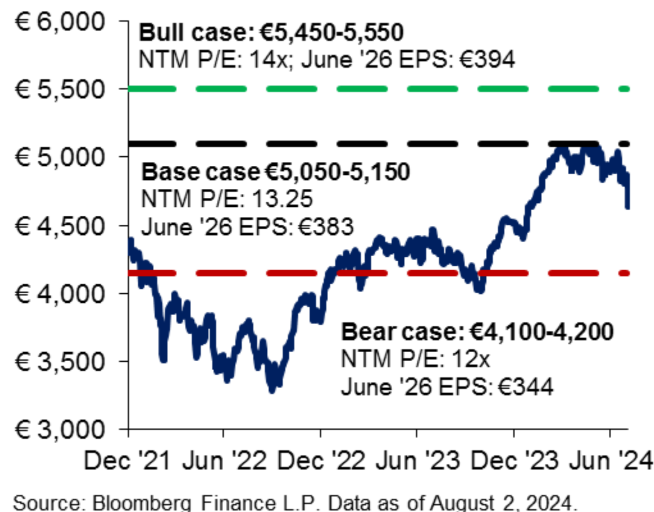
Euro Stoxx 50 vs JPM WM Solutions Base, Bull, and Bear cases



Source: Bloomberg Finance L.P. Data as of August 2, 2024.

We see the Euro Stoxx 50 reaching €5,050-5,150 by mid-2025

Euro Stoxx 50 vs JPM WM Solutions Base, Bull, and Bear cases



Source: Bloomberg Finance L.P. Data as of August 2, 2024.

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Asia Equities

Various markets in the region have pulled back over the past one month. Taiwan and Korea were dragged by the across-the-board corrections in the global semiconductor sector, triggered by investors' profit-taking as well as the potential Foreign Direct Product Rule (FDPR) proposed by the Biden Administration. Given the difficulties in implementation and the continued structural increase in Gen AI demand, we remain positive both markets and see further upside over the next 6-12 months.

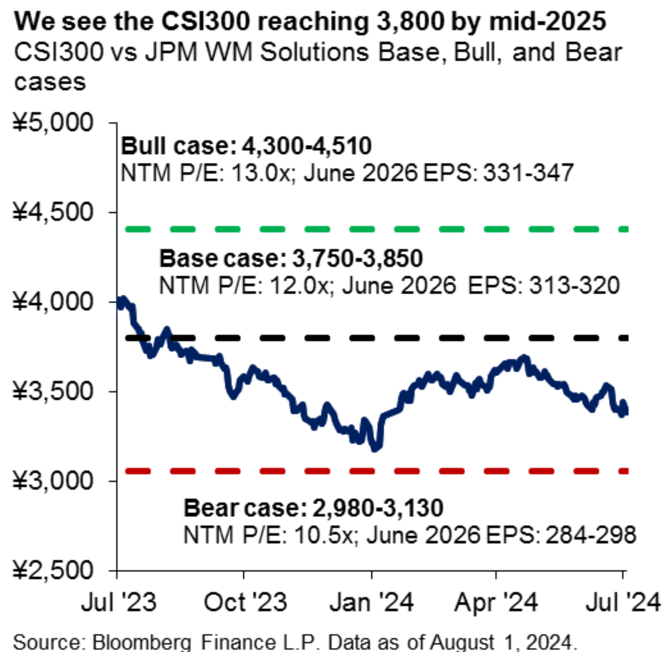
Japan equity markets continued to consolidate, mainly dragged JPY strength and the US equity market. With strong earnings momentum in the short-term and multiple structural drivers in the long run, we remain positive and view valuations inexpensive for earnings growth of 9-11% over the next 12 months. We still expect attractive low-teens upside through June 2025 for Japan. Remain buyers of dips.

We retain our structural overweight towards India. The recently announced FY24/25 budget plan focuses on driving long-term growth through capex spending, fiscal consolidation, encouraging consumption and housing for middle class. Supported by the pro-growth environment, we believe Indian equities provide exposure to attractive high-growth opportunities that has the potential to translate into sustainable low-teens earnings growth over the next few years.

We mildly revise down index outlook by mid-single digit for both MSCI China (offshore) and CSI 300 (onshore), reflecting our more cautious view on China economy. Incrementally, consumption has deteriorated since June with negative datapoints across various sub-sectors including e-Commerce, gaming, sportswear, liquor, and restaurants. Following the liquidity-driven rally in Apr/May, Street analysts have heightened expectations, leading to a more challenging comp amid a weakening 2H24. Offshore China remains rangebound and a firm neutral, and we retain a relative preference on Onshore China equities.

What we're watching: Earnings season across Asian markets. JPY movement and BoJ's interest rate decision. China's further fiscal stimulus plans. Momentum in the Generative AI and global semiconductor sector.

Our view:
TOPIX: 2,900-3,000 by year-end 2024
3,025-3,125 by mid-2025
MSCI AxJ**:** 700-720 by year-end 2024
720-745 by mid-2025
MSCI China: 58-59 by year-end 2024
60-61 by mid-2025
CSI 300: 3,610-3,680 by year-end 2024
3,750-3,850 by mid-2025
MSCI India: 2,630-2,740 by year-end 2024
2,800-2,950 by mid-2025
MSCI ASEAN: 650-670 by year-end 2024
660-680 by mid-2025



Source: Bloomberg Finance L.P. Data as of August 1, 2024.

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RATES VIEWS

U.S. Rates

The rise in the unemployment rate has put the employment side of the Fed's dual mandate squarely into focus. They are set to cut in September and the question is whether they go by 25 or 50 bps.

Our new base case calls for three 25bps cuts by year end but there is clear risk for more than that if additional labor market data show weakness.

Treasury yields have rallied across the curve as markets price in easing. Markets currently anticipate over four cuts from the Fed this year and a terminal rate of about 3% in 2026. It certainly feels like markets would be pricing in a recession to go much lower than that. Therefore, we expect to see a rangebound Treasury market with some further potential steepening led by the front end over the next twelve months.

Treasury supply continues to have no major bearing on price action. It's all about monetary policy for now.

What we're watching: Whether alternative labor market data confirm a rise in unemployment.

Our view: 10Y: 3.90% by year-end 2024

3.75% by mid-2025

Source: Bloomberg Finance L.P. Data as of August 05, 2024.

Europe Rates

Rates have rallied strongly in July thanks to dovish surprises from each of the Federal Reserve, European Central Bank and Bank of England.

Markets are now anticipating more than two further cuts from the ECB and almost two from the BoE between now and year-end. While we do anticipate rate cuts to continue from here, those current expectations skew on the dovish side of our own outlook. That is because growth is holding up while central banks are communicating caution over cutting too early. We think investors should consider locking in potential yields at the shorter-end, and are comfortable with benchmark duration in European fixed income allocations.

What we're watching: U.S. yields, wage growth and monetary policy, incoming activity data, and election outcomes.

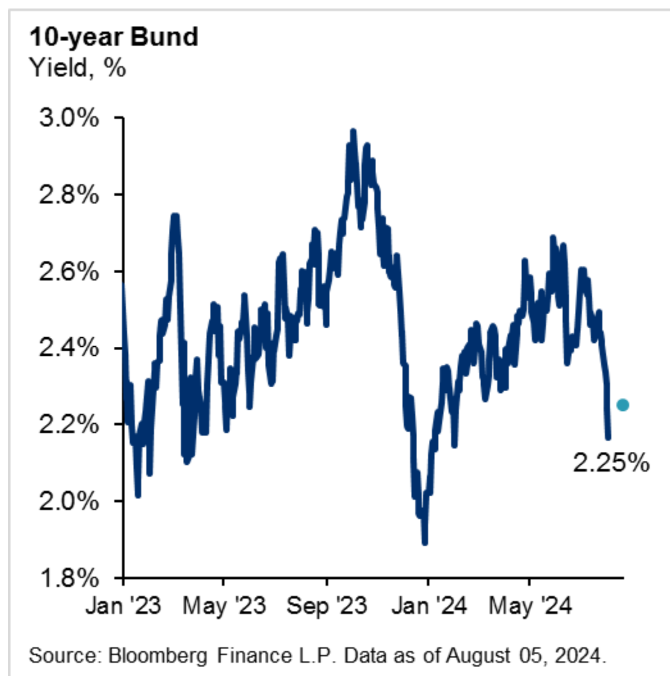
Our view:

10Y Bund: 2.25% by year-end 2024

2.15% by mid-2025

10Y Gilt: 4.00% by year-end 2024

3.80% by mid-2025



Source: Bloomberg Finance L.P. Data as of August 05, 2024.

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CREDIT VIEWS

U.S. Credit

The ambiguity in economic data has dissipated, with weaker data both in labor market and inflation suggests the Federal Reserve may initiate its rate-cutting cycle in September. The market has rapidly adjusted its expectations, pricing in approximately four rate cuts by year-end vs one cut a month ago. Long-term interest rates declined below 4% and markets are beginning to reflect the delicate balance between a soft landing and a more challenging economic scenario.

This situation presents several key takeaways: We think the opportunity to get out of cash is diminishing quickly. Although spreads widened slightly in July (IG +3bps, HY +12bps), the move is insufficient to justify adding duration risk in corporate bonds, as corporate spreads remain 1.0-1.5 standard deviations expensive.

Given this backdrop, we maintain a conservative stance on investment in the corporate bond sector. We continue to focus on Investment Grade with shorter durations (~3 years), as the lack of term premia in spreads and rates does not support significant duration positions. We anticipate that a slowdown in economic growth may provide opportunities to achieve higher all-in yields than currently available in the corporate market, due to wider spreads despite of lower rates.

In extended credit, Hybrids and Preferreds have outperformed High Yield, delivering year-to-date returns of +7% versus +4% for High Yield. We expect potential carry-like returns for both and continue to favor Hybrids and Preferreds due to their balance sheets, lower impairment risk, and similar yields. However, the notable compression of spreads in Hybrids and Preferreds leaves us neutral in this space.

For Municipal bonds[3], which are correlated to Treasuries and offer Tax Equivalent Yields around 7% in the long end, we find duration still attractive and continue to like increasing exposure. For U.S. taxpayers, long-end Municipals now look more attractive than Preferreds, given the spread compression in the latter space.

What we're watching: In core fixed income, we favor Investment Grade and Municipal bonds in the credit space.

Extended Credit: We expect potential carry like returns from Hybrids and Preferreds ~ 6% going forward. We anticipate distressed opportunities as the cycle progresses. **Duration:** We prefer short-duration in IG Corporates due to historically tight long-end spreads but find value in Municipal duration given overall Tax Equivalent Yields. Our preference remains ~ 85% short duration and 15% long duration for Fixed Income.

Our view:

US IG (spread): 115bps by year-end 2024.

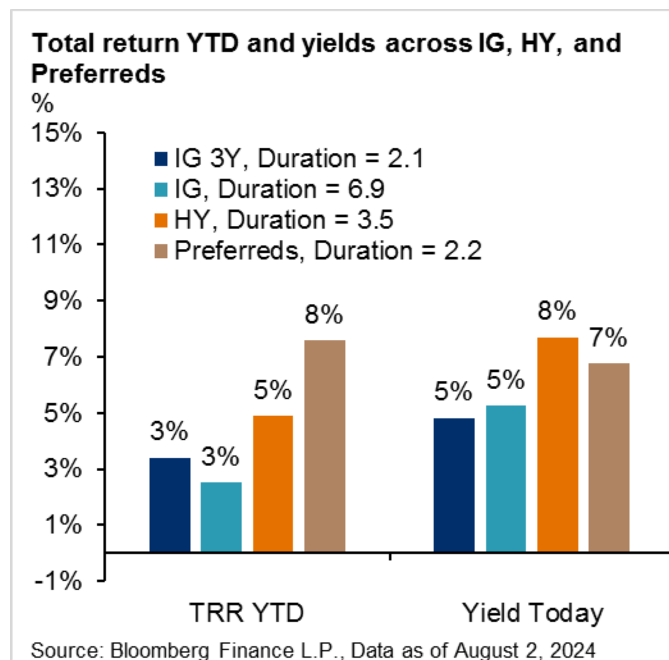
115bps by mid-25

US HY (spread): 400bps (+/- 25bps) by year-end 2024.

400bps by mid-25

Municipal (Ratio): 75bps by year-end 2024

75bps by mid-25



[3] U.S. Muni Bonds forecast as Tax Equivalent Yield (TEY). Tax calculation assumes highest federal income tax of 37% and a Medicare tax of 3.8%, excludes state and local taxes. Without a tax adjustment, U.S. Muni Bonds are forecast to return 4.0% by the JPMAM LTCMAs.

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E.U. Credit

As the Olympics capture global attention, significant shifts are taking place in the European credit markets. The European Central Bank (ECB) initiated its first rate cut of the cycle, reducing rates by 25bps in June. Investment Grade (IG) spreads also tightened by 10bps, while High Yield (HY) spreads widened by 5bps. Consequently, IG returns turned net positive year-to-date (+1%), with IG outperforming at +4%.

European economic data is mixed, with a slight uptick in the unemployment rate and modest GDP growth, while geopolitical tensions near the region and upcoming elections add another layer of complexity.

Economic uncertainty underscores a divergence between rates and credit markets. While significant rate cuts are being priced in due to increased expectations of a slowdown, credit markets remain largely unfazed, with Euro high yield spreads around 357 basis points, near historic lows. While these levels are supported by strong fundamentals, including net leverage at a historical low of about 4.5x and solid interest coverage, earnings misses and guidance downgrades in consumer-facing sectors like airlines, autos, and luxury retail suggest weakening consumer health. While overall earnings have been average, growth has been concentrated in defensive sectors, highlighting the fragility of the broader market.

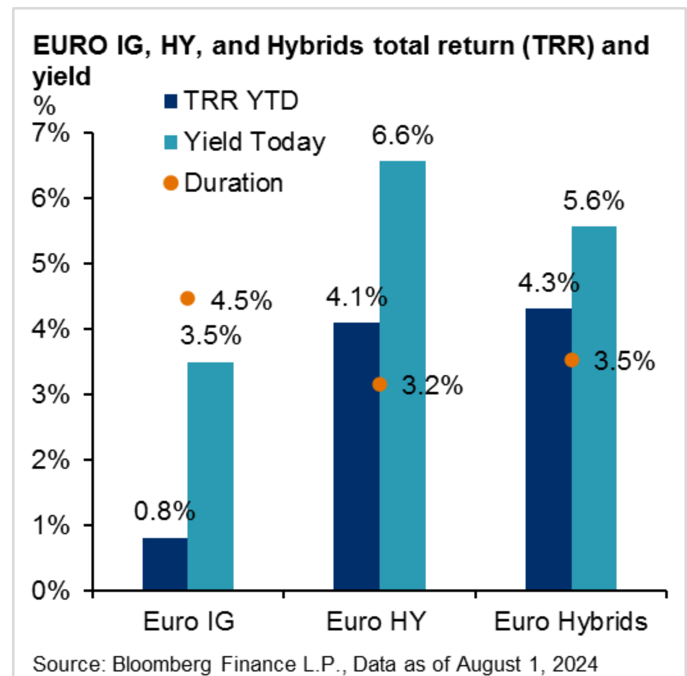
Amid the uncertainty, the value of high-quality fixed income will be a stabilizing force in portfolios. We continue to favor IG over HY, given the overall tightness of spreads and the delicate balance between a soft landing and a more complex economic scenario. Thus, careful credit selection will be crucial.

What we're watching: Corporate Hybrids: High-Yield-Like Returns from Investment Grade Issuers. Corporate hybrids remain our preferred instrument for expressing high-conviction fundamental views on individual credits while potentially achieving high-yield-like returns. When we are constructive on credit fundamentals, we target the segment of the capital structure that has the potential to offer the highest yield without increasing credit risk. Investors can further optimize returns by incorporating prudent leverage. European Banks: European banks continue to present compelling value at both the Senior and Subordinated levels. As expected, Q1 2024 earnings demonstrated robust performance, with Net Interest Margins bolstered by higher interest rates and credit losses remaining muted. The strong capitalization of EU banks reinforces our positive outlook on the sector across the capital structure. Given the sector's favorable conditions, we anticipate some room for valuation compression, as banks continue to offer a substantial yield premium over corporates.

Our view:

EU IG (spread): 125bps by year-end 2024
125bps by mid-25

EU HY (spread): 450bps by year-end 2024
400bps by mid-25



Source: Bloomberg Finance L.P., Data as of August 1, 2024

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Asia Credit

July proved to be another robust month for Asian credit markets, with Asia Investment Grade (IG) appreciating by 1.14% and Asia High Yield (HY) advancing by 1.36%. The majority of these gains were driven by interest rate movements rather than credit spreads, in line with our strategic view to focus on carry. Despite the outperformance of HY, it is noteworthy that it also exhibits the highest global default rate at 2.3% year-to-date, compared to 1.17% for U.S. HY.

In China, significant developments included the third plenum meeting and a 10 basis point reduction in both the deposit and loan prime rates. These measures indicate a continuation of existing policies rather than the initiation of an easing cycle. This policy environment is expected to support State-Owned Enterprises (SOEs) due to favorable onshore borrowing conditions, although spreads remain tight. We find BBB-rated Chinese technology companies particularly attractive, given their stable business environment and average spreads of approximately 120 basis points. Conversely, we remain cautious about the Chinese property sector due to persistent weaknesses in real estate investment and declining home prices.

In India, the government announced its budget for FY2024-25, emphasizing employment, skill development, small and medium enterprises, and the middle class. The budget includes a substantial infrastructure spending plan of approximately USD 133 billion, equivalent to 3.4% of GDP, which we believe bolsters India's growth narrative. We foresee a strong likelihood of an upgrade by S&P (currently BBB- with a positive outlook) over the next two to three years, driven by robust economic growth. We favor short-dated Indian HY credits across the commodity, infrastructure, and renewable sectors.

Overall, our recommendation for Asian credits is to prioritize IG over HY, with a strong emphasis on credit selection. We anticipate Asia IG to potentially deliver stable returns due to technical support, shorter duration, and high carry. Our top picks in Asia IG include Global Systemically Important Banks (G-SIBs) in Asia and Japanese life insurers. In Asia HY, we remain highly selective due to potential defaults but identify opportunities for carry in Indian and Macau gaming credits.

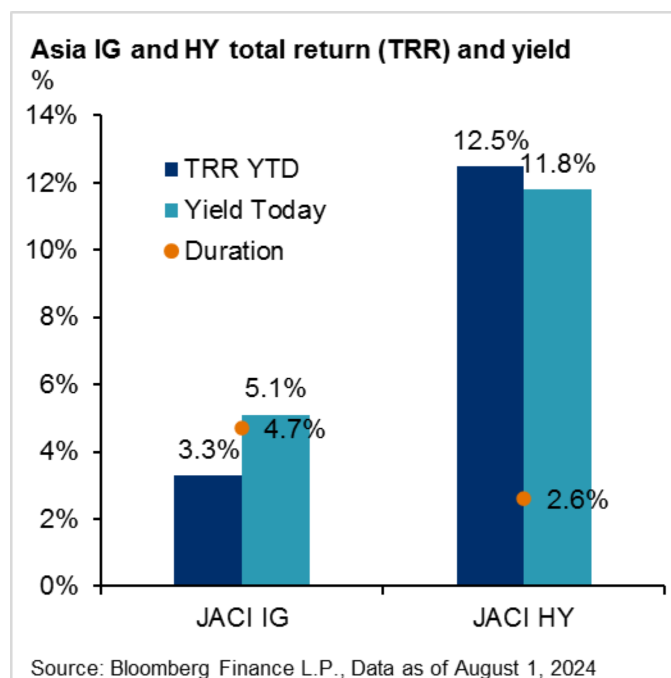
What we're watching: Japan Lifers hybrids: Average rating A, ~5.8% average yield, valuation not expensive, relatively low volatility, good call history. G-SIBs in Asia: Solid IG credit with global business, less US commercial real estate exposure, wide range of selection across tenor and capital structure India Growth: Long-term growth, infrastructure

policy and technical support, search for pockets of value in India High Yield.

Our View:

Asia IG (spread): 125bps by year-end 2024.
110bps by mid-25

Asia HY (spread): 1,200bps by year-end 2024.
1,000bps by mid-25



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EM Credit

As we move past the electoral months of the first half of the year, the emerging markets (EM) complex has shifted its focus. Now, trading is more influenced by the whims of the US economic cycle and rate environment, as well as the potential for a US election that could reintroduce more complex economic policies towards EM countries.

In July, spreads widened modestly, with the EMBI up by 9bps and the CEMBI by 5bps. Despite this movement, both indices remain in what is considered "expensive" territory. We continue to see value in certain Quasi-Sovereigns, where clarity around government support could lead to significant spread compression. In the Sovereign space, rating agencies are beginning to recognize the fundamental improvements in Turkey's credit story, initiating an upgrade trajectory. We see continued value in both the Sovereign and Corporate sectors in Turkey.

Emerging Market Corporates present more relative value as an extended credit play compared to U.S. High Yield, thanks to better fundamentals and higher overall quality—approximately 66% Investment Grade—and a shorter duration profile of around four years.

As elections unfold globally, we acknowledge the electoral risks in the EM space, with over 40 elections worldwide. With Mexico's election now concluded, the primary risk shifts to the U.S. elections in November, which could be the most significant event risk for EM credit over the next six months.

What we're watching: Energy credits: EM continues to have some of the best spread pickup in energy given the overall aversion to the region in a financial conditions tightening cycle. The challenge is Sovereign control of Energy producers limits upside; however, we still see as spreads compensating for these risks. Corporate Hybrids: As with developed world, some of the corporate Hybrids in EM from Investment Grade issuers offer HY-like yields with less cyclical fundamental risk and solid balance sheets. Contrarian trades: sometimes buying the best house in a bad neighborhood can provide above expected returns. We see opportunities in certain Turkey corporates that can potentially offer outsized returns for the quality of the business and strength of the balance sheets.

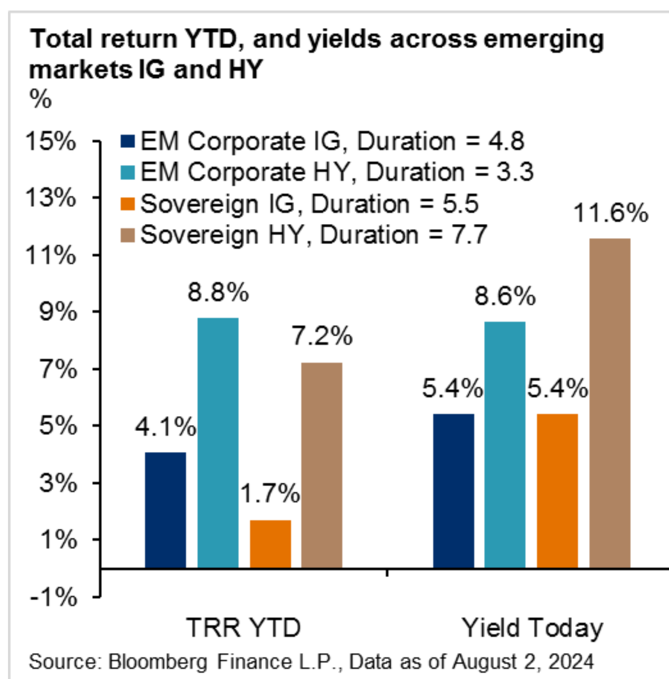
Our view:

EMBI (spread): 350bps (+/- 25bps) by year-end 2024.

325bps by mid-25

CEMBI (spread): 325bps (+/- 25bps) by year-end 2024.

275bps by mid-25.



Source: Bloomberg Finance L.P., Data as of August 2, 2024

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FX VIEWS

US Dollar

Like the LTCMAs, we see the USD eventually unwinding its overvaluation over the medium-term. The question is, "when?". The key ingredients for that to occur, in our view: 1) a strong ex-US growth environment; 2) bullish risk sentiment; and 3) the Fed cutting cycle coming into view.

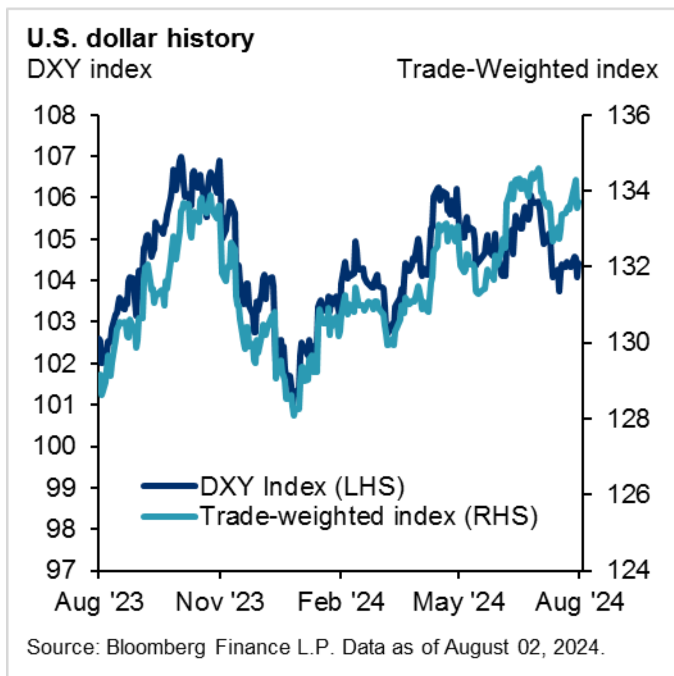
Progress was steadily being made on the first two in H1, though the Fed cutting cycle proved elusive, keeping us bullish USD. Now, just as Fed cuts seem to be on the table for September, the environment ex-US looks less solid given moderating growth indicators and tariff-related risks. After the washout of some of the most subscribed long USD carry trades, positioning also became more favorible.

As a result, we expect the USD to remain supported this year, before potentially unwinding some of its strength in 2025. In the near-term, we view a long USD bias as a positive carry hedge against a variety of tail risks that could challenge broader 60/40 portfolios. And we think the pullback in USD in July provides an opportunity to add to tactical longs against low-yielding, cyclial currencies.

What we're watching: U.S. growth momentum vs. RoW, Fed policy expectations.

Our view: DXY: 106 (104-108) by year-end 2024

103 (101-105) by mid-2025



Source: Bloomberg Finance L.P. Data as of August 02, 2024.

Euro

EURUSD has traded within a 1.06 – 1.10 range over the course of this year. Expectations for the Fed have been re-converging with the ECB after a string of weaker U.S. data. That was supportive for EURUSD in the early stages of July, but a selloff in risk assets and evidence of slowing growth in Europe drove a reversal of that move later in the month.

We see near-term risks skewed to the downside given signs of growth rolling over in the Eurozone. The upcoming U.S. elections and tariff related concerns could also further drag down growth in the region. These risks prompted us to revise down our medium-term outlook. In terms of trajectory, we look for the pair to trade lower over the coming months, before recovering some of those losses in the early part of next year on economic and rate convergence.

What we're watching: Eurozone vs. U.S. growth momentum. Fed vs. ECB policy. Middle East tensions.

Our view: 1.06 (1.04-1.08) by year-end 2024

1.09 (1.07-1.11) by mid-2025

Source: Bloomberg Finance L.P. Data as of August 02, 2024.

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British Pound

Sterling is the only G10 currency to have appreciated against the dollar so far this year. That has been justified by positive carry vs. most peers, resilient UK growth and improved risk sentiment. We expect the evolution of those dynamics to continue to drive the direction of travel for the pound over the course of this year.

Although the Bank of England has cut rates, we think that GBP carry will remain elevated against most European peers this year. That should keep a floor under the pound, particularly with the added boost from political stability at a time of global uncertainty.

We expect that to push GBPUSD toward 1.30 over the next year or so, but it remains vulnerable to a near-term pullback. That is because long positioning in sterling is at extreme levels.

What we're watching: BOE hiking expectations, global growth revisions, equity markets.

Our view: 1.25 (1.23-1.27) by year-end 2024

1.30 (1.28-1.32) by mid-2025

Source: Bloomberg Finance L.P. Data as of August 02, 2024.

Swiss Franc

CHF strengthened 2% on the month, driven by downside surprises in European economic data and the unwind of long USD carry trades across the board.

We see medium term bullish risks emerging in the CHF outlook and revise our outlook accordingly. CHF is negatively correlated with European growth, which looks to be slowing earlier than expected. Potential tariffs on Europe after the US election is also a bullish CHF risk event to consider.

Since Janurary, CHF has been one of our preferred funders for tactical trades for USD-based investors. Given the wide negative carry against USD, the magnitude of cost saving is still attractive for now, especially as SNB continues its easing cycle. That said, given the above mentioned risks, investors should be more entry-level sensitive, and preferrably keep loan tenors short to retain flexibility.

What we're watching: European growth dynamics, broader risk sentiment, Fed policy expectations.

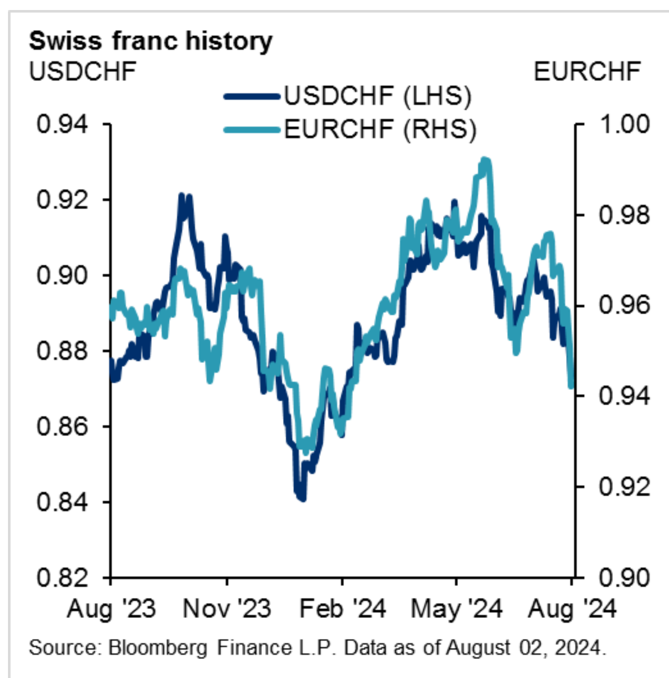
Our view:

USDCHF: 0.90 (0.88-0.92) by year-end 2024

0.87 (0.85-0.89) by mid-2025

EURCHF: 0.95 (0.93-0.97) by year-end 2024

0.95 (0.93-0.97) by mid-2025



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Japanese Yen

A combination of direct FX intervention and a Bank of Japan (BOJ) rate hike drove a sharp reversal lower in USDJPY on the month. We think the surprise hike by BOJ was largely aimed at addressing the "excessive weakness" in yen, signaling that authorities are now managing FX more proactively. It probably means the peak in USDJPY is behind us.

USDJPY had been meaningfully overshooting our model implied fair values since early May. The correction this month brought the pair back to levels more in line with fundamentals. From here, the stability of the JPY carry trade has clearly diminished, which could discourage traders from rebuilding those positions in large scale. Moves in USDJPY may again be determined by the outlook for interest rate differentials between Japan and the US, which historically drives ~80% of moves in the pair.

As the Fed is about to embark on rate cuts, we see moderate downside in USDJPY over the next 12 months. Our outlook still suggests the yen being weaker than FX forwards imply, however. For USD-based investors, the negative carry of holding the yen could be punitive; hedging out yen exposure and earn the carry may still be prudent.

What we're watching: USD yields, Japan inflation, BoJ policy guidance.

Our view: 153 (151-155) by year-end 2024

145 (143-147) by mid-2025

Source: Bloomberg Finance L.P. Data as of August 02, 2024.

Chinese Yuan

USDCNH retreated on the month as CNH benefitted from the global carry trade unwind. We also saw People's Bank of China (PBOC) intervention ramping up, causing spikes in short-tenor CNH interest rates.

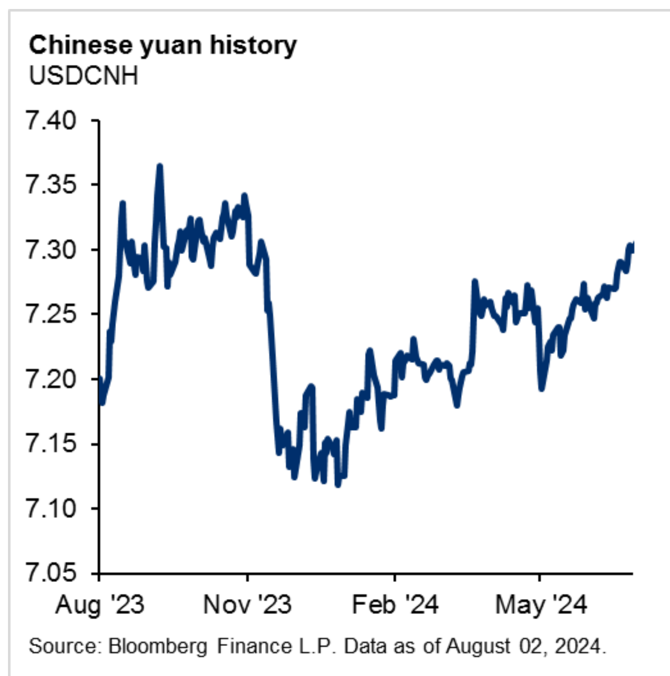
While PBOC measures will likely continue to put a cap on how high USDCNH can go in the near-term, depreciation pressure remains due to several fundamental headwinds: 1) its carry disadvantage against most major currencies, which could become more pronounced should the PBOC deliver more rate cuts or the Fed be priced more hawkishly from here; 2) balance of payments challenges due to subdued capital inflows; and 3) broader concerns over geopolitics, i.e. additional tariffs.

Thus, we think investors should consider hedging long CNH exposure and taking advantage of the carry. In addition, we see a weak CNH as a funding currency to leverage attractive borrowing costs and an opportunity to take advantage of opportunities elsewhere.

What we're watching: US election, China fiscal policy moves, capital flows.

Our view: 7.40 (7.30-7.50) by year-end 2024

7.35 (7.25-7.45) by mid-2025



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G10 Commodity FX

The commodity bloc faces an improved macro backdrop in 2024, with soft landing narratives and commodity prices gaining steam. That said, we would limit longs to those with central banks in the “late cutters” camp for now given uncertainty over the outlook for US yields.

CAD: Bearish. Near-term domestic data flow is diverging from the US, with more disinflation progress being seen north of the border, raising the risks of a dovish BoC pivot.

AUD: Bullish. RBA policy guidance stays hawkish due to sticky inflation. Terms of trade stays robust thanks to commodity price support. Recent reversal in global risk sentiment brought near term downside risks but we think the pullback is temporary. Remain medium term constructive.

NZD: Bearish. While RBNZ’s tones remain hawkish, labor market weakness and continued disinflationary trend could lead to a relatively early start of rate cuts.

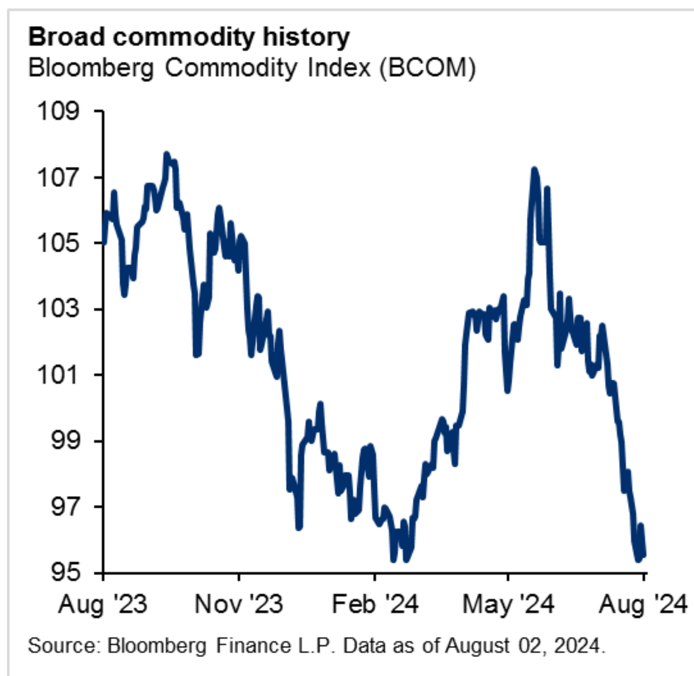
What we’re watching: Commodity prices, global growth outlook, central bank divergence

Our view:*

CAD: 1.36 (1.34-1.38) by year-end 2024

AUD: 0.68 (0.66-0.70) by year-end 2024

NZD: 0.61 (0.59–0.63) by year-end 2024



Source: Bloomberg Finance L.P. Data as of August 02, 2024.

Scandi FX

A more challenging global growth environment is a headwind.

NOK: Bullish. NOK has been supported by a hawkish Norges Bank, rising energy prices and resilient global risk sentiment in recent months. Those dynamics supporting persistent NOK carry through the course of this year make it our preferred high-beta play in G10.

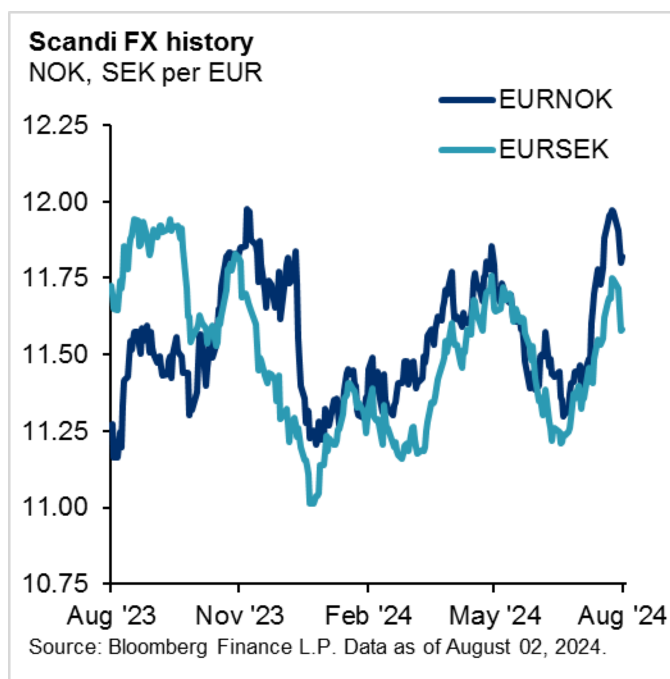
SEK: Neutral. The Riksbank kicked off cuts, and looks likely to cut again in August. That rate divergence with other major central banks will likely act as a near-term headwind for SEK, but we expect a pickup in activity in the manufacturing sector in the second half of the year to provide support further out.

What we’re watching: Commodity prices, global growth outlook, domestic growth, and central bank developments.

Our view:*

EURNOK: 11.00 (10.80–11.20) by year-end 2024

EURSEK: 11.10 (10.90–11.30) by year-end 2024



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* JPM Investment Bank Outlook

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Emerging Market FX

In H1, we favored select Latam FX vs. defensive low-yielders given attractive carry, improving global growth dynamics and a low-volatility environment. But summer saw a very sharp underperformance of these positions given unexpected political developments, which look likely to persist and moves us tactically to the sidelines for now.

Latam: We felt that so long as volatility remained low – which it tends to during global growth upturns – high-carry Latam FX could outperform vs. defensive, low-yielders like CHF and RMB. But election-related developments have seen vol increase and it is unlikely to revert lower in the near-term. **BRL:** A sharp increase in political noise and concerns around the fiscal situation of Brazil are likely to pose significant headwinds for the foreseeable future. We are neutral. **MXN:** MXN's pillar of support – attractive carry-to-vol – was shattered by the unexpected electoral outcome in June. We expect to see some normalization ahead, but think volatility will remain elevated as the U.S. election campaign ramps up.

EMEA: We are neutral on this part of the complex. **ILS:** The shekel has unwound all of the sell-off seen at the outbreak of the Israel-Hamas war. Market participants appear to respect the willingness and ability of the Bank of Israel to defend the currency, and there has been a lack of broader regional escalation. It takes a lot for the currency to meaningfully weaken from here, but it still makes sense to hedge against tail risks, given reasonable pricing of options.

Asia: Pressure remains on EM Asia from upside risks in energy prices and slowing global growth momentum. **INR**: Constructive on carry advantage and healthy growth outlook. **TWD:** Bearish bias on negative carry, sensitivity to China risks and geopolitical overhang. **SGD:** Neutral against USD and constructive against the basket. The Monetary Authority of Singapore (MAS) is expected to follow Fed policies.

What we're watching: Overall risk sentiment, global trade outlook, central bank divergence.

Our view:*

BRL: 5.20 (5.00–5.40) by year-end 2024

MXN: 17.75 (17.55–17.95) by year-end 2024

ILS: 3.50 (3.30–3.70) by year-end 2024

INR: 83.80 (82.80 – 84.80) by year-end 2024

TWD: 32.40 (31.90–32.90) year-end 2024

SGD: 1.36 (1.34–1.38) by year-end 2024

Source: Bloomberg Finance L.P. Data as of August 02, 2024.

*JPM Investment Bank Outlook

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COMMODITY VIEWS

BCOM Index

Commodities had a dire month losing -4.5% on a combination of factors. De-risking in general was a theme for July, a shift in the US election outlook and a disappointing Chinese policy response to a slower 2Q, also served to undermine the asset class. We wrote last month that our J.P. Morgan Investment Bank recommended buying the index, looking for a 10% appreciation by year-end and that this seemed optimistic to us. That advice was clearly sound, but now we feel the liquidation has been large enough to get our attention. Outflows have been large enough to take us towards the years lows, and we find these reversals compelling. We would be willing to think about dipping our toes in at these levels with BCOM trading at 95.5 as of August 1, 2024. Not a full position for now, and we like buying more on a dip. The biggest loser was again Nat Gas -17.5% followed by Soybeans -11.2% and Wheat -7.5%. Winners were few with Gold +5%, Cattle +2% and Coffee +1%.

What we're watching: We think investors should consider buying a small position here on widespread liquidation.

Our view: 105.5-107.5 by year-end 2024

105.5-107.5 by mid-25

Source: Bloomberg Finance L.P. Data as of August 01, 2024.

Gold

Gold advanced in July, making a new historical high at $2,469 and notching a 5% gain. It is now +18% YTD with more to come in our opinion. The main drivers seem to be more physical buying, likely Central Banks, as futures and financial traders were seen liquidating positions. Central Banks report with a lag, so we will wait for more information in a few months. Gains at the end of the month were driven by increasing tension in the Middle East. We have also seen the return of retail buyers with the first recorded material increase since April 2023. Positioning increased by 1.78%, which is still small, but we are encouraged that these investors are returning to the metal.

What we're watching: We continue to like buying gold on dips and all technical indicators look strong.

Our view: $2,700-$2,800 by year-end 2024

$2,700-$2,800 by mid-25

Source: Bloomberg Finance L.P. Data as of August 01, 2024.

All outlook estimates represent the midpoint of our range. Rates have a +/-25bps range, and all other outlooks are within the range that is provided. **Estimates, forecasts and comparisons are for illustrative purposes and are as of the dates stated in the material.** Please refer to "Definition of Indices and Terms" for important information. **Outlooks and past performance are no guarantee of future results and investors may get back less than the amount invested.** It is not possible to invest directly in an index.

Crude Oil

Crude oil had a bad month losing -6.8% across the two main benchmarks. Risk off sentiment in equity markets and more election uncertainty in the US appear to have unnerved oil traders. With regard specifically to Trump oil policy, he seems to be calling for an additional 3mbd of oil production to drive prices down below $50. This is by any measure, an impossible feat, as US oil has real break-evens unlike sovereign producers. This constraint renders US oil production increases to be price dependent and certainly below $60 is very unlikely with a futures curve in backwardation. Lenders require high levels of forward hedging, so backwardation makes this even more price dependent. We could see a potential for the Trump White House to persuade Saudi Arabia to bring back 1.5 to 1.8mbd quickly, but this will be very conditional. Price weakness seems misplaced here and demand numbers are good for July, rising 1.4mbd, after a slow start to the year. Gasoline demand in the US remains strong, above 9mbd and jet fuel demand is also seeing good strength to a global post-pandemic high. Diesel demand is softer, and we look for stabilization to emerge in the next month or so.

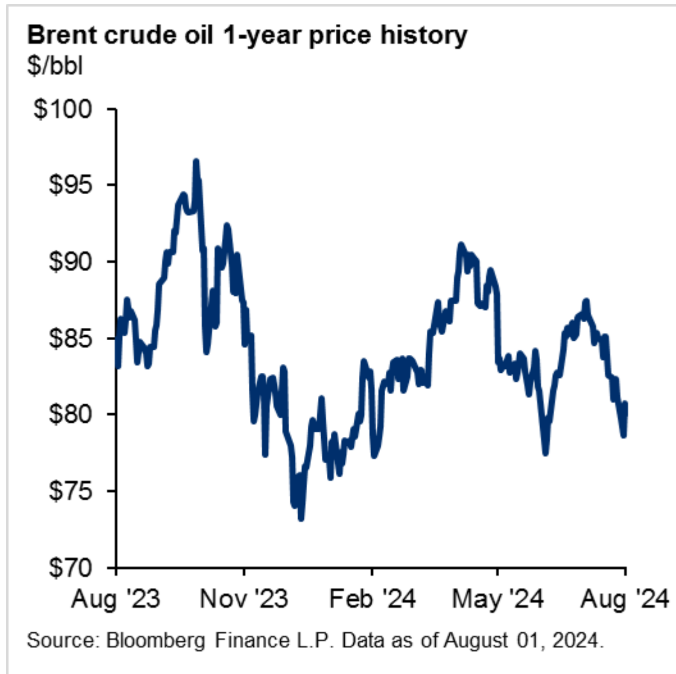
What we're watching: In the face of solid demand, we are surprised by the price action. We would look to buy for a short-term trade but do not expect a lot from the upside.

Our view: Brent: $81-$86 by year-end 2024

$81-$86 by mid-25

WTI: $77-$82 by year-end 2024

$77-$82 by mid-25



Source: Bloomberg Finance L.P. Data as of August 01, 2024.

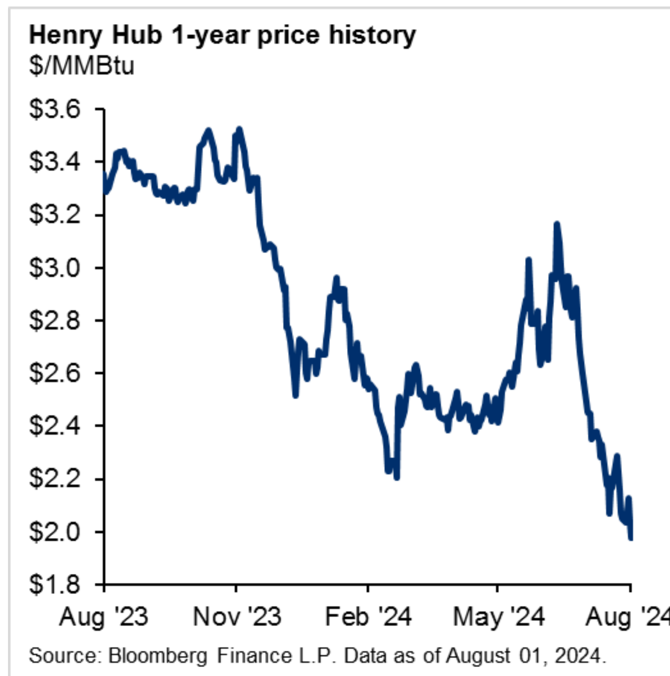
Natural gas

The carnage in Natural Gas is breathtaking. Prices dropped -17.5% in July alone and the selloff since mid-June is now -37%. We have written before that the commodity is not investable and these recent moves prove our point. Only the most resilient of investors can stomach this type of volatility. Drivers appear to be increases in production, high inventories, well behaved US weather and frustrated investors who had been buying the data center story. It is very difficult to craft a strategy here, although the curve remains steep enough to validate our end of year and year -ahead price outlook.

What we're watching: Hurricane season is around the corner. We are watching the weather forecasts closely.

Our view: $3.50-$4.50 by year-end 2024

$3.30-$4.30 by mid-25



Source: Bloomberg Finance L.P. Data as of August 01, 2024.

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Agricultural commodities

Corn and Wheat struggled again in July, losing -3.7% and -7.5% respectively. We had been looking for drier weather conditions to impact supply, but this failed to materialize over the month. We are at a loss to explain the magnitude of the declines this month and can only surmise this is due to continued liquidation as weakness in other agricultural markets leads to outflows from the sector.

What we're watching: Weather

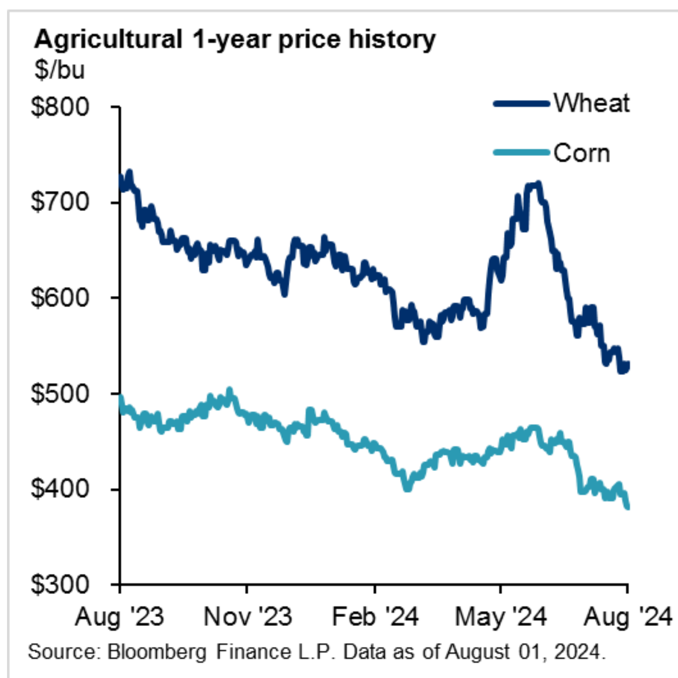
Our view:

Corn: 500-600cts by year-end 2024

500-600cts by mid-25

Wheat: 650-750cts by year-end 2024

650-750cts by mid-25



Source: Bloomberg Finance L.P. Data as of August 01, 2024.

Copper

We rolled out copper targets last month and wrote that it was time to think about buying. As sure as eggs are eggs, the price responded by dropping -4% in July. However, we still like the trade and our advice had been to use structures with 15% barriers. These are all intact and our preferred method of implementation. Chinese demand seems to be creeping back into the market, and the main culprit of the weak price action seems to be heavy liquidation from speculative buyers who had been very active in May and June. As these weaker hands liquidate, our confidence rises, and we would advise clients to consider buying at these discounted price points. Nothing has changed in our supply/demand balances outlined in July.

What we're watching: Clues on supply disruptions and power upgrades could be key going forward.

Our view: $11,000 - $11,250 by year-end 2025

$11,000 - $11,250 by mid- 2025

Source: Bloomberg Finance L.P. Data as of August 01, 2024.

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DEFINITIONS OF INDICES AND TERMS

Currencies and Central Banks

- USD – US dollar
- DXY – U.S. Dollar Index indicates the general initial value of the USD. The index measures this by averaging the exchange rates between the USD and major world currencies.
- EUR – Euro
- JPY – Japanese yen
- GBP – British pound
- CHF – Swiss franc
- CAD – Canadian dollar
- AUD – Australian dollar
- NOK – Norwegian krone
- MXN – Mexican peso
- BRL – Brazilian real
- CNH – Offshore deliverable renminbi
- CNY– Onshore non-deliverable renminbi
- RMB – Chinese renminbi
- KRW – Korean won
- INR – Indian rupee
- SGD – Singapore dollar
- SEK – Swedish krona
- XAU – Gold
- RUB – Russian ruble
- TRY – Turkish lira
- BCB – Central Bank of Brazil
- BoC – Bank of Canada
- BoE – Bank of England
- BOJ – Bank of Japan
- CBR – Central Bank of Russia
- CBRT – Central Bank of the Republic of Turkey
- CBRA – Central Bank of the Republic of Argentina
- ECB – European Central Bank
- Fed – Federal Reserve
- SNB – Swiss National Bank

Additional abbreviations

- Bbl – Barrel
- Bps – Basis points
- Bcf – Billion cubic feet
- BoP – Balance of Payments
- BTP – Italian government bonds
- Bund – German government bonds
- CFTC – Commodity Futures Trading Commission
- COVID-19 – Coronavirus disease 2019
- DM – Developed Markets
- EM – Emerging Markets
- EMEA – Europe, Middle East and Africa
- FDI – Foreign Direct Investment
- FX – Foreign Exchange
- G10 – The Group of Ten is made up of 11 industrial countries that consult and cooperate on economic, monetary and financial matters
- GDP – Gross Domestic Product
- HY – High yield
- IG – Investment grade
- JGB – Japan government bond
- LATAM – Latin America
- OPEC – Organisation of the Petroleum Exporting Countries
- Oz. – Ounce
- REER – Real Effective Exchange Rate
- SPX – S&P 500
- UK – United Kingdom
- UST – U.S. Treasury note
- WTI – Western Texas Intermediate
- YTD – Year-to-date

Note: Indices are for illustrative purposes only, are not investment products, and may not be considered for direct investment. Indices are an inherently weak predictive or comparative tool.
All indices denominated in U.S. dollars unless noted otherwise.

The **Bloomberg Commodity Index (BCOM)** is calculated on an excess return basis and reflects commodity futures price movements. The index rebalances annually weighted 2/3 by trading volume and 1/3 by world production and weight-caps are applied at the commodity, sector and group level for diversification. Roll period typically occurs from 6th-10th business day based on the roll schedule.

The **Bloomberg US Agg Index** is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

The **JPM Corporate Emerging Market Bond Index (CEMBI)** series was launched in 2007 and was the first comprehensive USD corporate emerging markets bond index. There are two root versions of the CEMBI with a Diversified overlay for each version: the CEMBI and the CEMBI Broad. The CEMBI Broad Diversified version is the most popular among the four versions largely due to its issuer coverage and diversification weighting scheme.

The **CSI 300 Index** is a free-float weighted index that consists of 300 A-share stocks listed on the Shanghai or Shenzhen Stock Exchanges. Index has a base level of 1000 on 12/31/2004. * Due to our agreement with CSI, shares in the index is restricted, please visit SSIS<go> for more information and access. This ticker holds prices fed from Shenzhen Stock Exchange.

The Citi **Economic Surprise Indices** measure data surprises relative to market expectations. A positive reading means that data releases have been stronger than expected and a negative reading means that data releases have been worse than expected.

The **Emerging Market Bond Index Global (EMBI Global)** was the first comprehensive EM sovereign index in the market, after the EMBI+. It provides full coverage of the EM asset class with representative countries, investable instruments (sovereign and quasi-sovereign), and transparent rules. The EMBI Global includes only USD-denominated emerging markets sovereign bonds and uses a traditional, market capitalization weighted method for country allocation.

The **J.P. Morgan Asia Credit Index (JACI)** aids in evaluating investment opportunities in fixed rate USD denominated bonds issued in Asia ex Japan region. It follows a traditional market capitalization technique similar to the EMBI and the CEMBI Index series.

The **MSCI All World Index** is a free-float weighted equity index. It was developed with a base value of 100 as of December 31, 1987. MXWD includes both emerging and developed world markets.

The **MSCI AC Asia ex Japan Index** captures large and mid-cap representation across two of three Developed Markets countries (excluding Japan) and eight Emerging Markets countries in Asia. With 609 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. Developed Markets countries in the index include: Hong Kong and Singapore. Emerging Markets countries include: China, India, Indonesia, Korea, Malaysia, the Philippines, Taiwan and Thailand.

The **MSCI China Index** is a free-float weighted equity index. It was developed with a base value of 100 as of December 31, 1992. This index is priced in HKD. Please refer to M3CN Index for USD.

MSCI AC ASEAN Index (former: MSCI South East Asia Index) captures large and mid-cap representation across 4 Emerging Markets countries and 1 Developed Market country.

The **MSCI India Index** is a free-float weighted equity index. It was developed with a base value of 100 as of December 31 1992.

The **MSCI World Index** is a free float-adjusted spx market capitalization weighted index that is designed to measure the equity market performance of developed markets. The index consists of 23 developed market country indexes.

The **Nikkei**-225 Stock Average is a price-weighted average of 225 top-rated Japanese companies listed in the First Section of the Tokyo Stock Exchange. The Nikkei Stock Average was first published on May 16, 1949, where the average price was ¥176.21 with a divisor of 225. *We are using official divisor for this index

The **Russell 2000 Index** is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market

capitalization. The real-time value is calculated with a base value of 135.00 as of December 31, 1986. The end-of-day value is calculated with a base value of 100.00 as of December 29, 1978.

Standard and Poor's Midcap 400 Index is a capitalization-weighted index which measures the performance of the mid-range sector of the U.S. stock market. The index was developed with a base level of 100 as of December 31, 1990. See MDY US Equity <GO> for the tradeable equivalent.

The **Standard and Poor’s 500 Index** is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. The index was developed with a base level of 10 for the 1941–43 base period.

The EURO **STOXX 50 Index**, Europe's leading blue-chip index for the Eurozone, provides a blue-chip representation of supersector leaders in the region. The index covers 50 stocks from 11 Eurozone countries. The index is licensed to financial institutions to serve as an underlying for a wide range of investment products such as exchange-traded funds (ETFs), futures, options and structured products.

The **STOXX Europe 600 Index (SXXP Index):** An index tracking 600 publicly traded companies based in one of 18 EU countries. The index includes small cap, medium cap, and large cap companies. The countries represented in the index are Austria, Belgium, Denmark, Finland, France, Germany, Greece, Holland, Iceland, Ireland, Italy, Luxembourg, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom.

TOPIX, also known as the Tokyo Stock Price Index, is a capitalization-weighted index of all companies listed on the First Section of the Tokyo Stock Exchange.

JPMAM Long-Term Capital Market Assumptions

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