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.

July 2024

TABLE OF CONTENTS

KEY TAKEAWAYS

- **Respect, don't fear, the S&P 500 surge.** After an exceedingly strong bull market run, investors are citing narrow breadth, market cap concentration, and low single-stock correlations as reasons to turn more cautious. The evidence is mixed. We expect new S&P 500 all-time highs by mid-2025, but we are already near our year-end 2024 outlook for the index. Consider using structured notes to stay invested or get invested.

- **More reasons to move out of cash.** The macroeconomic risk pendulum is swinging away from inflation upside risks toward our highly anticipated soft landing. The case for moving out of cash and into longer-duration bonds is strengthening. Most fixed income yields are above cash rates, so lock in yield.

- **Time to add CRE exposure.** The relentless headlines suggest things will get worse in commercial real estate (CRE). We disagree. After the recent drawdown, we believe investors should be adding CRE exposure. Our soft-landing base case should support net operating income growth, and lower interest rates should ease the burden of leverage. That said, dispersion remains high across asset types, locations, and asset quality, creating good opportunities for top managers.

- **Election uncertainty on the rise.** Election season is underway, and uncertainty about the post-election landscape is increasing, even if common proxies for uncertainty (such as implied market volatility) are not**.** Historically, elections have not had a lasting impact on equity markets, but you'd be forgiven if you thought this time might be different. The first U.S. Presidential debate of the cycle sparked intense reactions. You may consider adding exposure to policy-sensitive sectors such as energy and supply chain security, where significant capital investment is likely. Worried about a rising fiscal deficit? Make sure your investments are tax efficient and globally diversified.

OUR HIGH-CONVICTION TACTICAL INVESTMENT IDEAS INCLUDE:

EQUITIES

Broadening global equity performance. We expect Europe, U.S. mid-caps, and Japan to outperform the S&P 500 index into year-end.

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

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 Treasury rates by mid-2025. For U.S. taxpayers, municipal bonds appear attractive relative to investment grade bonds where spreads are near historic tights.

High-quality bank preferreds and private credit. High absolute yields and the best risk-reward in extended credit.

Gold. We look for high-teens returns into year-end 2024.

OPPORTUNISTIC TRENDS

Artificial intelligence. Global security and infrastructure. Private credit. And commercial real estate opportunities. Powerful forces will 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

The serene S&P 500 surge; respect it, don't fear it. Halfway through 2024, the S&P 500 and Nasdaq are up 15% and 17% respectively. In June, the S&P 500 climbed nearly 4%, and daily fluctuations averaged a mere 32 basis points—the calmest trading period since November 2019.[1]

Why it matters: After an exceedingly strong bull market run, investors are citing three market internals as a reason to turn more cautious - the evidence is mixed.

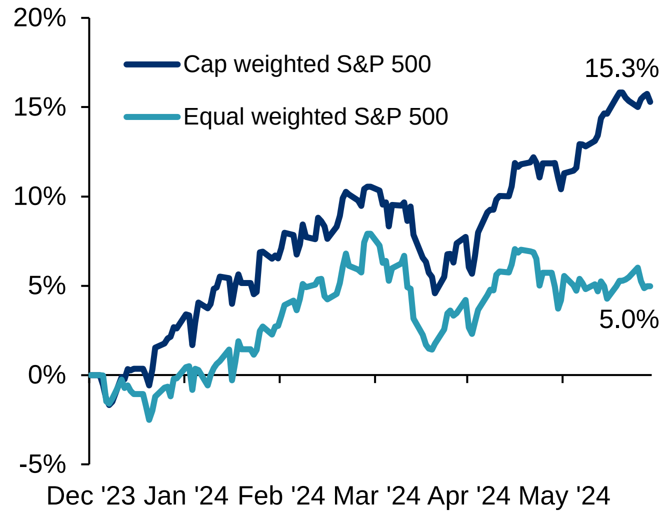
1) ***"Few stocks are participating in this rally".*** While the S&P 500 is up 15% YTD, the equal weight index is up just 5%; most of the divergence has occurred in the last 2 months (Figure 1). Market breadth as measured by the relative distance from their respective 52-week highs of the S&P 500 index and the median stock confirms that leadership is narrowing (Figure 2). Historically, median returns lagged historic averages following sharp declines in breadth (Figure 3). Reason to be cautious.

2) ***"Market capitalization (cap) is concentrated in the top names"***. Market cap concentration is not unique to the U.S. Most global jurisdictions have more concentration in the top 10 stocks than the S&P 500 (Figure 4). Earnings contribution from the top 10 companies now makes up ~26% of the S&P 500 index earnings, a new high outside of recessionary periods. Profitable companies are leading the charge. Not a reason to be cautious.

3) ***"The correlations of individual stocks are low, suggesting heavy reliance on a few stocks to drive S&P 500 index returns".*** The average 180-day pairwise correlation of the top 100 stocks in the S&P 500 is near the lows of the last decade (Figure 5). Over that small sample any increase in correlation has been associated with an S&P 500 drawdown, but it's easy to imagine that participation broadens in a soft-landing and drives single stock correlations up. **A strong case for active management, unclear if it's a reason to be cautious.**

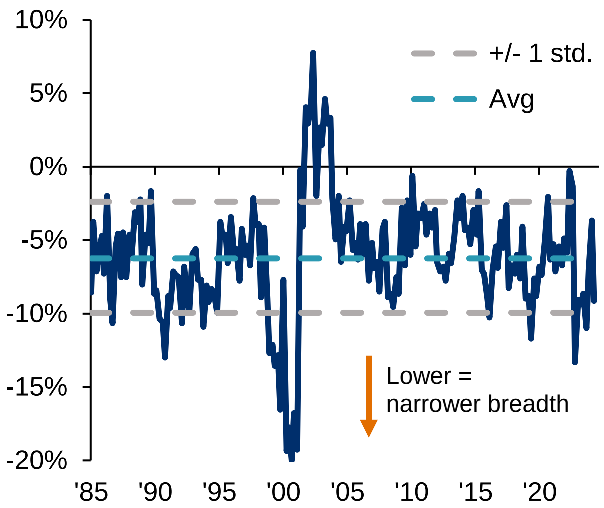
Bottom line: No changes to our equity outlook this month. The S&P 500 is near our year end 2024 price outlook of $5,550 and we continue to expect new S&P 500 all-time highs by mid-2025, but we are expecting a bumpy ride into year-end (it's a [Strong economy in a fragile world]() after all). Consider using structured notes to stay invested or get invested.

Figure 1: Big outperformance of the S&P 500 over the equal weighted S&P 500 of late
Total return since December 29, 2023



Source: Bloomberg Finance L.P. Data as of June 28, 2024.

Figure 2: Market breadth is narrowing
Percent below 52 week high: S&P 500 vs. median stock



Source: Goldman Sachs. Data as of June 28, 2024.

[1] Source: Bloomberg Finance L.P. Data as of June 27, 2024.

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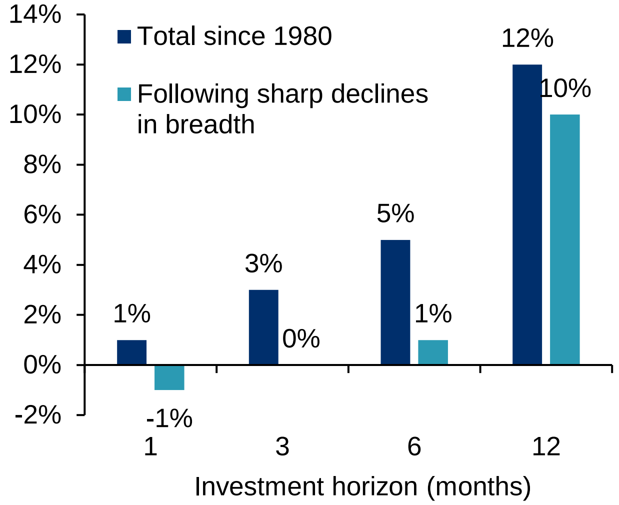
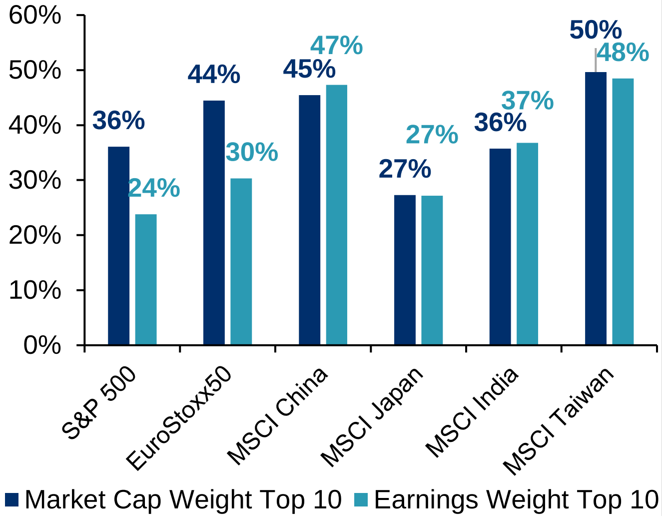
Figure 3: Median returns have lagged historic averages following sharp declines in breadth
S&P 500 median returns



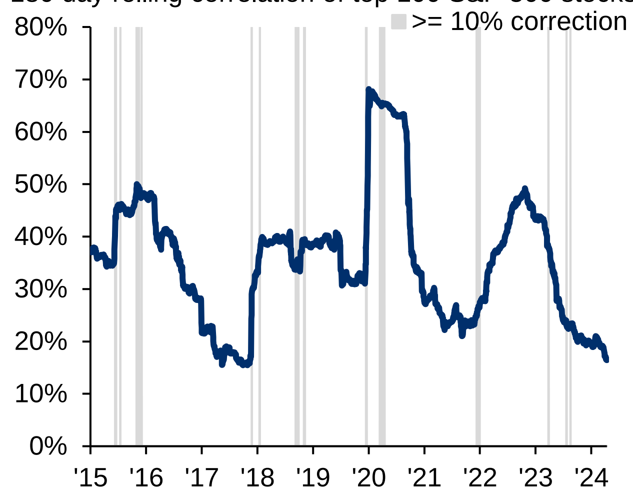
Source: Goldman Sachs. Data as of June 28, 2024.

Figure 4: Most global indices have concentration in the top 10 stocks
Weight



Source: Bloomberg Finance L.P. Data as of June 28, 2024.

Figure 5: The average 180-day pairwise correlation of the top 100 S&P 500 stocks is near the lows of the last decade
180 day rolling correlation of top 100 S&P 500 stocks



Source: Bloomberg Finance L.P. Data as of June 27, 2024.

The macroeconomic risk pendulum swings. Core PCE inflation printed 0.1% on a month over month (MoM) basis in May, the lowest MoM reading since November 2023.

Why it matters: The case for Fed rate cuts is coming into focus as inflation upside risks fade and the growth slowdown progresses.

1) ***Inflation risks continue to abate***. Year over year core PCE inflation is now 2.6%, its lowest level since early 2021. 3-month annualized inflation continues to fall as well and is further evidence that Q1 was just a bump in the disinflation path (Figure 6).

2) ***The growth slowdown is progressing***. After six quarters of underappreciating GDP growth, Q1 GDP met economists' sub-trend growth expectations (Figure 7). The Citi Economic Surprise Index is at its lowest level since mid-2022 (Figure 8). Interest rate sensitive sectors like housing and capital expenditures continue to see restrictive policy at work. Building permits have declined to their lowest level of the cycle, while equipment capex has stalled (Figures 9 and 10).

Bottom line: The macroeconomic pendulum is swinging away from inflation upside risks, towards our highly anticipated soft landing. We continue to expect growth to slow to 1.75% by year end 2024.

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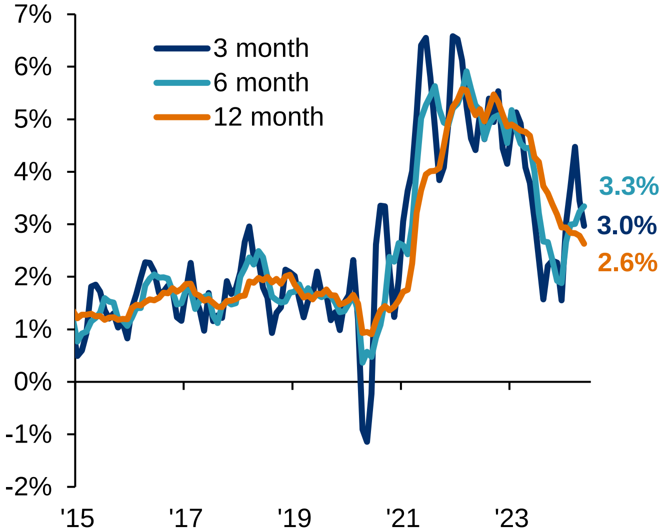
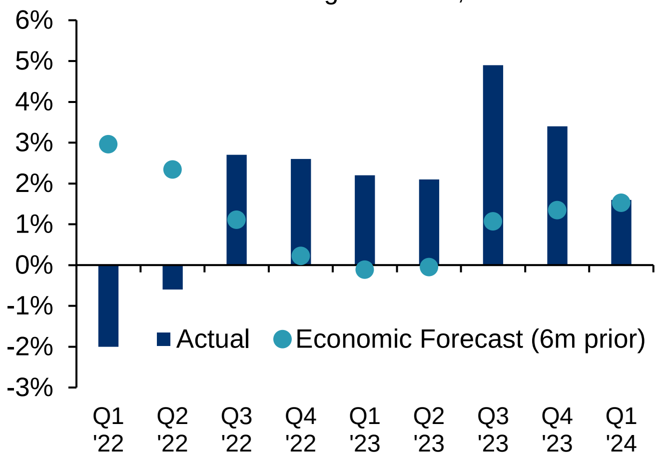
The case for moving out of cash and into longer duration bonds is strengthening. We still expect the first rate cut at the December FOMC meeting (with quarterly rate cuts thereafter), but a first rate cut happening in September is on the table. Most fixed income yields are above cash rates. There are opportunities across the fixed income spectrum, particularly in munis where ratios to Treasuries remain above 60% (Figure 11).

Figure 6: 3 cuts of Core PCE
Core PCE price 3, 6, 12 month % annualized



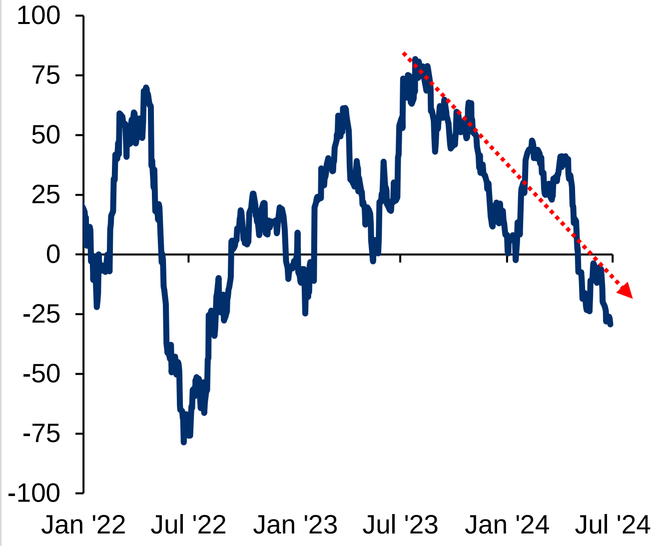
Source: Haver Analytics. Data as of May 31, 2024.

Figure 7: After underestimating growth for 6 quarters, Q1 GDP met economist expectations
U.S. real GDP annualized growth rate, %



Note: Forecasts are two quarters ahead from the Survey of Professional Forecasters.
Sources: BEA, FRBPHI, Haver Analytics. Data as of June 28, 2024.

Figure 8: Economic data have under-delivered
Citi Economic Surprise Index



Source: Citi. Data as of June 27, 2024.

Figure 9: Building permits hit a cycle low in May
Total building permits, mn SAAR

Source: Census Bureau. Data as of May 31, 2024.

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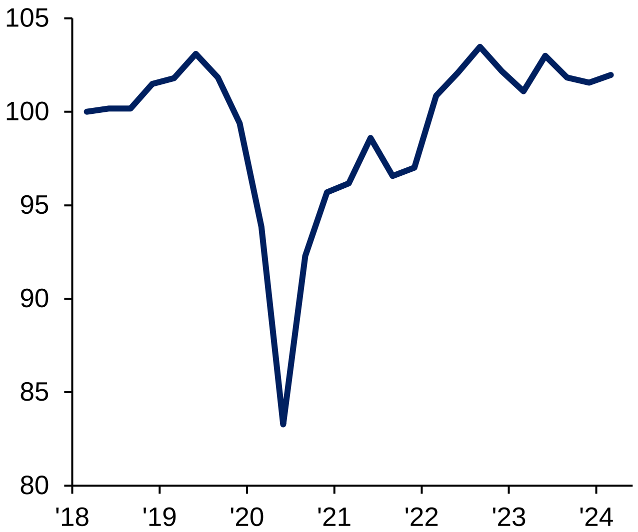
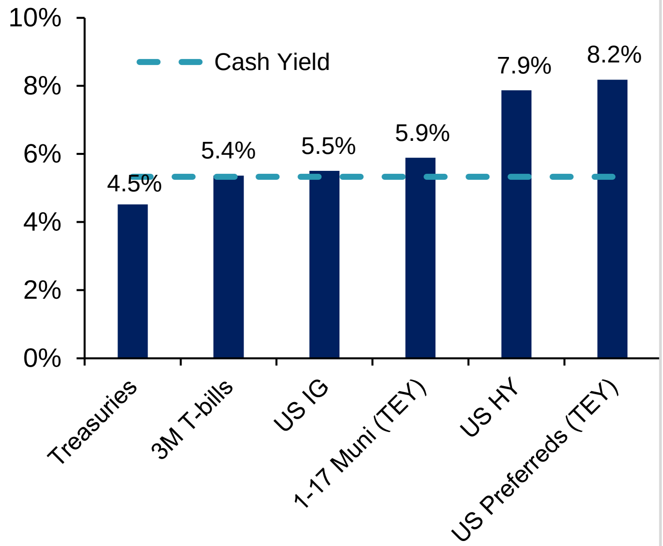
Figure 10: Real capex on equipment has stalled
Real capex equipment, index 1Q 2018 = 100



Source: Bureau of Economic Analysis. Data as of March 31, 2024.

Figure 11: IG and Munis broadly outyield cash
Yield, %



Source: Bloomberg Finance L.P. Data as of June 28, 2024.

The Big Bad Commercial Real Estate (CRE) headlines. They are endless; from “the end of office” to “the second largest correction in the history of CRE data” (Figure 12).

Why it matters: The headlines suggest things will get worse in CRE. We disagree. After the recent drawdown, we believe investors should be adding CRE exposure. Here’s why:

1) ***This is a unique CRE drawdown***. Unlike prior CRE drawdowns, cashflows are resilient while valuations have declined (Figure 13). Cashflows, the Net Operating Income (NOI), for CRE are being supported by a low unemployment rate (~4%) and near-record low CRE vacancies (~5%) (Figure 14). Meanwhile, the valuation is being challenged by high interest rates that make financing more costly and some new projects unviable. In fact, office, industrial, and retail construction starts have plummeted by 75% since their highs in 2022 (Figure 15). The lack of supply today, suggests more property owner pricing power in the future.

2) ***CRE is not a monolith***: There is wide dispersion across asset type, geography, and asset quality. Cap-rates (NOI divided by property value), market convention for comparing valuations, are showing massive dispersion across asset types (Figure 16). A strong case for active management in a sector that sees wide REIT manager dispersion (Figure 17).

3) ***Non-Listed REITs are no longer “mismarked”***. We created a proxy of a well-known non-listed REIT portfolio by matching its asset class exposures to listed REIT equivalents. Counter to the headlines, the stated cap rate on the non-listed REIT is now equivalent to the listed proxy (Figure 18). It is true that non-listed REIT valuations were slow to catch up to the listed-REIT proxy, but that catch up is complete.

Bottom line: We think we are near the bottom in CRE performance. We anticipate a soft landing for the U.S. economy, which supports NOI growth and lower interest rates that ease the burden of leverage. We are constructive on the outlook for CRE, but dispersion is high. This is a good opportunity for a top manager who can navigate the diverse landscape of asset types, locations, and asset quality.

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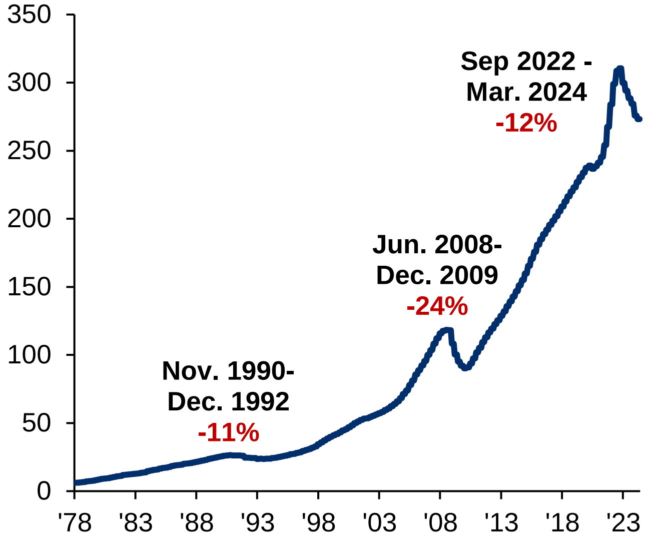
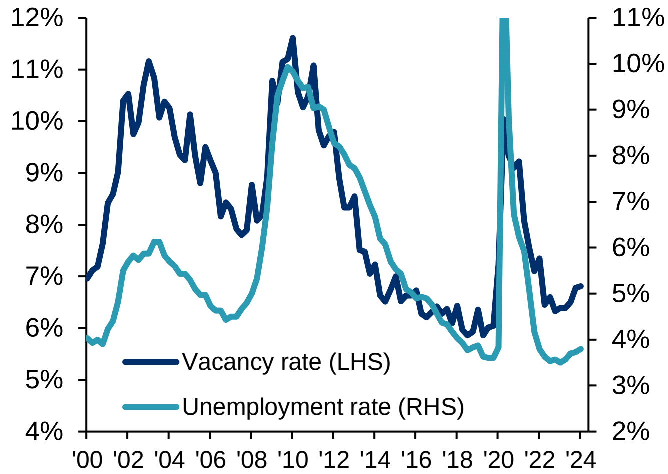
Figure 12: Commercial real estate property prices
Price level, 2006=100



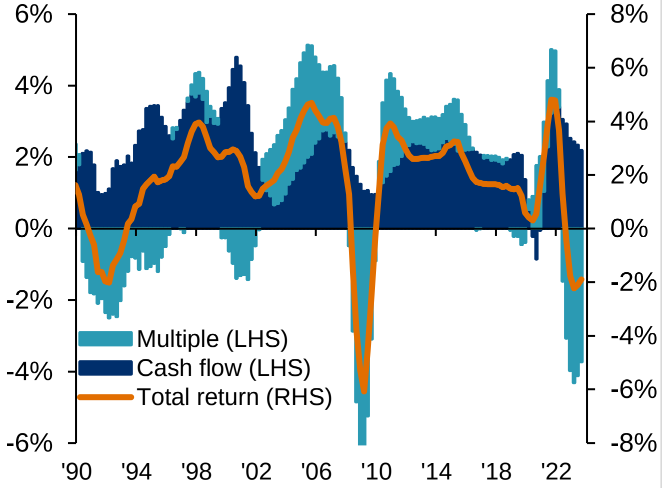
Sources: NCREIF, Bloomberg Finance L.P. Data as of March 31, 2024.

Figure 14: Aggregate CRE vacancy rates are low thanks to a healthy labor market
Vacancy rate, % Unemployment rate, %



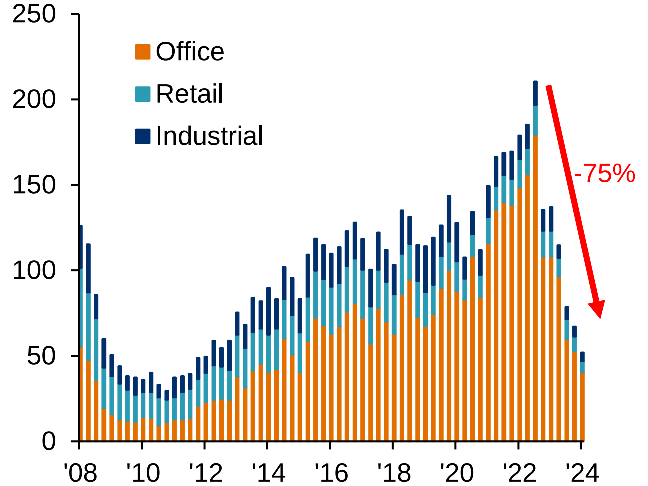
Sources: Bloomberg Finance L.P, NAREIT. Data as of March 31, 2024.

Figure 13: Real estate returns turn negative because of multiples not cash flows
Multiple/cash flow Total return, %



Note: Average quarterly return, trailing 12 months. Cashflow = net operating income; multiple = cap rate change. Source: NCREIF. Data as of March 31, 2024.

Figure 15: New construction in CRE down 75% since highs
Construction starts, millions of square feet



Sources: Wells Fargo, CoStar Inc. Data as of May 31, 2024.

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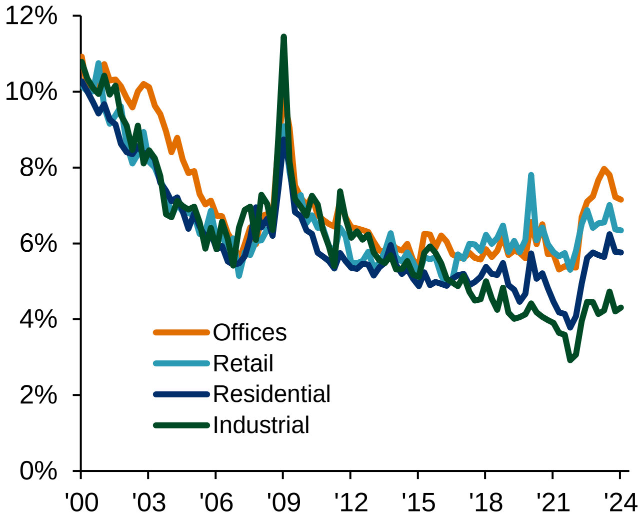
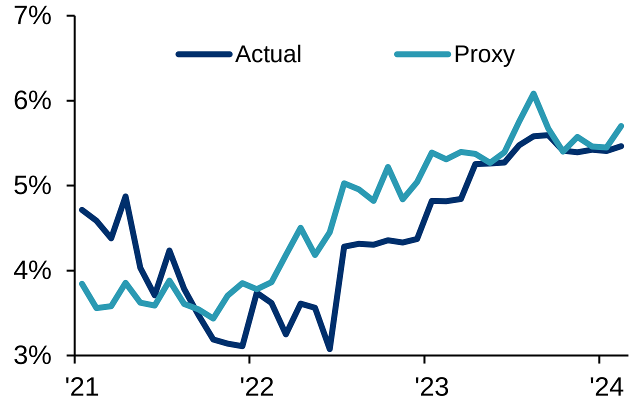
Figure 16: Widening dispersion in cap rates
Implied cap rate, %



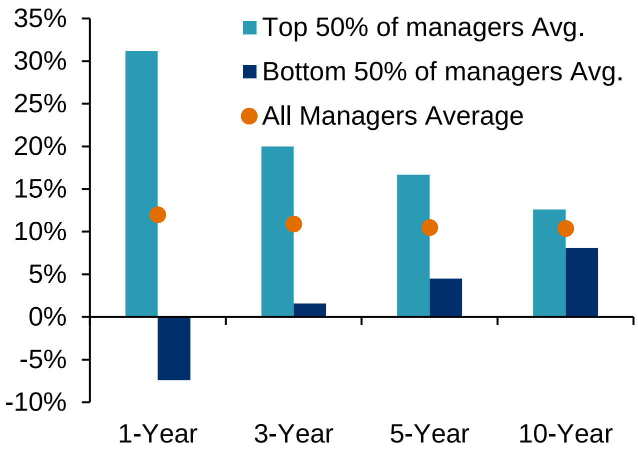
Sources: Bloomberg Finance L.P, NAREIT. Data as of March 31, 2024.

Figure 18: The valuation gap between a large non listed REIT and its listed market proxy is gone
Cap rate, %



Note: Proxy created through a weighted average cap rate of listed REITs with the same asset class exposures. There are no proxies for student or affordable housing (~20% of the exposure) which were instead proxied by residential housing. Weights are based on % of rental income. NOI is from public filings. 17 listed REITs used.
Sources: J.P. Morgan, Wolfe Research. Data as of April 30, 2024.

Figure 17: Wide divergence in listed REIT manager performance
%, Total return



Note: Rolling total return analysis for listed REIT managers as proxied by FTSE NAREIT All Equity REITS from 1989.
Sources: Cohen & Steers, Bloomberg Finance l.P., NCREIF. Data as of March 28, 2024.

Election season is underway, and uncertainty is rising. Voting has begun in France after President Macron called snap elections in early June – early reports suggest strong turnout for the far-right party. After the first U.S. Presidential debate on Thursday, the betting odds for President Biden's re-election have fallen below the combined odds for all other candidates, excluding President Trump (Figure 19).

Why it matters: Uncertainty is rising, even if common measures of uncertainty are not rising (Figure 20). Historically, elections have not had a lasting impact on equity markets, but you'd be forgiven if you thought this time might be different. Here is what we heard in the U.S. Presidential debate on topics relevant to macro and markets:

1) ***Industrial policy***. Both candidates focused on securing critical industries for the United States such as manufacturing, defense, and energy. JP Morgan Investment Bank estimates that the IRA and CHIPS Act have stimulated close to one-half trillion dollars in announced investments in semiconductor and clean tech manufacturing facilities.[2] Fiscal policy has supported manufacturing capex despite Fed rate hikes (Figure 21).

[2] Feroli. June 28, 2024. *US: Economic policy implications of the election.*

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While Biden is committed to renewables, Trump favors all forms of energy. New power capacity for 2024 is 46% below Energy Information Administration (EIA) planned levels (Figure 22). It's common for capacity to lag EIA plans and highlights the difficulty in bring new power capacity online. Significant infrastructure buildouts will be necessary to support the clean energy transition and the power demands of artificial intelligence.

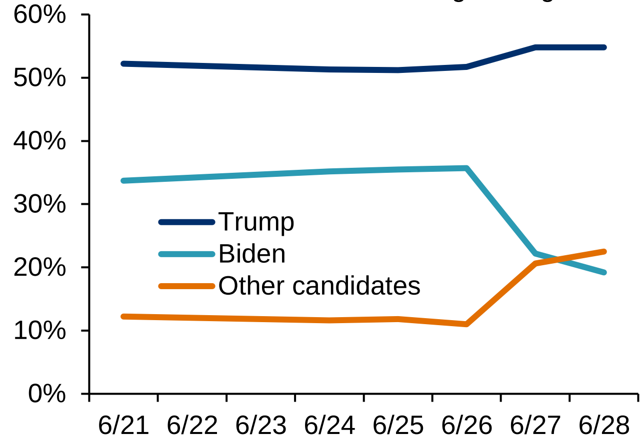
2) ***Tariffs***. The candidates' tariff policies diverge significantly. Trump has proposed a 10% baseline tariff on all imported goods and a 60% (or higher) tariff on goods from China. Such sweeping tariffs could deliver a one-time shock to inflation by as much as 2-2.5 percentage points. While tariffs had a limited impact on inflation during the previous trade war, they did cause an upward shock to the USD.

3) ***Fiscal deficit***. Neither candidate exhibited a strong commitment to fiscal conservatism. Both have presided over annual budget deficits, ranging from 3.5% to 15% (Figure 23). Monetary policy, rather than Treasury supply, remains the primary driver of long-term Treasury yields. However, additional spending could exacerbate deficit concerns, leading to increased bond market volatility and potentially higher future taxes to manage the debt burden.

Bottom line: History suggests elections don't have lasting impacts on equity performance, but you'd be forgiven if you think this time might be different. Consider adding exposure to policy sensitive sectors like energy and supply chain security, where significant capital investment is likely. The best defense to fiscal deficit concerns is getting tax efficient and diversifying globally.

Figure 19: Betting odds for Biden collapsed after the debate

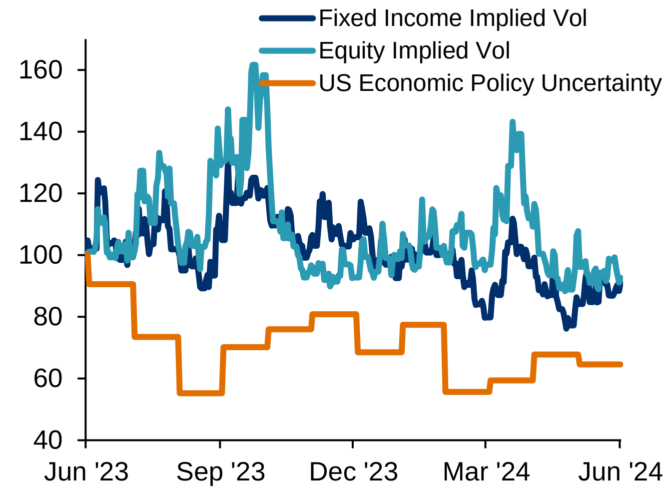
2024 U.S. Presidential election betting average



Note: Other candidates include Newsom, Harris, Obama, Kennedy, Haley, and DeSantis.
Sources: Bloomberg Finance L.P., Real Clear Polling. Data as of June 28, 2024.

Figure 20: Implied volatility has declined

Index, June 2023 = 100



Note: Fixed Income = MOVE Index; Equity = VIX Index. US Economic Policy Uncertainty = Baker, Bloom and Davis. Source: Bloomberg Finance L.P. Data as of June 28, 2024.

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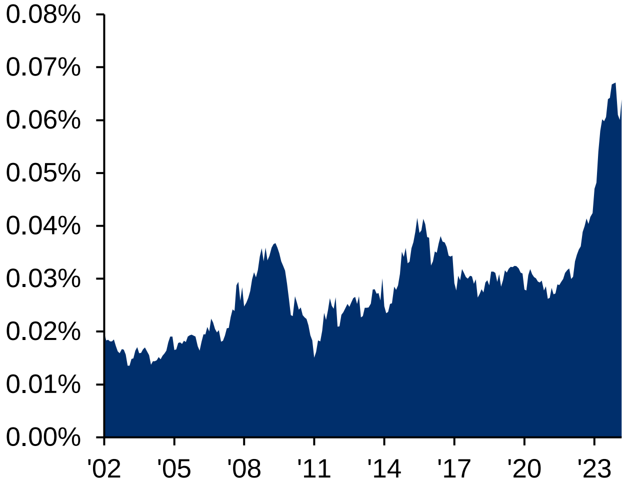
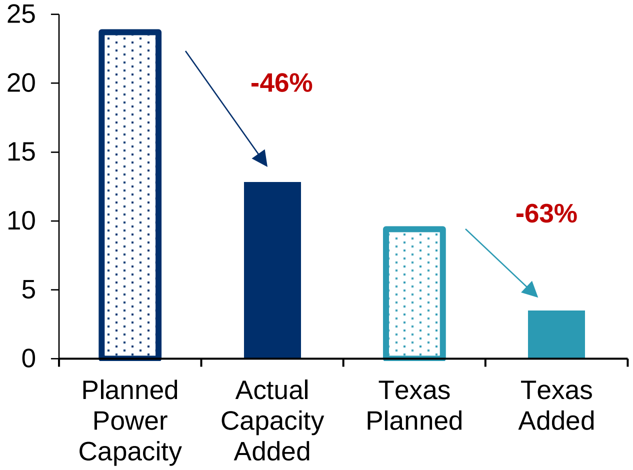
Figure 21: Spending on manufacturing as a percent of GDP has doubled since 2019
Construction spending on manufacturing, % of GDP



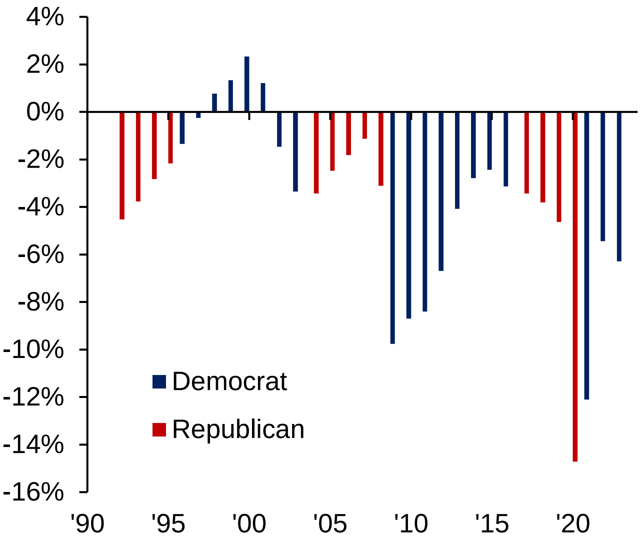
Sources: US Census Bureau, S&P Global Market Intelligence, Haver Analytics. Data as of March 31, 2024.

Figure 22: Power capacity additions are coming in much lower than EIA projections for 2024
GW



Sources: Bloomberg Finance L.P., US Energy Information. Data as of April 30, 2024, reflecting year-to-date additions relative to projections.

Figure 23: U.S. annual budget deficits
% of GDP



Source: CBO. Data as of June 30, 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	5.00-5.25	1.75	2.70	4.50	5,500
JPM IB	5.25	1.30	2.80	4.40	4,200
Bank of America	5.25	2.10	2.80	4.25	5,400
Morgan Stanley	4.75	2.00	2.70	4.10	5,400
Goldman Sachs	5.00	2.20	2.70	4.25	5,600
Wells Fargo	5.00	1.60	2.80	4.00	5,535
UBS	5.25	1.30	2.60	4.00	5,600
Average (ex-JPM WM)	5.08	1.75	2.73	4.17	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	4.50-4.75	2.00	2.20	4.00	5,750
JPM IB	4.75	1.90	2.10	4.00	
Bank of America	4.75	2.00	2.30	4.25	
Morgan Stanley	3.75	2.10	2.10	3.75	5,400
Goldman Sachs	4.50	2.00	2.10	4.15	5,700
Wells Fargo	4.50	2.20	2.30	3.85	
UBS	4.25	1.50	2.10	3.90	
Average (ex-JPM WM)	4.42	1.95	2.17	3.98	5,550
FOMC	-	2.00	2.30	-	-

Sources: JPM, BoA, MS, GS, WF, UBS, Federal Reserve. Data as of June 27, 2024.

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THE GIS SNAPSHOT

A summary of high conviction views

July 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

July 2024

Macro^			
Inflation	**2024 YE**	Old 2024 YE	**2025 YE**
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**
Price	5,450-5,550		5,700-5,800
P/E forward multiple	20x		20x
Stoxx Europe 50			
Price	5,400-5,500		5,500-5,600
P/E forward multiple	14.25x		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	63-64		65-67
P/E forward multiple	10.5x		10.5x

Currencies			
	2024 YE	Old 2024 YE	**Mid-2025**
U.S. Dollar Index (DXY)	106 (104-108)		102 (100-104)
EUR/USD	1.06 (1.04-1.08)		1.11 (1.09-1.13)
USD/JPY	153 (151-155)		153 (151-155)
GBP/USD	1.25 (1.23-1.27)		1.30 (1.28-1.32)
USD/CNY	7.35 (7.25-7.45)		7.35 (7.25-7.45)

^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.

Rates & Credit Spreads			
U.S.	**2024 YE**	Old 2024 YE	**Mid-2025**
Eff. Fed Funds rate	5.00-5.25%		4.50-4.75%
ON SOFR	5.15%		4.65%
2-year UST	4.45%		3.85%
5-year UST	4.45%		3.90%
10-year UST	4.50%		4.00%
30-year UST	4.75%		4.30%
2s/10s spread	0.05%		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	135		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**
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		$3.50-$4.50

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MACRO VIEWS

U.S. Growth

The U.S. economy is finally showing signs of growth slowing, which has been our expectation. Q1 GDP came in at 1.4% annualized, and Q2 growth is tracking at 2.1%. This is a notable downshift from the outsized annualized pace of GDP growth in H2 2023, of 4.1%.

Recent data have been on the weak side in the housing sector and in terms of retail sales (which mostly measures goods spending). Various corporate commentaries have suggested consumer spending behavior is starting to shift, with price awareness coming into greater focus among shoppers. That said, the signal from the US jobs market continues to be one of "controlled cooling" whereby labor supply and demand have come into better balance even while solid topline jobs growth continues. For now, we are not too concerned about the downside risk to growth as the focus (including at the Fed) continues to be on inflation.

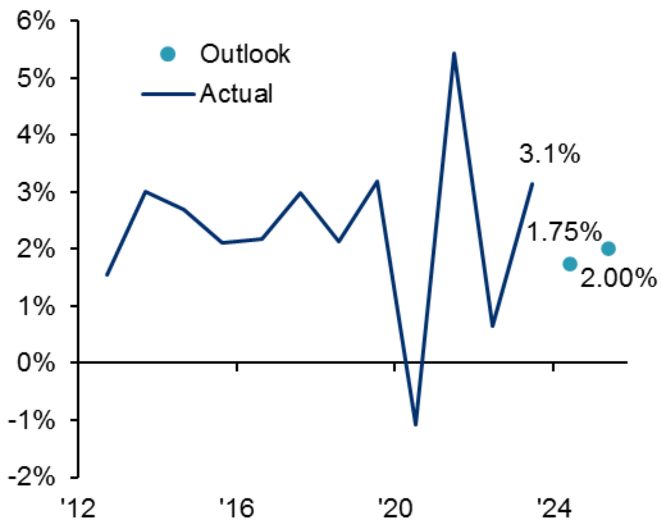
The 2021 Infrastructure Act and the 2022 IRA are slowly working their way through the economy and will likely have a modest positive impact on fixed investment in 2024 and 2025. Pockets of weakness such as in commercial real estate are likely to persist but should be manageable from a business cycle perspective.

What we're watching: Job and income growth, business sentiment related to fixed investment, 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. historical and expected growth
Q4/Q4 real GDP growth, %



Sources: Haver Analytics, Bureau of Economic Analysis. Data as of June 28, 2024.

U.S. Inflation

After the large upside inflation miss in Q1, which pushed out the timeline of the first Fed rate cut, there are signs that inflation is looking better in Q2, and that disinflation is resuming (which is our baseline view). The May inflation data came in well below expectations, with core PCE printing at 0.08%, which is well below the average monthly pace from Jan-April of this year of 0.33%. One month does not make a trend, nevertheless, recent inflation data is suggestive of cooling, supporting the notion that the Q1 re-acceleration was an acyclical head fake.

Additionally, wage growth continues to cool, and the leading wage growth data (e.g., the wage tracker published by Indeed) suggests further cooling throughout the course of this year. We also expect to see more definitive signs of shelter disinflation this year, particularly in H2.

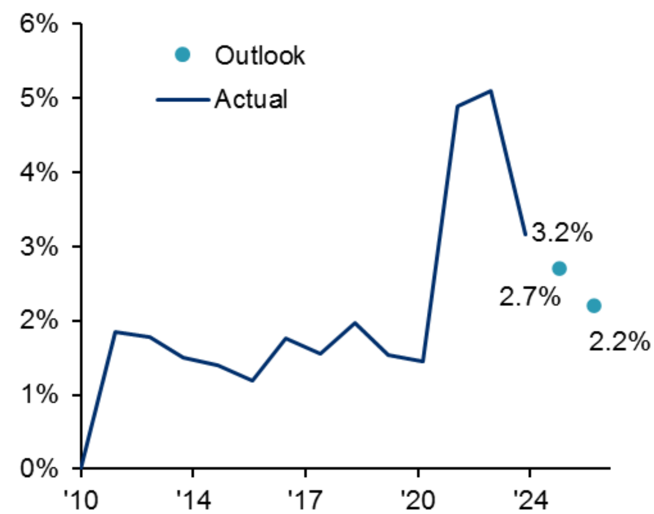
We continue to think the next move by the Fed will be a cut and we see the Q1 inflation miss as a speed bump in the disinflation process rather than the beginning of a new wave of inflation that will require additional Fed rate hikes. The latter is a risk to our outlook, but we think a low probability.

What we're watching: Wage growth, services ex-shelter inflation, shelter inflation, supply chain disruptions from the Red Sea, JOLTS hiring, quits and layoff rates.

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

2.10-2.30% in 2025

U.S. historical and expected inflation
Q4/Q4 core PCE, %



Sources: Haver Analytics, Bureau of Economic Analysis. Data as of June 28, 2024.

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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. And more recently, the tightening in financial conditions following France's snap election announcement could weigh on growth in the second half of the year.

However, we do think that the pillars of strength that underwrite our constructive outlook for the European economy remain intact. Consumers are being bolstered by real income gains and falling inflation. The manufacturing sector is on an improving path. And the start to an ECB cutting cycle should provide a further lift. That keeps us confident that the economy will grow at around a 1% annualized rate this year, and accelerate to a 1-1.5% pace in 2025 – roughly where we see trend in Europe.

The UK consumer is in a similarly strong shape, and has helped to drive an impressive rebound in growth. Tighter fiscal policy after the election might drag on growth in the second half of this year, but a gradual BoE cutting cycle should see growth return to trend by 2025.

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

Sources: Haver Analytics, Statistical Office of European Communities. Data as of June 27, 2024.

Eurozone Inflation

Despite modest upside surprises in April and May, disinflation in Europe has largely continued this year. Headline prices are now running more or less consistent with central bank targets, and 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. Meanwhile, services inflation has proven stickier than expected. We expect that to moderate alongside wage growth in the second half of the year, which should help core inflation return to target in the first half of 2025. Some of the ECB's real-time inflation measures already point to underlying inflation running close to a pre-pandemic pace.

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

Sources: Haver Analytics, Statistical Office of European Communities. Data as of June 27, 2024.

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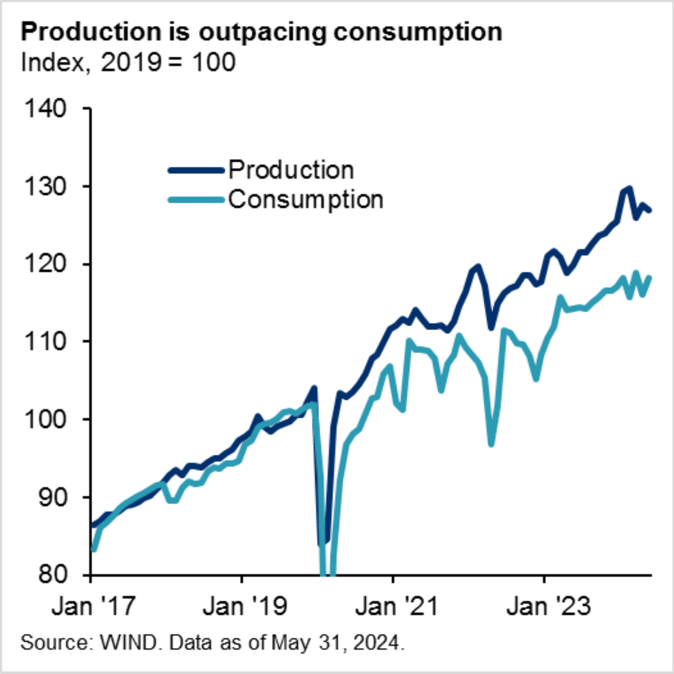
China Growth

Mixed growth momentum in May. Domestic consumption showed some signs of life with retail sales above market expectations, albeit from a low base, and manufacturing fixed asset investment remaining strong. May data showed a reversal of April likely as a result of holiday distortions. Taking an April/May average shows industrial production is growing at a healthy pace of slightly over 6% YoY, services output modestly above 4% YoY, and retail sales at a soft pace of only 3% YoY. The gap between production growth and domestic consumption shows the continued dual track recovery, led by exports and the supply side. Weakness in domestic demand continues to stem from property activities remaining in deep contraction with property sales and new starts slightly down from April and Q1. Housing price decline accelerated a bit in May.

Despite property policy easing in mid-May, property sales have yet to recover, suggesting the impact of recent policy easing is likely diminishing. Policy rates remained unchanged with 1-year MLF rate, 1-year LPR and 5-year LPR unchanged. Fiscal policy support has picked up since May, which should help to underpin infrastructure investment and overall credit growth.

What we're watching: The upcoming Third Plenum and Politburo meeting for both long-term and near-term policy direction.

Our view: 4.00-4.50% (Q4 YoY) real GDP growth in 2024
4.20-4.70% in 2025



China Inflation

Headline CPI rose 0.3% YoY, a touch lower than market expectations, as core CPI edged down to 0.6% YoY. PPI deflation improved to 1.4% YoY on the back of a lift from global commodity prices and base effects, though property remained a key headwind.

Outright deflation will likely end but low inflation will stay in 2024, considering the outlook on global commodity prices, with domestic pork prices gradually stabilizing, while annual CPI inflation will likely be supported by a low-base effect in coming months. Meanwhile, demand-supply imbalance and excess capacity concerns remain significant.

The GDP deflator will likely stay in negative territory through 2Q and 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

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EQUITY VIEWS

U.S. Equities

As the calendar closes on the 1H of 2024 and into Q3, earnings will once again take center stage. 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 sustained high multiples and an improvement in earnings growth as various 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 projections 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.

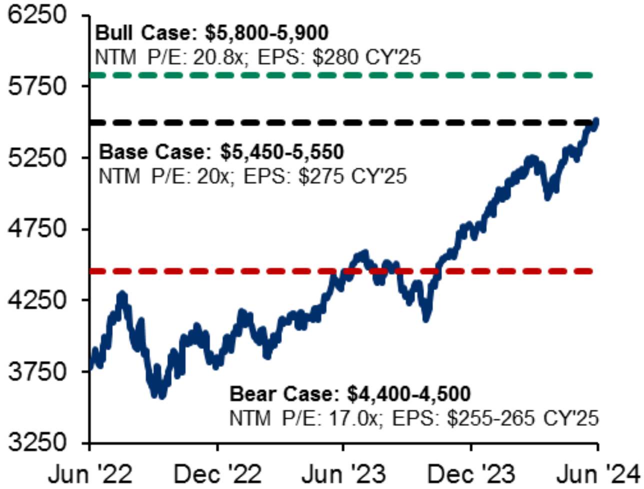
Our strategy focuses on a bottom-up analysis, bolstered by positive indicators from first half earnings, which supports expectations for above-average growth in 2024. The technology sector, in particular, has shown promise through investments in Artificial Intelligence, which, alongside significant infrastructure upgrades, is expected to enhance revenue streams and reduce costs over time. We recommend leveraging market volatility through strategic asset allocation, structured products, and derivatives. Given the current stage of the economic cycle and the projected long-term returns, we advise investors to favor 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. Our sector preferences include Technology, Industrials, Healthcare, and Consumer Discretionary.

What we are watching: We continue to look for signs that the macro is changing. Absent large changes, earnings in July and 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

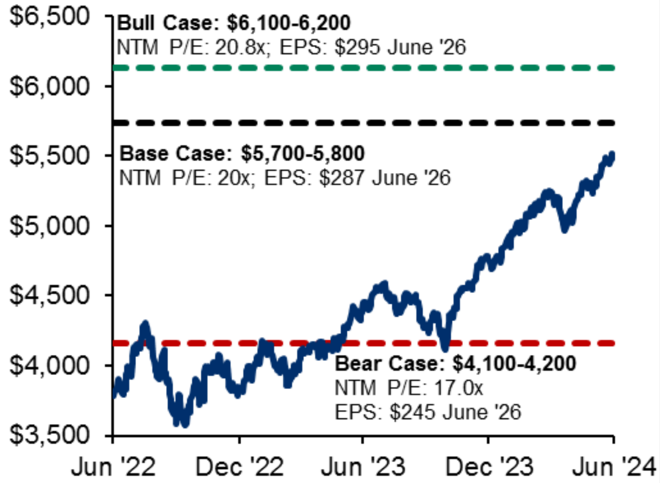
$5,700-$5,800 by mid-25

We see the S&P 500 reaching $5,500 by YE 2024
S&P 500 vs JPM WM Solutions Base, Bull and Bear cases



Sources: J.P. Morgan Wealth Management Solutions, Bloomberg Finance L.P. Data as of June 28, 2024.

We see the S&P 500 reaching $5,750 by mid-2025
S&P 500 vs JPM WM Solutions Base, Bull and Bear cases



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Europe Equities

The month of June created a bit of volatility in the European equities market as President Emmanuel Macron unexpectedly called for snap parliamentary elections in France. This created a small pullback and a bit of uncertainty in the region. We now have two elections at the beginning of July in Europe. A French parliament election will be held in two rounds on 30 June and 7 July. The United Kingdom general election is scheduled for 4 July. We think the pullback in Eurozone equities created a potential buying opportunity for Euro Stoxx 50. However, we still don't like the UK or Swiss markets.

We leave our year-end outlook for SX5E of €5,400-5,500 and a mid-2025 outlook of €5,500-5,600 unchanged. The ECB has recently started its cutting cycle, and this is positive for the risk-on environment, as long as economic growth is solid. We expect 3-5% earnings growth in 2024 followed by a mid-single digit in 2025 and 2026. We think 2026 will be another strong year for earnings. We believe the earnings growth in the next 2-3 years will be higher than after the Global Financial Crisis cycle (2009-2019) when growth has been flat on average. In the post-pandemic cycle, ECB interest rates and inflation are higher, and European companies are increasingly doing buybacks. Europe is currently trading at an attractive 13.2x NTM P/E and we think valuation can expand to 14-14.25x, especially as the ECB has started its cutting cycle. Europe is now offering one of the largest dividend and total cash return yields in the world, 3.5% and 5% respectively. Dividends continue to be strong and European companies are increasingly doing buybacks. Companies have transformed their balance sheets over the past decade and debt levels are low.

We continue to focus on European National Champions in Industrials, Technology, Consumer Discretionary (Luxury) and Healthcare sectors. Thematically, we like exposure to aerospace, electrification, semiconductors/artificial intelligence, luxury and weight loss drugs.

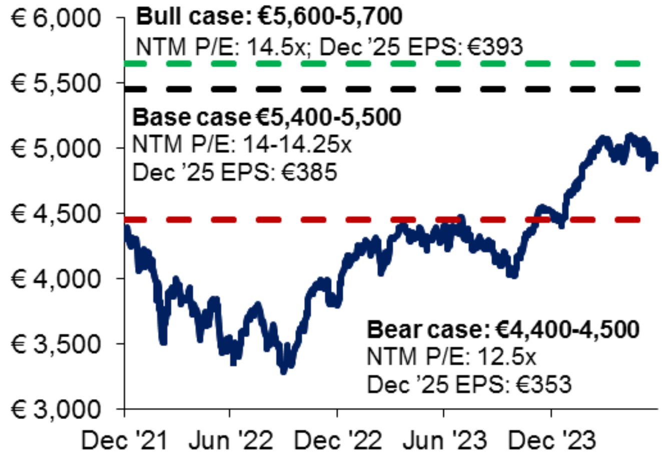
What we're watching: UK and French elections, macro-economic data globally, global consumer sentiment, geopolitical tensions in the Middle East and Eastern Europe.

Our view: €5,400-5,500 by year-end 2024

€5,500-5,600 by mid-2025

We see the Euro Stoxx 50 reaching €5,450 by YE 2024

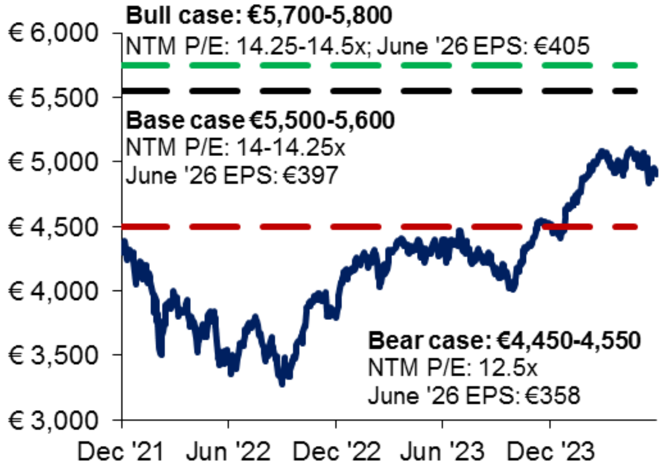
Euro Stoxx 50 vs JPM WM Solutions Base, Bull, and Bear cases



Sources: J.P. Morgan Wealth Management Solutions, Bloomberg Finance L.P. Data as of June 26, 2024.

We see the Euro Stoxx 50 reaching €5,550 by mid-2025

Euro Stoxx 50 vs JPM WM Solutions base, bull, and bear cases



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Asia Equities

Performance of the region was led by semiconductor-heavy markets such as Taiwan and South Korea that are seeing increased structural demand from Gen AI and an improvement in demand from cyclical end markets. We remain positive on both markets and see further upside over the next 6-12 months.

Japanese equity markets continue to consolidate, with valuations attractive for earnings growth of 9-11% over the next 12 months. The upcoming earnings season will be closely watched as investors gauge upside to conservative company guidance issued in April. We remain positive and continue to see attractive low-teens upside in Japan through June 2025. We retain our structural overweight towards India. A BJP-led coalition government is likely to extend a capex-intensive investment policy to boost future economic growth in India. Earnings momentum remains strong, and we continue to view low-mid teens earnings growth in the next several years as achievable. We like buying on small dips.

China macro data has stabilized, but continues to be mixed. With a lack of new policy initiatives, investors have re-focused on company fundamentals that have yet to see broad-based improvement in earnings. Consumer spending and private investments remain soft, and a regulatory crackdown towards the financial industry in China has hurt sentiment towards A-Shares. Geopolitical tensions could also rise as we head closer towards the US Presidential election. Offshore China remains rangebound and a firm neutral, and we retain a relatively more positive view regarding Onshore China equities.

What we're watching: Japanese earnings season and BoJ's interest rate decision. China's Third Plenum for signs of an economic reform agenda, and any further fiscal stimulus plans. Earnings season for China will also be closely watched for signs of earnings resilience, and pockets of strength.

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: 63-64 by year-end 2024

65-67 by mid-2025

CSI 300: 3,900-3,980 by year-end 2024

4,080-4,170 by mid-2025

MSCI India: 2,630-2,740 by year-end 2024

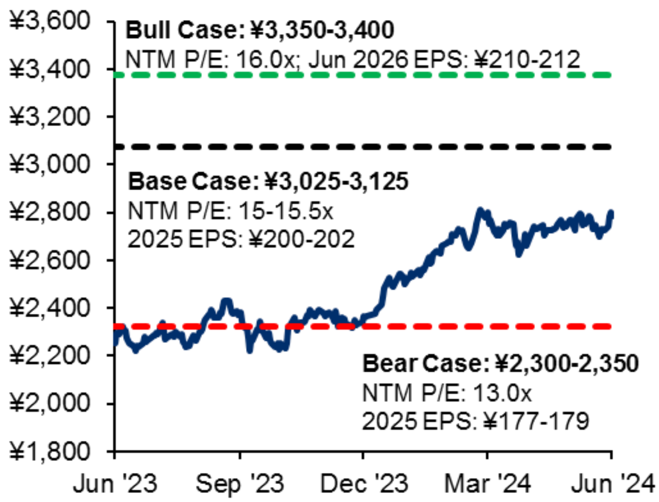
2,800-2,950 by mid-2025

MSCI ASEAN: 650-670 by year-end 2024

660-680 by mid-2025

We see TOPIX reaching ¥3,075 by mid-2025

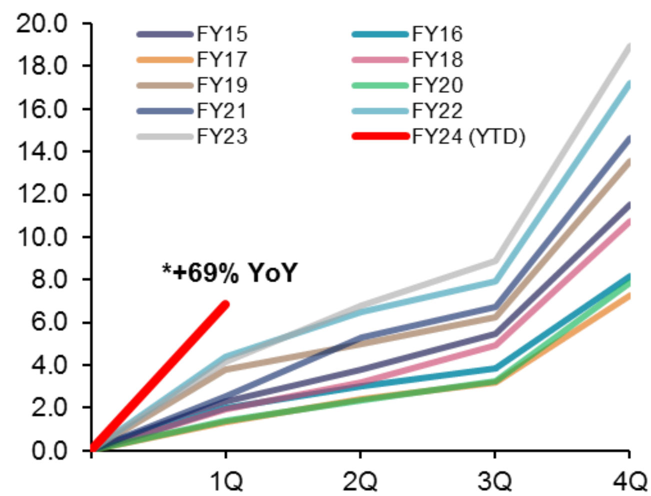
TOPIX vs JPM WM Solutions Base, Bull and Bear cases



Sources: J.P. Morgan Wealth Management Solutions, Bloomberg Finance L.P. Data as of June 27, 2024.

Japanese share buybacks are tracking at over 69% YoY

Tn JPY



Note: *Refers to data comparison between 2MFY24 and 2MFY23.
Source: Bloomberg Finance L.P. Data as of May 30, 2024.

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RATES VIEWS

U.S. Rates

May inflation data were weak and confirmed that the 1Q inflationary speedbump is behind us. Even so, with price pressures starting the year on the firm side, we continue to expect just 1 cut from the Fed in 2024 and a quarterly pace of cuts in 2025. The Fed is confident policy is restrictive and it doesn't want to overstay its welcome. The recent moderation in growth data keeps the door open to easing as soon as September.

The market is currently skewed towards 2 Fed cuts in 2024 and anticipates a terminal Fed funds rate of ~3.6% by 2027. We expect that pricing to mostly hold into year-end but shift lower as the Fed is further along in its cutting cycle, leading the curve to bull-steepen.

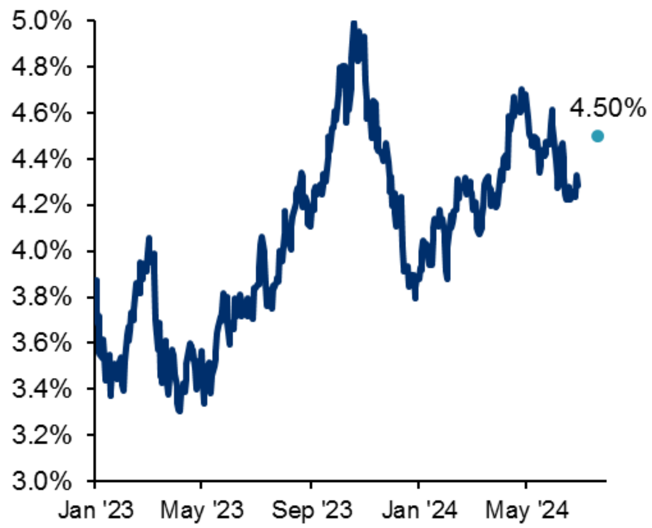
While Treasuries have rallied significantly, we are comfortable with a neutral duration stance. In addition to the Fed outlook, key risks include the elevated supply picture and the potential for the election to lead to further fiscal expansion or an inflationary policy shift like immigration. While we look for yields to gradually trend lower, rate vol should remain elevated.

What we're watching: Whether economic data continue to signal the Fed is restrictive and inflation decelerates.

Our view: 10Y: 4.50% by year-end 2024

4.00% by mid-2025

10-year U.S. Treasury
Yield, %



Source: Bloomberg Finance L.P. Data as of June 28, 2024.

Europe Rates

Political developments in June injected some volatility into European rates markets – particularly in French sovereign spreads. However, that does not alter our view for core rates to trend lower over the next year.

The ECB got its rate cutting cycle underway, and we expect that to continue at a quarterly pace over the next year before reaching a terminal rate close to 2% in late 2025. That, along with the normalization of inflation should help to push yields lower across the curve, supporting our preference for full duration exposure to European fixed income. Our core portfolios recently took advantage of the increase in French government bond yields to express this view.

A similar story is now true for the UK, where the Bank of England has signaled their intention to lower rates at their August meeting. With the market still not reflecting the first full cut until November, we think that presents an opportunity at the front-end of the Gilt curve.

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

10-year Bund
Yield, %

Source: Bloomberg Finance L.P. Data as of June 28, 2024.

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CREDIT VIEWS

U.S. Credit

Recent softening in consumer data, retail sales, and CPI figures have rekindled hopes for an accelerated rate-cutting cycle by the Federal Reserve. However, the economic outlook remains ambiguous, with strong labor markets and consumption declines limited to goods and lower-end consumers. Financial conditions are still accommodative, with equities at all-time highs and credit markets wide open indicating some resistance to yields heading lower. Consequently, corporate spreads did not follow treasury rates lower in June, widening by 9 basis points in Investment Grade and 4 basis points in High Yield. Although these movements are minor, they suggest that spreads may have reached their nadir. Persistently high inflation or a weakening labor market could lead to wider spreads and current near all-time lows provide little buffer.

Given this backdrop, we maintain a conservative stance on investment recommendations. In the corporate space, we continue to focus on Investment Grade securities with shorter durations (~3 years), as returns on the short end of the curve come primarily from carry, currently around 5.5%. The lack of term premia in spreads and rates does not favor significant duration positions.

In extended credit, Hybrids and Preferreds have outperformed High Yield, delivering year-to-date returns of +6% versus +2% for High Yield. We expect carry-like returns for both and continue to favor Hybrids and Preferreds due to their superior balance sheets and lower impairment risk and similar yields.

For Municipal bonds, correlated to Treasuries and offering Tax Equivalent Yields above 7%, we find duration attractive and recommend increasing exposure.

What we're watching: In core fixed income we continue to prefer both Investment Grade and Municipals in the credit space. We see value in GSIB Preferreds, high-quality regionals, and Corporate Hybrids in the subordinated part of IG issuers with yields over 7%. We anticipate distressed opportunities as the cycle progresses. 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.

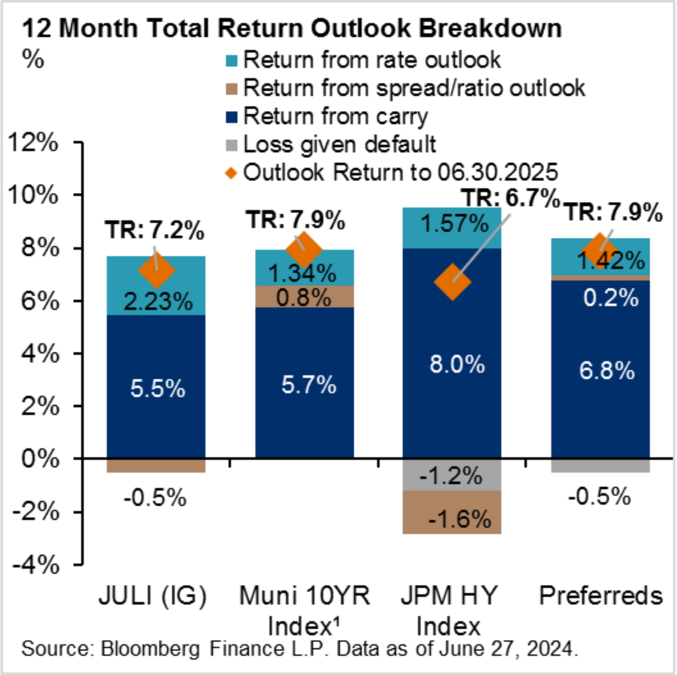
115bps by mid-25

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

400bps by mid-25

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

75bps by mid-25



[1] Note: U.S. Muni Bonds outlook 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 expected to return 4.0% by the JPMAM LTCMAs.

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E.U. Credit

The European Central Bank (ECB) has made its first interest rate cut of this cycle, coinciding with significant political changes in France. This political shift caused corporate spreads to widen, with Investment Grade (IG) spreads increasing by 12 basis points and High Yield (HY) spreads by 36 basis points. Similarly, French sovereign spreads widened by 35 basis points compared to Bunds over the month. Despite these changes, overall spreads remain relatively tight, adjusting to include some political risk.

We believe high-quality fixed income will continue to stabilize portfolios, especially as inflation in the EU is decreasing faster than in other regions. The ECB's rate-cutting cycle should enhance the stabilizing effect of fixed income. IG corporate fundamentals are strong, with net leverage at a decade-low of 2.5x and improving credit ratings.

Like the U.S. credit markets, European credit markets are very accessible, with strong demand for new issuances. There is increasing interest in ETFs for the European CLO market, like their growth in the U.S., which supports demand and liquidity for more complex credit products.

In the HY sector, valuations are not attractive, with spreads around 358 basis points, just below the first quartile levels. These levels are supported by strong fundamentals, with net leverage at a historical low of about 4.5x and solid interest coverage. Default rates are stabilizing at around 1.89% for the EU HY bond market and 3.75% when including loans.

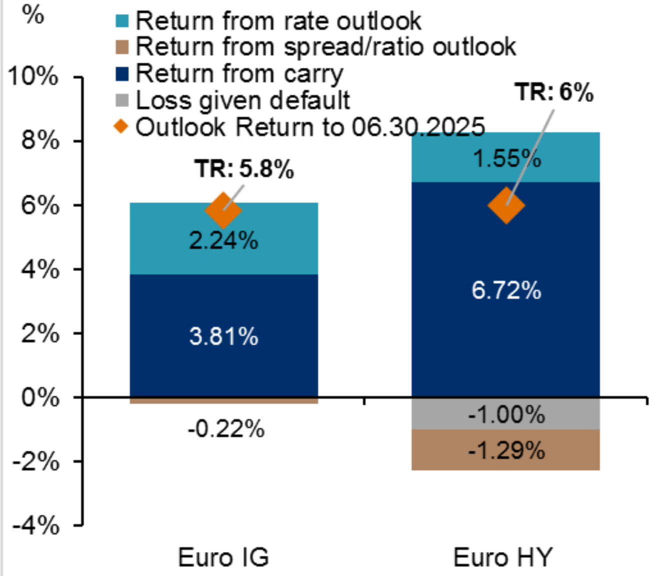
What we're watching: Corporate Hybrids: High-Yield-Like Returns from Investment Grade Issuers. Corporate hybrids remain our preferred instrument for expressing high-conviction fundamental views on individual credits while achieving high-yield-like returns. When we are constructive on credit fundamentals, we target the segment of the capital structure that offers 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): 135bps by year-end 2024
125bps by mid-25

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

12 Month Total Return Outlook Breakdown



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Asia Credit

Asia had another strong month, with Asia IG returning +1.16% and Asia HY returning +1.22%. The primary driver was a decline in rates, as the 5-year U.S. Treasury yield fell by 23 basis points, while spreads widened by 6-15 basis points.

Our preference remains IG over HY, emphasizing the importance of credit selection in Asia, particularly given another China Property restructuring this month. We expect Asia IG to deliver stable returns due to technical support, shorter duration, and high carry, but we remain highly selective in Asia HY.

In Asia IG, spreads remain tighter at 89 basis points vs. U.S. IG at 107 basis points. The shorter duration of Asia IG at 4.67 years, relative to U.S. IG at 6.80 years, largely explains this spread tightness. Although we anticipate spreads to widen, the absolute yield of 5.51% still offers attractive carry returns. Our top picks in Asia IG includes Japanese life insurers and Asia G-SIBs (Global Systemically Important Banks).

In Asia HY, year-to-date returns have been strong but accompanied by significant headline risk and volatility. The yield-to-worst (YTW) of 12.19% suggests a high loss potential in the event of defaults, with risks potentially spreading from China real estate to other sectors in Asia. Our preferences in Asia HY are Macau gaming and Indian HY. Macau gaming shows solid recovery with positive 2023 full-year results, offering attractive carry. In Indian HY, we favor short-dated issues to capture carry due to fair valuations, while appreciating the market's long-term growth potential.

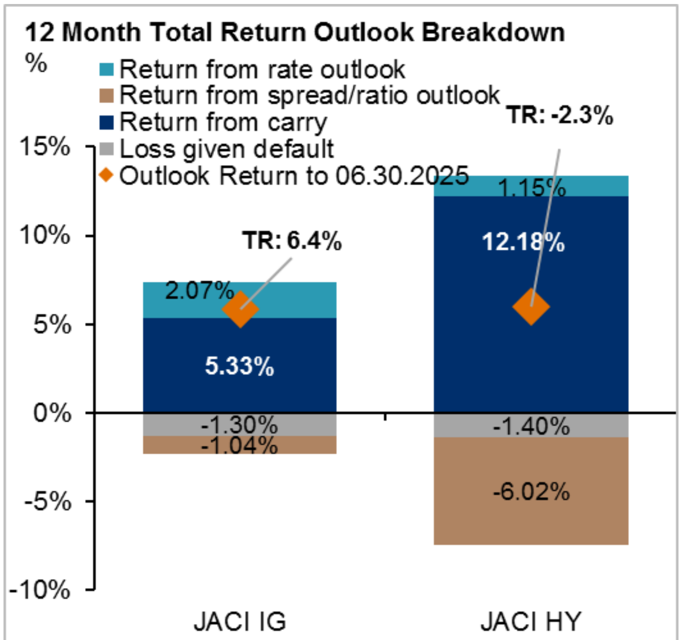
Regarding the China property sector, recent measures are positive, but it is too early to call a bottom due to execution challenges and sluggish sales. Among non-defaulted bonds, SOE developers are better positioned, while marginal developers may still face defaults in the coming year.

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

June marked a historic moment with the election of Claudia Sheinbaum as Mexico's first female President. However, the market-moving event was the Morena party securing a supermajority in both houses of Congress, enabling significant legislative changes that could shape Mexico's future for decades. On the credit side, Mexico Sovereign spreads widened by approximately 18 basis points, a relatively mild reaction given the equity market decline and peso devaluation. On a positive side, the supermajority could lead to resolutions in funding quasi-sovereign entities like Pemex and CFE, potentially putting their capital structures on a more sustainable path or making them outright state obligations.

We continue to see more relative value in EM Corporates as an extended credit play compared to U.S. High Yield, given better fundamentals and higher overall quality—approximately 66% Investment Grade—and a shorter duration profile of around 4 years.

As elections unfold globally, we recognize electoral risks in the EM space, with over 40 elections worldwide. With Mexico's election concluded, the primary risk now 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 gives above expected returns. We see opportunities in certain Turkey corporates that offer outsized returns for the quality of the business and strength of the balance sheets.

Our view:

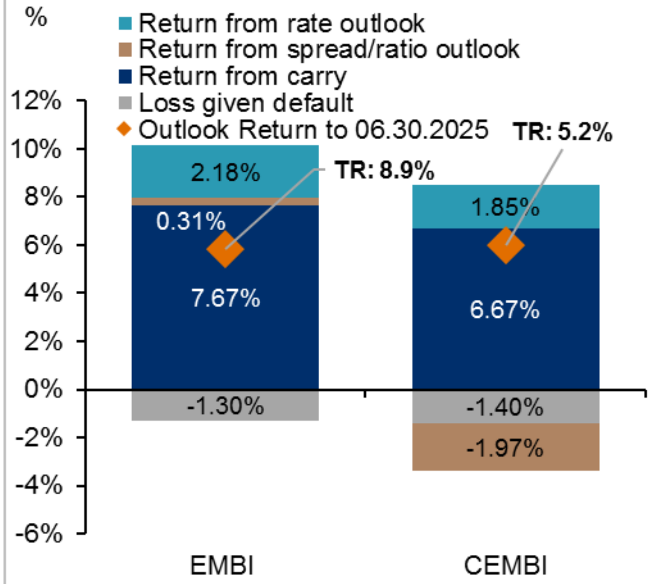
EMBI (spread): 350bps (+/- 25bps) by year-end 2024.

325bps by mid-25

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

275bps by mid-25.

12 Month Total Return Outlook Breakdown



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FX VIEWS

<u>US Dollar</u>

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 getting closer, the environment ex-US looks less solid given moderating growth indicators and election-related risks.

As a result, we expect the USD to remain supported for the rest of 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 continue to favor tactical long USD positions against low-yielding, defensive currencies like the Swiss franc and Chinese renminbi.

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

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

102 (100-104) by mid-2025

<u>Euro</u>

The most bearish environment for EURUSD is one with: 1) Fed policy hawkishly diverging from the ECB and 2) weakening European growth dynamics.

The environment in H1 consisted of the first to some extent but not the latter. Now, with the Fed cutting cycle getting closer but just as political risks rise and growth momentum weakens in the Eurozone, H2 is at risk of seeing the latter but not the former. This should continue to keep EURUSD in its fairly narrow range. Indeed, while current fair value estimates for EURUSD based on interest rate and growth differentials hover around 1.10, we expect the pair to trade below that until after the U.S. election and onset of the Fed cutting cycle.

In terms of risks to our view, a hawkish Fed repricing and a loss of growth momentum in the Eurozone could see us trade lower while the Fed cutting cycle coming more firmly into view would likely push the pair toward 1.10 or above on a sustainable basis.

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

1.11 (1.09-1.13) by mid-2025

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British Pound

Sterling is the best performing G10 currency outside of the dollar this year, supported 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.

While the Bank of England has signaled that it is likely to cut rates in August, we still think that GBP carry will remain elevated against most European peers this year. That should act as a support for the pound, and we expect the currency to be a top performer within G10 in the coming months along with the dollar – GBPUSD to trade in a fairly tight range (1.23 – 1.27) through the end of the year.

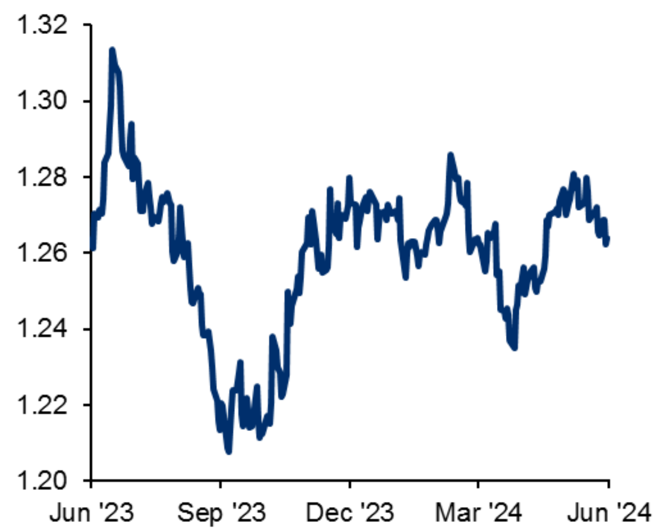
The pound is also sensitive to risk sentiment. That increases the downside risks for GBP in the event of a macroeconomic or geopolitical shock. But we think that improving global growth should act as more of a tailwind as rate cuts get underway later this year. We expect that to push GBPUSD toward 1.30 in 2025.

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

Pound history
GBPUSD



Source: Bloomberg Finance L.P. Data as of June 28, 2024.

Swiss Franc

CHF is the second-weakest G10 currency year-to-date, outperforming only the Japanese yen. Our view expressed here since January: we have seen the peak in the franc for 2024 and CHF is one of our preferred funders for tactical trades. The pillars behind CHF's remarkable strength in 2023 (+10% vs. USD) have collapsed: 1) the SNB is no longer actively pursuing a strong franc in order to combat elevated inflation; instead, with inflation well below 2%, the SNB in March became the first major central bank to cut rates this cycle. 2) The franc tends to see its best performance amid downward European growth revisions, and the Eurozone growth backdrop is incrementally improving.

We still find it hard to bet against the Swiss franc over a long-term horizon given Switzerland's 10% of GDP current account surplus, but we expect any longer-term appreciation trend to resume only next year at the earliest.

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

Our view:

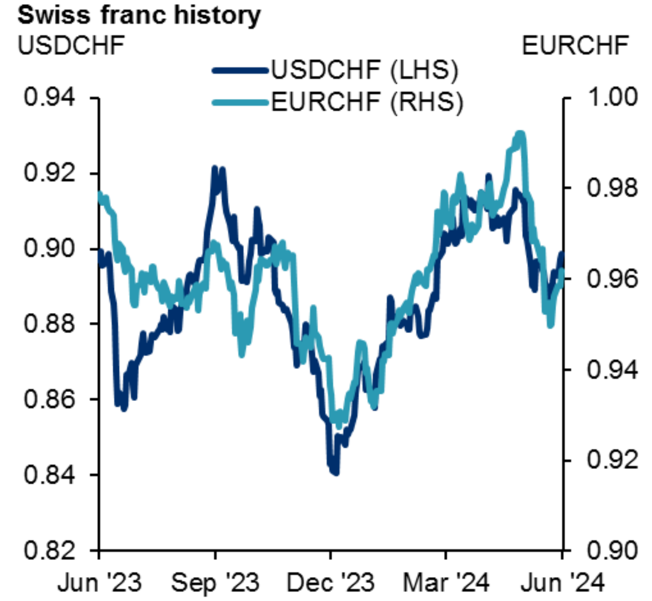
USDCHF: 0.94 (0.92-0.96) by year-end 2024

0.92 (0.90-0.94) by mid-2025

EURCHF: 1.00 (0.98-1.02) by year-end 2024

1.03 (1.01-1.05) by mid-2025

Swiss franc history



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Japanese Yen

USDJPY continued to weaken and tested the 160 level again on the month as impact from direct FX interventions in early May waned. While it's possible to see further interventions if the currency continues to slide quickly, such efforts can only temporarily stabilize the market, instead of setting a cap for the pair. Besides, in our view, unilateral FX interventions are unlikely to reverse the trend determined by fundamentals over the longer term.

Put simply, we expect JPY to remain weak until US rates decline substantially. JPY's negative carry against the USD (5%+) is so wide that if US rates even just stay rangebound, USDJPY could leak higher slowly over time. That said, the combination of a weaker currency and high energy prices presents downside risks to the currency, which the MoF/BoJ could seek to counter at some point.

These cross currents and uncertainties are why we are generally neutral on JPY from an FX trading perspective and prefer to use CHF and CNH as funders at present.

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

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

153 (151-155) by mid-2025

Source: Bloomberg Finance L.P. Data as of June 28, 2024.

Chinese Yuan

After heavy-handed intervention in April, offshore CNH rates normalized over the past two months and USDCNH returned to the trend of grinding higher, touching the 7.30 level at one point.

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 continue to recommend hedging long CNH exposure and taking advantage of the carry. In addition, a weak CNH also opens the door for using it as a funding currency to leverage attractive borrowing costs and take advantage of opportunities elsewhere.

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

Our view: 7.35 (7.25-7.45) 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: RBA policy guidance stays hawkish due to sticky inflation. Terms of trade stays robust thanks to commodity price support. Improved global risk sentiment also keeps us optimistic given AUD's high beta nature.

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

Broad commodity history
Bloomberg Commodity Index (BCOM)

Source: Bloomberg Finance L.P. Data as of June 28, 2024.

Scandi FX

Scandinavian currencies have posted a solid showing in Q2 as global growth has picked up and the equity rally has powered on. Improving dynamics in Europe in particular should likely support the Scandis in the second half of the year.

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.

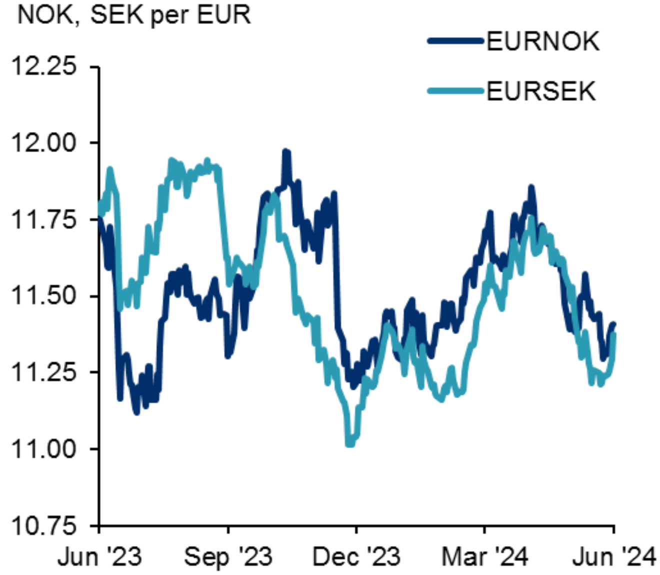
What we're watching: Commodity prices, global growth outlook, domestic growth, and central bank developments.

Our view:*

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

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

Scandi FX history
NOK, SEK per EUR



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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 June 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: We see increasing pressure on EM Asia from upside risks in energy prices and delayed rate cut from the Fed. **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

EM currency history

J.P. Morgan EM Currency Index

Source: Bloomberg Finance L.P. Data as of June 28, 2024.

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COMMODITY VIEWS

BCOM Index

Commodities broke their winning streak in June, losing 1.3% on pullbacks in Base Metals and Agriculture. The index is now positive YTD at +3.2% and trading at 101.63 as of June 27, 2024. The largest gainers on the month were Sugar and Diesel, both gaining +8.6%. Other gains were seen principally in Energy markets with Crude Oil, Gasoline and Natural Gas all seeing gains of approximately 5.5% - 6%. Losers on the month were dominated by a big selloff in Wheat, which lost -19% and Nickel which dropped -12.8%. We are still constructive on commodities for the remainder of 2024, but our J.P. Morgan Investment Bank partners have been urging investors to buy at these levels and are looking for a 10% appreciation by year-end. This seems a little optimistic to us, but we enjoy the enthusiasm.

What we're watching: We are still positive on broad commodities although gains will need to see a reemergence of global growth.

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 June 27, 2024.

Gold

Gold traded sideways on the month and is consolidating at levels above $2,300. The market was spooked in the first week of June after the Chinese Central Bank (PBOC), announced that it did not buy any gold in April. We saw a very quick selloff from $2,385 to $2,288 before cooler heads prevailed, and buying interest resumed. China pausing purchases for a month is not exactly news to send gold lower over the longer term and simply reflects their desire not to chase prices higher. We wrote in May that we expect to see consolidation in prices, and that is what we saw in June. Our view remains consistent; consider buying or adding to gold on dips, although those dips have been hard to find. Retail holders of gold finally halted sales in June, although it would be wrong to say they have begun to buy since ETF holdings increased by less than 0.25% on the month. ETF holdings are still the lowest in 5 years. Futures markets again saw net selling, although some buying emerged in the past week. Cleaner positioning is often a good signal for higher prices later.

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 June 27, 2024.

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Crude Oil

Crude oil reversed the May losses almost exactly, gaining +5.7% across the two main benchmarks. The month saw a rapid selloff in the first week after yet another disappointing OPEC+ meeting. The official communique suggested that the organization would consider unwinding cuts in October which caused the market to send WTI prices down -5% to a low of $73. This was met with an avalanche of increasingly desperate commentators, trying to remind the market that cuts were price dependent. Eventually OPEC+ responded with a train of Energy Ministers hitting the wires to say the communique had been misinterpreted. This is now the second meeting in a row that has resulted in confusion and volatility. The price rallied in week 2 and we saw a good amount of short-covering and futures markets are now showing a small increase in positioning. Unexpectedly, global oil demand dipped in June, mostly because of Hurricane Alberto which limited travel in Texas and Northern Mexico. We are now observing record US daily air traffic with the TSA announcing 3 million travelers on June 23rd and anticipating 32 million flyers between June 27th and July 8th for the July 4th holiday week. This is a 5.4% higher number than seen last year.

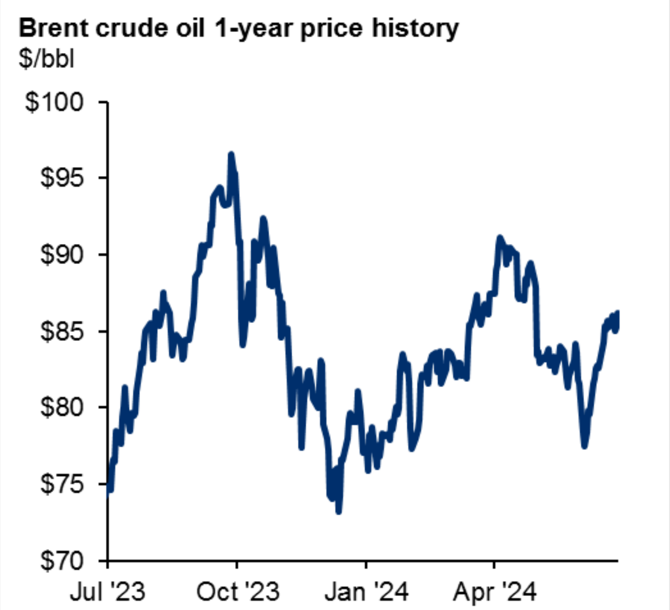
What we're watching: If the strong US summer demand will continue

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 June 27, 2024.

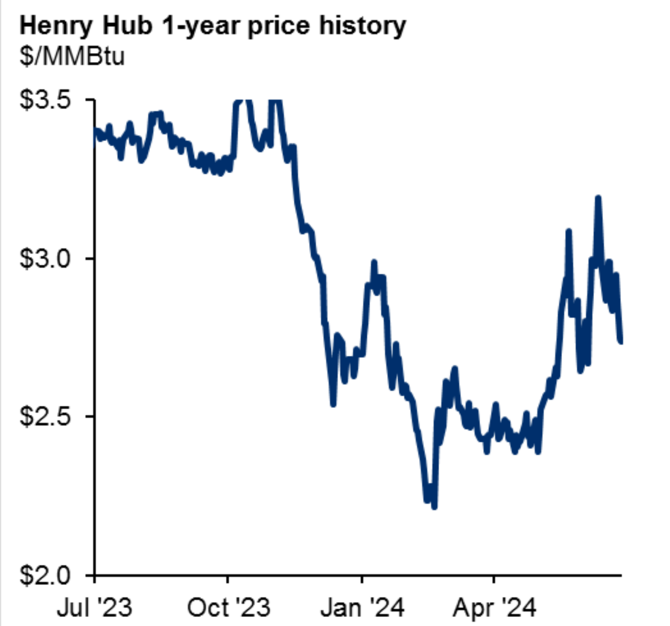
Natural gas

Natural Gas advanced again by +5% in June mostly on increased demand from a heatwave that swept the country. This may be the hottest June in the US since 1950. However, prices closed well off the highs on the month, which at one stage almost hit $3.20 as temperatures eased and power demand dropped. What is surprising to us, is the strength of natural gas-fired power generation in an environment where renewable power generation continues to grow. The complexities of this story have deepened after the EIA announced that Wind power electricity had been throttled back recently, due to grid congestion. Essentially, there is too much wind electricity for a grid not yet designed to shift power to those parts of the US that need it. We are beginning to see electricity demand growth, although it is still very hard to pinpoint load growth in high-temperature months. Using data comparing a similar June period in 2022, demand is growing by 5-6 GW potentially attributable to AI, data centers and EV. One might push back on EV growth, but car manufacturers are now delivering more hybrids ahead of tighter emissions restrictions. One month is not a good data set, but we will continue to update as more data becomes available. More electricity demand will likely mean more Nat Gas consumption.

What we're watching: We will watch how much production comes online with higher spot prices and remain very focused on the AI power demand story.

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

$3.50-$4.50 by mid-25



Source: Bloomberg Finance L.P. Data as of June 27, 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.

Agricultural commodities

Corn and Wheat unwound their gains from May losing -6.55% and -17.25% respectively. The markets appear to have discounted the World Agricultural Supply and Demand Estimates (WASDE) reports from May that led to the price rises that month and subsequently downside momentum appears to have taken over. We are surprised by the move, but we think this is likely a buying opportunity. Drought conditions have now materialized in the Black Sea Region and corn and wheat exports are predicted to fall to a seven and three season low respectively. In South America, pests have stunted the Argentinian corn crop, reducing yields and dry conditions in Brazil are impacting output. These inputs are not yet in USDA balances, and we expect them to impact demand for US exports to the upside.

What we're watching: La Nina developments

Our view:

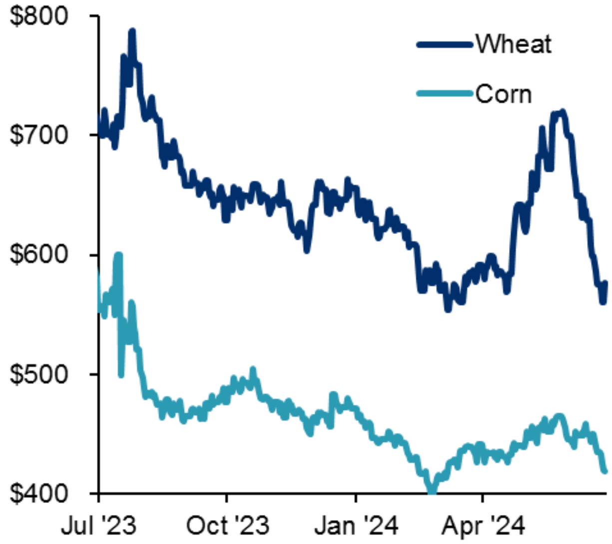
Corn: 560-660cts by year-end 2024

560-660cts by mid-25

Wheat: 700-800cts by year-end 2024

700-800cts by mid-25

Agricultural 1-year price history
$/bu



Source: Bloomberg Finance L.P. Data as of June 27, 2024.

Copper

We are excited to launch an outlook for copper. Views have begun to be more consistent, and implementation has become available. Demand for copper will be higher as AI, data centers, the electrification of the globe and renewable demand will outstrip supply in the years ahead. We caution investors to focus on the facts, interspersed with some optimism that prices might head higher on demand. The jump in demand is likely a few years away and copper pricing is almost non-existent beyond 18 months in the future. We roll out our view with a focus on the year ahead. Copper prices had surged higher earlier in the year, hitting a high above $11,000 in May. The Chinese consume 55-60% of all copper supply and hold significant stocks. The price has now fallen -14% and is at levels where it is likely interesting to consider buying. We see global demand growth of 3.5% over the balance of 2024, followed by 5% demand growth ex-China in 2025. For China, we acknowledge economic growth below trend, but copper demand should still be strong especially in the EV sector with growth seen up 8%. We remain concerned about supply in Chile, with 8 labor contracts up for renegotiation in the next six months alone. Our current view is that mine supply will increase 0.7% in 2024 but grow 3% in 2025 if the Las Bambas operation in Peru is not delayed into 2026. With US grid upgrades and buildout to commence in 2025, we like buying copper via structured notes or options.

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

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

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

Copper 1-year price history
$

Source: Bloomberg Finance L.P. Data as of June 27, 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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