J.P.Morgan

NOVEMBER 2024

INVESTMENT INSIGHTS

THE Global Investment Strategy View

OUTLOOK EDITION

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

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KEY TAKEAWAYS

Outlook 2025: Building on Strength. In the final GIS View for 2024, we lay out our key market views for the year ahead, including the impact of the US election and our year end 2025 outlook numbers. This is a key piece of our Outlook 2025 materials that are designed to help guide your investment decisions as we approach the end of the year and move into 2025**.**

- **Republican sweep.** Before the U.S. election, we had expected that a Republican sweep would act as a positive growth shock. So far, the market agrees. Trump's policies will be pro-growth, we believe, continuing the era of U.S. exceptionalism. We initiate a year-end 2025 S&P 500 outlook of 6,400 and expect U.S. stocks to outperform the rest of the world in 2025.
- **Securing the U.S. soft landing.** Core PCE inflation has fallen by 3 percentage points since its peak in 2022. Outside of wartime, never has such a significant decline in inflation occurred without a recession. To secure the economy's soft landing, we expect the Federal Reserve (Fed) to continue normalizing policy rates, with the fed funds rate ending 2025 at 3.50%. Risks to the soft landing appear balanced between recession and a reacceleration of inflation.
- **November 6, another historic day for equities; we expect more in 2025.** On the day after the U.S. election, the S&P 500 surged 2.5%, marking the best-ever post-Election Day performance and reaching yet another all-time high. In our view, a Republican sweep and a Fed intent on securing a soft landing will promote a pro-growth economy, supporting public and private equity markets. Our preferred sectors are technology, industrials, utilities, and financials.
- **Deficit dilemma for fixed income markets.** The U.S. fiscal outlook is worrisome. There has been no discernible market impact thus far and as yet it's unclear what might trigger a market reaction – or when. Consider maintaining a neutral duration in U.S. fixed income, despite the fact that government bond yields have risen and we expect the 10-year U.S. Treasury yield to reach 4.35% by the end of 2025. On a relative value basis, U.S. investment grade and private direct lending continue to look attractive. For many U.S. taxpayers, municipal bonds continue to offer the most relative value, depending on individual tax situation.
- **Our 2025 LTMCA's[1] expect private non-core U.S. real estate to return over 10% a year.** That's the projected return over a 10- to 15-year horizon. Secular forces are boosting long-run and short-run demand for real assets across infrastructure, utilities, and real estate. For investors, we expect real assets to offer durable income and the potential for price appreciation, as well as diversification away from the deficit uncertainty that could impact traditional fixed income.

OUR HIGH-CONVICTION TACTICAL INVESTMENT IDEAS INCLUDE:

EQUITIES

We see more opportunities in the United States than the rest of the world. We favor industrials, utilities, technology, and financials**.**

Qualified investors should consider **structured notes** to either get invested or stay invested during a potentially volatile second Trump term.

FIXED INCOME, CURRENCIES & COMMODITIES

Core fixed income. We advocate for a neutral duration. For many U.S. taxpayers, municipal bonds may offer relative value.

Private credit. High absolute yields and the potential for attractive risk-reward in extended credit.

Gold. Consider as a diversifier for U.S. deficit woes.

OPPORTUNISTIC TRENDS

Artificial intelligence. Global security. Power infrastructure. Dealmaking/regulatory relief. 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.

[1]The LTCMA's refers to the JPMAM long-term capital markets assumptions which forecasts asset class returns and risks for the next 10 to 15 years.. These projections are based on current assumptions and may not be suitable for all investors. As always, individual investment decisions should be made in consultation with a financial advisor considering personal risk tolerance and investments goals.

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 GIS SNAPSHOT

A summary of high conviction views

November 2024

Equities

Geography	Negative				Positive	MoM Δ
US					●	+1
Europe		●				-1
Japan				●		
China		●				-1
EM ex-China		●				-1
US Size/Factor	**Negative**				**Positive**	**MoM Δ**
Large Cap				●		
Small/Mid Cap				●		
Growth			●			
Value			●			
US Sectors	**Negative**				**Positive**	**MoM Δ**
Staples	●					
Energy		●				-1
Financials				●		+1
Industrials					●	+1
Info Tech				●		
Utilities				●		
Materials		●				+1
Other: Consumer Discretionary, Healthcare, Comm Svcs, RE			●			Healthcare -1

Fixed Income

Asset Class	Negative				Positive	MoM Δ
Core Aggregate			●			-1
Extended Credit			●			
Duration			●			
Sub-Asset Class	**Negative**				**Positive**	**MoM Δ**
Govt (Rates)			●			
Securitized			●			
Munis				●		
Inv. Grade Credit			●			-1
High Yield			●			
Hybrids (Preferreds)			●			
EM Debt			●			

FX & Commodities

Asset Class	Negative				Positive	MoM Δ
DXY Dollar Index				●		+1
Brent Crude Oil	●					-2
Gold				●		

Opportunistic Trends

Artificial intelligence	Dealmaking/Regulatory relief
Global Security	
Power infrastructure	

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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THE VIEW

Republican sweep. Donald Trump is set to become the 47th President of the United States. He will be the second U.S. President to serve two non-consecutive terms since Grover Cleveland in the late 1800s. In Congress, the Senate will be Republican-led and while the House remains to be called, betting markets are pricing nearly a 100% chance of Republican control (Figure 1).

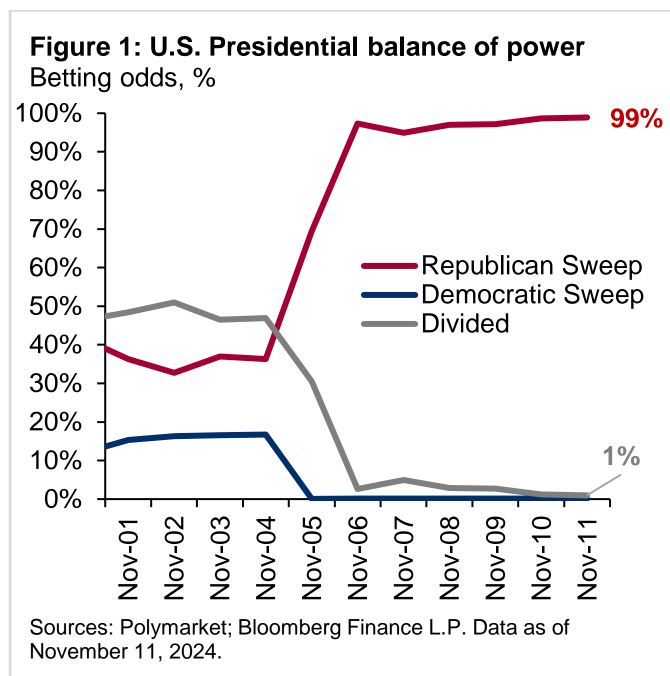
Why it matters: We view a Republican sweep as the most expansionary fiscal policy of all the potential election scenarios. Here are three things' investors should likely know:

1) **Growth shock, not deficit shock.** Since election night, U.S. equities, the U.S. dollar, and Treasury yields have all risen; classic pro-growth price action. Even more, the moves have been large and concentrated in cyclically sensitive sectors (Figures 2 & 3). If deficit woes were driving price action, we would expect Treasury yields to rise while equities and the dollar fall.
2) **Déjà vu price action!** The constellation and magnitude of market moves is akin to what we saw in 2016, the last time Trump was elected President. The sell-off in Treasury yields over the past six weeks is already ~60% of the move seen in 2016 (Figure 4).
3) **U.S. equities over the rest of the world.** We expect the pro-growth impact of lower taxes and de-regulation to overshadow the negative growth effects of tariffs. Trump has repeatedly claimed a 60% tariff on China and a 10% tariff on the rest of the world. However, trade experts generally see a 10% across the board tariff through the International Emergency Economy Powers Act as unlikely.[1] These are the policies that matter, and they should likely perpetuate U.S. exceptionalism.

Go deeper on the election with the Eye on the Market, *Kamilton*.

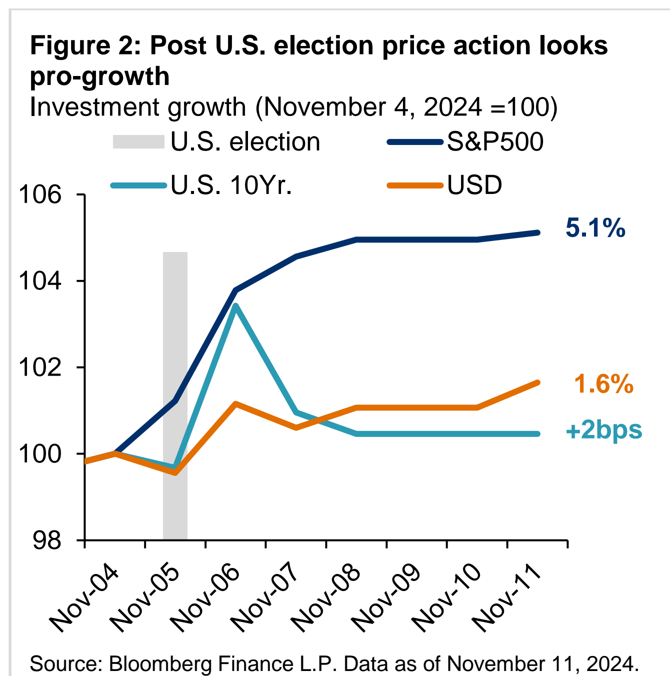
Bottom-line: We expected a Republican sweep to be a positive growth shock and so far, the market agrees. We expect Trump's policies to be pro-growth and continue the era of U.S. exceptionalism. We initiate a year-end 2025 S&P 500 outlook of 6,400 and expect U.S. stocks to outperform the rest of the world in 2025.

Figure 1: U.S. Presidential balance of power
Betting odds, %



Sources: Polymarket; Bloomberg Finance L.P. Data as of November 11, 2024.

Figure 2: Post U.S. election price action looks pro-growth
Investment growth (November 4, 2024 =100)



Source: Bloomberg Finance L.P. Data as of November 11, 2024.

[1] The IEEPA, was a power granted by Congress to the President to "deal with an unusual and extraordinary threat" in a national emergency. Loper Bright striking down the Chevron defense puts into legal question the extent to which these acts can go against Congresses' intent. The act was originally implemented in 1977, after the Watergate era to curtail Presidential authority. Whilst a tariff on China remains likely, potential for a deal and free-floating exchange rates reduce expected effective rates relative to headlines.

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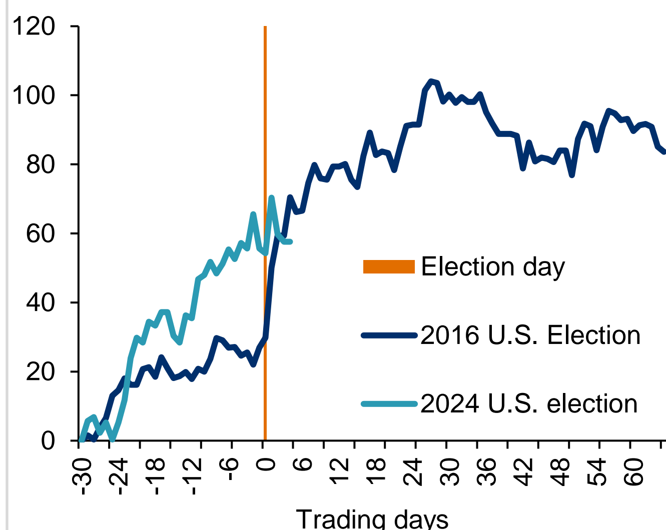
Figure 3: U.S. growth shock checklist

Asset class	Sub-asset	Daily performance 11/6	Z-score
Equities (%)	S&P500	2.5%	3.7
	Russell 2000 vs. S&P500	3.3%	4.2
	S&P500 vs. MSCI EAFE	3.8%	5.2
	Cyclicals vs. defensives	3.7%	2.8
Volatility (change)	VIX Index	-4.2	-3.2
Fixed income (bps change)	U.S. 2Yr. Yield	+9bps	1.6
	U.S. 10Yr. Yield - 2Yr. Yield	+8bps	2.2
	U.S. Fed funds rate expected in 2 years (estimate of terminal rate)	+16bps	2.7
	U.S. Investment grade credit spreads	-4bps	-3.2
	5Yr. Inflation break evens	+0.13%	5.3
FX and commodities (%)	WTI (oil)	-0.4%	-0.2
	DXY Index	1.6%	5.3

Source: Bloomberg Finance L.P. Data as of November 07, 2024. Z-score of price action over the last year. Z-score measures the deviation of a move in an asset relative to the average move in an asset as a multiple of the standard deviation of that asset.



Securing the U.S. soft landing in 2025. Core PCE inflation has fallen by 3 percentage points since its peak in 2022 (from 5.65% to 2.65%). Outside of wartime, never has such a significant decline in inflation occurred without a recession.[2] 3- and 6-month annualized core inflation suggests year-over-year inflation will continue to decelerate (Figure 5).

Why it matters: The soft landing has already happened, and now the Fed's task is to make it endure. A broader look at economic indicators shows that the U.S. economy has largely returned to equilibrium (Figure 6). GDP growth, consumer spending, the unemployment rate, wages and salaries, and a broad proxy of aggregate U.S. income are all relatively close to historical averages and/or equilibrium levels prescribed by the Fed. Two things stand out as still not back to equilibrium:

1) **Labor market churn**. The quit and hiring rate are well below levels prevailing pre-pandemic, suggesting the labor market is weaker than the unemployment rate suggests. Historically, a falling quit rate is consistent with a deceleration in wage growth and raises the risk that layoffs will follow (even if initial jobless claims are still consistent with the tight pre-pandemic labor market) (Figures 7 & 8).
2) **The Fed funds rate is still well above the Fed's long-run estimate of 2.9%**. Academic Fed policy rules – which estimate the "right" level of policy rates given where inflation and growth are relative to mandate – call for ~150bps of easing by the middle of next year (Figure 9).

Go deeper on our view of the labor market here.

Bottom line: To secure the soft landing in 2025, we expect the Fed to continue normalizing policy rates, with the Fed funds rate ending 2025 at 3.50%. We view risks to securing the soft landing as balanced between recession and inflation reaccelerating (Figure 10).

[2] Since core personal consumption expenditure (PCE) data series begins in 1959, we reference headline PCE prior. Personal consumption expenditure declined from 7.84% in Q2 1951 to 1.63% in Q4 1952 without a recession during the Korean war in the 1950's.

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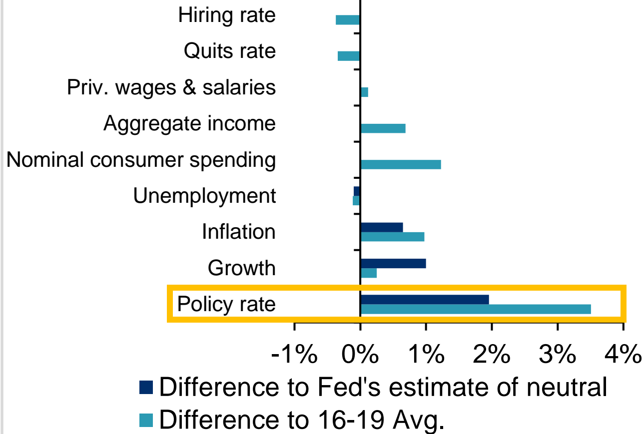
Figure 5: 3 cuts of Core PCE
Core PCE price 3, 6, 12 month % annualized

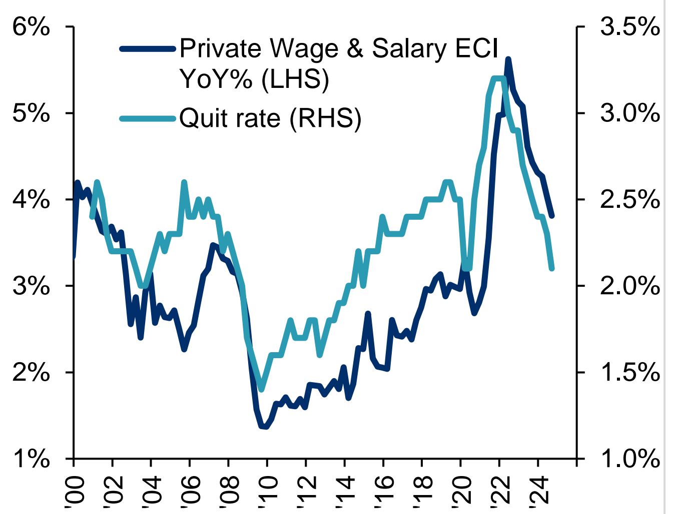
Source: Haver Analytics. Data as of September 30, 2024.

Figure 6: Policy rate is the furthest from historical average and neutral estimate
Percentage point difference from current rates, %



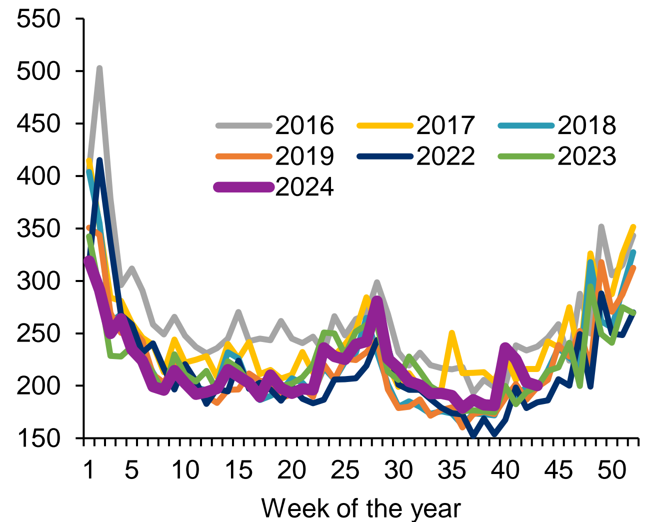
Note: Neutral from summary of economic projections. Inflation (Core PCE YoY); Growth (GDP QoQ). Sources: J.P.Morgan; Federal reserve; Bloomberg Finance L.P. Data as of October 31, 2024.

Figure 7: Fewer quits suggest wage deceleration ahead
Private employment cost index Quit rate, %



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

Figure 8: Non-seasonally adjusted claims are in line with recent years
Initial claims (NSA), thousands



Source: Haver Analytics. Data as of October 26, 2024.

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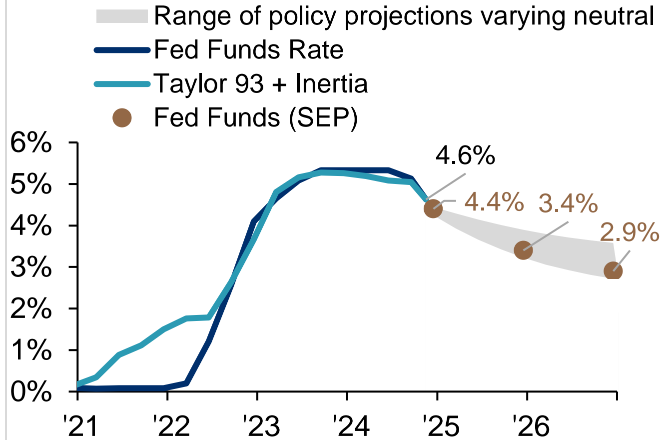

Source: Bloomberg; Federal Reserve; J.P.Morgan Private Bank. Taylor 1993. Core assumptions: Inertia = 0.8; Inflation = Core PCE; R* from the SEP; NAIRU from SEP; π^*= 2%. Inverse Okun =- 1.1. Range varies R* from 0.5 to 1.5. Data as of November 8, 2024.

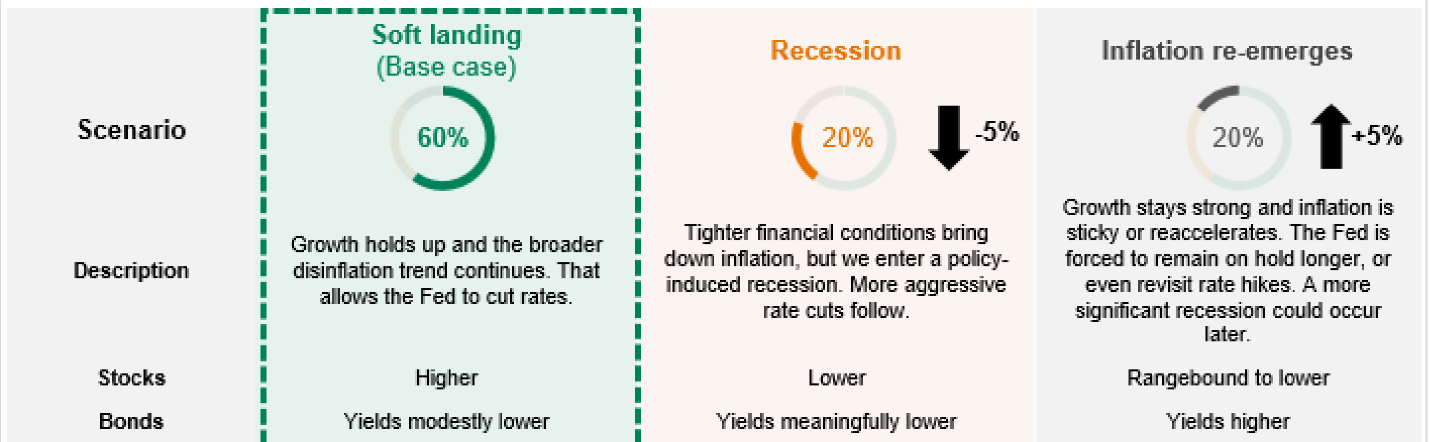

Figure 10: U.S. economy: potential paths forward

Scenario	Soft landing (Base case) 60%	Recession 20% -5%	Inflation re-emerges 20% +5%
Description	Growth holds up and the broader disinflation trend continues. That allows the Fed to cut rates.	Tighter financial conditions bring down inflation, but we enter a policy-induced recession. More aggressive rate cuts follow.	Growth stays strong and inflation is sticky or reaccelerates. The Fed is forced to remain on hold longer, or even revisit rate hikes. A more significant recession could occur later.
Stocks	Higher	Lower	Rangebound to lower
Bonds	Yields modestly lower	Yields meaningfully lower	Yields higher

Source: J.P. Morgan. Return directionality based on 12-month forward view. Data as of October 31, 2024.

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November 6th, another historic day for equities; we expect more in 2025. In the immediate aftermath of the Presidential election, the S&P 500 surged by 2.5%, marking its best post-Election Day performance ever and reaching yet another all-time high.[3] J.P. Morgan Wealth Management clients were highly active, trading over $3.5 billion in equities. This nearly broke the record for the highest single-day trading volume, which was $3.6 billion set in March 2020.

Why it matters: Despite the heroic S&P 500 rally, which has seen the index return almost 40% over the last twelve months, we expect the index to end 2025 at 6,400 (+10% total return from here). Our outlook of 6,400 is based on earnings per share estimates of $305 for calendar year 2026 (double digit earnings growth relative to 2025) and a price to earnings multiple of 21x (valuation compression relative to today's 22.5x multiple). Under the hood, secular artificial intelligence (AI) tailwinds and cyclical improvements drive our sector outlook.

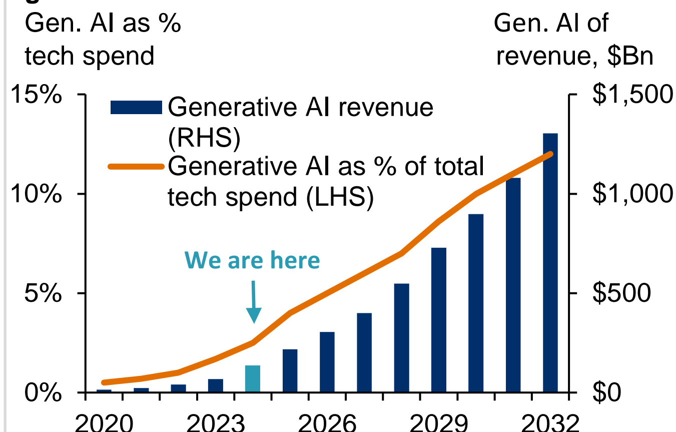
1) **Technology. "**AI's $600bn question[4]" on whether CapEx spend will lead to revenue growth, is being answered with strong affirmation. Yes, AI spend is ramping quickly, but generative AI revenues are tracking well, further encouraging even more CapEx (Figure 11). We favor software over hardware given increased application revenue and tariff risk to semiconductors.
2) **Following the CapEx.** Utilities and infrastructure are supported by higher CapEx. Historically, CapEx has accelerated post-election as businesses feel confident planning for the next 4 years (Figure 12). Re-shoring, AI and election clarity increases investing confidence.
3) **Elections impact on Financials –** President-elect Trump's deregulation agenda has the potential to unlock bank capital and incentivize M&A activity, which in tandem further support the cyclical economy. Aggregate market liquidity has been picking up and we expect it to continue (Figure 13).

Bottom line: We see a Republican sweep and a Fed intent on securing a soft landing as promoting a pro-growth economy, supportive of the public and private equity market. We see the S&P 500 reaching 6,400 by year end 2025. Our preferred sectors are tech, industrials, utilities, and financials.

Figure 11: AI CapEx being validated by revenue growth

Gen. AI as % tech spend

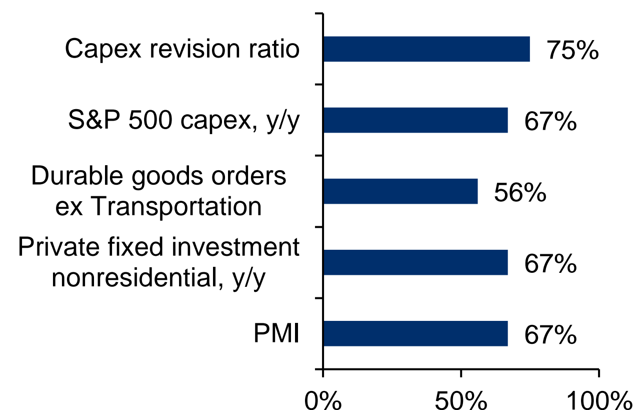
Gen. AI of revenue, $Bn



Source: IDC and Bloomberg Intelligence Forecasts Report as of June 2023. Generative AI technology, as the name implies, generates outputs based on some kind of input -- often a prompt supplied by a person. Generative AI = Chatbots (ChatGPT), those 24/7 bots, audio creation, video creation.

Figure 12: CapEx typically accelerates post election

% of U.S. elections where the indicator is higher 6 months post the election



Note: Hit rate reflects whether or not the indicator had improved 6 months after the election. Indicators are Year-over-Year. Sources: Bank of America Research. Data as of September 30, 2024

[3] Bacon Craig and Pepper Jack Cheese. November 7, 2024.
[4] Source: Sequoia Capital. "AI's $600bn Question". Accessed: November 7, 2024 - https://www.sequoiacap.com/article/ais-600b-question/

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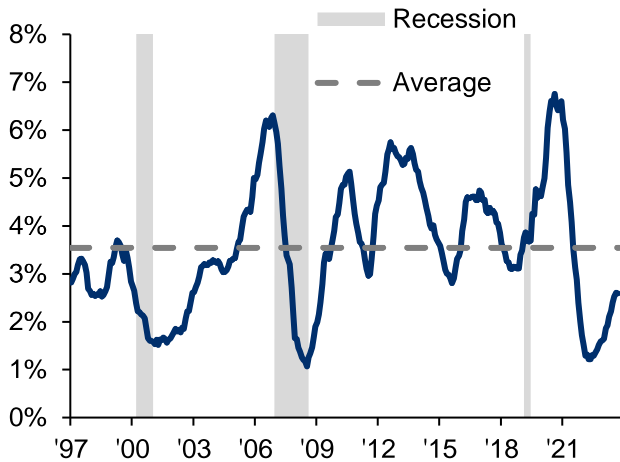
Figure 13: Capital markets liquidty is improving
Capital markets liquidity, trailing 12-month as a % of GDP



Note: Capital markets is IPO, HY bond and leverage loan issuance. Sources: J.P.Morgan; Bank of America; Bloomberg Finance L.P.; Haver Analytics. Data as of September 30, 2024.

Deficit dilemma for fixed income investors. President-elect Trump's policies are projected to increase the debt-to-GDP ratio to 132% by 2034, which is 10 percentage points higher than the Congressional Budget Office's pre-election baseline (Figure 14).

Why it matters: We're concerned about the growing deficit and these concerns are unlikely to diminish soon. However, we haven't seen significant evidence that these deficit worries are altering investor behavior:

1) **Interest Rate Expectations:** Changes in expectations for the Federal Reserve's interest rate, one year ahead, and the size of the Fed's balance sheet account for 95% of the movement in the 10-year Treasury yield, consistent with historical patterns[5] (Figure 15).
2) **Strong Demand for U.S. Debt:** Investors are still bidding for 2-3 times the amount of each debt offering by the U.S. Treasury, which aligns with historical trends (Figure 16).
3) **Dollar and Treasury Yield Correlation:** The correlation between the U.S. dollar and the 10-year Treasury yield remains strong (Figure 17). If deficit concerns were affecting behavior, we would expect the dollar to weaken as yields rise.
4) **USD's Global Role:** There are limited signs of the U.S. dollar losing its dominant role in the global financial system, based on key metrics like foreign exchange reserves, international trade transactions, and borrowing by non-U.S. entities.

Bottom line: The U.S. fiscal outlook is worrisome. There is no discernible market impact thus far, but it's unclear what might trigger a market reaction – or when. As such, despite recent rate increases and our expectation for the 10-year Treasury yield to be 4.35% by the end of 2025, consider maintaining a neutral duration in U.S. fixed income. On a relative value basis, U.S. investment grade and private direct lending continue to look attractive. For many U.S. taxpayers, municipal bonds continue to offer the most relative value, depending on individual tax situation (Figure 19).

Given the fiscal outlook challenges, investors may consider 1) find potential portfolio income where cashflows are more closely tied to inflation, like infrastructure and real estate or 2) other potential stores of value like gold.

[5] Source: Bloomberg Finance L.P.; J.P.Morgan Private Bank. Data as of November 8, 2024.

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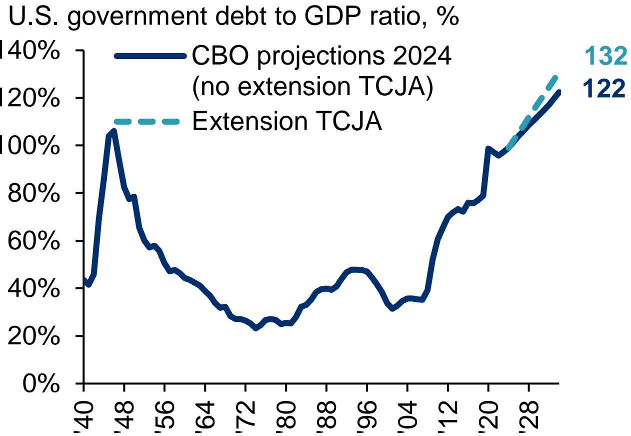
Figure 14: The trajectory of government debt/GDP has shifted higher

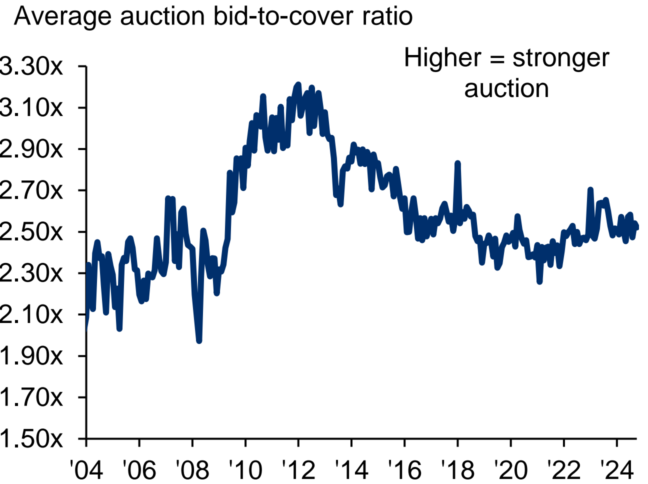
U.S. government debt to GDP ratio, %



Note: TCJA refers to the Tax Cuts and Jobs Act. Sources: Congressional Budget Office; Haver Analytics. Analysis from CBO June 2024 federal debt projections until 2034. Increase from extension of TCJA from CBO "Budgetary Outcomes Under Alternative Assumptions About Spending and Revenues" from May 2024.

Figure 16: UST auction bid-to-covers are in the middle of historic range

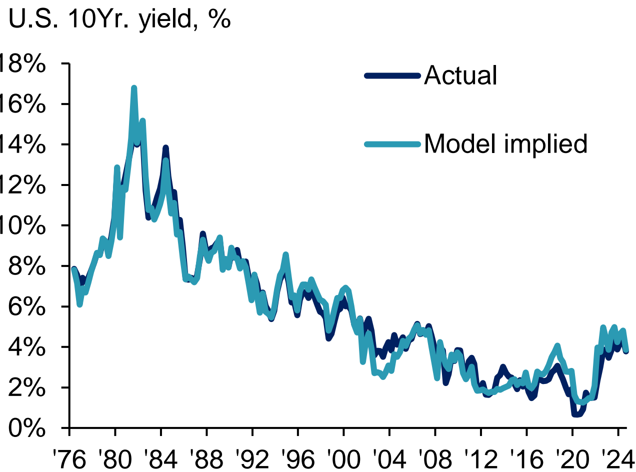
Average auction bid-to-cover ratio



Note: Bid is the value of submissions to buy treasures. Cover is the value of treasuries auctioned. A figure of 2x indicates two times the value of bids to value offered. Source: Bloomberg Finance L.P. Data as of October 31, 2024.

Figure 15: Movement in 10Yr. explained by Fed actions

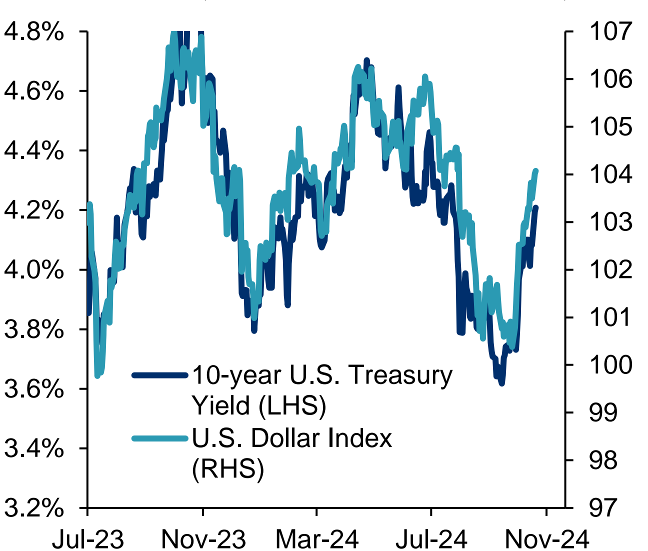
U.S. 10Yr. yield, %



Sources: Bloomberg Finance L.P.; J.P.Morgan Private Bank. Model uses Fed funds rate, slope of Fed funds to 1Y1Y treasury yields, Fed ownership share of treasury market. Data as of September 30, 2024.

Figure 17: U.S. dollar correlation with U.S. 10Yr.

U.S. 10Yr. Yield, % U.S. Dollar Index, value



Source: Bloomberg Finance L.P. Data as of November 08, 2024.

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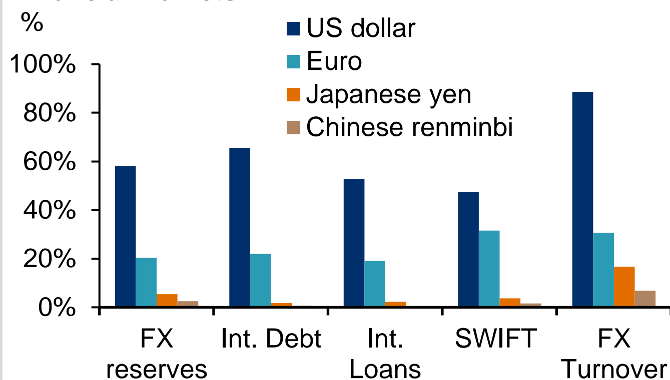
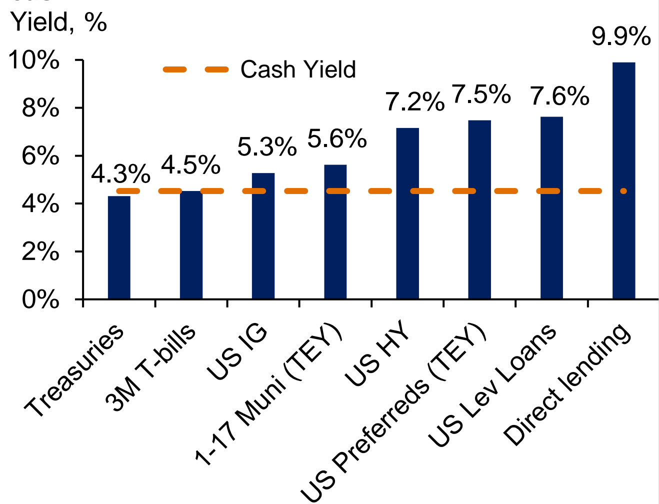
Figure 18: U.S. dollars dominant use in global financial markets



Source: BIS, IMF, Society for Worldwide Interbank Financial Telecommunication (SWIFT) and ECB calculations. Data as of December 31, 2022. Notes: the latest data for foreign exchange reserves, international debt and international loans are for the fourth quarter of 2022. SWIFT data are for December 2022. Foreign exchange turnover data are as of April 2022. *Since transactions in foreign exchange markets always involve two currencies, shares add up to 200%.

Figure 19: IG and Munis now broadly outyield cash



Note: Direct lending from recently issued direct lending deals from J.P.IB as of October 2024. Source: Bloomberg Finance L.P. Data as of November 7, 2024.

The 2025 LTMCA's expect real assets to have the highest annual total returns of any asset class over the next 10-15 years[6], with private non-core U.S. real estate expected to earn over 10% annualized (Figure 20).

Why does it matter: Gone is the low investment, low growth, and low interest rate world of the 2010s. In its place is a healthier economy with higher growth, higher interest rates, and strong capital investment trends. New regimes support new asset class leaders. Here's how we see it in 2025:

1) **Liquid commercial real estate property prices have bottomed** (Figure 21)**.** Unemployment and vacancy rates are within 1% of previous cycle lows supporting rental income (Figure 22). Meanwhile, high interest rates continue to crimp new supply, which further supports net operating income going forward.

   The big bad office sector is seeing green shoots. CEOs expect ~80% of their workforce to return to the office over the next 3 years, leases outgrew vacancies for the first time since 2022, and NYC commuter rail traffic is back to pre-COVID levels (Figures 23 & 24).

2) **AI is changing the definition of "real assets" and the AI bottle neck is now.** AI demands multiples more power than traditional internet traffic. In Virginia, home to data center alley and ~40% of U.S. data centers, wholesale energy is auctioned a year in advance and 2025 energy prices rose by over 800% compared to 2024. To ensure AI power keeps flowing, hyperscalers have turned to nuclear power, but regulators are fighting back. Last week, the Federal Energy Regulatory Commission rejected Talen Energy's request to increase the amount of power it could provide directly from its existing Susquehanna nuclear power plant to Amazon to prioritize grid reliability for its other customers.

   Beyond power, AI proliferation demands new infrastructure. The Department of Energy estimates that to ensure grid reliability, capital expenditures on transmission lines will need accelerate to support higher electricity loads, a step change from history

[6] The LTCMA's refers to the JPMAM long-term capital markets assumptions which forecasts asset class returns and risks for the next 10 to 15 years. The 29th publication was published in October 2024. These projections are based on current assumptions and may not be suitable for all investors. As always, individual investment decisions should be made in consultation with a financial advisor considering personal risk tolerance and investments goals.

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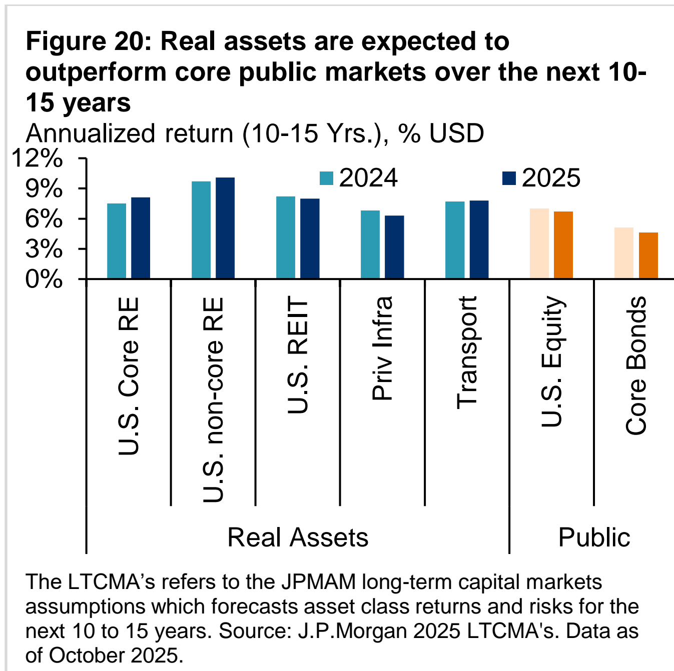
(Figure 25). CBRE estimates that 80% of all data centers in production are already preleased and the backlog to add a new data center to the grid in Northern Virginia has risen to ~7 years, up from 2-3 years in 2021.

Bottom line: Secular forces are driving long and short-run needs for real assets across infrastructure, utilities, and real estate. For investors, real assets may provide opportunities for durable income, potential price appreciation, and diversification away from uncertainties associated with deficits in traditional fixed income.

Figure 20: Real assets are expected to outperform core public markets over the next 10-15 years

Annualized return (10-15 Yrs.), % USD



The LTCMA's refers to the JPMAM long-term capital markets assumptions which forecasts asset class returns and risks for the next 10 to 15 years. Source: J.P.Morgan 2025 LTCMA's. Data as of October 2025.

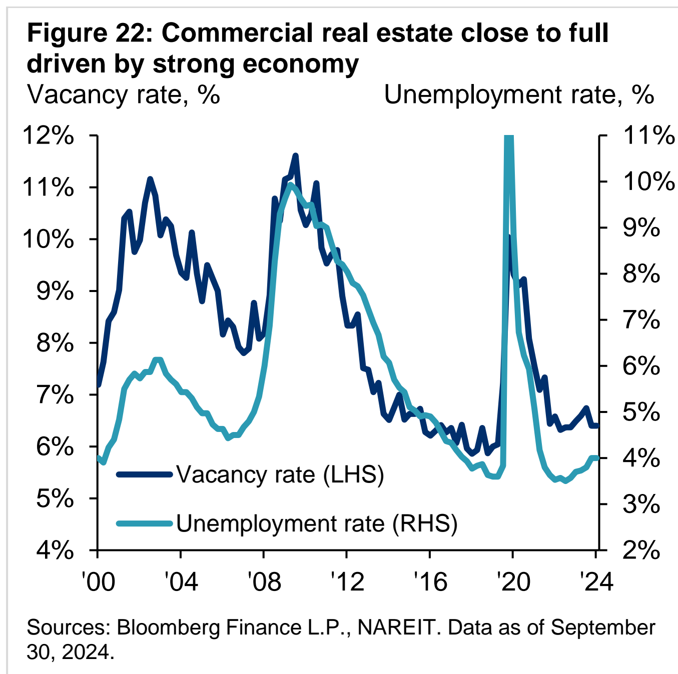
Figure 21: Commercial real estate prices have bottomed

Price level, 2006=100

Note: Transaction based. Source: Bloomberg Finance L.P.; Real Capital Analytics. Data as of September 30, 2024.

Figure 22: Commercial real estate close to full driven by strong economy

Vacancy rate, % Unemployment rate, %



Sources: Bloomberg Finance L.P., NAREIT. Data as of September 30, 2024.

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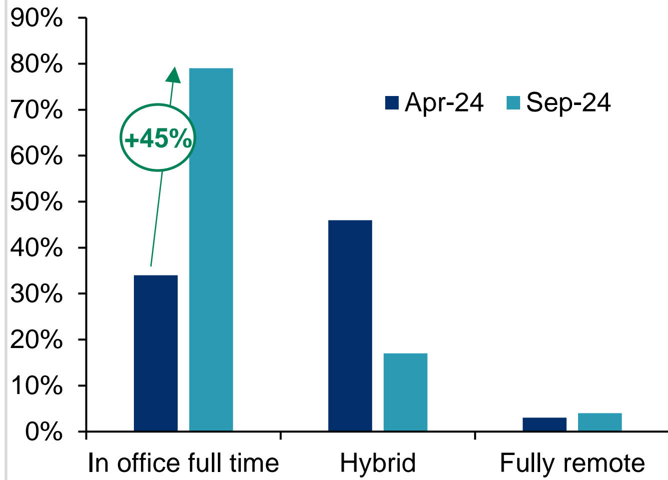
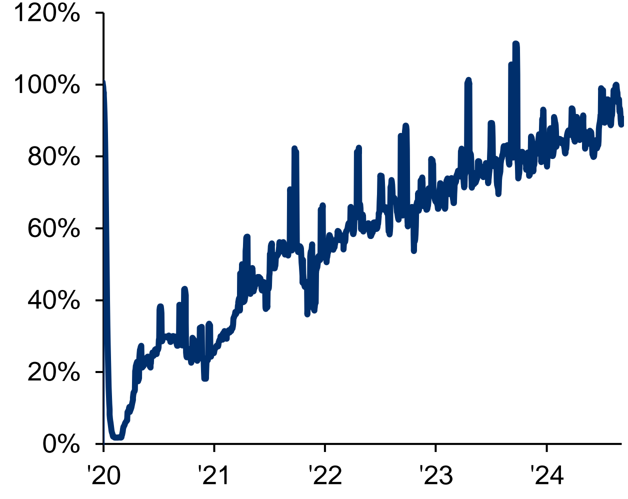
Figure 23: CEOs now expect ~80% of employees back in the office
CEO expectations of return to work over the next 3 years



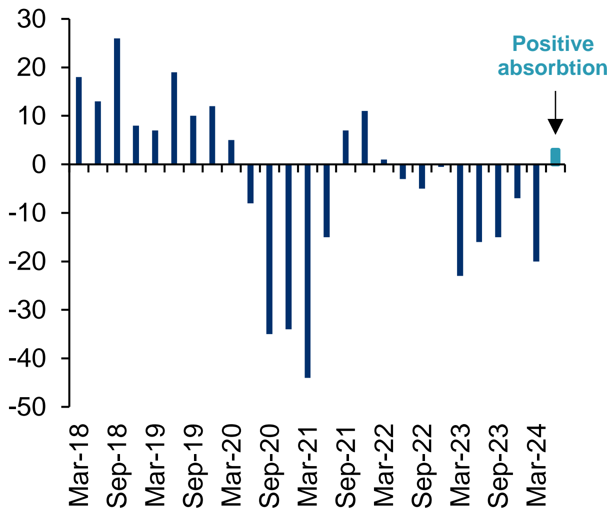
Source: 2024 KPMG CEO Outlook. Data as of September 2024.

Figure 25: NYC commuter rail traffic back to pre-COVID levels
7-day moving avg. for long-island railroad ridership, % of 2019 level



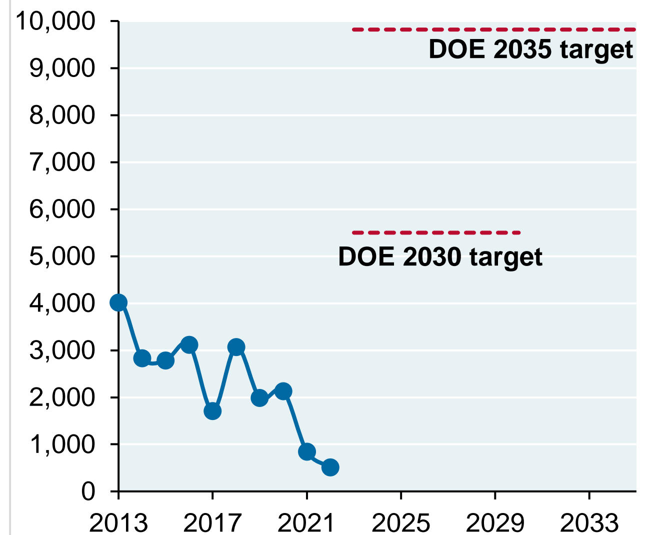
Source: Bloomberg Finance L.P. Data as of November 8, 2024.

Figure 24: Office leases out grew vacanices for the first time since 2022
Net absorption, million square foot



Source: J.P.Morgan; CoStar. Data as of June 30, 2024.

Figure 26: US transmission line growth
Miles added per year



Source: S&P Global, JPMAM, 2024. Note: Transmission lines > 100 kV.

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

Street Outlook Year-End 2025					
	Fed Funds Q4 '25	Real GDP Q4 '25	Core PCE Q4 '25	10Y Q4 '25	SPX $ YE 2025
JPM WM	3.50	2.00	2.20	4.35	6,400
JPM IB	3.50	1.60	2.30	3.75	
Bank of America	3.25	1.60	2.30	3.75	
Morgan Stanley	3.50	2.10	2.20		
Goldman Sachs	3.50	2.20	2.10	4.10	6,300
Wells Fargo	3.25	2.20	2.30	3.50	
UBS	3.00	1.70	2.20	3.80	6,400
Average (ex-JPM WM)	3.33	1.90	2.23	3.78	6,350
FOMC	3.50	2.00	2.10	-	-

Sources: JPM; BoA; MS; GS; WF; UBS; Federal Reserve. Data as of November 11, 2024.

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2025 OUTLOOK NUMBERS

November 2024

Macro^			
Inflation	**2025 YE**	Old 2025 YE	**2026 YE**
U.S.	2.10-2.30%		2.00-2.20%
Eurozone	2.10-2.30%	~~2.10%~~	1.80-2.00%
China	0.50-0.70%	~~0.9%~~	1.30-1.50%
Real GDP Growth			
U.S.	1.75%-2.25%	~~1.75%~~	1.75%-2.25%
Eurozone	0.00-0.50%	~~0.75%~~	0.50-1.00%
China	4.20-4.70%		4.20-4.70%

Equities			
S&P 500	**Mid-2025**	Old Mid-2025	**2025 YE**
Price	6,050-6,150	~~5,875-5,975~~	6,350-6,450
P/E forward multiple	21.25x	~~20.6x~~	21x
Stoxx Europe 50			
Price	4,800-4,900	~~5,050-5,150~~	4,900-5,000
P/E forward multiple	13x	~~13.25x~~	13x
TOPIX			
Price	2,950-3,000	~~2,770-2,870~~	3,075-3,175
P/E forward multiple	15x	~~15x~~	15x
MSCI Asia ex-Japan			
Price	735-760	~~720-745~~	770-800
P/E forward multiple	13x	~~12.5x~~	13x
MSCI China			
Price	63-66	~~65-66~~	65-68
P/E forward multiple	11x	~~11.5x~~	11x

Currencies			
	Mid-2025	Old Mid-2025	**2025 YE**
U.S. Dollar Index (DXY)	107 (105-109)	~~103~~	107 (105-109)
EUR/USD	1.04 (1.02-1.06)	~~1.09~~	1.04 (1.02-1.06)
USD/JPY	155 (152-158)	~~140~~	155 (152-158)
GBP/USD	1.30 (1.28-1.32)		1.30 (1.28-1.32)
USD/CNY	7.40 (7.30-7.50)	~~7.10~~	7.40 (7.30-7.50)

Rates & Credit Spreads			
U.S.	**Mid-2025**	Old Mid-2025	**2025 YE**
Eff. Fed Funds rate	3.75%-4.00%	~~3.50%~~	3.25%-3.50%
ON SOFR	3.85%	~~3.35%~~	3.35%
2-year UST	3.90%	~~3.50%~~	3.85%
5-year UST	4.05%	~~3.60%~~	4.05%
10-year UST	4.30%	~~3.75%~~	4.35%
30-year UST	4.60%	~~4.00%~~	4.65%
2s/10s spread	0.40%	~~0.25%~~	0.50%
JPM U.S. Investment Grade	100	~~115~~	100
JPM U.S. High Yield	330	~~400~~	330
Europe			
ECB deposit rate	2.00%	~~2.75%~~	1.75%
5-year German Yield	1.85%	~~2.00%~~	1.90%
10-year German Yield	1.95%	~~2.15%~~	2.00%
BoE Bank Rate	4.25%		3.75%
10-year UK Gilt	4.15%	~~3.80%~~	4.00%
EUR IG	115	~~125~~	115
EUR HY	350	~~400~~	350
EM			
EM Sovereign Index (EMBI)	325		325
EM Corporate Index (CEMBI)	235	~~275~~	235
JPM Asia IG (JACI IG)	90	~~100~~	90
JPM Asia HY (JACI HY)	675	~~750~~	675

Commodities			
	Mid-2025	Old Mid-2025	**2025 YE**
Gold ($ / oz)	$2,900-$3,000	~~$2,750~~	$3,100-$3,200
Brent ($ / barrel)	$57-$62	~~$71-$76~~	$63-$68
Commodity Index (BCOM)	94-96	~~105.5-107.5~~	97-99
Natural gas ($/MMBtu)	$3.30-$4.30		$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

The recent US presidential elections will likely have a growth impact on the US economy. Conditional on avoiding a significant escalation of tariffs and avoiding a renewed global trade war, the outcome should likely be modestly positive for growth and domestic cyclical activity relative to our pre-election GDP baseline. However, it's too early to quantify this, given scant details released so far by the Republican party regarding tax policy changes, new regulations and tariffs. In the coming months we'll be factoring in growth impacts as details become clearer. For now, we are modestly lowering our estimated odds of recession over the next 12 months on the back of the election (to 20% from 25%), and raising the odds of inflation re-accelerating, i.e., the "no landing" scenario (to 20% from 15%).
The recent US macro data has been on the positive side, sans the hurricane-impacted October jobs numbers. Q3 GDP came in solidly at 2.8% annualized driven by strong consumer spending at 3.7%. Furthermore, private domestic demand has been running steadily at 3% all year so far through Q3. This has been a confirmation that although we see weakness in the GDP data related to real estate activity resulting from higher interest rates, these weak points continue to be more than offset by strong balance sheet dynamics and spending impulses by households and corporates in the aggregate.

What we're watching: Job and income growth, unemployment dynamics, layoff-related data, business sentiment, retail sales, new policy details from the 2024 US elections.

Our view: 2.00-2.50% (Q4 YoY) real GDP growth in 2024 1.75-2.25% in 2025, 1.75-2.25% in 2026.

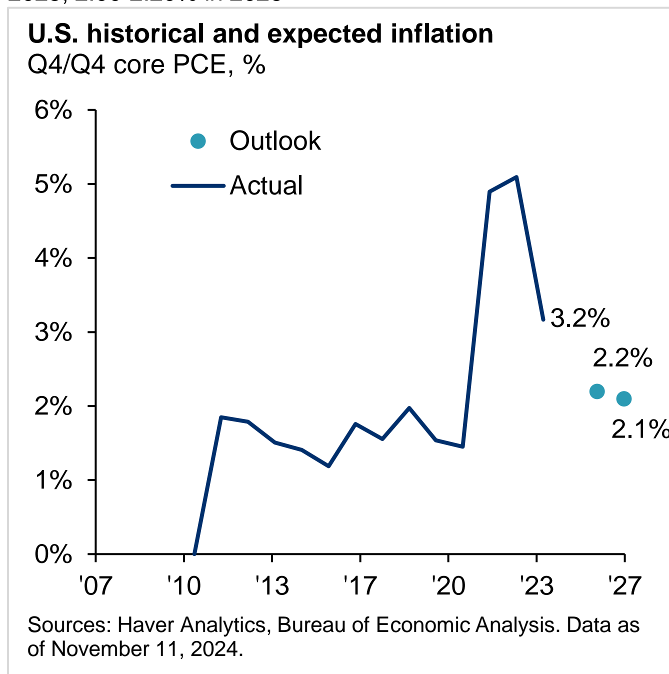
U.S. Inflation

We continue to see incoming data showing unthreatening inflation. Q3 ECI wage growth came in weaker than expected, and the least volatile series on wages (excluding incentive payments) fell further to 4% growth YoY. Recent productivity trends have been solid, with labor productivity running at 2% YoY. So the difference between wage growth and productivity growth implies underlying inflation running close to the Fed's 2% target (a point which Chair Powell made in the November FOMC press conference). In practice, actual inflation remains higher, at 2.7% for core PCE and 2.5% for market-based core PCE, driven by slow moving and lagging components such as shelter. All told, the inflation data remain consistent with the Fed's plan to keep moving its policy rate back to a neural level. In November, we saw the 2nd Fed rate cut of the cycle moving the policy rate to a range of 4.5-4.75%.

How might the recent presidential election impact the inflation outlook? At the margin, it could mean modestly higher inflation than our pre-election baseline. The key swing factor will be tariffs and the degree to which they are implemented. The 2018-2019 tariff experience showed that US tariffs on trading partners get passed on largely to consumers, with some offsets relating to USD strength and trade re-routing.

What we're watching: Wage growth, services ex-shelter inflation, shelter inflation, JOLTS hiring, quits and layoff rates, tariff changes related to the 2024 US elections.

Our view: 2.60-2.80% (Q4 YoY) core PCE in 2024 2.10-2.30% in 2025, 2.00-2.20% in 2026



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Eurozone Growth

The Eurozone continues to stagnate. PMI surveys have settled at weak levels, driven by a struggling manufacturing sector in Germany. That could be set to worsen in 2025 if tariffs are implemented on European exports to the United States as has been speculated. We expect growth of just 0.0-0.5% in 2025 and only modestly stronger in 2026.

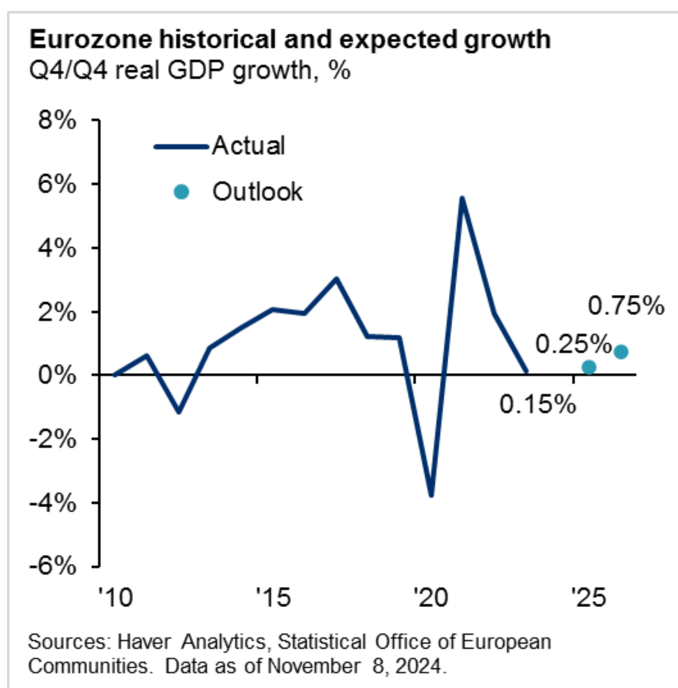
Providing some cushion is that the ECB is firmly in cutting mode. We see the ECB stepping up the pace of cuts, with rates settling below 2% by the middle of next year. That could give some impetus to the economy in the second half of next year and into 2026. However, there are structural challenges facing the European economy that need to be addressed to boost medium-term growth potential. Low productivity and less stable energy supplies all contribute to our less optimistic outlook for growth further out.

The UK has been solid by comparison. Front-loaded spending plans from the government should likely raise both growth and inflation in 2025, though longer term growth will remain challenged unless structural supply issues are addressed.

What we're watching: Trade policy, real wage growth, geopolitical conflict, manufacturing weakness, China fiscal measures.

Our view: 0.00-0.5% (Q4 YoY) real GDP growth in 2025

0.5-1.00% (Q4 YoY) in 2026



Eurozone Inflation

European inflation has fallen in line with expectations, with headline inflation at the 2% target now. Much of that fall has been attributed to slowing goods and energy prices, which are more global in nature. Disinflation has largely been broad-based alongside a slowing economy though.

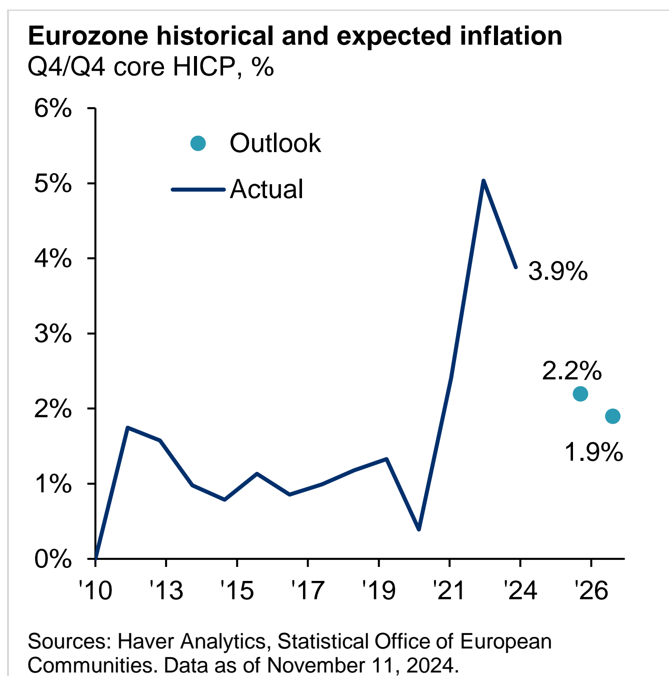
Services inflation remains sticky around the 4% level and wage growth continues to be supported by a record-low unemployment rate in the Eurozone. That is good news for consumers, but tends to result in a degree of pass-through impact to prices. The ECB will want to see some moderation in the labor market and wage growth to feel comfortable that inflation is returning sustainably to the 2% target. Our outlook has core inflation falling gradually towards 2% over the next year, driven by softer services.

In the UK, inflation is proving stickier than on the continent. Headline inflation has staged a sharp decline to below 2%, but underlying price pressures elevated. Spending measures announced at the Budget put further upward pressure on prices, so we anticipate that it could take longer to return core inflation to target.

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

Our view: 2.10-2.30% (Q4 YoY) core HICP in 2025

1.80-2.00% (Q4 YoY) in 2026



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China Growth

Concurrent forces are impacting China's economy in different directions. As the National People's Congress met in early November to discuss and firm up plans for fiscal stimulus, the election of Donald Trump created a new headwind to China's outlook. Since late September, China has been rolling out new measures to shore up growth and support markets. Initial efforts have been mixed, but it appeared that policymaker efforts were putting a floor under the economic outlook. The newfound threat of significant tariffs now increases the risks to the outlook and adds a new complication to stimulus plans.

There are three key questions facing the outlook – 1) Is the economy starting to see signs of a rebound following the announced measures? 2) How much more stimulus will we see? 3) what are the potential effects of proposed tariffs?

Starting with the first point, we now have a few data points since the policy U-turn and can observe some shift in sentiment. PMIs have increased, in particular manufacturing PMIs moved above 50 for the first time in months (see chart). Housing market data is also starting to show some signs of stabilization, albeit at very weak levels. And exports remain very strong, likely a result of front-loading before tariffs are implemented. These together don't yet signal a turnaround and further stimulus will be needed. On that point, further details were announced on November 8th including a debt swap program, but without any further details on demand stimulus. The program consists of: (1) a one-time, Rmb (Renminbi) 6trn increase in local government special debt, with issuance evenly spread over 2024-26; and (2) Rmb800bn of new local government special bond quota per year during 2024-28, totaling Rmb4trn. The market was disappointed as the announcement did not touch on the other important issues, such as fiscal support for housing, bank re-capitalization, and consumption support. It does not mean it will not happen, but the rollout is occurring slower than the market anticipated.

Lastly on tariffs. While we obviously don't have details, our initial estimates are they every 1ppt increase in the tariff rate will translate into -0.9ppt (percentage point) drag on China's exports to the US. So assuming an increase of tariffs to 60%, that's a 40ppt drag on exports to the US. This should likely translate into 6ppt hit to overall exports, and about 1ppt hit to real GDP growth. Adding indirect effect from weaker investment and consumption the total could be 1-2ppts of late 2025 and 2026 growth.

What we're watching: Additional fiscal stimulus details. Trump tariff proposals.

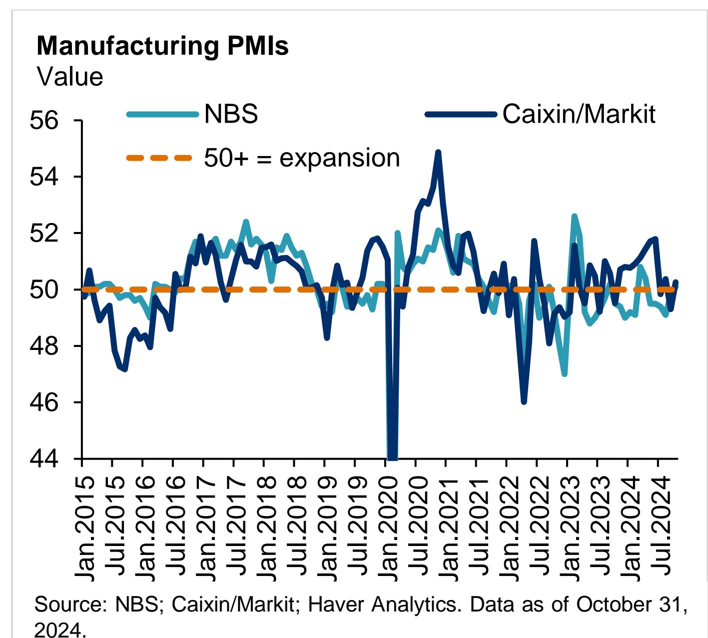
Our view: 4.2-4.7% in 2025 (Q4/Q4), 4.2-4.7% in 2026

China Inflation

China's headline CPI inflation edged down to +0.3% y/y in October from +0.4% y/y in September, and headline PPI inflation moderated slightly to -2.9% y/y in October from -2.8% y/y in September. Both inflation prints missed consensus forecasts. The deflationary pressures from downstream sectors contributed to around 45% of PPI deflation in October. Looking ahead, deflation risks remains, underscoring the necessity of more demand-side measures to restore confidence and boost domestic demand.

What we're watching: policy effectiveness, demand-side stimulus.

Our view: 0.5%-0.7% (Q4 Y/Y) Core CPI in 2025, 1.3%-1.5% in 2025.



Source: NBS; Caixin/Markit; Haver Analytics. Data as of October 31, 2024.

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EQUITY VIEWS

U.S. Equities

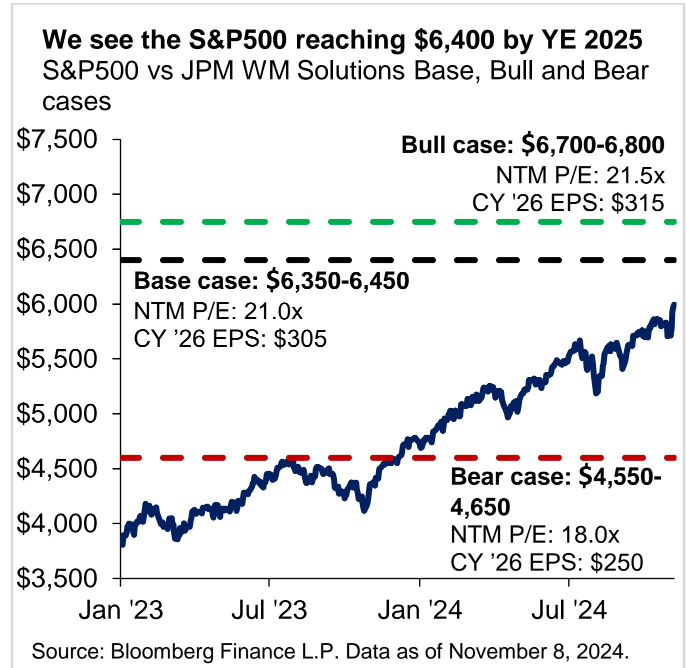
Uncertainty removed. After an extremely long election cycle, voters were decisive. The policy impacts that matter most to equity investors include deregulation, taxes, pro-business partnerships and the use of tariffs. Net of all the policies, investors believe we are entering a pro-business environment, leading to valuation expansion in many cyclical industries. The impact to our market view is also positive, as we reduce the amount of assumed valuation compression and increase our 2026 earnings estimates slightly to account for higher margins. Our new mid-2025 estimate is $6,100 at the mid-point based on 21.25x a $287 forward 12-month EPS estimate (2H'25 plus 1H26). This implies 2 important points: compressions of the market P/E by 1.25x and 11% EPS growth, which we believe will be driven by technology and industrial investments. In addition, we initiate a 1-year+ view for calendar 2025. Our estimate of $6,400 is driven by a 21x P/E on CY2026 EPS estimates of $305. Again, valuation compression versus double digit earnings growth are the key inputs.

Although we preach balance between growth and value factors, we are more positive on the financial sector. Financials were already benefitting from positive earnings revisions stemming from improved credit metrics, expanding margins, easing of short-term rates, positive market action and bottoming capital markets. If we add deregulation, more friendly oversight from the FTC and DoJ and higher capital returns, the sector should likely perform well even after the recent burst in prices. We expect further outperformance from the Industrial sector, which is supported by mega project growth, stemming from policy initiatives and multi-year thematic opportunities. Election clarity should likely help c-suite executives plan their 2025 capex budgets after pausing in the summer. Data center construction to support AI will likely strain power generation capabilities and potentially lead to an acceleration of capex. Near-shoring will remain a theme for years due to shortages of available labor but will be incremental to the trend toward automation of industrial facilities throughout developed economies. Add-in the upgrade cycle in military and defense to the still recovering aerospace market and top-line drivers remain plentiful. Short term, we expect inventories to be rebuilt after declining in the 2023-1H24 period. The utility sector benefits from some of the same forces helping tech and industrials. We see Utilities as a reasonably-priced, defensive sector with earnings growth acceleration stemming from electricity demand. For years, demand growth was flattish, with utilities generating modest growth through regulated price hikes. We anticipate an acceleration in demand from AI data centers and the multi-year growth of hybrids and EVs leading to an improved earnings profile.

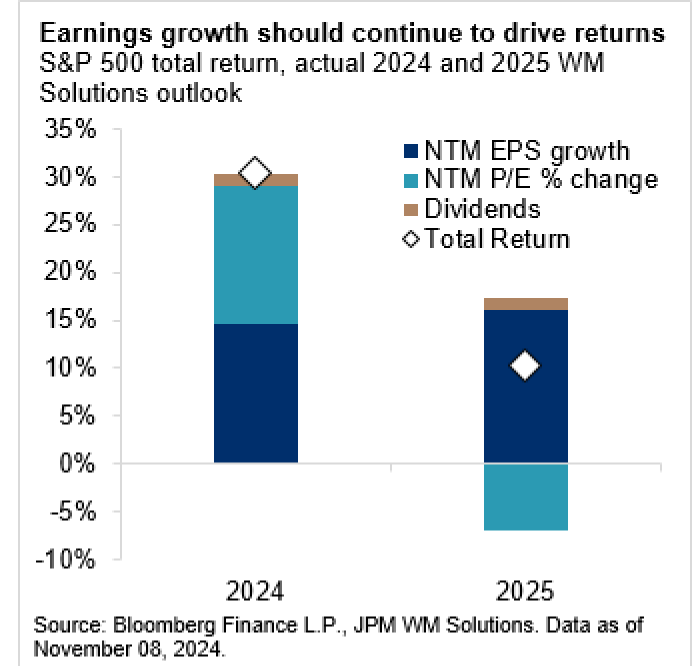
What we are watching: We continue to monitor AI's adoption and payback progress. We are watching for abrupt shifts in yields given the pro-growth atmosphere.

Our view: S&P 500 targets $$6,050-$6,150 by mid-2025 and $6,350-$6,450 by year end 2025.

Top sectors: Industrials; Financials; Technology and Utilities.



Source: Bloomberg Finance L.P. Data as of November 8, 2024.



Source: Bloomberg Finance L.P., JPM WM Solutions. Data as of November 08, 2024.

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Europe Equities

We are further downgrading European equities due to persistently weak economic momentum and the potential impact of U.S. tariffs. There have been significant negative earnings revisions lately, and the third-quarter earnings season was weak, particularly for companies with exposure to China. Additionally, U.S. tariffs may further impact European growth and earnings. Our revised mid-year 2025 estimate for Euro Stoxx 50 is €4,800-4,900, down from the previous range of €5,050-5,150, indicating limited price upside at the index level. For the end of 2025, our estimate is €4,900-5,000. We are also revising our earnings expectations for 2024 and 2025, now anticipating flat growth in 2024, followed by low single-digit growth in 2025 and 2026. We estimate that tariffs will have a ~1% impact on earnings. We expect valuations to be at 13x NTM PE, which is slightly below current levels. The outcome of the U.S. election has created a more favourable environment for U.S. markets compared to those in Europe and the rest of the world.

We maintain a strong preference for the industrial sector, favoring it due to its exposure to a broad range of structural tailwinds. The sector is benefiting from the current AI wave and its connection to data centres. Additionally, the aerospace sub-sector is poised to gain from a plane replacement cycle and increased defence spending.

We continue to favour the luxury goods sector, despite its recent underperformance. Luxury companies are currently experiencing a normalisation period and are facing challenges due to weak growth in China. However, we anticipate more stability in the U.S. and, to some extent, European markets. Our focus remains on luxury companies with leading market positions and strong brands in both soft and hard luxury segments.

We are downgrading the technology sector to neutral, although we still prefer semiconductor equipment manufacturers. However, we anticipate that recovery may take some time due to risks such as export restrictions and the slow recovery of non-AI markets. In the longer term, we expect this sector to continue benefiting from the AI trend.

We have a favourable outlook on several sectors and themes. These include real estate, particularly those with exposure to industrial properties and data centres, as well as private market investment management firms that stand to benefit from the cutting cycle and the increasing demand within the wealth management industry. Additionally, we are optimistic about providers of information and analytics, given their recurring revenue streams and their exposure to the growing AI trend. Furthermore, we continue to see potential in the weight loss drug market, especially in light of its recent underperformance.

What we're watching: developments in China, potential US tariffs, global macroeconomic data, global consumer sentiment, geopolitical tensions in the Middle East and Eastern Europe

Our view: €4,800-4,900 mid-2025 and €4,900-5,000 by end 2025

Source: Bloomberg Finance, L.P. Data as of Nvember 08, 2024.

Source: Bloomberg Finance, L.P. Data as of Nvember 08, 2024.

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Asia Equities

With a Republican sweep an increasingly likely outcome, Asian equities are broadly responding as expected. Concerns over the potential for 60% tariffs being imposed on Chinese exports to the US, broadly stronger USD, and higher yields will be **headwinds for both Offshore China and Asia EM (ex. India, Taiwan). We see limited upside for these regions.** A more forceful-than-expected fiscal response from Chinese authorities remains a possibility to more than offset potential economic headwinds from a tougher trade stance from the US. We await clarity and details before factoring this in. This backdrop is more supportive for Onshore China relative to Offshore China.

On the other hand, **Japanese equities are likely to benefit and is our most preferred market in the region.** Japan is amongst the better prepared countries to deal with blanket tariffs given 30-40 years of localizing production. A more pro-growth US backdrop could also drive a rebound in capital investment that could benefit Japan's exporters. Finally, USDJPY is likely to stay firm and offers upside potential to earnings estimates. Medium term structural positive factors such as reflation and corporate governance reform remain intact. Domestically oriented exposures in retail and financials remain particularly attractive. Exporters in the capital goods space are also well positioned.

Indian equities have pulled back due to constrained government spending around the General election and an above-average monsoon season restricting construction activity, restrictive interest rates, elevated valuation, and record fund outflow given renewed optimism towards Chinese equities during October. With monsoons over, we are of the view these fiscal and monetary headwinds will reverse. Government capex spend should meaningfully accelerate in the next six months, and we could see rate cuts in early 2025 that will stimulate economic activity. **We do not view India as particularly impacted by the political outcome in the US and would consider buying this recent dip.**

Continued strong momentum in AI semi demand keep us **positive towards Taiwan.**

What we're watching: 3Q24 earnings results. China CEWC in December that could bring further policy announcements. November Japan PM vote.

Our view:
MSCI AxJ: June 2025/YE 2025: 735-760 / 770-800 (P/E 13.0x)

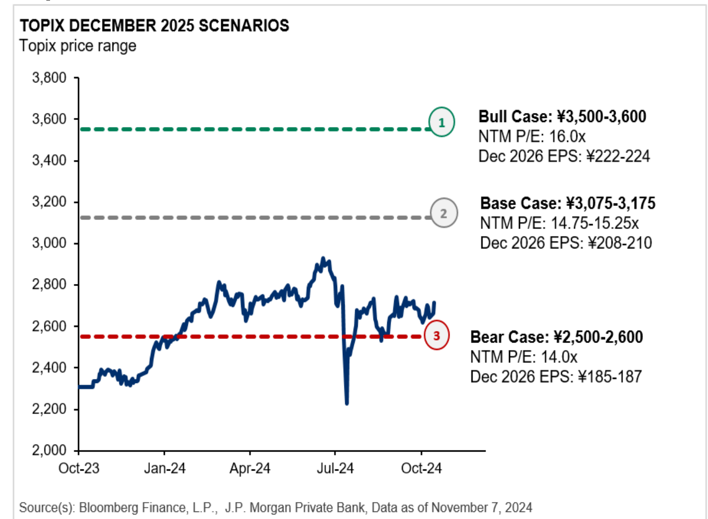
Topix: June 2025/YE 2025: 2,950-3,000 / 3,075-3,175 (P/E 14.75-15.25x)

MSCI China: June 2025/YE 2025: 63-66 / 65-68 (11.0x)

CSI 300: June 2025/YE 2025: 3,700-3,900 / 3,900-4,100 (P/E 12.5x)
MSCI India: June 2025/YE 2025: 2,800-2,950 / 3,180-3,260 (P/E 22.0x)

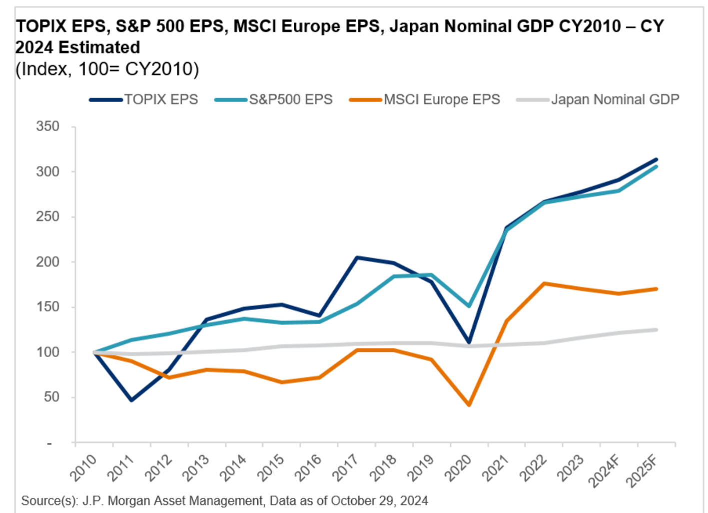
MSCI ASEAN: June 2025/YE 2025: 670-685 / 685-705 (P/E 13.5x)

Topix December 2025 Estimate



Source(s): Bloomberg Finance, L.P., J.P. Morgan Private Bank, Data as of November 7, 2024

Japanese earnings have meaningfully outpaced GDP growth.



Source(s): J.P. Morgan Asset Management, Data as of October 29, 2024

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RATES VIEWS

U.S. Rates

Most key U.S. economic indicators have largely returned to long-run equilibrium levels. If anything, some measures of the labor market look looser than they were pre-pandemic. Yet policy rates remain well in restrictive territory. Against this backdrop, we expect the Fed to continue normalizing policy rates into next year. We currently see the Fed funds rate ending 2025 at 3.50%. We will be watching how U.S. fiscal and trade policy evolves when judging whether that expectation needs to shift.

When it comes to the Treasury curve, we expect 40-50bps of steepening over the next year, led by a decline in short-dated yields as Fed policy continues to normalize. The U.S. fiscal outlook bears watching. There is no discernible market impact thus far, but it's unclear what might trigger a market reaction – or when. As such, despite recent rate increases and our expectation for the 10-year Treasury yield to be 4.35% by the end of 2025, consider maintaining a neutral duration in U.S. fixed income.

What we're watching: Fiscal policy, labor market indicators, consumer spending.

Our view: 10Y: 4.30% by mid-2025

4.35% by year-end 2025

Europe Rates

Progress on disinflation has allowed the ECB to shift its attention towards supporting struggling European growth. With further downside risks to growth from potential tariffs, we expect the ECB to continue to cut rates to a terminal rate of 1.75% by the end of next year. Stepping up from 25bps to 50bps increments is possible but would likely require more weakness in data.

The BoE is faced with a more challenging inflation backdrop following more expansionary Budget measures. Markets are now pricing a 4% terminal rate at the end of next year. We think that seems too high, and quarterly cuts to 3.75% in 2025 is our base case. More weakness in the labor market could warrant a lower terminal rate.

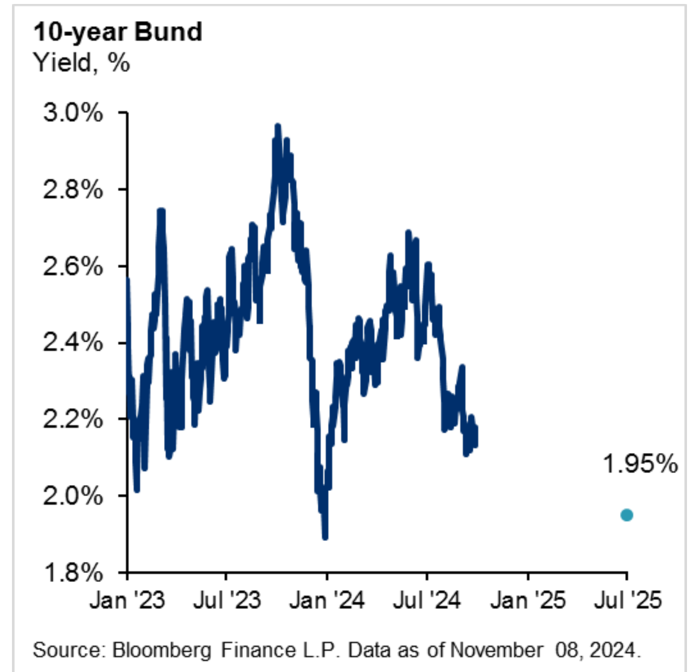
We continue to see an attractive risk-reward profile for European fixed income, given downside risks to the economy and still relatively shallow cutting paths priced for the ECB and BoE.

What we're watching: Federal Reserve, currency fluctuations, wage growth and monetary policy, incoming activity data, and election outcomes.

Our view:

10Y Bund: 1.95% by mid-2025 and 2.00% by year-end.

10Y Gilt: 4.15% by mid-2025 and 4.00% by year-end



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CREDIT VIEWS

U.S. Credit

U.S. Credit: Since the rate cutting cycle started, in September, the market has gone from pricing ~11/25bps cuts by YE 2025 to 7/25bps cuts (including the 3 done already), Credit Markets have gone to near all-time tights in spreads (IG: 91bps, HY 312bps), Equity markets to all-time highs and earnings have demonstrated a resilient consumer. In short, the Fed has advanced a substantial amount of financial easing over the last year.

Core Fixed Income (IG/Munis) returns have been dampened by the treasury curve rising in the 10yr plus range while extended credit (HY/Pref) has had a superb performance, leaving YTD Returns: IG at +3.45% , Munis +0.62%, HY +8.35% YTD, Preferreds +11.2% YTD.

Into 2025, we expect the incoming administrations' policy framework, banking deregulation, domestic business development to be supportive growth and as such a more stable but higher long end treasury curve with spreads that remain near tights allowing for carry like return potential.

With that setup other than in Municipals we remain neutral duration with a preference for short and intermediate duration in Corporate as the spread level does not compensate taking long duration risk.

For Municipal bonds, which are correlated with Treasuries and may offer Tax Equivalent Yields around ~8.0% at the long end, there is potential for returns comparable to historical average equity averages. For U.S. taxpayers, the tax advantages of owning long-end Municipals many now exceed those of Preferreds, following the spread compression in the latter space.

[1] Note: 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..

What we're watching:

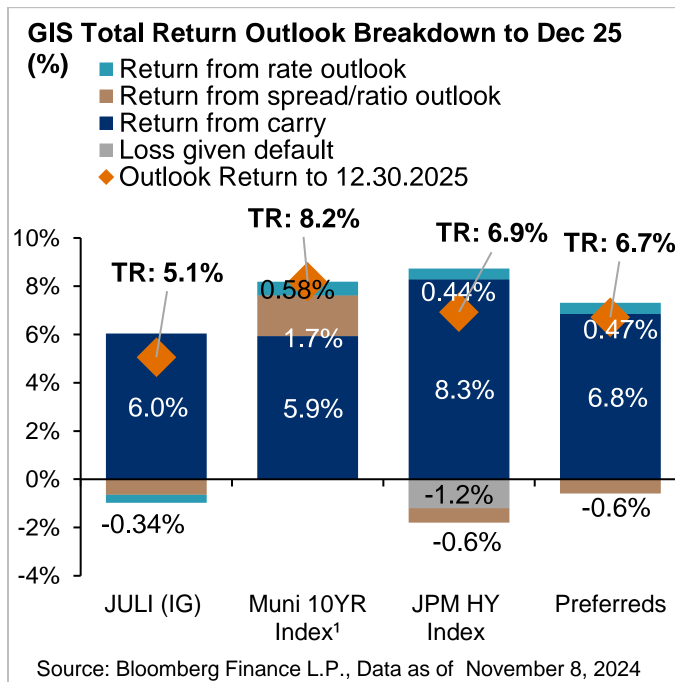
- **Core Fixed Income:** We favor Investment Grade and Municipal bonds in the credit space. With long end Municipals potentially offering equity like returns for US taxpayers.
- **Extended Credit:** We expect the potential for carry like returns of ~7% going forward.
- **Duration:** We prefer short-intermediate duration in IG but find value in Municipal long duration given overall potential for Tax Equivalent Yields.

Our view:

US IG (Spread): Base 100bps, Recession 250bps, Stronger for longer 150bps +/- 25bps by 12/30/2025.

US HY (Spread): Base 330bps, Recession 700bps, Stronger for longer 525bps +/- 25bps by by 12/30/2025.

Municipal (Ratio): Base 75bps, Recession 115bps, Stronger for longer 85bps +/- 25bps by 12/30/2025.



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E.U. Credit

European Credit: YTD, EUR Investment Grade market has outperformed USD Investment Grade markets with above carry +3.84% returns, having experienced ~40bps of credit spread tightening. EUR High Yield has returned 7.1% YTD, also delivering above carry-like returns, the space has seen a similar YTD spread compression to USD HY: ~65bps[7].

After US elections, EUR IG spreads tightened further and reached 100bps, lowest level since January 2022. **EUR IG yield at ~3.3% still screens attractive**, surpassing the yields available on ~78% of trading days over the past decade. EUR High Yield spreads widened modestly off the 311bps lows to 315bps, leaving us with significantly tighter spreads than 99.6% of the trading days since January 2022. EUR rates markets have reacted to Trump win by bull steepening in anticipation of faster pace of ECB cuts needed to support already struggling European economies, in light of potential US tariffs and trade protectionism.

On this sentiment we expect modest widening to both EUR IG (to 115bps) and HY (to 350bps) spreads, still expecting net positive carry-like return potential, driven by our views on EUR rates declining faster than expected to support EUR area economies. European credit fundamentals remain healthy as demonstrated over the past few weeks of Q3 results, technicals are supportive.

What we are watching:
We are monitoring the developments for European Automotive space in light of US tariffs risks and Chinese competition. We remain comfortable with select European national champions Investment Grade issuers given negative net leverage they are operating with and significant amounts of liquidity held on balance sheets.

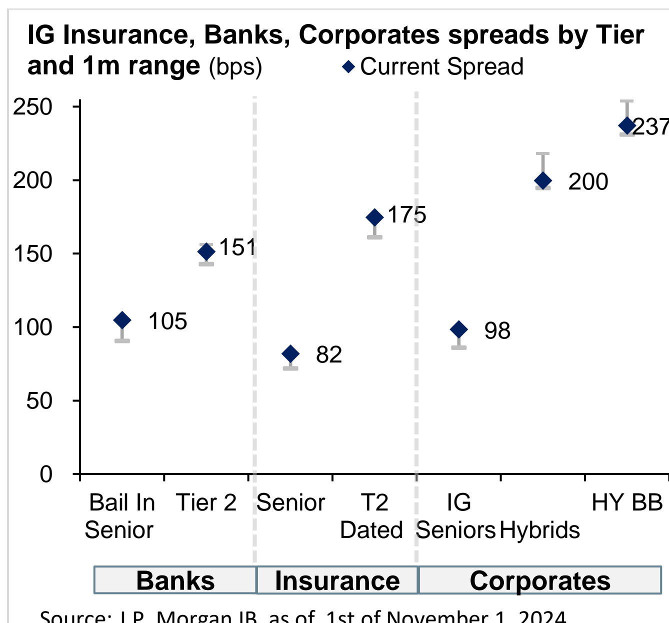
European Corporate Hybrids: High-Yield-Like Return potential from Investment Grade Issuers.
Corporate Hybrids are favored for locking BB-like yields without increasing credit risk, staying within solid Investment Grade companies. Dominated by strong IG-rated national champions, these issuers use hybrid capital to support credit ratings and improve cost of capital. EUR Corporate Hybrids currently offer a spread pick-up of over 100bps compared to senior curves. We remain selective, focusing on robust credit metrics and strong operating results, favoring structures with lower extension risk to comfortably take on subordination risk for a potential yield pick-up.

Subordinated European Insurance: very high credit quality even at subordination.
Insurance companies issue limited amounts of Senior debt given their "self-funded" business models (policy premiums), most of their publicly traded debt is comprised of Tier2, which enables them to comply with capital requirements. Solvency metrics remained strong at Q3 despite upticks in natural catastrophe losses, driven by effective underwriting, increased investment income. We particularly favor AA-rated at Senior level Insurers, whose Tier2 papers fall within single-A credit quality segment and trade ~70bps wider to EUR IG Senior Index.

European Banks: we see best value across Senior Non-Preferred/ Senior Unsecured curves
Following strong Q3 2024 earnings that demonstrated solid operational performance (stabilizing NIIs, strong fee generation, low cost of risk), robust capital ratios, healthy loan books with low NPL ratios, we continue to be comfortable with European Banks across the capital structure.

Given tighter spread pick-ups from Senior Non-Preferred/ Senior Unsecured Tier2 debt we are seeing for European GSIBs, on relative value basis we currently favor Senior space, but remain comfortable holding existing Tier2 exposure given robust credit health of European Banks.

Our View:
EUR IG (spread): 115bps (+/- 25bps) by Q2'2025
EUR IG (spread): 115bps (+/- 25bps) by Q4'2025
EUR HY (spread): 350bps (+/- 25bps) by Q2'2025
EUR HY (spread): 350bps (+/- 25bps) by Q4'2025



Source: J.P. Morgan IB, as of 1st of November 1, 2024.

[7] Source: Bloomberg Finance L.P. Data as of November 7 ,2024.

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Asia Credit: In the first ten months of 2024, Asian credit markets experienced a tightening. Investment Grade (IG) credits delivered a return of 4%, while High Yield (HY) credits achieved double-digit returns[8]. Key factors included shorter duration, strong technical conditions in China, and solid demand in the Indian credit and Macau gaming sectors. However, within the Asia HY segment, returns were uneven due to ongoing defaults in the property sector.

Looking ahead, we anticipate mid to high single-digit return potential in Asian credits. The current index yield is 6.19% with a duration of 4.38. We expect carry to be the main driver of returns, as the sector is trading near its tightest levels.

Asia Investment Grade (IG):
We expect a modest widening of spreads due to tight valuations and potential tariff risks. Despite this, with an absolute yield of 5.41% and a duration of 4.67, returns are likely to exceed the index, given our outlook on treasury rates. Technical factors remain strong, driven by Chinese investors' preference for higher-yielding USD markets and issuers refinancing onshore maturities due to lower local yields, creating a supply-demand imbalance.

Our preferred areas in Asia IG include Japanese life insurers, Asia Global Systemically Important Banks (G-SIBs), and China TMT. We maintain a neutral stance on Hong Kong, India, and Indonesia IG due to balanced risk-reward dynamics. We view valuations for Chinese State-Owned Enterprises (SOEs) and Korean credits as tight.

Asia High Yield (HY):
Similar to Asia IG, we expect a modest widening of spreads for similar reasons. However, the risk-reward profile in Asia HY is becoming more balanced following record defaults in recent years. The index's weighting of Chinese property has decreased from over 40% pre-2020 to 8.9% currently, with surviving names generally of higher quality. Consequently, we expect the default rate in Asia HY to decline further in 2025, with carry being the primary source of potential returns.

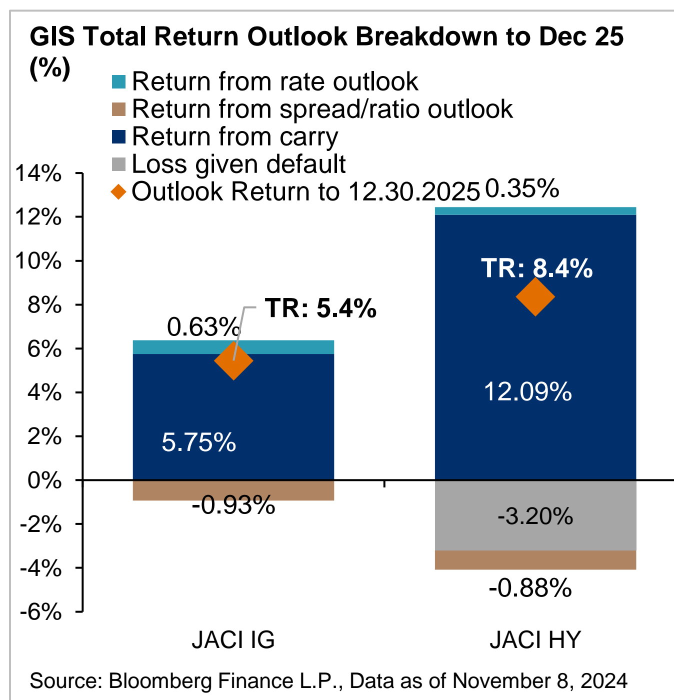
Our preferred areas in Asia HY include Indian HY credits across the commodity, financial, and renewables sectors due to their long-term growth potential, and Macau gaming, given its stable credit profile. We see select opportunities across Indonesia and Japan high yield. We anticipate volatility in Hong Kong real estate due to elevated spreads and ongoing headlines, but potential Federal Reserve rate cuts and Chinese stimulus could support the sector. We remain selective in Chinese property, as this sector is likely to experience the majority of defaults.

What we're watching:

- **Japan Lifers Hybrids**: With an average rating of A, approximately 5.2% average yield, attractive valuation, relatively low volatility, and a good call history, these remain a focus.
- **G-SIBs in Asia**: Solid IG credit with global business, minimal US commercial real estate exposure, wide range of selection across tenor and capital structure.
- **India Growth**: Long-term growth prospects, supportive infrastructure policy, and strong technical support make this a key area of interest.

Our View:
Asia IG (Spread): Base 90bps, Recession 275bps, Stronger-for-longer 200bps +/- 25bps by 12/30/2025.

Asia HY (Spread): Base 675bps, Recession 1000bps, Stronger-for-longer 900bps +/- 25bps by 12/30/2025.



[8] Bloomberg Finance L.P. Data as of November 7, 2024.

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EM Credit

2024 Year-to-Date Performance: As of 2024, spreads have compressed by 22 basis points in the Sovereign Emerging Markets Bond Index (EMBI) and by 90 basis points in the Corporate Emerging Markets Bond Index (CEMBI), resulting in YTD returns of 6.41% and 7.32%, respectively. The easing of global financial conditions, coupled with a broadly positive environment outside of China, has significantly contributed to the strong performance of these asset classes.

This years' supply in both CEMBI and EMBI has surpassed the total issuance for the entire year of 2023, yet it continues to be absorbed in an orderly fashion. This absorption is supported by a stable fundamental backdrop for emerging market corporate issuers, with leverage and other credit metrics remaining robust and within the stronger end of their historical range.

2025 Outlook: Looking ahead to 2025, we anticipate that the policies of the Trump administration will present a mixed outlook for emerging markets. On one hand, we expect the imposition of further tariffs and a more challenging commercial relationship with China. On the other hand, there are potential positives for Latin America.

In Latin America, the current leftist governments have shown limited success, while more right-leaning governments, which are aligned with the incoming U.S. administration, are gaining momentum. Countries such as El Salvador, Argentina, and Ecuador are making progress. As the political pendulum swings from left to right, we anticipate a realignment in many Latin American countries, with Mexico and potentially Brazil adopting more centrist policies.

For the rest of the emerging markets, including the Middle East and Central and Eastern Europe, the Middle East, and Africa (CEEMEA), performance has been strong, excluding Russia and Ukraine. We expect that any resolution of conflicts in these regions will foster economic growth and that a continuation of supportive orthodox policies will become the norm, even in countries like Turkey, which may come as a surprise.

Overall, we maintain a neutral stance on the complex. While the U.S. interest rate environment and the ongoing commercial tensions between China and the U.S. pose risks, the growth potential within these markets remains supportive.

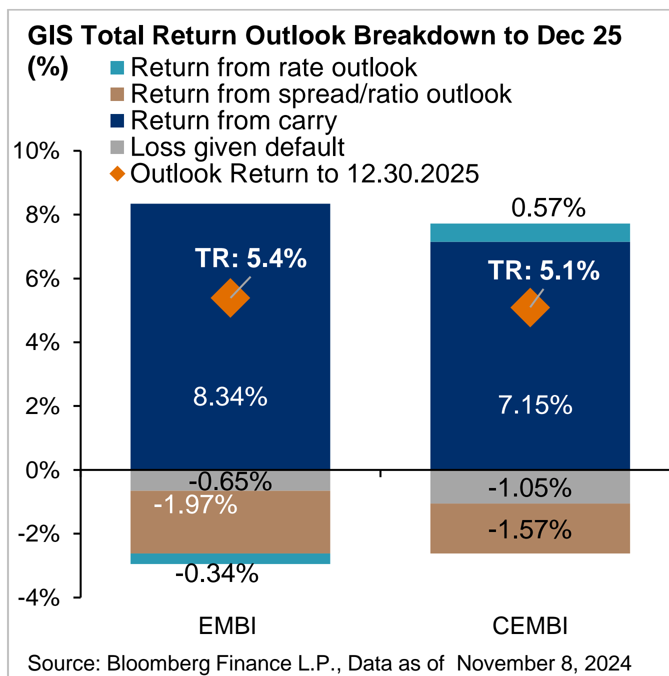
What we are watching:

- **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 the potential for 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 average expected returns. We see opportunities in certain Turkey corporates that has the potential to offer outsized returns for the quality of the business and strength of the balance sheets.

Our view:

EMBI (Spread): Base 325bps, Recession 570bps, Stronger for longer 470bps +/- 25bps by 12/30/2025.

CEMBI (Spread): Base 235bps, Recession 470bps, Stronger for longer 400bps +/- 25bps by 12/30/2025.



Source: Bloomberg Finance L.P., Data as of November 8, 2024

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FX VIEWS

US Dollar

We have long anticipated that the dollar will ultimately unwind its overvaluation, in line with the LTCMAs. However, the timeline seems poised to be further delayed given a red sweep in the U.S. elections. Under this scenario, chance of sustained USD strength over the next 6-12 months screens high. Higher risks of tariffs, more accommodative U.S. fiscal policies and thus a potentially shallower Fed cutting cycle all point to a prolonged period of U.S. growth and rates exceptionalism.

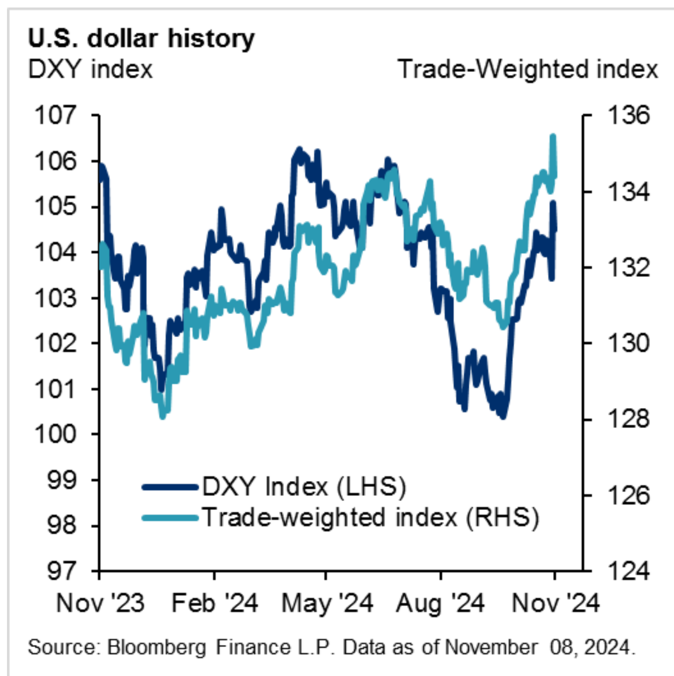
In particular, tariffs may disproportionately drag on growth in China, Europe and EMs with high exposure to US imports, relative to the U.S. economy. Interest rate differentials should likely also continue to favor the dollar. We expect a higher terminal rate in the U.S. than before the elections, and a lower terminal rate in Europe, for example.

The combination of the above may move the dollar towards the right side of the dollar smile framework. We would stay long USD against tariff sensitive FX, in particular EUR and CNH.

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

Our view: DXY: 107 (105-109) by mid-2025

107 (105-109) by year-end 2025



Source: Bloomberg Finance L.P. Data as of November 08, 2024.

Euro

EUR has weakened following the U.S. election result, and its outlook remains fraught with challenges. The heightened risk of tariffs poses a threat to growth in the Eurozone, potentially exacerbating the region's already lackluster economic performance. Macro data has consistently fallen short of expectations over recent months, and the disinflationary trend has continued. This backdrop opens the door for a more dovish trajectory from the ECB, as policymakers may feel compelled to accelerate the pace of easing to support growth.

In light of recent developments, we now expect EURUSD to decline to a 1.02-1.06 range in 2025. Consider the currency from the short side, particularly against USD, GBP (high beta, high carry), and CHF (negative correlation with European growth).

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

Our view: 1.04 (1.02-1.06) by mid-2025

1.04 (1.02-1.06) by year-end 2025

Source: Bloomberg Finance L.P. Data as of November 08, 2024.

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British Pound

Sterling has been the standout performer in the G10 space post U.S. elections. Unlike the Eurozone, the UK is more insulated from tariff risks, thanks to its more services-based economy.

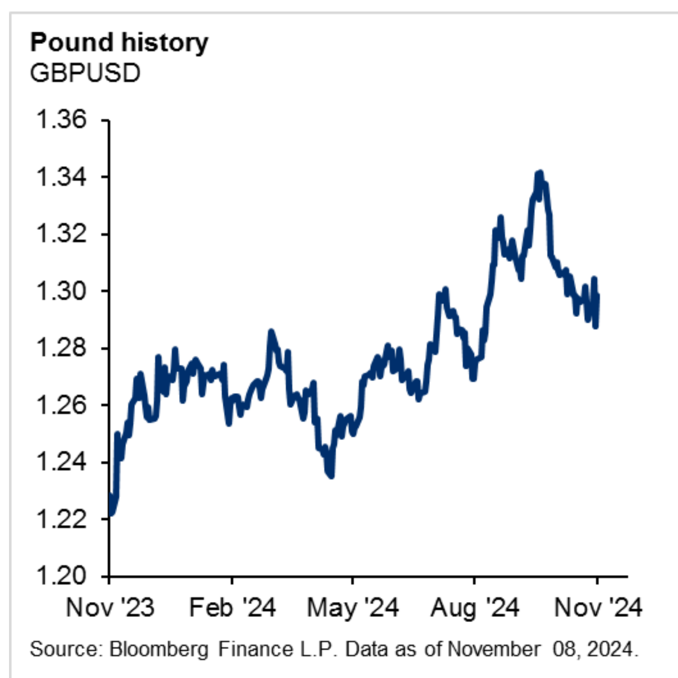
Resilient growth in the UK and stickier core inflation has supported the pound through a more hawkish outlook for the Bank of England vs. RoW, and solid risk sentiment has given a boost given GBP's high beta nature.

We expect those fundamentals to remain in place, and potentially strengthen in 2025 as the new government's front-loaded spending plans result in higher growth and inflation. GBP looks to be the preferred carry alternative to the dollar for investors, and should likely fare well from the positive risk sentiment in markets following the election outcome. The pound is pricing in a fiscal premium due to increased government borrowing, but we expect that to remain contained. Short EURGBP is our preferred expression of a more optimistic outlook for sterling, but we also think that clients with GBP-needs consider converting dollars on dips towards the bottom end of our 1.28 – 1.32 range.

What we're watching: Global and UK growth revisions, BOE trajectory, global risk sentiment, fiscal concerns.

Our view: 1.30 (1.28-1.32) by mid-2025

1.30 (1.28-1.32) by year-end 2025



Source: Bloomberg Finance L.P. Data as of November 08, 2024.

Swiss Franc

Given prolonged USD strength and expectations of a higher US terminal rate, we expect the Franc to trade on the weaker side against the dollar. Given weak domestic growth and deflationary pressure in Switzerland, we will likely see further rate cuts from the SNB, allowing attractive carry relative to the USD.

Over the medium term, the Franc could see more support, especially against EUR, given 1) weak growth momentum in Europe, and 2) narrower rate differentials, as the SNB cutting cycle is set to be shallower. In addition, CHF offers the potential to provide attractive diversification benefits for global investors, as its often considered relatively insulated from recession risks and geopolitical facots.

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

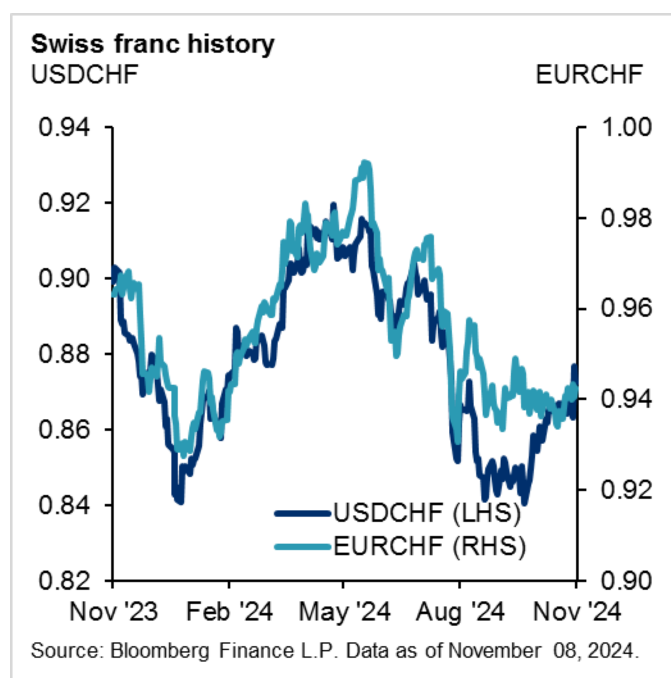
Our view:

USDCHF: 0.89 (0.87-0.91) by mid-2025

0.89 (0.87-0.91) by year-end 2025

EURCHF: 0.93 (0.91-0.95) by mid-2025

0.93 (0.91-0.95) by year-end 2025



Source: Bloomberg Finance L.P. Data as of November 08, 2024.

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Japanese Yen

The yen tumbled 8% since late September amid a sharp rise in US interest rates and political turmoil domestically.

Historically, the spread in interest rates between Japan and the US explains 80-90% of the movement in USDJPY. We expect the Bank of Japan to maintain its gradual approach to policy normalization, with no additional rate hikes expected until next year. Although there is market speculation about the resurgence of carry trades, Japanese authorities have indicated, through the surprise rate hike in July, their discomfort with USDJPY exceeding 160.

Given our base case for long-term U.S. yields to find a ceiling not far from current levels, we expect USDJPY to remain between 150 and 160 in 2025.

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

Our view: 155 (152-158) by mid-2025

155 (152-158) by year-end 2025

Source: Bloomberg Finance L.P. Data as of November 08, 2024.

Chinese Yuan

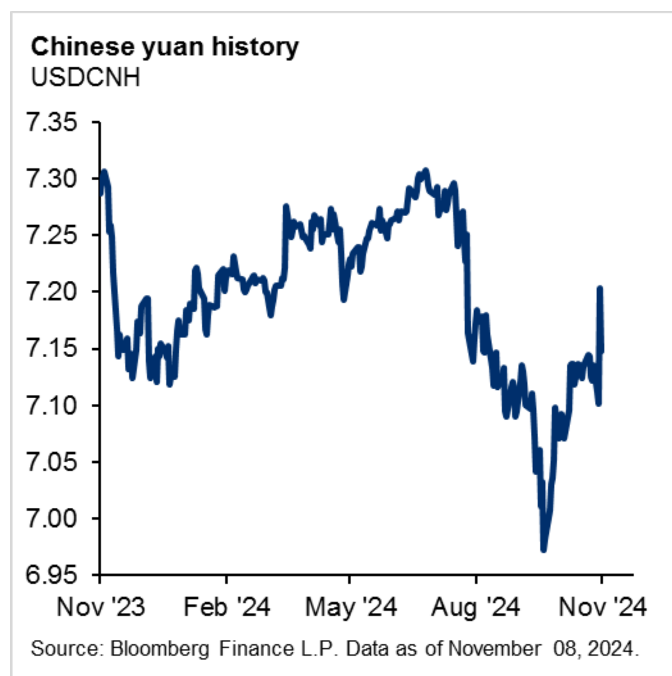
We expect a weaker CNH with higher volatility from here, given its vulnerability to tariff risks and already weak growth backdrop. Geopolitical risk premium will likely dominate over the next 6-12 months, with a high degree of uncertainty over levels and scope of tariffs implemented. During the 2018-2020 trade war, USDCNH rose by as much as 15% from trough to peak.

While Beijing will likely respond with a step-up in policy stimulus, implications could be mixed on the currency as more aggressive monetary easing means a wider carry disadvantage. Thus we encourage investors with long CNH exposure to hedge. Consider the currency from the short side against other currencies.

What we're watching: US-China trade tensions, China policy moves, capital flows.

Our view: 7.40 (7.30-7.50) by mid-2025

7.40 (7.30-7.50) by year-end 2025



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G10 Commodity FX

The commodity bloc outperformed its G10 peers despite weakening on broad USD strength, thanks to upbeat risk sentiment post U.S. election.

CAD: Neutral. Weak domestic conditions keep CAD under pressure versus the dollar, but there could now be scope for outperformance on crosses. CAD acted as a dollar proxy for much of this year and should likely benefit from an extended period of U.S. exceptionalism.

AUD: Neutral. Fundamentals remain solid with a hawkish RBA and a resilient domestic economy. That said correlation to China and potential disruptions in APAC supply chains could weigh on AUD.

NZD: Bearish. RBNZ has stepped up the pace of easing. Labor market weakness and continued disinflationary trend should likely keep policymakers firmly in easing mode.

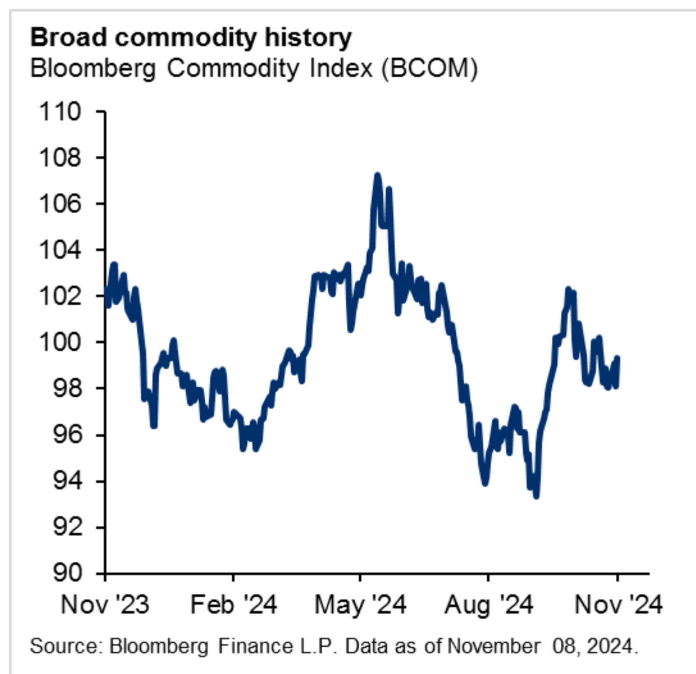
What we're watching: Commodity prices, global growth outlook, central bank divergence

Our view:

CAD: 1.34 (1.32-1.36) by year-end 2025*

AUD: 0.67 (0.65-0.69) by year-end 2025

NZD: 0.62 (0.60–0.64) by year-end 2025*



Source: Bloomberg Finance L.P. Data as of November 08, 2024.

Scandi FX

Scandis have underperformed in recent months as European growth surprised to the downside and oil prices fell. The currencies could catch a bid vs. EUR if risk-on sentiment persists, but we are cautious on the bloc overall:

NOK: Neutral. NOK remains supported by strong domestic conditions, Norges Bank's hawkish tone, and overall risk sentiment, Expect NOK to outperform vs. SEK and EUR, but not vs. USD or GBP. Fade moves in EURNOK towards 12.

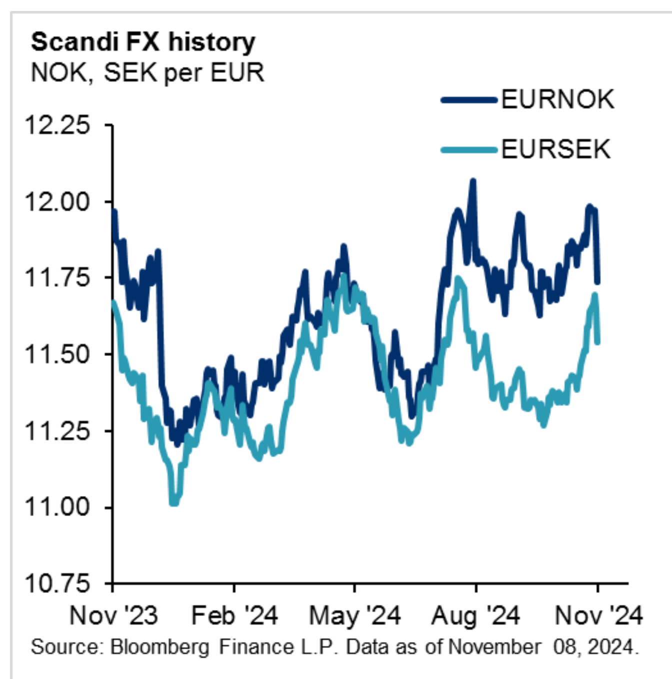
SEK: Bearish. EURSEK is trading towards the top end of its one-year range. Activity data is signaling a slight uptick in Sweden, but further cuts are coming. SEK was also the worst G10 performer through the 2018-19 tariff episode.

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

Our view:*

EURNOK: 11.20 (11.00–11.40) by mid-2025

EURSEK: 10.90 (10.70–11.10) by mid-2025



Source: Bloomberg Finance L.P. Data as of November 08, 2024.

* JPM Investment Bank Outlook

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Emerging Market FX

Heightened tariff risks and a prolonged strong dollar environment following the U.S. election results could result in further pressure on EM FX.

Latam: After a difficult year, volatility relief following the election outcome should likely support LatAm FX at the margin. Central banks in the region also look set to cut more gradually than previously expected.. **BRL:** Political and fiscal concerns remain front and center, but a central bank in tightening mode and positive risk sentiment should likely keep a ceiling on how high USDBRL can go.. **MXN:** MXN tumbled post U.S. election results. Cautious for now as volatility will likely remain elevated until we see further clarity on trade.

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, but geopolitical risk will ultimately remain the primary driver of ILS. A stronger negative correlation with oil prices of late should likely also be supportive. It takes a lot for the currency to meaningfully weaken from here, but it still makes sense to hedge against tail risks.

Asia: Tariff sensitive as well as low yielding currencies under pressure. **INR**: Constructive on carry advantage, healthy growth outlook and isolated tariff risks. **TWD:** Cautious on correlation with CNH and carry disadvantage. **SGD:** Neutral against USD and constructive against the basket. The Monetary Authority of Singapore (MAS) is expected to start easing in Q1.

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

Our view:*

BRL: 5.30 (5.20–5.40) by end-2025

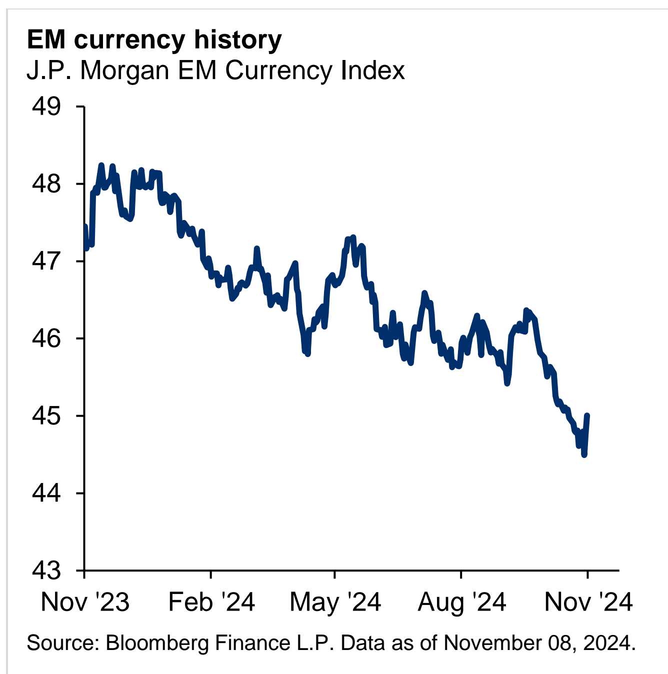
MXN: 18.30 (18.10–18.50) by end-2025

ILS: 3.50 (3.30–3.70) by end-2025

INR: 83.40 (82.40 – 84.40) by end-2025

TWD: 30.50 (31.60–32.60) by end-2025

SGD: 1.27 (1.25–1.29) by end-2025



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COMMODITY VIEWS

BCOM Index

Commodities lost ground over the past few weeks, declining -1.2% through October and to November 7th as the market evaluated a second Trump administration. We would expect these to change as we begin to get more clarity on how the new administration. In terms of early movers, the largest decline was in Natural Gas -7.2%, Nickel -5.5% and Coffee -4%. Crude oil climbed +5%, Diesel up +7% and Gasoline +4%. Broadly we expect declines in base metals and crude oil. We expect flat to negative returns in agricultural commodities, strong gains for gold as dollar diversification beats out higher yields and strong appreciation in Natural Gas as the administration may lift the moratorium on LNG exports that had been implemented by the Biden administration. At the index level, we are looking for small declines into mid-year and then a reversal as markets digest the policy announcements, leading to flattish performance into year-end 2025. It is important to note that the BCOM Index is not equally weighted, with the largest components being Gold and Natural Gas, that currently account for over 25% of the Index returns. The Index will be re-weighted at the beginning of the new year.

What we're watching: Consider exiting the small position established in August with a small gain. Consider remaining on the sidelines until policy becomes clearer.

Our view: 94-96 by mid-year 2025 and 97-99 at YE 2025

Source: Bloomberg Finance L.P. Data as of November 08, 2024.

Gold

Gold continued its climb, up +2.5% although it is -3% off the all-time high at 2787. Retail continues to buy, although we are mystified why this is attracting headlines, only increasing by 0.6% since October 1st. Since the end of selling in May, retail has only added 4% via ETF buying and we hold the view that the trade is not a crowded position, although futures traders have been taking some profits. Looking ahead into 2025, we would not consider the post-election selloff as a guide to direction moving forward. We see the move as a response to higher US yields, a strengthening USD and a decrease in safe-haven risk as equities have rallied. We think gold will do well under a Trump administration for two principal reasons 1) continued concerns about the US deficit as fiscal policy will likely be expansionary and 2) we would look for further USD reserve diversification amid trade tensions and increasing geopolitical risk. We are therefore revising our outlook higher for 2025, looking for $2900-3000 by mid-year and $3100-3200 by year-end. For clients with the ability to hedge, we had highlighted collars for most of 2024, and believe you can continue to consider this strategy, if appropriate, given our higher forecasts over the next year.

What we're watching: Consider buying gold on dips, and look for clues on policy moving forward. Sanctions will likely increase dollar diversification themes.

Our view: $2900-3000 by mid-year 2025 and $3100-3200 by YE 2025.

Source: Bloomberg Finance L.P. Data as of November 08, 2024.

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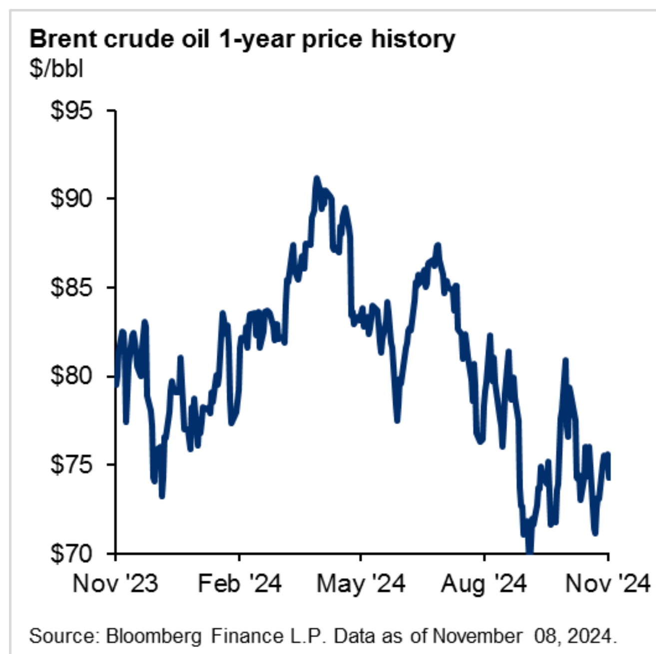
Crude Oil

The market is now stabilizing at lower levels, with a lot of concern building that Trump will attempt to bring as much production online as possible. Everything hinges on tariffs, although Trump had said at one of his late election rallies that he wanted to bring prices down as much as possible. The reality is that US production is very price dependent and becomes more difficult if the 1 year future price drops below $60. Our view is that below $50 US production will actually decline as new production stops and more expensive wells become shut-in. On the other side, foreign policy observers are expecting the new administration to take a tough line on Iran, which will likely impact their export capability. Saudi Arabia would likely be needed to offset the export drop, but it is not clear to us, given Iran/Israel tensions, how SA will react. Domestically the Trump administration will speed permitting, ease regulatory burdens and be a boost to pipelines. Lower oil prices would hurt energy producers, but pipelines and servicers should likely benefit. Our expectation is that markets will test the downside in oil prices rather than the upside and we are therefore revising our outlook lower. We would be buyers of crude oil structures in the mid-fifties.

What we're watching: How much will US supply increase as costs decrease under less regulation and speedier permitting? Will Saudi Arabia help with more supply?

Our view: WTI $53-58 mid-year and $59-64 end 2025 Brent $57-$62 mid and $63-68 end year 2025.



Source: Bloomberg Finance L.P. Data as of November 08, 2024.

Natural gas

We are growing more optimistic on the longer term outlook under a Trump administration. President Biden had instituted an LNG moratorium for new production facilities in the US that had impacted prices and led to fears that Harris may move a step further and ban export of Natural Gas completely for a time. Both of these policies seem out of step with the Biden promise to supply Europe with gas, after the Russian invasion. Our belief was that the moratorium was a nod to progressive climate activists and would be lifted at some point in the future. This is no longer an issue as President elect Trump has said that he will lift the moratorium on Day 1. On the power demand side, Trump has promised to end incentives and subsidies for wind and solar. Given these renewables are needed to help meet the surge in power demand for AI and data centers, Nat Gas will almost certainly be needed to fill the resultant gap. As we have written before, there is plenty of gas available to meet the demand. The problem is infrastructure. More pipelines are being proposed and we expect that the new administration will be significantly better at permitting. For now weather is still a factor and in Europe this week a lack of wind in Germany and the UK led to a big draw on gas storage. Not an issue for now, but worth watching.

What we're watching: LNG policy changes, weather and Trump policy.

Our view: $3.30-$4.30 to mid-year 2025 and $3.30-$4.30 for year end 2025

Source: Bloomberg Finance L.P. Data as of November 08, 2024.

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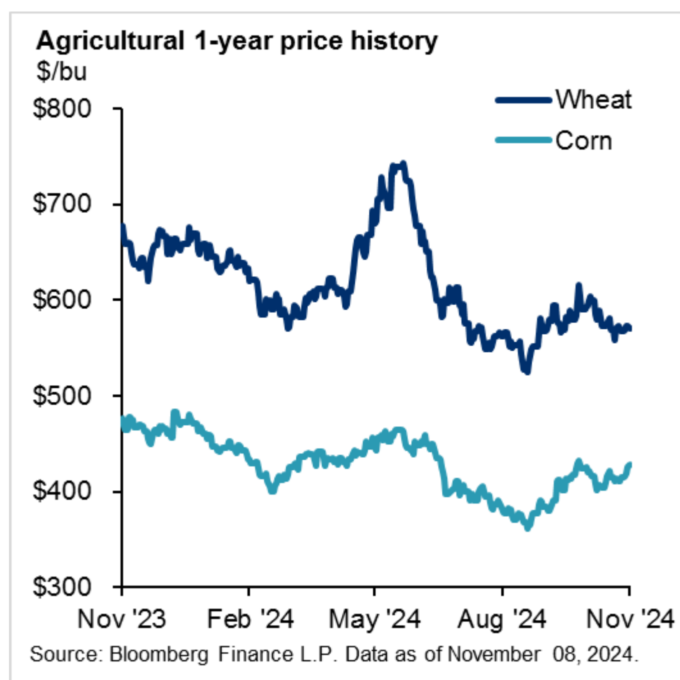
Agricultural commodities

Corn and Wheat were mixed over the month with Corn +1% and Wheat -2% through November 7th. The election result brings many factors into play for Corn and Wheat markets. Aggressive tariffs could on the face of things be a large negative, but on the other hand, there is a very real possibility that China could commit to making substantial goodwill purchases as negotiations begin between the two countries. Lower energy prices would be a positive for US farmers and help reduce input costs, but deportation policies will be a large negative as labor supply gets squeezed in an industry dependent on migrant labor. Given the uncertainty in this sector we are holding with our outlook for now. Look for revisions as policy becomes clearer.

What we're watching: Tariffs and trade negotiations.

Our view: 500-600 for Corn and 650-750 for Wheat by year end and mid-year 2025.



Source: Bloomberg Finance L.P. Data as of November 08, 2024.

Copper

Copper was largely sideways over the last month losing -1.7%. We wrote in October that a Trump election victory could be very bearish for Copper as 60% tariffs on China will most certainly impact Chinese copper demand. The day after the election, the metal sold off -5%, but has rallied back 3.45% as the USD weakened the following day. Our suspicion is that the market will trade sideways into year-end, looking for clues on the size of tariffs to be implemented. For now we are taking President elect Trump at face value and revise our copper outlook significantly lower. This is a worst case scenario, and so should likely be taken in that context. The outlook will be revised again if tariffs are implemented at a lower rate. We advise caution for the foreseeable future. On the positive side, China may possibly unleash another round of much more significant stimulus to spur consumption. This would be supportive of copper prices in the short term. The infrastructure story remains intact, but this demand will take time to materialize. Patience is the key word for now, although we do think that an extended move lower may represent a buying opportunity. For those on the sidelines, consider buying a dip in prices. Timing and evolution of policy becomes a big driver for the next few months.

What we're watching: Tariffs and China stimulus.

Our view: $8500-8600 mid-year 2025 and $8700-8800 year end.

Source: Bloomberg Finance L.P. Data as of November 08, 2024.

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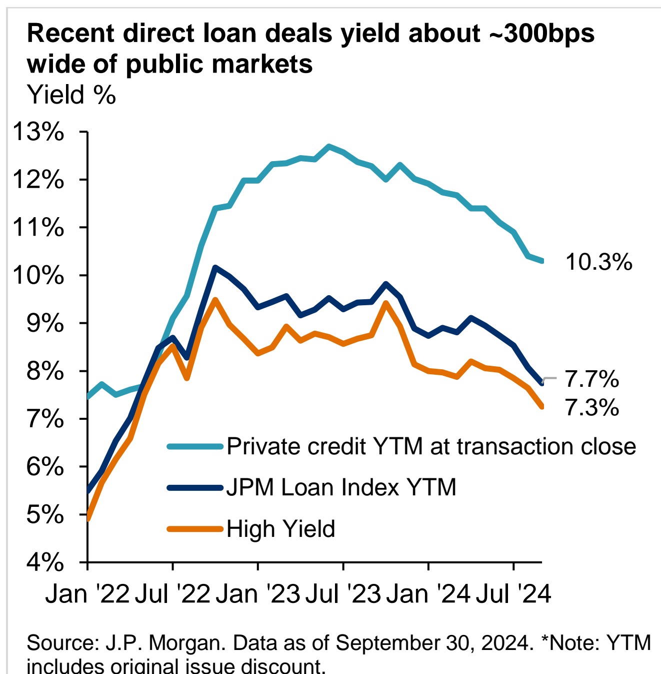
ALTERNATIVES VIEWS

Private Credit

We continue to see opportunities in direct lending, though we expect yields to continue moving lower as base rates decline and spread tighten. We've seen this in recent quarters as yields on new direct lending deals have declined, narrowing of the yield differential between private and public markets. Specifically, recent direct loan deals are yielding about 300 basis points wider than public markets, down from 400 basis points in the middle of 2023.



Source: J.P. Morgan. Data as of September 30, 2024. *Note: YTM includes original issue discount.

We estimate a significant proportion of all private credit lending to asset managers is facilitated by JPMorgan's Investment Bank. When JPMorgan lends to these asset managers, we gain visibility into the individual loans being issued (which serve as collateral). Here is what direct lending individual loan fundamentals look like as of September 2024: 1) In September, we observed the first month-on-month price widening in the direct lending market over the past year, indicating that the market may be finding an equilibrium. Both spreads and original issue discounts (OID) widened slightly, with spreads moving from 500 to 525 basis points and OID from 98.75 to 98.5. 2) Contrary to 2023 narrative that private credit lenders were indiscriminately issuing loans, 2023 saw wide spreads and declining net leverage, indicating prudent risk-taking. Today, debt to EBITDA ratios for companies borrowing in private credit are near their lowest since early 2021. 3) The tech/software sector was the most active in September, accounting for 20% of deals, followed by business services at 17%. 3) 24% of September's deals were covenant-lite, a slight increase from the percentage of covenant-lite deals in Q1 2024. Recall, the vast majority of broadly syndicated loans are covenant-lite.

Beyond direct lending, elevated interest rates could lead to a broader opportunity for flexible capital providers (junior debt, preferred & structured equity) and for special situations and distressed managers. We also see opportunities beyond corporate credit – in areas like real estate debt, other asset-backed debt (including royalties) and in liquid credit markets, too (CLOs, actively managed leveraged loans and short duration high yield).

What we're watching: the macro-economic cycle to gauge the default outlook, base rate expectations post-election, shifts in market equilibrium and the relative yields in public vs. private credit, sector-specific activity, and the ongoing evolution of lending standards.

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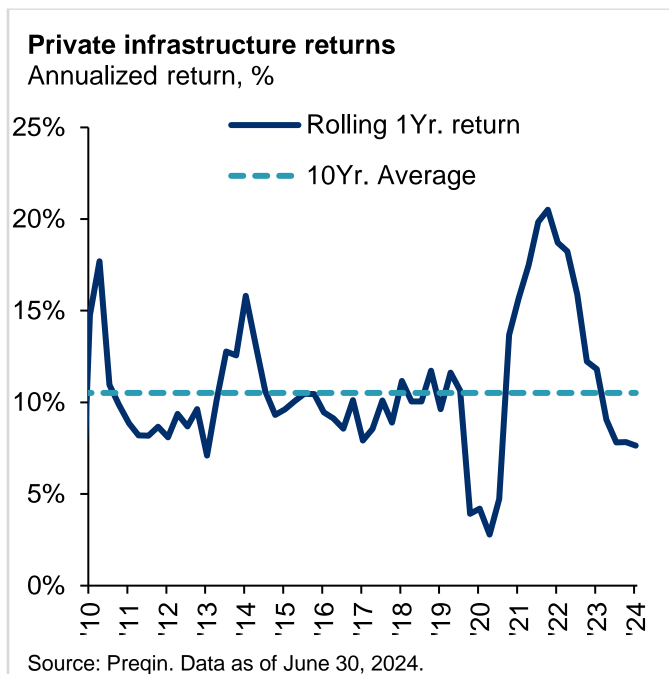
Private Infrastructure

In recent months, the infrastructure sector has garnered substantial attention as the need for significantly more power has become more widely recognized. Integral to this transformation are infrastructure assets across the power spectrum – from power users (data centers) to power generation (renewables and traditional energy) to power distribution and storage (utilities, midstream assets, transportation, and battery storage).



Source: Preqin. Data as of June 30, 2024.

The rise of data centers and AI technologies is reshaping the infrastructure landscape in the West. Data centers currently consume about 4.5% of total U.S. energy, and some Wall Street analysts project that this demand could soar to as much as 21% by 2030. This underscores the critical need for grid modernization, as the U.S. power grid, with 70% of its transmission lines over 25 years old, struggles to keep pace with escalating demand. The decade from 2011-2021 saw a 64% increase in major power outages compared to the previous decade, highlighting the grid's vulnerability. Significant investments in AI and data centers are being driven by large, profitable companies with substantial free cash flow, ensuring that these projects are well-funded and sustainable. This influx of capital is expected to accelerate the modernization of the grid and support the expansion of renewable energy sources. In response to Fed rate cuts, interest rates have already begun to fall making the cost of financing these private investments more favorable. We expect more rate cuts in 2025, so lower rates as a tailwind to infrastructure is likely to persist.

For private investors, infrastructure may offer opportunities, especially considering current valuations relative to public investments. The deal premium on private infrastructure, currently at approximately 1x, is substantially below the historic average of around 1.4x[9], making private infrastructure investments particularly compelling. Furthermore, the very consistent historical returns from contractual, often inflation adjusted cash flows makes them even more attractive today given the elevated volatility in markets, particularly fixed income.

[9] Note: Average del premium of 1.4x is since 2007. Deal premium based on forward EV/EVITDA. 20 deals used per data point. Source: GLIO. Data as of July 2024.

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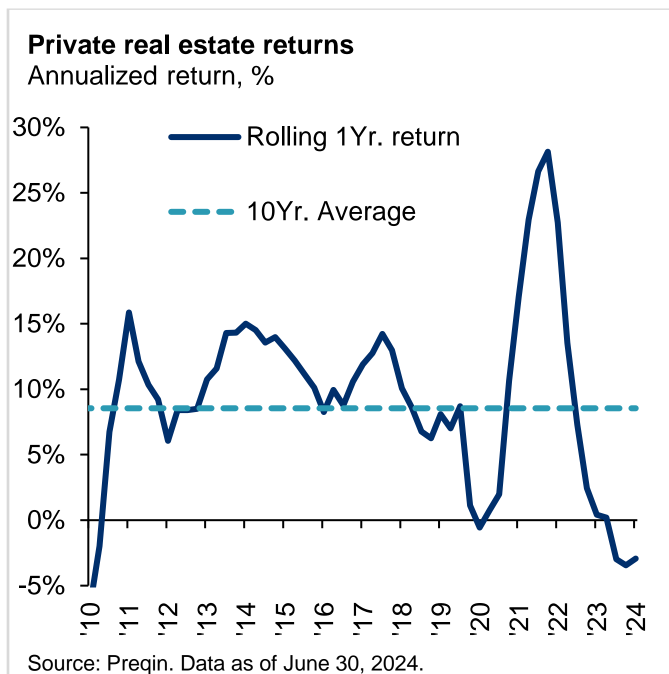
Private Real Estate

Private real estate markets have faced a series of negative headlines – particularly around office properties. Yet there is a compelling case for a rebound. Since their peak in 2022 to trough in May of 2024, aggregate property valuations have declined by 12%, marking the third correction in U.S. CRE property prices in the last 30 years. Despite this, cash flows across most property sectors have remained resilient, with net operating income (NOI) now in line with prior cycle peaks, double that of previous troughs. The private real estate market is diverse, with significant variation across property types, regions, and asset quality. For instance, industrial properties experienced 9% NOI growth in the past year with vacancies below 3%, while office vacancies remain around 18% and NOI growth has been -1%. This diversity offers numerous opportunities investment.

Current market dynamics present a unique environment. Cap rates, a key metric for assessing value, have increased in recent years, driving property values lower. However, the U.S. economy remains strong, with unemployment near 4%, supporting demand for housing and commercial spaces. As interest rates decline, financing challenges are expected to ease, supporting property values. Sectors with strong NOI growth potential, such as industrial and logistics, data centers, and supply-constrained housing, are particularly attractive and we expect NOI growth to be the dominant driver of total returns going forward.

Consider targeting strategies focused on property sectors with strong fundamental, minimal legacy assets and ample dry powder to capitalize on current market conditions. A significant focus will also be on strategies that help address the housing shortage in the U.S., where undersupply of new homes has led to an estimated shortage of ~1.5 million homes[10]. Additionally, strategies with long-term contractual leases or real estate debt may provide stable income and diversification benefits in a recession.



[10] Source: Moody's Economy.com as of June 30, 2024.

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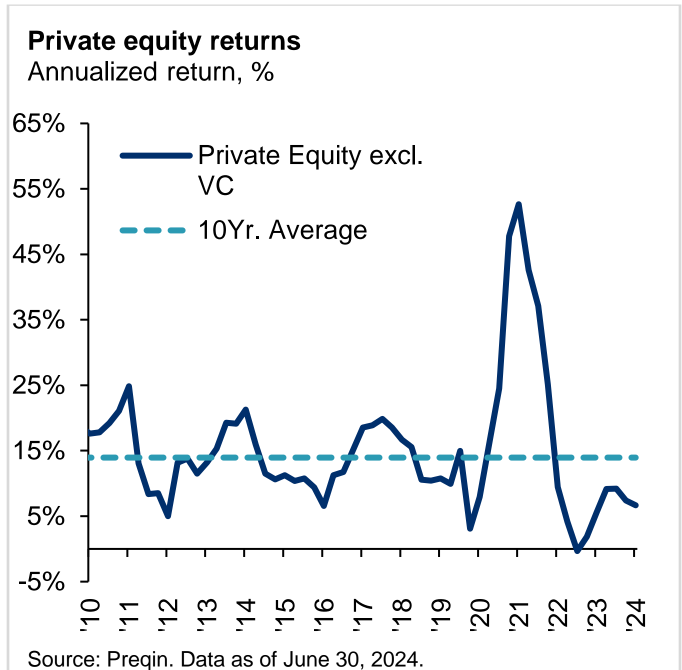
Private Equity

Higher interest rates have been tough for the private equity industry. Debt has been more expensive, making leveraged buyouts more difficult, and capital markets (IPOs and bond and loan issuance) have been more muted – so transaction volumes and exit volumes have been low.

That's set to change. Lower rates should likely coincide with more robust capital market activity and financing should likely become more attractive. In addition, we expect to see a more growth-oriented backdrop under the new administration in the U.S. in 2025 – with potentially lower taxes and lower regulation. That could lead to stronger growth potential for U.S. companies in both public and private markets.

Within private equity, we're mostly focused on managers who drive most of their returns through operational improvements – revenue growth and margin expansion – rather than leverage or higher multiples. We also seek a balance of sector exposures with good fundamentals and opportunities – including tech, industrials, financials, and defense. Finally, secondary private equity investment should likely continue to see above-average activity, as the industry continues to work through a liquidity backlog.

Private equity returns
Annualized return, %



Source: Preqin. Data as of June 30, 2024.

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VOLATILITY VIEWS

Equities

Clearing the pivotal U.S. election has reduced uncertainty in financial markets, as observed by the significant decrease in volatility. Implied volatility is a measure of how much market participants expect asset prices to fluctuate. One way to view this in equities is the VIX index, which measures expected volatility of the S&P500 over the next month. On November 6th, the day after the election, the VIX cratered from over 20 to close in the low 16s. This was the biggest one-day drop in the VIX since August 6th, the day following a major financial event known as the "Yen Carry Trade Unwind". Notably, the difference between the volatility of S&P 500 put options (often used to protect against market declines) and call options (allows the long holder to buy if prices rise above the strike) also decreased. This shift could mean that the market is less worried about downside risks, at least in the near term. This has made the cost to protect equity portfolios, as the S&P 500 makes new all-time highs, relatively more affordable.

What we're watching: Whether volatility Targeting Funds' will increase their allocation to stocks. These funds systematically adjust their equity allocation based on levels of market volatility. If volatility stays low, these strategies could be incremental buyers of U.S. stocks into year end.

Our view: We anticipate that US stock market implied volatility in the last two months of the year will more closely resemble lower levels seen in the first half of 2024. However, we see the potential for volatility to be structurally higher under the new Trump administration amid a backdrop of higher interest rates, looming fiscal deficit, and potentially aggressive tariff plan.

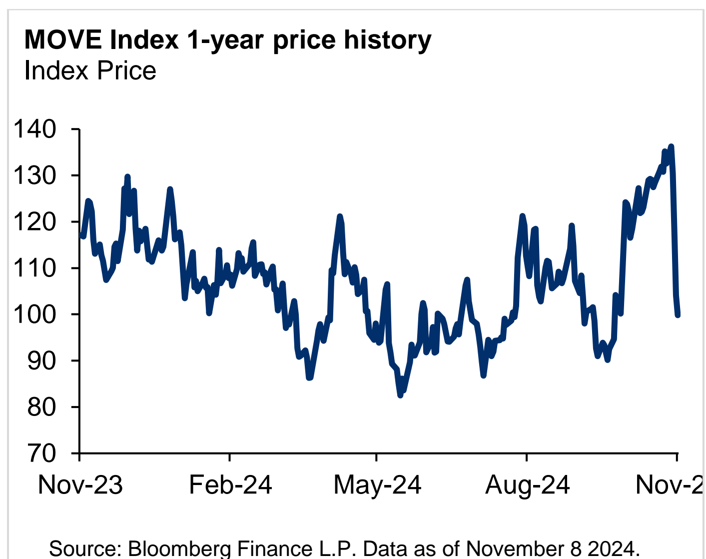
Source: Bloomberg Finance L.P. Data as of November 8 2024.

Interest Rates

In rates, the reaction was similar with short-dated interest rate and Treasury market implied volatility ratcheting lower post-election. The MOVE index, which tracks one-month implied volatility on options across the Treasury curve, declined sharply. Swaptions, which are options on swap rates, also priced in dramatically lower expected moves post-election. The implied volatility for a one-month swaption on 10-year swap rates went from mid-130s to 100 after the event. This means that the expected daily movement in swap rates, which was about 15 basis points (bps) for the day over the election, has settled to a more normal average of 6.5 bps over the next month.

Our view: Given longer-term uncertainty of fiscal and monetary policy implications on interest rates, intermediate to longer term interest rate volatility has come down to levels which we think now fairly value the potential market moves.

Go deeper: Understand how derivatives can be an important tool for managing your investment portfolio here.



Source: Bloomberg Finance L.P. Data as of November 8 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

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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

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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.

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JPMAM Long-Term Capital Market Assumptions

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KEY RISKS

- Small capitalization companies typically carry more risk than well-established "blue-chip" companies since smaller companies can carry a higher degree of market volatility than most large cap and/or blue-chip companies.
- Investments in commodities may have greater volatility than investments in traditional securities. The value of commodities may be affected by changes in overall market movements, commodity index volatility, changes in interest rates, or factors affecting a particular industry or commodity, such as drought, floods, weather, livestock disease, embargoes, tariffs and international economic, political and regulatory developments. Investing in commodities creates an opportunity for increased return but, at the same time, creates the possibility for greater loss.
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- The price of equity securities may rise or fall due to the changes in the broad market or changes in a company's financial condition, sometimes rapidly or unpredictably. Equity securities are subject to "stock market risk" meaning that stock prices in general may decline over short or extended periods of time.
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- Investors should understand the potential tax liabilities surrounding a municipal bond purchase. Certain municipal bonds are federally taxed if the holder is subject to alternative minimum tax. Capital gains, if any, are federally taxable. The investor should note that the income from tax-free municipal bond funds may be subject to state and local taxation and the Alternative Minimum Tax (AMT).
- Holders of foreign securities can be subject to foreign exchange risk, exchange-rate risk and currency risk, as exchange rates fluctuate between an investment’s foreign currency and the investment holder’s domestic currency. Conversely, it is possible to benefit from favorable foreign exchange fluctuations.
- International investments may not be suitable for all investors. International investing involves a greater degree of risk and increased volatility. Changes in currency exchange rates and differences in accounting and taxation policies outside the U.S. can raise or lower returns. Some overseas markets may not be as politically and economically stable as the United States and other nations. International investing can be more volatile.
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- Not all option strategies are suitable for all investors. Certain strategies may expose investors to significant potential risks and losses. For additional risk information, please request a copy of “Characteristics and Risks of Standardized Options.” We advise

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