J.P.Morgan

PRIVATE BANK

# The Global Investment Strategy View

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

AUGUST 2026

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## KEY TAKEAWAYS

Renewed conflict in the Middle East has lifted energy prices and revived macro concerns, even as the economy has remained resilient. With U.S. strategic petroleum reserves drawn down, lower inventories and limited refining capacity are keeping gasoline prices elevated. This month, we assess what these developments could mean for growth and inflation.

We continue to anchor our views on the energy-shock scenario analysis we published earlier this year. We think the economy can withstand a period of higher energy prices, although our base case still assumes that de-escalation and lower oil prices lie ahead. The approach of U.S. midterm elections in November could create incentives to reduce volatility and find a compromise, helping limit price pressures.

Markets are still pushing the Federal Reserve (Fed) to reinforce its inflation-fighting credibility. As Fed policymakers held rates steady in July, we make a modest adjustment to our outlook: Given the heightened sensitivity around Fed credibility and ongoing disruption of supply chains, we now think a Fed rate hike is on the cards, potentially as early as in September rate. However, we do not see this as the start of an aggressive tightening cycle. We discuss what that would mean for duration positioning and where we see the best opportunities in rates.

Equities have also seen a summer rotation: Momentum leaders have weakened while prior laggards, including financials, have moved into leadership. We view this as constructive and supportive of the broader market. Despite a roughly 25% price correction in semiconductors, major U.S. indices have stayed near their highs—suggesting semiconductor weakness is not an end-of-cycle signal but an opportunity.

Three opportunities in focus

**1) The dip in semiconductors**
After semiconductor stocks' strong rally into the summer raised the bar, we believe the recent sharp pullback reflects a reset in expectations, not the end of the cycle. The combination of concerns around hyperscaler spending, higher rates and investor deleveraging drove the meaningful correction. We continue to see a long runway for artificial intelligence (AI)-driven capital spending, and we believe that strong secular growth prospects and more attractive valuations support adding on weakness.

**2) Banks still have room to run**
Banks have rallied meaningfully since our call to focus on market laggards. Second-quarter earnings reinforced our constructive view. Earnings were supported by solid loan demand, improving capital markets activity and the continuing return of shareholder capital.

**3) Carry in extended credit**
Despite higher rates and macro uncertainty, extended credit markets have remained resilient. Corporate fundamentals are still solid and we see recession risk as relatively low. In our view, elevated yields create an opportunity to earn carry, including in select preferreds and high yield credit.

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 AUGUST 2026 SNAPSHOT

| EQUITIES | | | | |
|---|---|---|---|---|
| **GEOGRAPHY** | **Negative** | **Neutral** | **Positive** | MoM |
| U.S. | | | ● | |
| Europe | | ● | | |
| Japan | | ● | | |
| EM | | | ● | |
| **US SIZE/FACTOR** | | | | |
| Large Cap | | | ● | |
| Small/Mid Cap | | | ● | |
| **US SECTORS** | | | | |
| Staples | ● | | | |
| Energy | ● | | | |
| Financials | | | ● | |
| Industrials | | | ● | |
| Info Tech | | | ● | |
| Utilities | | | ● | |
| Materials | | ● | | |
| Healthcare | | ● | | |
| Real Estate | ● | | | |
| Other: Con Disc & Comm Svcs | | ● | | |

| FIXED INCOME | | | | |
|---|---|---|---|---|
| **RATES** | **Negative** | **Neutral** | **Positive** | MoM |
| U.S. | | ● | | |
| Europe | | ● | | |
| UK | | ● | | |
| **CREDIT** | | | | |
| U.S. Municipals | | | ● | |
| U.S. IG | | ● | | ▼ |
| U.S. High Yield | | | ● | ▲ |
| Hybrids / Preferreds | | | ● | |
| Emerging Markets (USD) | | | ● | |

| FX & COMMODITIES | | | | |
|---|---|---|---|---|
| **ASSET CLASS** | **Negative** | **Neutral** | **Positive** | MoM |
| DXY Dollar Index | ● | | | |
| Brent Crude Oil | ● | | | |
| Gold | | | ● | |

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

As we enter August, it's turning into a summer of volatility. We stress that this is not because of a single major shock. Rather, financial markets are now dealing with several pressure points – the Fed has a new chair, U.S. yields are the highest they've been in nearly 20 years, US and Japanese authorities jointly intervened to strengthen the Yen for the first time in a generation, and double digit percentile moves in semiconductor stocks. Meanwhile, durable de-escalation in the Middle East has proved elusive and re-escalation risks remain.

That matters for markets and the economy. Higher oil prices have pushed yields higher, increased Fed hiking expectations, and weighed on equities. But the bigger picture implication is that markets are now more volatile, and probably fragile, in an environment in which yields can reprice quickly and equities remain vulnerable to larger swings. Nonetheless our base case remains constructive: we expect to see another conflict de-escalation cycle, and growth dynamics remain healthy. A more volatile backdrop increases the importance of investment discipline (e.g. appropriate hedges, diversification, not chasing trends, use structures to build positions).

In this month's Global Investment Strategy View, we revisit three connected issues:

1. **The market implications of the conflict are evolving, even with an unchanged base case.**
2. **How that conflict dynamic and new Fed leadership impact the outlook for the Fed and yields.**
3. **Whether the semiconductor selloff is a warning sign or a buying opportunity.**

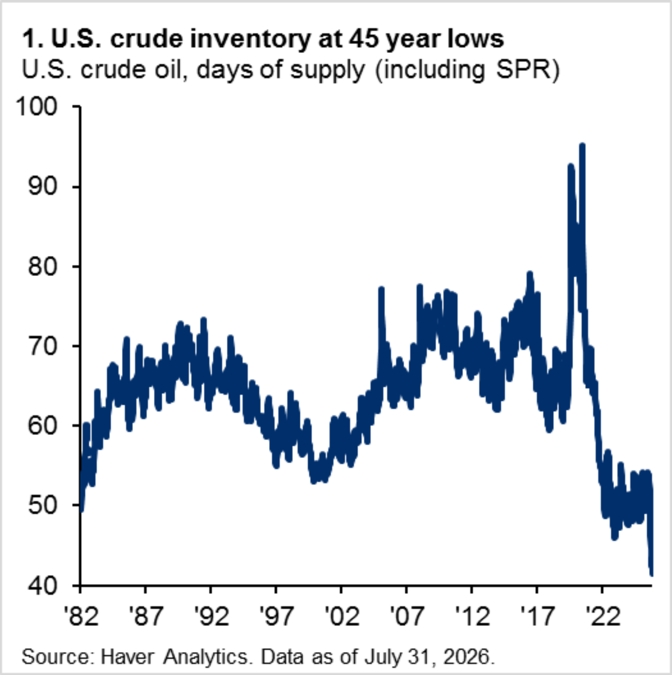
**The Iran Conflict: A Groundhog Day Conflict With a Ticking Clock**

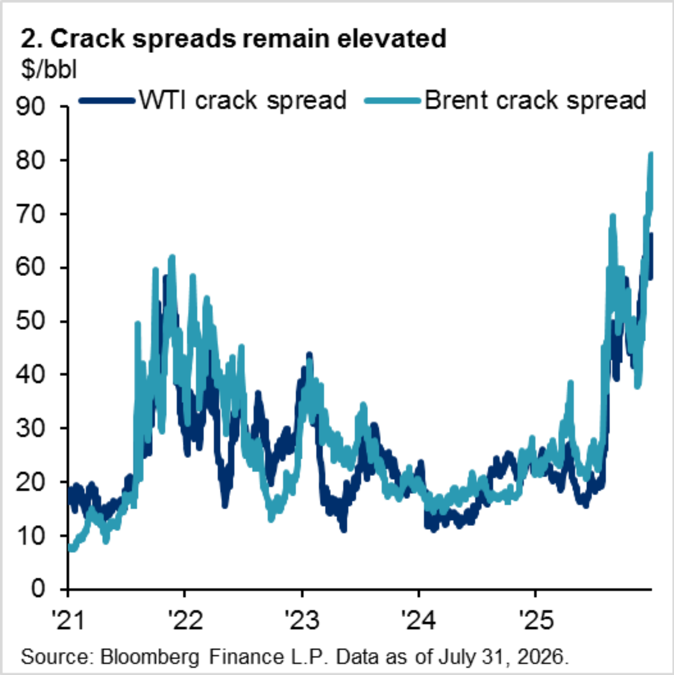
We have consistently argued that the Iran conflict, while dangerous, would not become the major recessionary shock many feared. Our base case has been that the conflict would ultimately de-escalate. June's memorandum of understanding between Washington and Tehran seemed to support that view, and spot crude promptly fell. But the calm did not last.

The conflict has become a Groundhog Day conflict. The US strikes, Iran retaliates, oil spikes, a peace deal materializes, oil falls, and then the US strikes again. In theory, that loop could continue for some time. But the loop is not independent of time: global oil inventories keep drawing down, and each new round of escalation carries a higher risk of a disorderly oil-price shock. With new rounds of talks sparking optimism around a deal, oil have fallen from recent highs; however specific language around control of the Strait remains elusive as of writing.

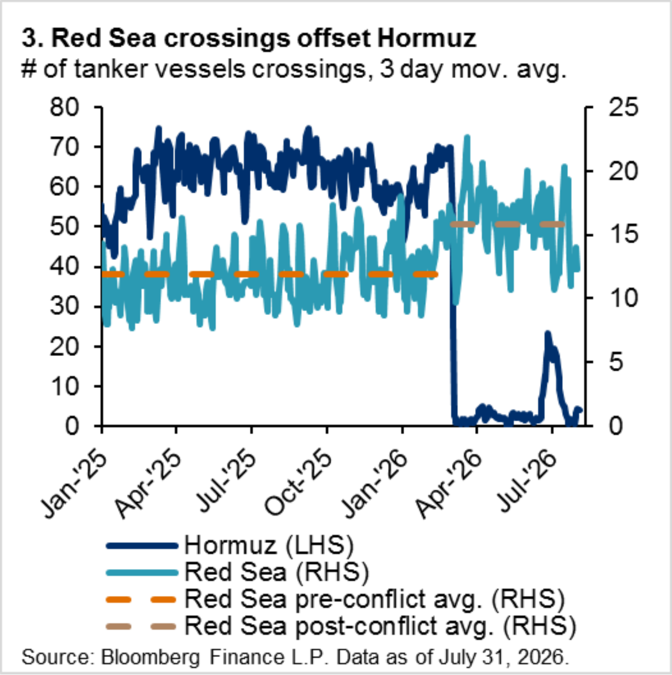
The key issue now is that inventories are lower, making each round of escalation more dangerous. Global oil inventories provided a buffer during the first phase of the conflict, particularly in the US and China. That buffer is now thinner. If the Strait of Hormuz remains closed for an extended period, there is less spare product available to cushion prices. In the US, total inventories are running at roughly 40 days of supply, down from a long-term average of 65 days (See Chart 1). Much of the decline reflects the large release of Strategic Petroleum Reserves, which now sit just above the "minimum critical threshold" of 250 million barrels.

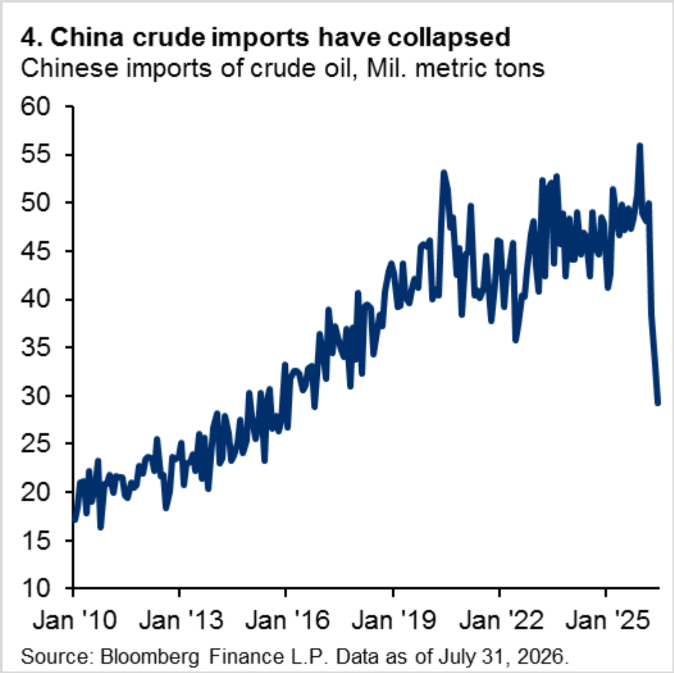
Refined products are another important risk. The Gulf Coast WTI crack spread, which measures the difference between the price of refined products and crude and highlights shortages in the refined space, has reached a record near $70 per barrel as US refineries run close to peak utilization (see Chart 2). As a result, relief at the pump and in jet fuel, plastics, and resin production has been limited. More than crude itself, refined product prices are the key inflation risk if the conflict continues.




China has helped balance the market, but that support is unlikely to last indefinitely. China's oil imports have fallen sharply, and it is widely assumed that the country has drawn on strategic reserves of both crude and refined products to offset the decline. China's crude imports have collapsed by roughly 5 million barrels per day (see chart 4), but that pace is unlikely to be sustainable and Chinese demand is likely to eventually return toward normalized levels. The risk is further compounded by Yemen's Houthis, who have threatened to close the Red Sea. They declared a naval blockade of Saudi Arabia, struck Saudi tankers, and are weighing transit fees at Bab el-Mandeb, a chokepoint that carries roughly 7% of global oil supply. This is important because the Red Sea channel has served as a partial offset during the Hormuz blockade offering an alternative route for Saudi oil (see Chart 3). Shutting that route further compounds the global supply shock.

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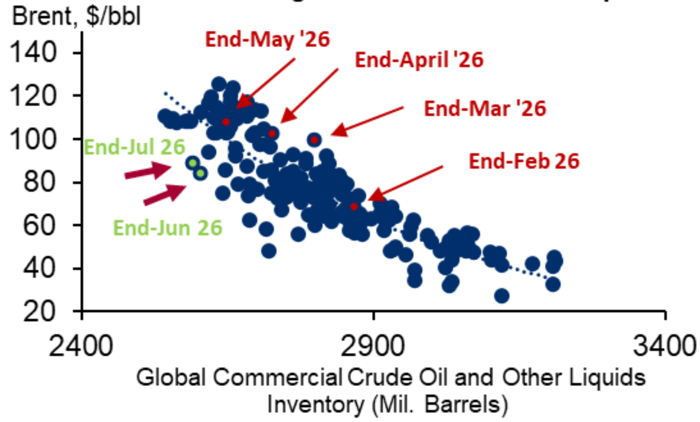
There's a straightforward relationship between inventories and prices, as seen in the below chart (Chart 5), prices moved higher as global inventories declined. If the blockades persist and reserves cannot cushion the market, despite the recent fall, any re-escalation could push oil toward the $120 range as shortages and risk premia return. We believe oil at that level is manageable for the US economy, implying somewhat slower growth and somewhat higher inflation, although still challenging for markets. In our view, a recessionary shock would likely require oil to move above roughly $140 per barrel alongside a meaningful equity market selloff. These constraints ultimately point towards de-escalation.

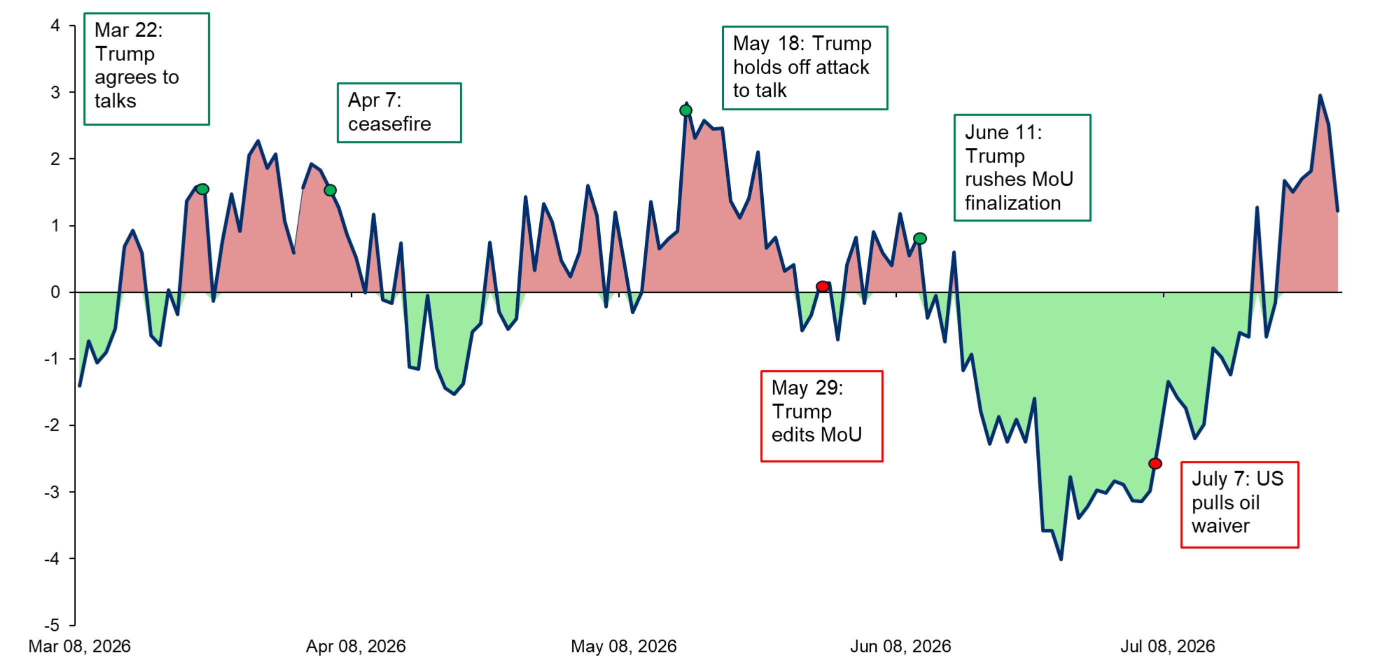
**5. Correlation between global inventories and oil price**
Brent, $/bbl




Source: Haver Analytics. Data as of 31 July 2026

**Our base case remains: we think market pressures point towards a deal** Because we believe the administration understands the above constraints. Continuing to escalate amid ever tighter inventories risks a sharper price spike and volatile markets. It is unlikely to willingly cross the threshold that sends oil to extremely high levels—think above $140 per barrel—and risks triggering a recession through demand destruction. Our conflict stress index below (Chart 6), which blends oil prices, bond yields, equity-market performance, Hormuz and Red Sea vessel crossings, and approval ratings, and serves as a proxy of overall market stress is approaching the level at which the White House has historically walked back from escalation. When pressure builds, we expect talks to restart, which, as of time of writing, appears to be playing out.

**6. The Hormuz Stress Index**
Weighted Z-score w/ Mar 7 baseline (Higher = more constrained)




Source: Bloomberg Finance L.P., Signum Global Advisors. Data as of 30 July 2026

**Bottom line:** We continue to expect de-escalation, but the margin of safety is narrowing with every turn of the Groundhog Day loop. Investors should remain well hedged against conflict escalation, including not only upside exposure to spot oil prices, structures that may provide upside to energy sector equities, and energy company credits.

### From Oil Risk to Fed Risk: Moving to Base Case of a Hike

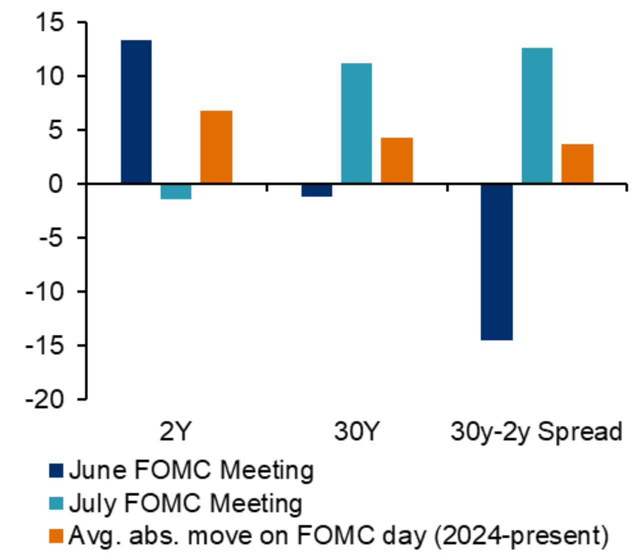
We now think the Fed is more likely than not to hike, and we pencil in a 25 basis-point increase at the September Federal Open Market Committee (FOMC) meeting.

Our previous base case was for the Fed to remain on hold. We expected inflation to undershoot Fed forecasts as energy prices fell and supply chains healed, and we thought markets overestimated how urgently the Warsh Fed intended to hike. The call has been close for some time, but two developments have changed our view.

First, market confusion about the Fed's reaction function, especially after the July FOMC meeting, has lowered the bar for the Fed to hike. Second, the normalization of supply chains around the Strait of Hormuz could take longer than we previously expected, and related product prices remain elevated.

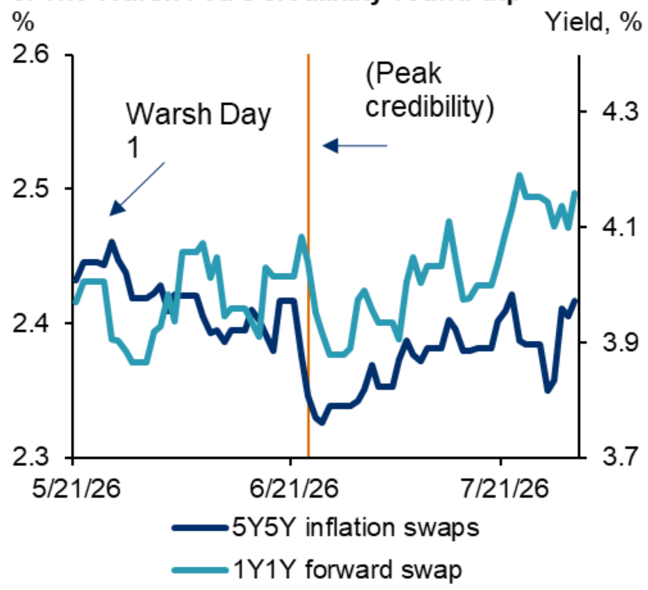
The issue is not just inflation; it is 'credibility', which we loosely define as the amalgam of competency, consistency and predictability. We have argued that the Fed is likely to undergo more significant changes than many observers expect, yet it has provided little clarity about what comes next. That combination of uncertainty and limited transparency is a recipe for volatility, and it has been visible in the large swings in yield-curve spreads around each of the two Warsh-led FOMC meetings (see chart 7).

**7. Warsh meetings and extreme curve volatility**




Source: Bloomberg Finance L.P. Data as of 29 July 2026

**8. The Warsh Fed's credibility round-trip**




Source: Bloomberg Finance L.P. Data as of 31 July 2026

Chair Warsh appears to be paying close attention to market responses. The market's message, in our view, is that the Warsh Fed has given up some of the inflation-fighting credibility it earned early on. From Warsh's first day in office to the week after the June FOMC – the point of peak 'credibility' - US 5y5y inflation swaps (a measure of the market's long-term inflation expectations) fell by 10 basis points, while 1y1y forward swap yields (a proxy for the Fed's expected policy rate a year ahead) were about 5 basis points *lower* (See Chart 8). In other words, markets appeared to accept the Fed's inflation messaging without demanding higher interest rates.

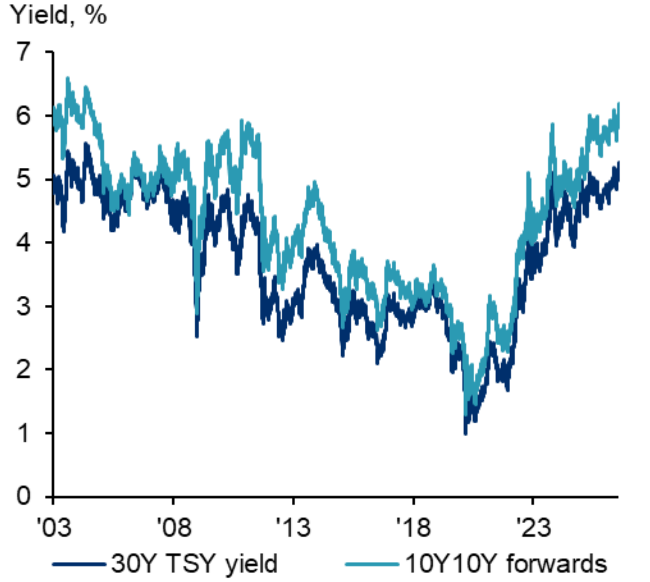
Since then, 5y5y inflation swaps have largely returned to their still-moderate pre-Warsh levels, while Fed pricing sits slightly *above* where it began. We do not want to overstate these moves, and Warsh and his colleagues will likely try to clarify the message in upcoming appearances, including at Jackson Hole. But markets will be eager to determine how serious the Warsh Fed is about taming inflation and demand a premium if the messaging is confusing.

Incoming inflation data and inflation expectations remain the key arbiters of a hike. A path that avoids hikes still exists, but the burden of proof now rests on the data to show continued inflation slowing, with little room for error. That makes a 25 basis-point hike at some point more likely than notrates.

Why only 25 basis points, which would be historically rare? It is because our macro outlook still point to stable growth, moderate inflation, and mixed data. This is a very different backdrop from 2022 or the late 1990s. The hike we envision would mainly be a gesture to reinforce Fed credibility and also reflects a potentially more delayed resolution of conflict-driven supply-chain dynamics, not a response to an overheating economy.

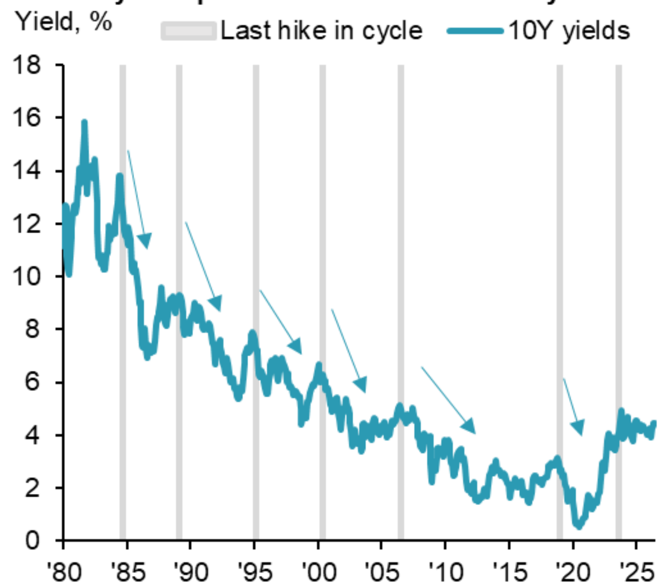
We expect uncertainty and volatility in rates to remain elevated. We therefore anticipate a higher and wider trading range for market yields, including a 4.5% to 5.0% range for the 10-year Treasury. That reflects uncertainty around the Fed reaction function, the Middle East conflict, bond issuance, Japanese investment flows, and other global factors. With 30-year yields at their highest levels since 2007 and 10y10y Treasury forward yields at new cycle highs, the uptrend in yields continues (see Chart 9). That said, new highs in yields have historically also been associated with near-term volatility in *both* directions.

**9. 30Y TSY and 10Y10Y forwards at cycle highs**




Source: Bloomberg Finance L.P. Data as of 31 July 2026

**10. 10Y yields peak around last hike in a cycle**




Source: Bloomberg Finance L.P. Data as of 31 July 2026

If US growth and inflation soften later this year, including through the long-awaited improvement in supply chains, yields could fall back. For that reason, we are leaving our year-end 10-year yield outlook little changed for now, even as we anticipate higher near-term yields.

**Bottom line:** tactical investments should reflect that yields remain in an uptrend, while the Fed & yields are now a source of volatility for broader markets. But amid yield levels and the pace of increases, we have begun to look for signs that yields could begin to peak. A useful rule of thumb is that yields tend to peak around the time of the *last* Fed hike in a cycle, while they often rise noticeably around the first hike (see Chart 10). Since Fed hikes are now more likely and more uncertain, we think it is too early to call a top in US yields. But we are watching closely for signs that a turning point has arrived, including as we currently only envisage one hike, which would be both the first and the last.

### Chip Wreck or Buying Opportunity? Making Sense of the Semi Selloff

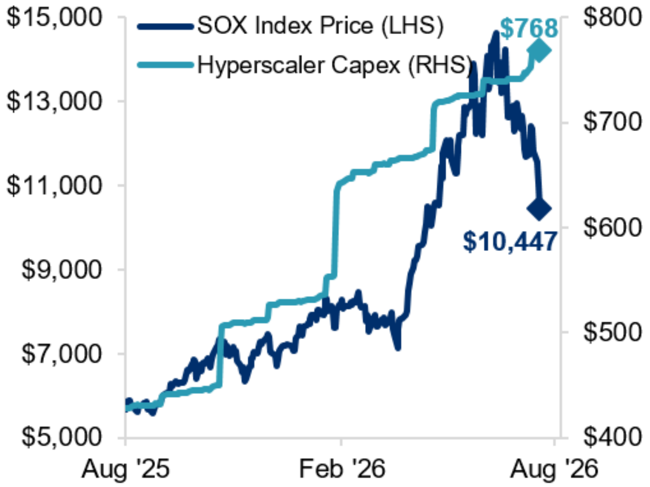
The same mix of higher yields, policy uncertainty, and geopolitical risk has also hit equity leadership. After a rapid rise in June, momentum crashed through much of July. The largest component of momentum had been semiconductors, which rallied roughly 86% from the end of December to their late June high. In Tech, the momentum drawdown was the worst 26-day decline on record. A recent J.P. Morgan Investment Bank note found that the decline in positioning was the third largest since 2020, behind only the January 2021 retail squeeze and the late 2022 CPI driven event. According to that note, momentum-only selling appears to have largely run its course.

With semiconductors down more than 20% from the highs, we will not bury the lead: we continue to like the group. We have highlighted semiconductors since October 2022 and maintain our positive view on Tech. Within the sector, we prefer semiconductors over hardware, and hardware over software.

Since AI investment began to ramp, semiconductor price action has been closely tied to the capital spending plans of the hyperscalers. These companies grew capex by more than 70% in 2025 and current estimates imply capex growth of more than 80% in 2026. The Street's estimate of more than 1 trillion dollars in capex by 2028 would imply a meaningful slowdown in that trajectory. Over the past month, however, the relationship between hyperscaler capex and semiconductor stock prices has broken down (see Chart 11).

**11. Semis usually track hyperscaler capex, but recent weakness offers a potential catch-up trade**

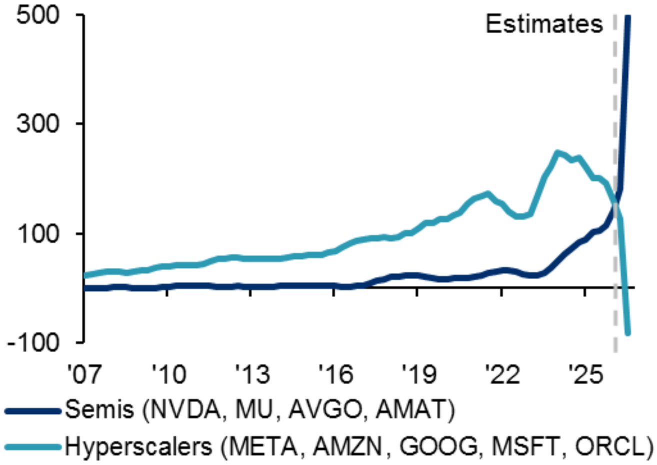
SOX Price vs. Hyperscaler CY 2026 Capex ($Bn)




Source: FactSet. Data as of July 29, 2026.
Note: Hyperscalers include AMZN, GOOGL, META, MSFT, ORCL.

**12. Hyperscalers vs. semiconductors free cash flow**

12m trailing FCF and forward estimates, $bn




Note: Estimates for Q3 2026 and use 12m blended forward.
Sources: Michael Cembalest's "EOTM", JPMAM, Bloomberg Finance L.P. Data as of August 4, 2026.

The core concern is free cash flow. The hyperscalers were once viewed as cash flow machines, but their AI spending plans, both offensive and defensive, have driven significant declines in free cash flow. As Michael Cembalest recently showed (see Chart 12), the decline has been rapid enough to raise a legitimate question: how sustainable is this spending surge?

The hyperscalers argue that current spending is tied to booked services and backlog to be delivered in the near future, as well as internal growth opportunities (see Chart 13). Those core businesses remain strong: Meta, Amazon, Microsoft, and Alphabet are growing between 18% and 30%[1]. Still, investors now need to see backlog convert into revenue more quickly and operating margins expand, including depreciation costs. In second quarter reporting, Meta failed that test, Alphabet

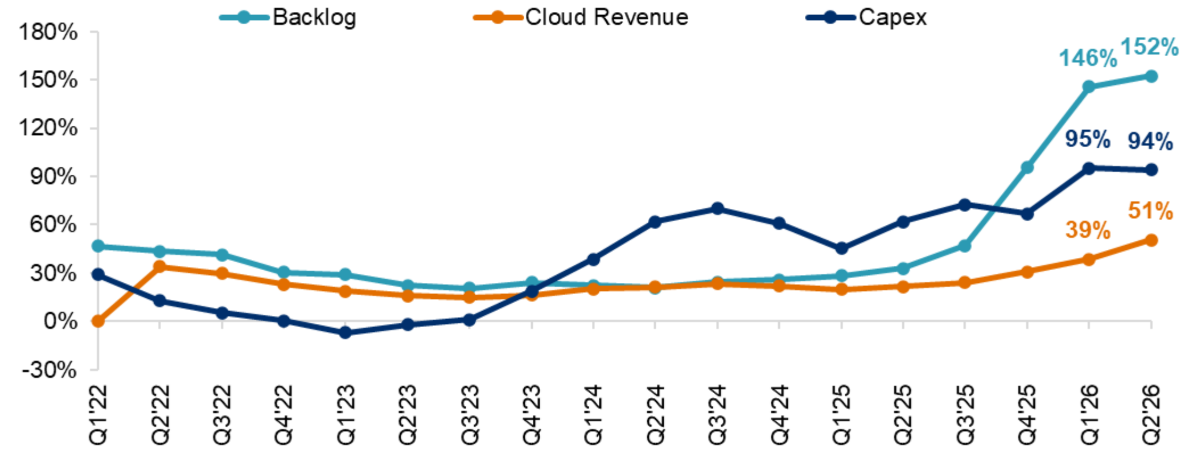
[1] Bloomberg Finance L.P. Data as of July 31 2026. Note: All companies referenced are shown for illustrative purposes only, and are not intended as a recommendation or endorsement by J.P. Morgan in this context.

earned roughly a C, Amazon a B+, and Microsoft an A. The current expectation is that the negative free cash flow story flips back to positive in 2027.

Then came Moonshot AI's Kimi K3, the largest open-source model in the world, which outperforms some key U.S. frontier models on certain workloads[2]. There are parallels to the DeepSeek R1 release, which also triggered a stock correction, but K3 is more about scale. Open-source models are generally less expensive than frontier models, though not always cost effective for every use case.

Even if Kimi becomes a competitor to the hyperscalers, it should still be positive for semiconductor companies by expanding compute and memory requirements. We have long argued that earnings drive markets. Semiconductors trade on EPS more than any other industry group, with a 75% correlation between 12 month returns and EPS growth over the past roughly 15 years. Over the past month, that correlation has broken down, even as earnings revisions have remained positive.

**13. Backlog growth has reaccelerated and now outpaces capex growth suggesting stronger demand**
Hyperscalers YoY Growth in Backlog, Revenue, and Capex (Q1'22-Q1'26), %

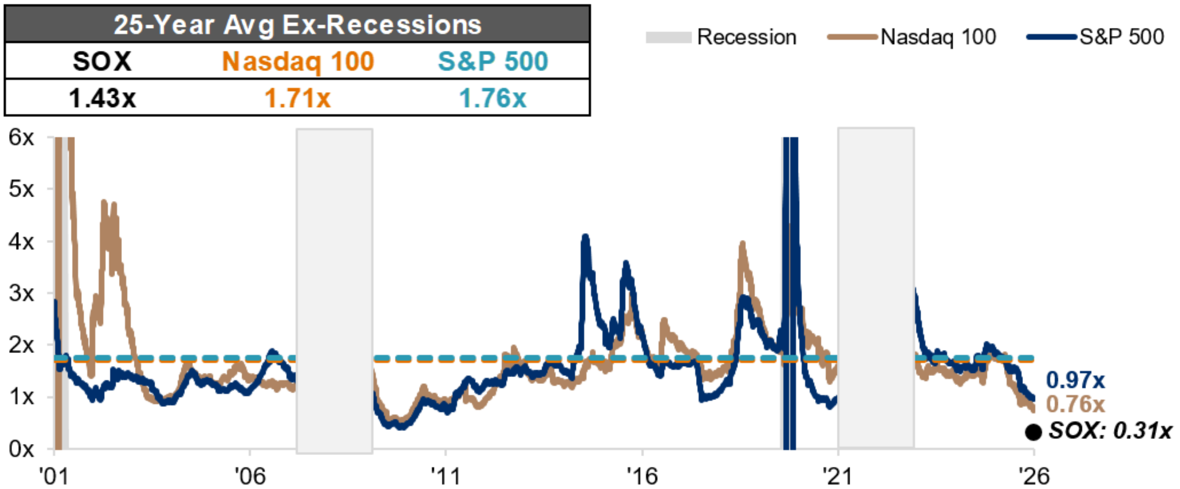



Source: Bloomberg Finance L.P. Data as of July 31, 2026.
Note: Backlog is defined as Remaining Purchase Obligations (RPOs). Hyperscalers included: AMZN, GOOGL, MSFT.

Valuations relative to growth look compelling versus history, suggesting valuation compression is already discounting an earnings slowdown we do not expect. We recognize additional risks, including AI safety, AI regulation, and non-trivial capacity constraints (see Chart 14).

[2] Artificial Analysis. https://artificialanalysis.ai/?secureweb=bplus64. Note: All companies referenced are shown for illustrative purposes only, and are not intended as a recommendation or endorsement by J.P. Morgan in this context.

**14. Valuations for Tech and the market particularly relative to growth are increasingly attractive**
NTM PEG Ratio (P/E / Earnings Growth)




Source: FactSet. Data as of July 31, 2026.

**Bottom line:** Given current growth assumptions and valuations, we believe the risk reward in semiconductors has improved. We would sell volatility, use structured exposures, add to favored active managers in Tech, and add to semiconductors during this pullback.

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# TOP OPPORTUNISTIC TRADE IDEAS

**Strategic Industries – (HALO in the Lead)**

**Why now:** While the AI disruption risk is evolving quickly, we also see attractive opportunities in Tech and Power favoring semis and hardware over software. Semis should continue to see strong growth from the continuation of the AI buildout. A significant networking and hardware upgrade cycle will likely aid growth in 2026-2027.

**Key Drivers:** (i) Potential earnings upside for national champions in strategic industries (defense, energy, infrastructure) driven by an accelerating capex cycle. (ii) power and grid constraints driven by AI/datacenter load growth, and (iii) reshoring/nearshoring incentives plus supply-chain security priorities that favor domestic capacity and automation. (iv) Hyperscaler expectations for strong returns on investment in the out years.

**Risks:** Tightening of financial conditions or election-driven policy shifts that could reduce spending momentum. Higher input costs can pressure project economics; execution risk (permits, labor, supply bottlenecks) may delay cashflow realization. Concentrated exposure to government demand can increase headline and contract risk.

**Financials – (Banks)**

**Why now:** Banks look poised to outperform driven by accelerating loan growth, benign credit conditions, increased capital markets activity and continued return to shareholders all leading to upward revisions to earnings estimates. Valuations remain attractive given our views on sector growth.

**Key Drivers:** Positive earnings revisions and valuation rerating driven by improving economic backdrop. Loan growth continuing to accelerate driven by OBBBA incentives, credit remaining benign as inflation moderates; trading and M&A remains robust given volatility in markets into the upcoming Midterm election; and share buybacks continue to accelerate given deregulation.

**Risks:** Private credit concerns increasing; Labor market weakness and slowing economic growth weighing on loan growth; rate volatility/curve flattening pressuring net interest margins; increased geopolitical uncertainty stalling deal activity or a sharp reversal in AI sentiment derailing upcoming IPOs.

**Extended Credit: (Bank Preferreds in the US, High Yield in Europe)**

**Why now:** Despite a volatile geopolitical backdrop, Extended Credit markets have shown notable resilience: credit spreads have remained broadly anchored through repeated escalation/de-escalation cycles tied to the Iran conflict and key shipping chokepoints. Our base case remains eventual de-escalation. Against this backdrop, we refocus on a stable to improving fundamentals picture—supported by constructive growth, resilient corporate earnings/guidance in recent weeks, and attractive all-in carry that can help offset episodic volatility. Additionally, these markets have limited direct exposure to the tech related concentrations impacting broader markets and we view them as an attractive diversifier.

**Key Drivers:** i) Supportive macro conditions, still-solid credit fundamentals (with low defaults, contained leverage and healthy interest coverage), and high starting yields that may provide both income and a cushion against rate/spread volatility underpin the Extended Credit opportunity set.

**Risks:** a renewed oil/refined-products spike that forces the Fed's hand, lifts yields and rate volatility, tightens financial conditions, pressures earnings and free cash flow, and drives wider, more volatile Extended Credit spreads.

# 2026/2027 YEAR-END & MID-YEAR OUTLOOK NUMBERS

August 2026

| Macro^ | | | | |
|---|---|---|---|---|
| **Inflation** | **2026 YE** | Old 2026 YE | **2027 YE** | Old 2027 YE |
| U.S. | 2.90-3.10% | | 2.30-2.50% | |
| Eurozone | 2.20-2.40% | | 2.20-2.40% | ~~2.00-2.20%~~ |
| China | 0.40-0.60% | | 0.9-1.1% | |
| **Real GDP Growth** | | | | |
| U.S. | 1.50-2.00% | | 1.50-2.00% | |
| Eurozone | 0.75–1.25% | | 0.85–1.35% | |
| China | 4.30-4.70% | | 4.40-4.80% | |
| **Equities** | | | | |
| **S&P 500** | **2026 YE** | Old 2026 YE | **2027 MY** | Old 2027 MY |
| Price | $7,700-7,900 | | $8,100-8,300 | |
| P/E forward multiple | 21x | | 21x | |
| **Stoxx Europe 50** | | | | |
| Price | €6,100-6,200 | | €6,400-6,500 | |
| P/E forward multiple | 15.5x | | 15.5x | |
| **TOPIX** | | | | |
| Price | 3,700-3,800 | | 3,900-4,000 | |
| P/E forward multiple | 16.5x | | 16.5x | |
| **MSCI Asia ex-Japan** | | | | |
| Price | 1,200-1,250 | | 1,265-1,325 | |
| P/E forward multiple | 12.5x | | 12.5x | |
| **MSCI China** | | | | |
| Price | 82-86 | | 87-91 | |
| P/E forward multiple | 11.5x | | 11.5x | |

| Currencies | | | | |
|---|---|---|---|---|
| | **2026 YE** | Old 2026 YE | **2027 MY** | Old 2027 MY |
| U.S. Dollar Index (DXY) | 101 (99-103) | | 98 (96 - 100) | |
| EUR/USD | 1.14 (1.12-1.16) | | 1.17 (1.15 - 1.19) | |
| USD/JPY | 158 (156 - 160) | | 158 (156 - 160) | |
| GBP/USD | 1.32 (1.30-1.34) | | 1.35 (1.33 - 1.37) | |
| USD/CNY | 6.70 (6.60 - 6.80) | | 6.60 (6.50 - 6.70) | |

| Rates & Credit Spreads | | | | |
|---|---|---|---|---|
| **U.S.** | **2026 YE** | Old 2026 YE | **2027 MY** | Old 2027 MY |
| Eff. Fed Funds rate | 3.88 | ~~3.63~~ | 3.88 | ~~3.63~~ |
| ON SOFR | 3.88 | ~~3.63~~ | 3.88 | ~~3.63~~ |
| 2-year UST | 4.25% | ~~4.05%;~~ | 4.15% | |
| 5-year UST | 4.30% | ~~4.20%~~ | 4.40% | ~~4.30%~~ |
| 10-year UST | 4.70% | ~~4.60%~~ | 4.70% | ~~4.75%~~ |
| 30-year UST | 5.10% | ~~5.05%~~ | 5.15% | ~~5.25%~~ |
| 2s/10s spread | 0.45% | ~~0.55%~~ | 0.55% | ~~0.60%~~ |
| JPM U.S. Investment Grade | 80-110 bps | | 80-110 bps | |
| JPM U.S. High Yield | 300-350 bps | | 325-375 bps | |
| **Europe** | **2026 YE** | Old 2026 YE | **2027 MY** | Old 2027 MY |
| ECB Deposit rate | 2.50% | ~~2.25%~~ | 2.50% | ~~2.25%~~ |
| 5-year German Yield | 2.60% | ~~2.50%~~ | 2.60% | ~~2.50%~~ |
| 10-year German Yield | 2.90% | | 2.90% | |
| BoE Bank Rate | 4.00% | | 3.75% | |
| 10-year UK Gilt | 4.60% | | 4.60% | |
| EUR IG | 75-105 bps | | 75-105 bps | |
| EUR HY | 260-310 bps | | 260-310 bps | |
| **EM** | **2026 YE** | Old 2026 YE | **2027 MY** | Old 2027 MY |
| EM Sovereign Index (EMBI) | 225-275 bps | | 225-275 bps | |
| EM Corporate Index (CEMBI) | 155-205 bps | | 155-205 bps | |
| JPM Asia IG (JACI IG) | 50-80 bps | | 50-80 bps | |
| JPM Asia HY (JACI HY) | 325–350bps | | 350–375bps | |

| Commodities | | | | |
|---|---|---|---|---|
| | **2026 YE** | Old 2026 YE | **2027 MY** | Old 2027 MY |
| Gold ($ / oz) | $4,350 – $4,650 | | $4,850 – $5,150 | |
| Brent ($ / barrel) | $72-$78 | | $62-$68 | |
| Commodity Index (BCOM) | 124-130 | | 123-129 | |

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

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# MACRO VIEWS

## U.S. Growth

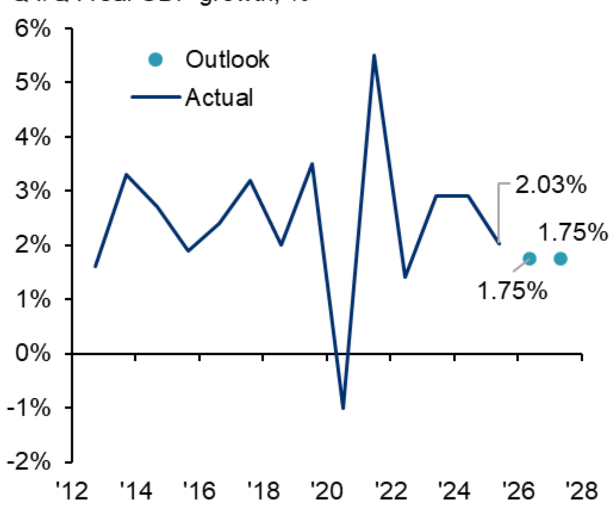
**Bottom line:** Growth is moderate but concentrated, with no evident productivity payoff yet. Inflation shocks are eroding real incomes and pushing the saving rate to 2.8% (lowest since the mid-2000s). Fed hikes are now in play, which also challenges the macro backdrop. We maintain more downside rather than upside risks to our macro outlook

Q2 GDP came in at 1.5% annualized, below expectations, though private demand was solid at nearly 4%. To gauge underlying growth, averaging helps smooth recent volatility from government spending swings (last fall's shutdown) and trade/inventory swings. The 3-quarter moving average of GDP is 1.4% and private demand is 2.5%. The Philadelphia Fed's GDPplus, which incorporates income data, puts underlying growth at 1.9%. The economy continues growing, but more moderately than in 2023–2025. Normally sub-2% growth would be respectable if broad-based, but growth is highly concentrated in the AI boom: tech capex grows swiftly while structures investment (commercial real estate) contracts. Crucially, AI shows no tangible sign of lifting macro productivity yet—1.6% (Q4), 0.3% (Q1), ~1.0% (Q2), averaging ~1%, akin to the sluggish 2010s productivity outturns. Possibly AI gains are masked by supply shocks (tariffs, Iran), but anecdotes of AI-driven layoffs reversing into rehires challenge this.

**What we're watching:** Real wage growth and consumption, global energy prices, daily consumer sentiment, measures of global supply side stress, labor market data

**Our view: YE '26:** 1.50-2.00%, **YE '27:** 1.50-2.00%

**U.S. historical and expected growth**
Q4/Q4 real GDP growth, %




Sources: Haver Analytics, Bureau of Economic Analysis. Data as of July 31, 2026.

## U.S. Inflation

June inflation data came in favorably, with core PCE up only 0.13% on the month, below expectations. This helped stave off a Fed hike at the July FOMC meeting. More recently, however, the US-Iran conflict has restarted, again putting upward pressure on global oil prices—and likely on future inflation. We now expect the Fed to hike once, by 25bps, at the September FOMC meeting.

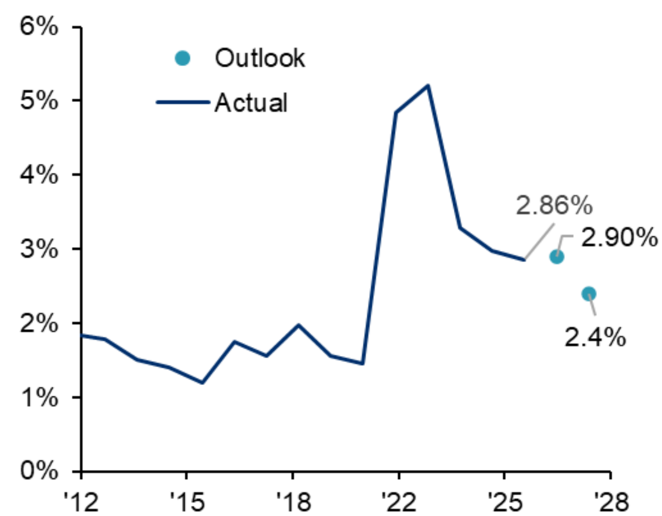
Still, we stress that the labor market does not currently appear to be a source of excess inflationary pressure. The Kansas City Fed's LMCI continues to move lower, suggesting building slack, and Q2 ECI data showed wage growth of 3.2% YoY—essentially consistent with the Fed's 2% inflation target, assuming a modest productivity backdrop. This benign labor market is a key reason we pencil in only one 25bps Fed hike: the move is more about maintaining Fed credibility than addressing an overheating economy.

Beyond the labor market and the Iran conflict, the AI boom is also an inflationary source, on the order of 0.3–0.5pp in the PCE data. The sustainability of this AI-driven inflation will be important to gauge, along with AI's broader impact on the stock market going forward.

**What we're watching:** Energy prices, longer-term inflation expectations, wage growth, daily PriceStats tracker, AI driven inflation

**Our view: YE '26:** 2.90-3.10%, **YE '27:** 2.30-2.50%

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




Sources: Haver Analytics, Bureau of Economic Analysis. Data as of July 31, 2026.

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## Europe Growth

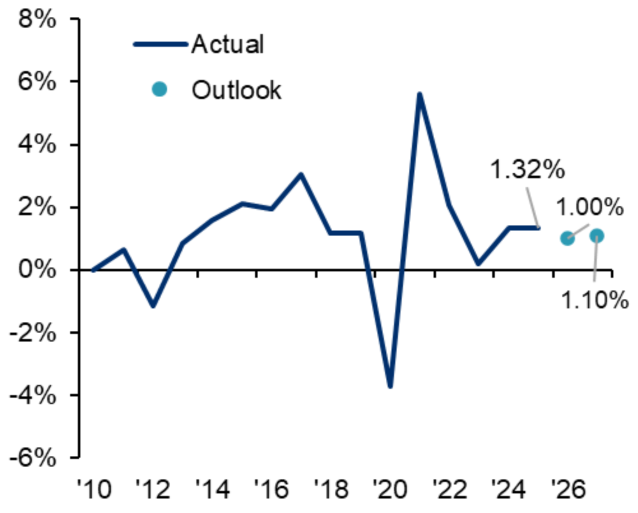
The euro area economy continues to show notable resilience. Q2 activity and sentiment data improved and materially exceeded expectations – despite persistent geopolitical headwinds. Services have rebounded from earlier softness, and manufacturing remains steady, supported by inventory rebuilding and higher defense spending. Unemployment is still near historic lows, though job postings and other forward-looking indicators suggest easing conditions in the months ahead. The main near-term risk stems from the energy shock and renewed volatility in commodity markets. Overall, we expect GDP growth to remain sub-trend but still decent considering recent challenges related to energy.

The UK economy has also surprised on the upside, with a July rebound in PMIs, firmer retail sales, and stronger May GDP. That said, the labor market is softening and wage growth is moderating. With policy already restrictive, further BoE tightening could curtail growth. While the new government's Autumn Budget will be a key event, we do not expect a material shift in policy or a meaningful near-term growth impulse.

**What we're watching:** Middle East developments and energy prices; monetary and fiscal response; UK economic policy agenda and Autumn Budget.

**Our view: YE '26:** Euro area GDP: 0.75–1.25% , **YE '27:** Euro area GDP: 0.85–1.35%

**Eurozone historical and expected growth**
Q4/Q4 real GDP growth, %




Sources: Haver Analytics, Statistical Office of European Communities. Data as of July 31, 2026.

## Europe Inflation

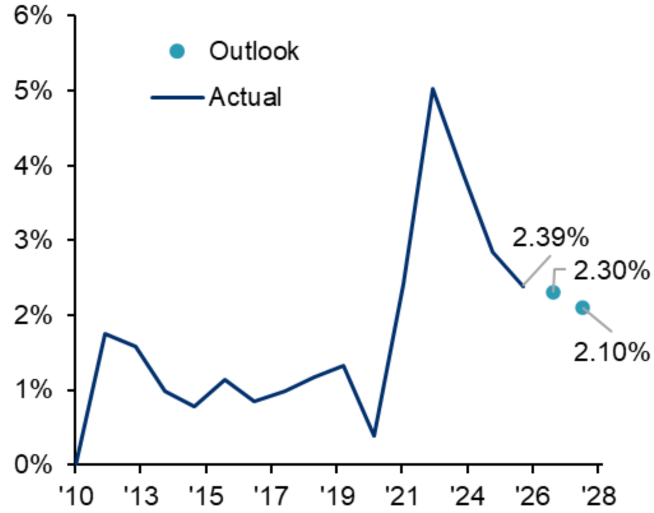
Euro area inflation received some respite in June but crept higher again in July – in line with the round trip in energy prices. Second-order effects into less volatile inflation components remain limited for now but the outlook is unclear given the uncertainty around the duration and magnitude of the Middle East conflict. Against this backdrop, the ECB remained on hold, reiterated a strongly data-dependent stance, and we think they will hike rates at least one more time in September.

In the UK, inflation surprised to the downside for a third consecutive time. Importantly – and similarly to the Euro area – there is still little evidence that energy-driven price pressures are broadening into other inflation components. We expect inflation to increase into the second half of the year and peak towards year-end before falling back close to the BoE's target. The new government's electricity bill relief is a welcome step to keep a lid on inflation but remains a drop in the ocean. A BoE hike deeper into restrictive territory remains in the cards before year-end, should energy prices not recede quickly.

**What we're watching:** Energy pass-through into core prices, wage settlements, business pricing behaviour, inflation expectations.

**Our view: YE '26:** Euro area Core HICP: 2.20-2.40%, **YE '27:** Euro area Core HICP: 2.20-2.40%

**Eurozone historical and expected inflation**
Q4/Q4 core HICP, %




Sources: Haver Analytics, Statistical Office of European Communities. Data as of July 31, 2026.

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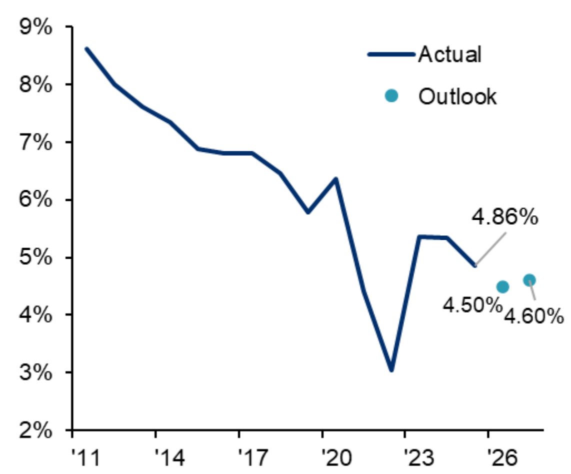
## China Growth

China's economy has been slowing meaningfully since 2H25. After a brief stabilization in Q1 2026, growth weakened further in Q2 as the Middle East conflict increased costs and hit domestic demand. The key signal in the Q2 GDP print of 4.3% is that it fell below the official 4.5–5% target range, implying Beijing is acknowledging weaker conditions and increasing the likelihood of policy support (as in past episodes when downside surprises preceded easing). June/July data reinforce the deterioration—especially on the domestic side. In July, the official manufacturing PMI dropped to 49.2 (from 50.3 in June) and the non-manufacturing PMI fell to 49.0 (from 50.2), both back in contraction and below expectations. Manufacturing weakness was led by softer production and domestic new orders, while export orders eased only modestly—highlighting persistent divergence between export demand and weak internal momentum. Investment is also a key drag, with property investment down 18%, infrastructure down 2.4%, and manufacturing investment down 1.2%. The government has been signaling the potential for additional stimulus, but the most likely response is incremental: modest monetary easing, faster fiscal execution aimed at stabilizing infrastructure/housing, and potentially lower mortgage costs—rather than a "big bang" stimulus or disruptive reforms.

**What we're watching:** Does the government increase stimulus following a few months of weak data? Can tech exports continue to support growth? Will China face new trade tensions?

**Our view: YE '26:** 4.30-4.70%, **YE '27:** 4.40-4.80%

**China historical and expected growth**
Q4/Q4 real GDP growth, %




Sources: Haver Analytics, China National Bureau of Statistics. Data as of July 31, 2026.

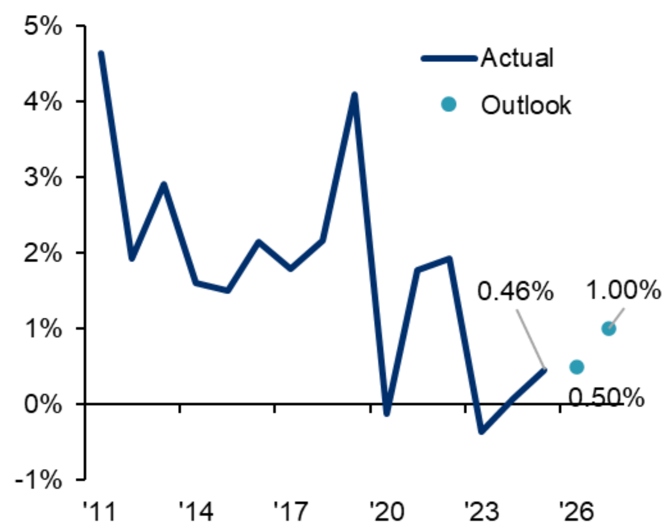
## China Inflation

June CPI inflation slowed to 1.0% y/y from 1.2%, slightly below expectations, mainly because global oil and gold prices fell. NBS estimates their combined contribution dropped 0.23pp to 0.60pp, implying underlying CPI stayed near 0.4% y/y (core broadly stable once gold is stripped out). June PPI rose to 4.1% y/y from 3.9% on base effects, while sequential PPI turned negative as oil retreated; oil-linked sectors added ~1.6pp, non-ferrous 1.7pp and chip-related manufacturing 0.4pp, leaving underlying PPI about 0.6%. Outlooks for 2026 remain CPI 0.9% and PPI 2.5%, but depend on volatile oil. Policy is expected to stay accommodative with more fiscal support, and no reserve requirement ratio or rate cuts.

**What we're watching:** Domestic demand, policies addressing overcapacity, energy prices

**Our view: YE '26:** 0.40-0.60%, **YE '27:** 0.9-1.1%

**China historical and expected inflation**
Q4/Q4 headline CPI, %




Sources: Haver Analytics, China National Bureau of Statistics. Data as of July 31, 2026.

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# EQUITY VIEWS

## U.S. Equities

**Signs of life.** The volatility of July was felt most acutely across technology and the AI supply chain. After the spike in stock prices in June, the July drubbing was record-breaking in many ways, including the momentum factor. However, a bit of a reprieve at the end of July, on the back of the Microsoft and Amazon reports, has given investors hope that the AI opportunity is not on its last breaths. For a diversified investor, the month did not feel too terrible anyway. The cap-weighted S&P 500 dropped just ~1%, with 6 of 11 sectors advancing, while the equal-weight S&P advanced by over 1%. The key is that earnings growth and revisions are strong and broad, giving investors safer havens to rotate into when volatility questions the investment thesis. The market is not a one-trick pony.

**The pause that refreshes.** Despite the reengagement in the Middle East, with exceptions, the impact on index earnings has remained manageable. We have not changed our earnings expectations and believe that the market's valuation, which has contracted 10% from year end 2025, looks compelling. We believe investors will focus on where revisions are positive and can provide potential upside. We reiterate our end-of-2026 Bull, Base and Bear S&P 500 outlooks of $8,900/$7,800/$5,200, respectively. In addition, we affirm our mid-2027 views of $9,900/$8,200 and $5,400.

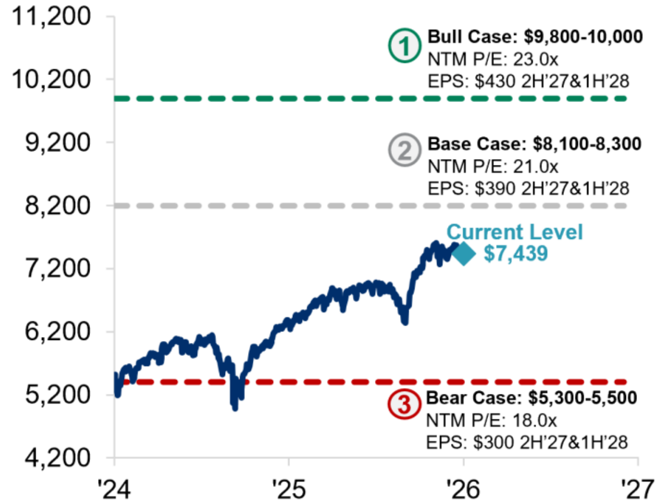
**Where to invest now**. We reiterate our positive view on the AI supply chain and semiconductors, in particular. This includes the hyperscalers that fund, build, and manage datacenters. It includes the industrial companies that construct and provide power to the DCs. We also reiterate our positive view on U.S. Financials, with a focus on large-cap banks. In July, these two segments advanced over 6% and 3%, respectively, and helped diversify short-term price risks from the AI chain. Banks' earnings growth and revisions were robust and we see valuation as tolerable. The drivers for the sector remain built on stable economic activity, strong loan growth, subdued credit risk, exceptional capital markets activity and the long-tailed benefits of deregulation. Defense, a sizable component of the industrial sector, looks very compelling in the elevated geopolitical risk environment and Utilities remain an inexpensive and defensive sector supported by the accelerating demand for power.

**What we're watching:** Financial conditions (equity valuation, yields and spreads). AI return on investment. Policy shifts ahead of the US mid-terms.

**Our view: YE '26:** $7,700-7,900, **MY '27:** $8,100-8,300

**Our base case S&P 500 outlook ranges from $8,100-$8,300 (mid-point $8,200) by mid-year 2027**

S&P 500 vs JPM WM Solutions Base, Bull and Bear




Source: Bloomberg Finance L.P., JPM WM Solutions. Data as of July 30, 2026.

**Strength in banks and capital markets lifted Financials earnings growth above expectations**

S&P 500 Financials Earnings Growth, % YoY

| Earnings Growth (%) | Current Q2 2026 | Pre-Earnings Q2 2026 | Current CY 2026 |
|---|---|---|---|
| **S&P 500 Financials** | **20.2%** | **6.6%** | **14.4%** |
| Banks | 33.8% | 11.3% | 22.6% |
| Capital Markets | 31.5% | 14.8% | 20.0% |

Source: FactSet. Data as of July 30, 2026.

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## Europe Equities

European equities finished July broadly flat as investors weighed higher oil prices (Brent rose from the low $70s to a ~$100 July peak) against a solid earnings season. Sector leadership rotated: Financials outperformed while Technology (including semis) lagged.

We reiterate our European equities outlook, with the SX5E at €6,100–6,200 by year-end and €6,400–6,500 by mid-2027. Despite the oil move, earnings revisions have stayed resilient, with July upgrades concentrated in our preferred themes—Semis, Industrials (AI build-out and Aerospace), and Banks. We estimate ~10% European earnings growth in 2026 and high single digits in 2027–2028. Valuations remain unchanged at 15.5x (the market is trading just above 15x).

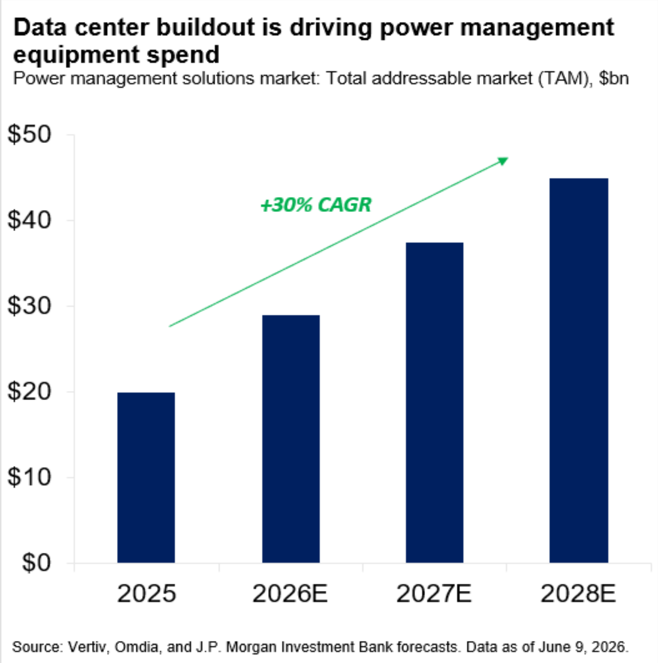
**Where to invest now? Industrials (preferred):** Strong earnings and raised guidance across subsectors. The AI infrastructure capex cycle continues (US hyperscalers are increasing spend), supporting European names exposed to data centres and electrification. Aerospace is benefiting from a strong aftermarket, and some UK defence names show renewed momentum. **Semis (still preferred):** We remain constructive despite the pullback, favoring demand-driven beneficiaries and equipment companies expanding capacity over coming years. **Banks (still preferred; upgraded last month):** Results show solid loan momentum. We see structural and cyclical tailwinds, with the sector at ~10.8x NTM earnings. One additional ECB hike this year would be supportive.

**What changed this month? We downgraded European luxury:** Jewellery has outperformed, so we are taking profits. Softer categories have weakened, comps are getting tougher next quarter, and Korean equity-market volatility may weigh on consumers.

**What we're watching:** We continue to monitor political developments in Eastern Europe, AI build-out momentum, memory prices, and oil prices.

**Our view: YE '26:** €6,100-6,200, **MY '27:** €6,400-6,500

Source: Bloomberg Finance L.P, J.P. Morgan WM Solutions. Data as of July 30, 2026



Source: Vertiv, Omdia, and J.P. Morgan Investment Bank forecasts. Data as of June 9, 2026.

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## Asia Equities

While the re-escalation of the US/Iran conflict is unhelpful and remains a risk, continued unwinding of elevated positioning in the AI infrastructure theme in July drove weakness in key market beneficiaries such as South Korea and Taiwan. South Korea's decline was particularly pronounced due to an unwinding of leveraged products that exacerbated the correction. While positioning has moderated, investors remain highly exposed to the AI supply chain that will likely keep these markets choppy in the very near term. On the other hand, fundamentals remain bullish with strong results from early reporting semiconductor companies, and US hyperscalers reiterating upside to 2026 capex and 2027 that is likely to imply another year of significant growth. Earnings continue to see positive revisions with MSCI Asia ex Japan now expected to grow earnings in 2026/2027 by 50-55%/25-30% and trading at just 10.5x forward P/E. Of particular note, South Korea is expected to grow earnings in 2026/2027 by 345-355%/38-42% and trading sub 5x forward P/E. Both South Korea and Taiwan remain preferred markets as we believe that fundamentals will ultimately play out. We are buyers of the recent correction.

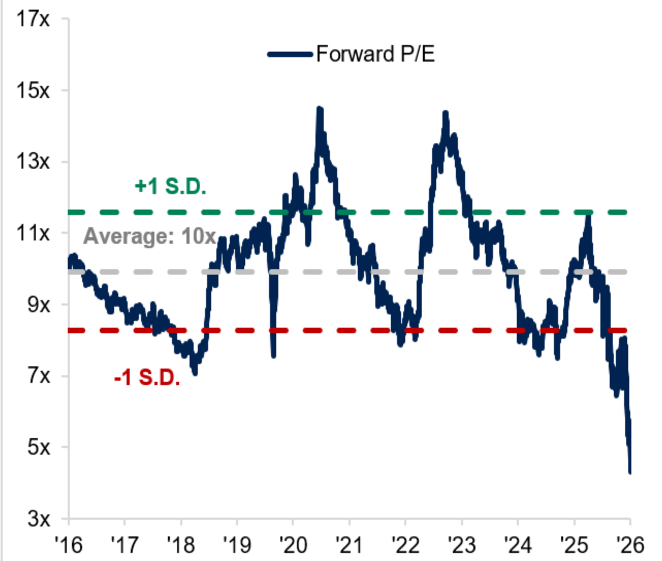
On the flip side, MSCI China (Offshore) was amongst the best performing markets in the region as consensus regional underweights were reduced. The reduction in semiconductor exposure also expanded to China and led to Onshore A-shares underperforming Offshore China by over 10% during July. While the economic outlook in China remains underwhelming, the micro backdrop is incrementally improving. Importantly, the much publicized fast commerce/food delivery price war over the past year seems to be moderating. While this may be partly due to prioritizing financial resources for AI investments, it is helping to stabilize earnings estimates that have been in steady decline. While valuation at 10.4x forward P/E remains inexpensive, we expect a pause in performance after a strong July.

The momentum/AI supply chain unwind also spread to Japan with the AI-heavy Nikkei 225 giving back half of its YTD gains against the TOPIX during July. While the conflict in the Middle East continues to drive volatility in oil prices, our base case remains for a managed de-escalatory path. This should then drive a broadening out of equity performance to more cyclically sensitive sectors such as Industrials and financials. TOPIX valuation at a forward P/E at 17x remains high relative to history that keeps us neutral broad Japan exposure. Select opportunities in banks, industrials, and technology sectors remains preferred.

**What we're watching:** Iran conflict development, memory prices, hyperscaler capex commitments, Chinese government policy announcements, 2Q26 earnings season

**Our view: YE '26:** MSCI AxJ: YE 2026: 1,200-1,250 Topix: YE 2026: 3,700-3,800 MSCI Korea: YE 2026: 3,120-3,180 MSCI China: YE 2026: 82-86 CSI 300: YE 2026: 4,730-4,970 MSCI India: YE 2026: 3,000-3,100 MSCI ASEAN: YE 2026: 750-775 , **MY '27:** MSCI AxJ: June 2027: 1,265-1,325 Topix: June 2027: 3,900-4,000 MSCI Korea: June 2027: 3,220-3,280 MSCI China: June 2027: 87-91 CSI 300: June 2027: 5,230-5,570 MSCI India: June 2027: 3,350-3,450 MSCI ASEAN: June 2027: 770-790

**MSCI Korea's valuation is at trough levels**
Forward P/E of MSCI Korea

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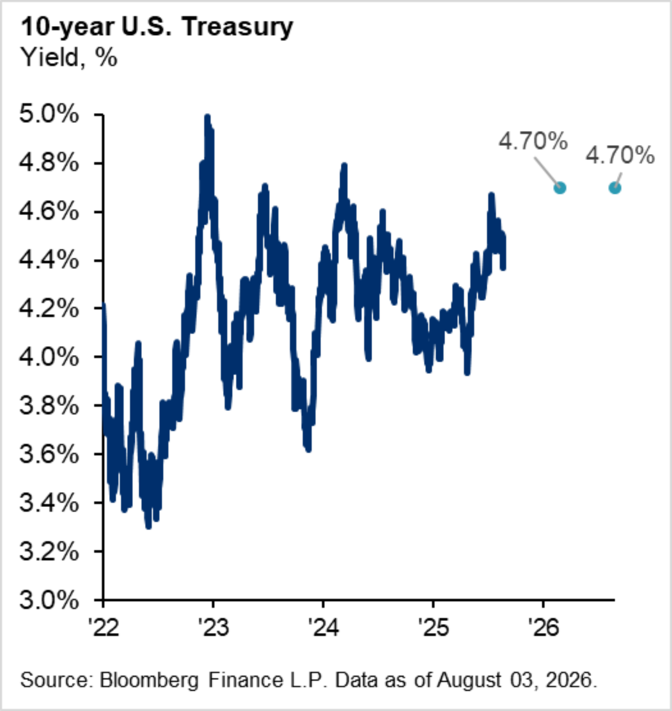
# RATES VIEWS

**U.S. Rates**

US yields rose in July, amid higher volatility. The Fed has been a key focus, as the July FOMC confused markets. Long-term yields rose, as markets question the Warsh Fed's commitment to deliver price stability and remain uncertain about its reaction function. We think these developments have lowered the Fed bar to hike, and along more uncertainty about supply chain healing now pencil in a 25bp hike in September. We only expect a single 25bp hike for now, as we see it mostly as a gesture to burnish inflation-fighting credibility, while our macro outlook is stable. Overall, yields are rising, due to the Fed, but also rising global issuance, Japanese investment flows, and perhaps also the impact of more conflict-related uncertainty. We see 10y yields in a higher range now, perhaps reaching the cycle-highs at 5%. But softening macro trends and de-escalation could lower yields towards the end of the year, which is why our yield outlook is little changed, while higher volatility imply wider ranges.

**What we're watching:** US-Iran conflict, inflation expectations, unemployment trends, global term premia

**Our view: YE '26:** FFR: 3.88. 30Yr: 5.10%; 10Yr. 4.70%; 5Yr. 4.30%; 2Yr. 4.25%. **MY '27:** FFR: 3.88. 30Yr: 5.15%; 10Yr. 4.70%; 5Yr. 4.40%; 2Yr. 4.15%.

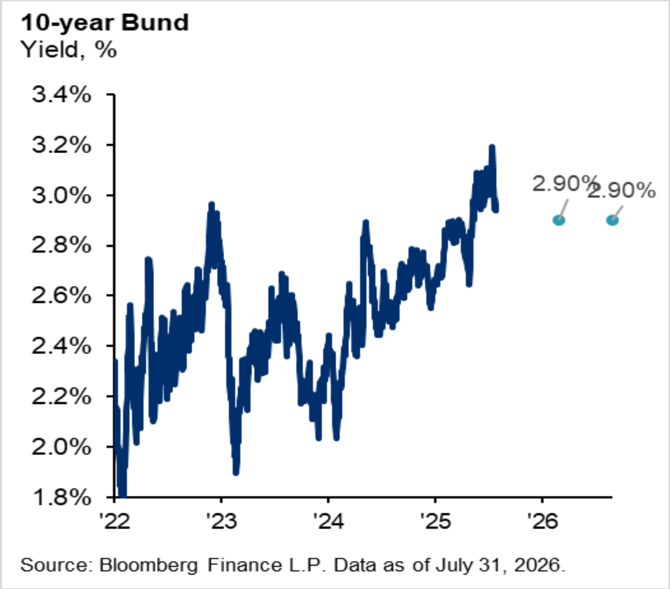



**Europe Rates**

After a front-loaded June hike, the ECB paused in July, emphasizing a data-dependent approach as the full impact of the energy shock and its second-round effects are still unfolding. Energy prices drove headline inflation, but we see only limited evidence of inflation broadening out into less volatile components. However, the full impact of the supply crunch is yet to be felt, and the Governing Council has signaled its preference to be ahead of the curve – which manifested itself in hawkish communications. We hence expect another 25 bp rate hike in September – even with potentially lower oil prices. Further hikes cannot be ruled out, depending on the Middle East situation. The BoE held policy rates unchanged, as inflation has moderated but is expected to rise again and peak later this year. Underlying price and wage pressures are easing, but the risk of persistent inflation remains as long as energy prices stay high. Long-end yields remain elevated amid persistent inflation uncertainty, global pressures, and fiscal risks, particularly in the UK. We see 10-year Bunds at 2.90% and Gilts at 4.60% by mid-2027.

**What we're watching:** Energy market developments, inflation expectations, wage growth, debt dynamics.

**Our view: YE '26:** ECB Deposit Rate: 2.50%, 5Y Bund: 2.60% (2.35%-2.85%), 10Y Bund: 2.90% (2.65%-3.15%); BoE Bank Rate: 4.00%, 10Y Gilt: 4.60% (4.35-4.85%) , **MY '27:** ECB Deposit Rate: 2.50%, 5Y Bund: 2.60% (2.35%-2.85%), 10Y Bund: 2.90% (2.65-3.15%); BoE Bank Rate: 3.75%, 10Y Gilt: 4.60% (4.35-4.85%)

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# CREDIT VIEWS

**U.S. Credit**

Munis: July has not been kind to municipal bond market participants. Month to date the municipal market is less expensive by 24-32-37-32 basis points in the 2y, 5y, 10y & 30y segments of the curve. Meanwhile the Bloomberg Municipal Index (Ticker: LMBITR) is -1.53% on the month but still clinging to a +0.76% gain on the year. While the conflict with Iran continues in the background, the municipal market is focused on inflation, new issue supply and fund flows. The market remains on pace to issue +500bn of new debt this year, which would mark the third consecutive year of breaching this level and would be a significant milestone. Fund and SMA flows have kept the market in check during this flood of new issuance. For example, YTD fund flows stand at $58.3bn, which continues to track as the second highest level on record for the comparable period. If fund flows remain strong, its possible the municipal market could find its footing as we make our way into the back half of the year.

US IG: Over the past month, US investment grade credit has seen spreads begin to creep wider, registering a 5bps move over the past month. The move has been driven largely by technicals and headline risk—most notably renewed escalation in the Iran conflict—alongside a supply glut in the high-grade market as large issuers (particularly hyperscalers) continue to lean into funding needs. Hyperscalers have also pushed capex guidance higher, raising investor questions around the ultimate ROI of heavy upfront investments and contributing to near-term spread pressure. That said, we remain constructive on IG overall, including select hyperscalers, as we view the recent widening as more supply/demand driven than fundamentally driven. Ex-Oracle, credit metrics on average appear consistent with AA/AAA rating profiles and modestly wider spreads may present relative value in select issuers. Overall, 5.8% yields today for the investment grade asset class are almost the highest since the GFC (only below the post crisis peak of 6.1% in 2023), offering attractive entry points for high quality debt. We would use bouts of volatility to incrementally add in the front-to-intermediate part of the curve, where carry remains most compelling.

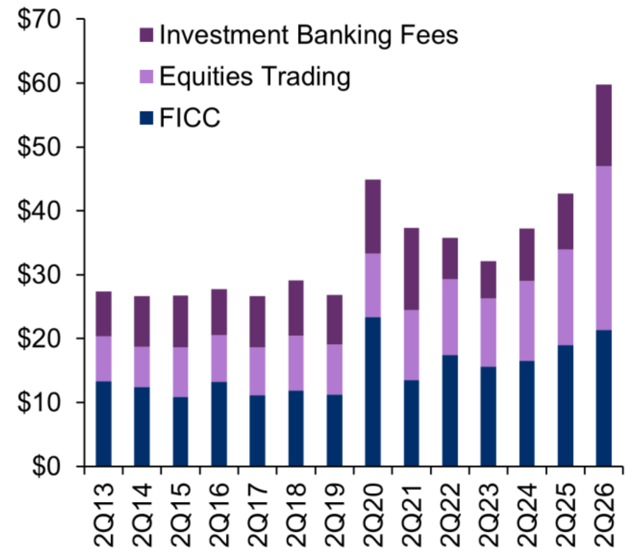
US HY: High yield has stayed notably resilient despite a challenging mix of macro and geopolitical headlines. Spreads have held near one-year tights, with BBs at 200bps, reflecting still-supportive risk appetite and an asset class that has limited direct exposure to tech. We continue to prefer the higher quality spectrum of the market which offers a combination of stable fundamentals, default rates that remain below historical averages, and attractive carry.

US Prefs / Hybrids: Bank preferreds continue to be supported by a fundamentally constructive operating environment, with continued loan growth, a strong markets businesses, increasing deal volumes, improving asset quality, and CET1 levels remaining relatively flat. In Q 2'26, we saw a generally supportive asset quality backdrop, with net charge-off (NCO) trends and provisions for credit losses at major U.S. banks decreasing, driven by resilient consumer credit. Further, strong markets performance and a pickup in capital markets activity may help reinforce profitability, with expectations remaining robust given the investment banking backlog and expectations for more large-scale IPOs. Overall, we view the sector as supported by a mix of generally IG-quality issuers, solid underlying fundamentals, and higher yields that may compensate for the securities' subordinated position in the capital structure.

**What we're watching:** Core Fixed Income: Munis and Corporates over Treasuries. Extended Credit: Favor hybrid capital (preferreds and corporate hybrids) for potentially attractive risk-adjusted returns

**Our view: YE '26:** US IG (Spread): 80-110 bps by YE'2026; US HY(Spread): 300-350 bps by YE'2026, **MY '27:** US IG (Spread): 80-110 bps by MY'2027; US HY(Spread): 325-375 bps by MY'2027

**Strong Capital Markets Revenue in Q2'26**
Thousands, total revenue of BAC, C, GS, JPM, MS




Source:Barclays Research and Company Reports, 7.30.26

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## Europe Credit

European Investment Grade (IG) Credit returned -0.9% in July, bringing total year-to-date performance down to 0.4%. European High Yield (HY) was unable to escape the rate sell off and returned -0.3% in July, taking year-to-date gains down marginally to 1.3%.

Most of July's underperformance was driven by rates rather than credit spreads as the German Bund curve parallel-shifted by 30bps across all tenors. European IG credit spreads widened by a marginal 3bps remaining at YE'25 levels and sit just a few basis points off the tights of the last decade. The European HY market continued to demonstrate resilience with index credit spreads unchanged MTD, highlighting the strong fundamental starting point of the European HY market. The recent move higher in EUR rates has taken IG and HY yields near the highs of 2026, standing at circa. 3.7% and 6.1%, respectively. We think this presents a potentially attractive tactical opportunity for long-term investors.

The recent move higher in EUR rates makes a compelling case to take the first step into duration: ten-year bunds have breached the highs reached in 2023 and 7-10Y investment-grade credit now offers yields of up to 4.25%. Current yields are often the best predictor of forward looking returns, and we are increasingly confident the new higher yields may translate into future returns.

Throughout July's geopolitical re-escalation in the Middle East, energy prices erased their June declines and advanced back higher. With our core view that this geopolitical re-escalation episode will resemble prior cycles and will be followed by a renewed push for talks and near-term de-escalation, we focus on strong corporate earnings as we go through Q2 reporting. We expect HY credit spreads to remain anchored around current levels, underpinned by healthy corporate fundamentals, and thus expect carry to be the dominant driver of forward looking returns.

Average EBITDA margin for European High Yield index constituents has remained stable at 15% over the past 10 quarters. Balance Sheet cash balances are showing signs of firming even further. Net Leverage at the index level edged lower to 4.7x, with the higher Net Debt ratios residing in non-cyclical sectors such as TMT and Consumer Non-Discretionary, that are better suited to operate with elevated leverage through the cycle. We are comforted to see an expansion in Interest Coverage ratios to 5.5x, driven by cyclical sectors, e.g. Industrials and Consumer Discretionary.

We continue to favour another area of Extended Credit: Hybrid Capital. Here we see the potential for more carry-like returns going-forward.

Hybrid Bank Capital: European Banks have been continuously demonstrating solid operational performance with RoTE of 10-15%, prudent capitalization given CET1 buffers upwards of 180bps, and healthy loan books with Cost of Risk in most banking groups significantly under 50bps. A sustained higher-rate backdrop supports Banks' earnings through resilient net interest margin (NIM), and, together with increasing reliance on less capital-heavy Commissions & Fees business, offers a cushion against any risks of loan book health deterioration. We favour Junior Subordinated exposure to enhance carry.

Corporate Hybrids: Over 60% of the outstanding EUR notional of corporate hybrids are issued by non-cyclical sectors: Utilities, Telecommunications and Consumer Non-Cyclicals. We like the defensive nature of these sectors when moving down the capital structure. IG-rated hybrids constitute ~60% of the total EUR hybrid market and now provide ~75-100bps of spread pick-up to issuers' respective senior curves. HY-rated hybrids, from issuers rated IG at Senior tier, offer spread pick-ups exceeding 125bps.

**What we're watching:** Senior IG European Upstream, Junior Subordinated Banks, Corporate Hybrids

**Our view: YE '26:** EUR IG (Spread): 75-105 bps by YE'2026; EUR HY (Spread): 260-310 bps by YE'2026, **MY '27:** EUR IG (Spread): 75-105 bps by YE'2027; EUR HY (Spread): 260-310 bps by YE'2027

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## EM Credit

Emerging Markets (EM) continue to outperform global credit indices given the higher carry on offer. EM sovereign and corporate spreads were little changed over the month. We saw heightened volatility in US rates following the resumption of Middle East conflict, with US rates selling off by 10-15bps during July. This lead to EM also delivering negative returns, with EM Sovereigns at -1.2% and EM Corporates at -0.4%, taking the YTD returns to 2.2% and 1.9%, respectively. The recent move higher in US rates has taken IG and HY yields near the highs of 2026, standing at between 6.7-7.2%. We think this presents a potentially attractive tactical opportunity for long-term investors.

July was not without surprise, with the US and Iran re-engaging with military action. We stick to our core view that this geopolitical re-escalation episode will resemble prior cycles and will be followed by a renewed push for talks and near-term de-escalation. Thus we maintain our positive view on credit and specifically on Emerging Market credit. In our view, EM continues to exhibit greater resilience to the fallout of the closure of the Strait of Hormuz. EM as a whole does not rely on energy imports and will be a net beneficiary of higher energy prices, while also being in a good position to benefit from the eventual resolution of the conflict.

Despite the renewed tensions in the Middle East, we maintain our constructive stance on EM credit, with a selective preference for high yield. Earnings momentum is supportive - 2026 EM earnings growth is tracking its strongest pace since 2021, led by industrials and commodities, with most other sectors still posting solid 10–15% growth and banks remaining steady - while balance sheets continue to reflect that resilience (net leverage ~1.1x for EM IG and ~2.7x for EM HY). There is a growing expectation for these numbers to remain strong and even improve driven by improvements in Asia, which is benefitting from earnings growth in tech manufacturing.

Last month we spoke about the improving stories in EM and since then we have seen that translate into rating upgrades, specifically in Argentina. This confirms the positive impact that improved sovereign stories are having on the EM universe, which is already very high quality from a fundamental perspective and is potentially entering a renewed rating uptrend. We remain focused on issuers that command strong domestic market share, maintain EBITDA margins above 15% — supporting consistently positive free cash flow — and exhibit stable to improving leverage profiles below 3x. These criteria identify opportunities across EM offering yields of 6–8%, underscoring the breadth of diversification available within EM. We favour credits from Turkey, Brazil, Colombia, India, Israel and Mexico, and prefer Financials, TMT, Utilities, and Oil & Gas.

**What we're watching:**

**Corporate hybrids:** As with the developed world, some of the corporate hybrids in EM from investment-grade issuers offer HY-like yields with less cyclical fundamental risk and solid balance sheets.

**EM Corporate BBs:** Issuer's that have stable to improving fundamental stories and that exhibit consistent positive free cash flow, providing flexibility to deal with macroeconomic uncertainty.

**SoH Re-opening**: Issuer's that fundamentally benefit from the re-opening of the Strait of Hormuz but still have elevated spreads.

**What we're watching:** Corporate Hybrids, EM Corporate BBs, SoH Re-opening Trades

**Our view: YE '26:** EMBI (spread): 225-275 bps by YE'2026; CEMBI (Spread): 155-205 bps by YE'2026, **MY '27:** EMBI (Spread): 225-275 bps by MY'2027; CEMBI (Spread): 155-205 bps by MY'2027

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## Asia Credit

Asia credit was softer in July, with Asia IG down -0.79% and Asia HY down -0.10%. The move was largely rates-driven, while credit spreads were broadly unchanged, highlighting the continued resilience of Asia credit fundamentals despite the "higher for longer" rates backdrop. We continue to believe carry will be the key return driver in 2H 2026, with Asia IG supported by shorter duration and Asia HY supported by attractive all-in yields. Over the next 12 months, we expect Asia IG to deliver healthy returns, underpinned by healthy carry and improving balance sheets versus the prior default cycle.

Within Asia, we continue to flag Asia HY as the key opportunity set. After record defaults in prior years, we believe the worst of Asia HY is likely behind us. 1H 2026 performance supports this view, with close to 4% total return and defaults near zero year to date. Current yields remain compelling at ~7.83%, while cleaner balance sheets should help keep default rates low. Asia HY may also benefit from renewed investor focus on EM debt, with the asset class offering a ~35bps yield pickup versus CEMBI HY, supporting relative-value demand.

Indonesia credit is looking increasingly attractive after the recent pullback. Many sovereign and quasi-sovereign

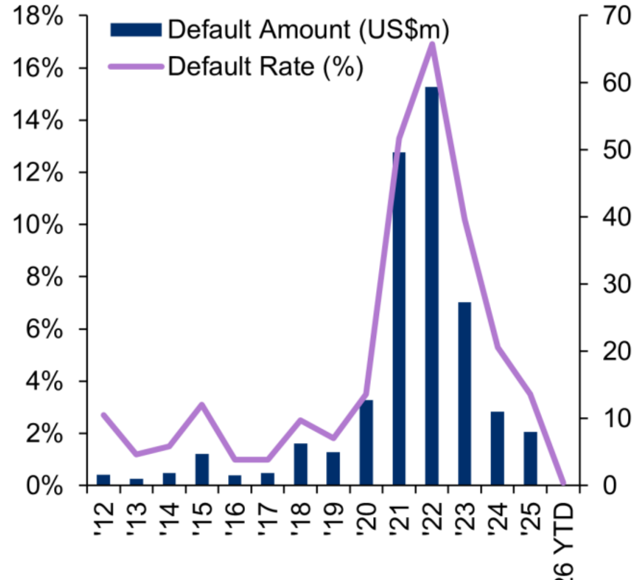
names are now offering yields of 6% or above, which we believe provides meaningful carry in the current rate environment. With spreads having widened by around 30bps in 1H 2026, we see scope for selective opportunities, particularly if macro pressure stabilizes and investor appetite for EM carry improves.

Separately, we continue to see value in AUD fixed income, where yields of 5.5–6% remain compelling as the RBA hiking cycle appears to be behind us.

**What we're watching:** · Asia HY: Key opportunity set, with ~7.83% yield, near-zero defaults YTD, and potential support from renewed EM debt inflows · Indonesia sovereign/quasi-sovereign: Pullback increasingly attractive, with many names yielding 6% or above · AUD Fixed Inco

**Our view: YE '26:** Asia IG (Spread): 50–80bps by YE'2026, Asia HY (Spread): 325–350bps by YE'2026, **MY '27:** Asia IG (Spread): 50–80bps by mid-2027, Asia HY (Spread): 350–375bps by mid-2027

**Asia HY Default Rate on Track for Five-Year Low**




Source: J.P. Morgan IB, Data as of 6.25.26

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# FX VIEWS

**U.S. Dollar**

The dollar had quite the month: initially a hawkish Fed and re-escalation in the conflict boosted the dollar, only to reverse as the July FOMC rekindled fears about the Fed's commitment to price stability, while Japanese FX intervention pushed down the dollar back down. We have looked at 1.14 as the focal point for EURUSD in H2 and do not see much near-term direction for the dollar. That is despite the move to a 25bp Fed hike in September, which is counterbalanced by the Fed credibility concerns and also more hikes globally. We continue to see USD depreciation over the medium-term, including in 2027 and a return to a volatile trend of pricing out US exceptionalism across asset classes, as the conflict impacts fade and the AI theme broadens further beyond the US or is increasingly priced in. Diversification away from excessive USD concentration therefore remains a prudent investment principle for building balanced medium-term exposure.

Risks to watch: this year, the conflict in the Middle East (further escalation would support the dollar, while faster normalization of global supply chains would weigh on it) and the pull element of US stock markets vs a faster rebound in growth in energy importers. Further out, the question remains whether the rest of the world can increasingly rely on internal sources of growth and demand and thereby support the rebalancing of global capital flows away from the US.

**What we're watching:** Middle East conflict, U.S. growth momentum vs. rest of world, Fed policy expectations, risk sentiment.

**Our view: YE '26:** 101 (99-103), **MY '27:** 98 (96 - 100)


Source: Bloomberg Finance L.P. Data as of July 31, 2026.

**Euro**

EURUSD oscillated around 1.14 for most of July before receiving a boost from the Fed-induced USD sell-off. With our outlook range of 1.12-1.16, we continue to see the outlook as balanced into year-end. A Fed that sends dovish signals or is perceived as less credible regarding their inflation targeting objective could weigh on the greenback and push EURUSD above that range. Similarly, downside risks stem from continued US growth momentum and a more protracted and escalating Middle East conflict, resulting in higher-for-longer energy prices. While inflation fears and rising rates constitute a synchronous shock, the Euro area's energy trade deficit could hurt growth more forcefully than in the US – which is a net exporter. We now expect both the Fed and the ECB to hike rates in September and then stand pat. This limits the potential for rates-driven currency moves to some extent in the short term. Over time, we think adverse structural USD factors and a moderation of US exceptionalism will come back into the limelight, lending modest support for EURUSD to appreciate to 1.17 by mid-2027.

**What we're watching:** Middle East conflict, relative inflation and growth, rates differentials and monetary policy.

**Our view: YE '26:** 1.14 (1.12-1.16), **MY '27:** 1.17 (1.15-1.19)


Source: Bloomberg Finance L.P. Data as of July 31, 2026.

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## British Pound

GBP is ending the month on a positive note as the broader USD weakness lent some support. Earlier in the month, however, it was UK-idiosyncratic factors pushing GBP higher. As the new Prime Minister took office, currency markets gave him the benefit of the doubt and priced out political risk premia. This resulted in a breakout of the long-held 0.86-0.88 trading range in EURGBP while GBPUSD revisited 1.35 highs. We had argued the resulting GBP rally was not based on facts and fundamentals and will reverse. By now, we are halfway in that reversal in EURGBP but were thrown another curveball in GBPUSD with the latest USD sell-off. We hold on to our 1.32 outlook for year-end in GBPUSD and expect the pound to re-establish earlier trading ranges against the euro.

Besides global factors (oil, risk) and US factors (Fed, AI), the focus will shift to potential economic policies of the new UK government and their first Autumn Budget – where we expect a risk premium to be priced in again temporarily.

**What we're watching:** UK fiscal policy plans & Autumn Budget, BoE trajectory, global risk sentiment.

**Our view: YE '26:** 1.32 (1.30-1.34), **MY '27:** 1.35 (1.33-1.37)


Source: Bloomberg Finance L.P. Data as of July 31, 2026.

## Swiss Franc

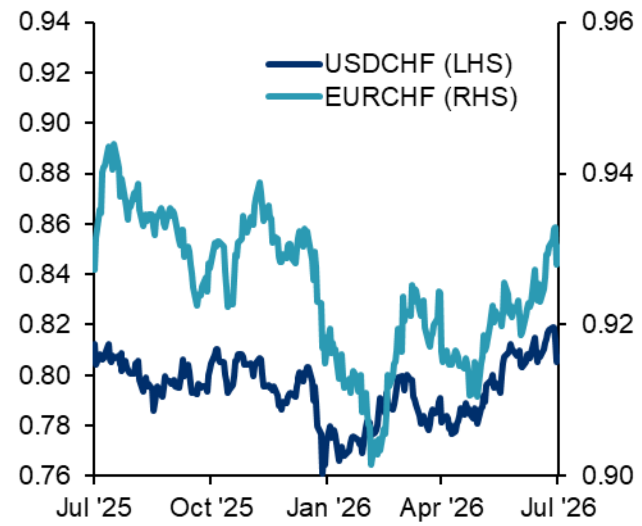
The Swiss franc has underperformed its G10 peers on a month-to-date basis. As we had noted earlier, Swiss rates have been glued to zero – which has hurt in this year's carry-driven FX environment. Following the most recent gap lower in USDCHF, we still like CHF-funded carry trades, especially with the greenback as a long leg. We also acknowledge the attractiveness of other high-yielding currencies such as AUD, NOK, and selected emerging markets currencies, but stress their increased risk beta if paired with CHF.

The carry narrative found further support from the latest Swiss National Bank policy meeting, where they emphasized an "increased willingness" to intervene in currency markets to prevent excessive CHF strength – effectively lending a backstop to CHF-funded carry positions should CHF appreciate materially.

Nevertheless, we value the Swiss franc's hedging properties and its structural support factors: safe-haven characteristics, sound fiscal position, and a persistent current account surplus, generating CHF inflows.

**What we're watching:** European growth, broader risk sentiment, SNB intervention signals.

**Our view: YE '26:** USDCHF: 0.81 (0.79-0.83) EURCHF: 0.92 (0.90-0.94), **MY '27:** USDCHF: 0.79 (0.77-0.81) EURCHF: 0.92 (0.90-0.94)




Source: Bloomberg Finance L.P. Data as of July 31, 2026.

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## Japanese Yen

Recent Japanese Ministry of Finance FX intervention—reportedly $50–60bn over two days, with possible U.S. participation—signals a much lower tolerance for further JPY depreciation. Coming after a more supportive market backdrop (USD/JPY easing post-FOMC and a hawkish-leaning BoJ hold), this raises the odds that USD/JPY has made at least a near-term local top. Alongside any Middle East de-escalation that softens energy prices and the "USD peak" narrative, official action likely caps USD/JPY for now, even if it doesn't create a sustained downtrend on its own.

Fundamentally, the root drivers of JPY weakness remain: deeply negative real short-term rates and fiscal overhang. That argues against a persistent USD/JPY decline unless Japan delivers meaningfully tighter policy. The BoJ's communication has turned notably more hawkish, and stabilizing the yen may ultimately require several additional hikes over 6–12 months (potentially taking policy rates toward ~2%). Offsetting this, fiscal expansion and energy-shock sensitivity could limit JPY upside.

Base case: range trading around ~160, with interventions limiting depreciation but structural headwinds slowing sustained appreciation. Large JPY moves still risk spillovers to global bonds and risk assets, even if yen carry positions appear less extreme than historically.

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

**Our view: YE '26:** 158 (156 - 160), **MY '27:** 158 (156 - 160)

Source: Bloomberg Finance L.P. Data as of July 31, 2026.

## Chinese Yuan

USDCNH resumed its move lower in July after consolidating for several weeks. We continue to expect moderate yuan appreciation, underpinned by three factors. First, exports remain resilient, with June data pointing to roughly 20% YoY growth. Second, exporters' FX conversion ratios are likely to increase as expectations for a stronger yuan gain traction, while sizable trade surpluses continue to accumulate at around USD50bn per month. Third, growth momentum could regain steam in 2H, creating prospects for renewed inflows to reduce current underweights. The CNH continues to offer low volatility and attractive funding costs, making it a popular funding currency. However, the risk-reward profile is becoming less compelling as appreciation risks gradually build. Investors without a specific need to hedge China-related assets may wish to diversify their funding mix or reduce FX mismatches within their liability structures.

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

**Our view: YE '26:** 6.70 (6.60 - 6.80), **MY '27:** 6.60 (6.50 - 6.70)

Source: Bloomberg Finance L.P. Data as of July 31, 2026.

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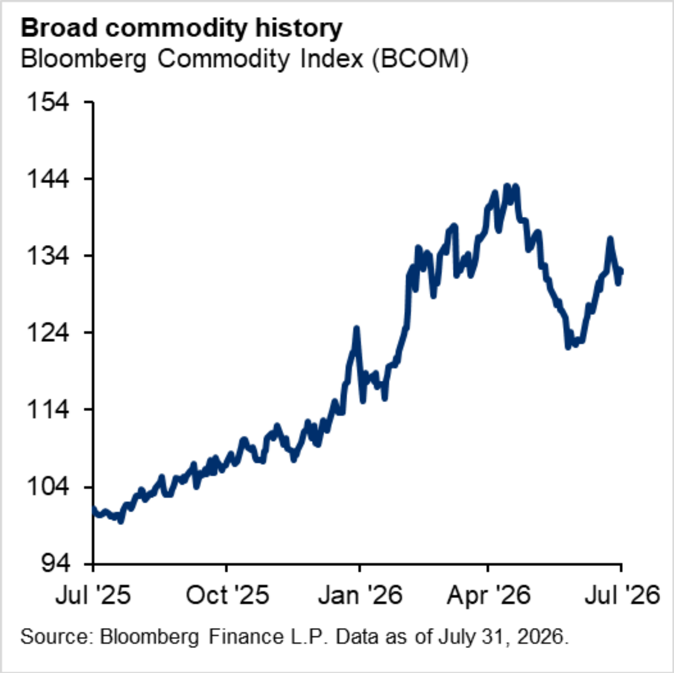
## G10 Commodity FX

The commodity bloc was relatively quiet in July, with the exception of notable NZD strength. The medium-term outlook remains constructive, supported by terms-of-trade gains as commodity prices remain well above pre-conflict levels. **CAD:** Neutral. CAD has recently underperformed as concerns persist over a soft domestic growth outlook, relatively low carry, and forward-looking risks surrounding upcoming USMCA negotiations. **AUD:** Near-term neutral, as idiosyncratic AUD strength may have peaked with the RBA shifting to a more neutral stance. Medium-term constructive, supported by healthy carry and strong terms of trade backdrop. AUD also remains an attractive destination for investors seeking to diversify away from USD exposure. **NZD:** Bullish. NZD has lagged due to weak domestic economic conditions but has scope to catch up, especially as RBNZ embarks on a relatively steep tightening path since July.

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

**Our view: YE '26:** CAD*: 1.39 (1.37-1.41) AUD: 0.70 (0.68-0.72) NZD*: 0.61 (0.59–0.63), **MY '27:** CAD*: 1.39 (1.37-1.41) AUD: 0.72 (0.70-0.74) NZD*: 0.61 (0.59–0.63)




## Scandi FX

NOKSEK has continued to trade in line with energy prices and is currently hovering around the parity level – a level that we expect to hold firm in the medium term even with an eventual de-escalation in the Middle East conflict. Both NOK and SEK remain closely tied to the Euro area business cycle through economic links. Norway's position as a major net energy exporter has provided support via terms-of-trade dynamics since the outbreak of the conflict. But NOK also shows strong fundamentals: Norwegian rates are markedly higher than their Swedish counterparts. And with Norwegian inflation still elevated despite the latest respite, carry should remain a supportive factor for NOK – even as oil prices retreat. In Sweden, by contrast, rates are less likely to rise, limiting SEK's potential to find support via the policy channel. Taken together, we continue to see NOKSEK north of 1.00, with the balance of risks biased higher.

**What we're watching:** European and domestic growth, commodity prices, rate differentials, global risk sentiment and FX volatility.

**Our view: YE '26:** EURNOK: 10.70 (10.50-10.90) EURSEK: 10.80 (10.60-11.00), **MY '27:** EURNOK: 10.70 (10.50-10.90) EURSEK: 10.80 (10.60-11.00)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**Emerging Market FX**

The bloc stabilized amid bouts of USD weakness in July. We expect increasing divergence in carry dynamics, alongside rising idiosyncratic political risks.

**Latam: BRL:** Bullish. Higher oil prices support fiscal and current accounts and real rates remain highest in the region. **MXN**: Bullish. Energy price pressures have been contained, carry remains decent, and trade uncertainty eases with the USMCA review progressing

**EMEA:** We are neutral on this part of the complex. **ILS**: Bullish. Outlook turning more constructive on high gearing to AI/tech and defense sectors.

**Asia**: Resilience tested amid energy crunch and capital fight. **INR**: Neutral as capital outflow pressure may have peaked. **TWD:** Neutral. Capital inflows stay robust but carry remains disadvantaged. **KRW**: Bearish as current window of strength driven by SKHY ADR listing related flow conversion is poised to finish soon. **SGD:** Neutral. Supported by safe-haven inflows and the MAS tightening shift, though carry disadvantage persists.

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

**Our view: YE '26:** BRL: 5.20 (5.00 – 5.40) MXN: 17.30 (17.10–17.50) ILS: 2.80 (2.70-2.90) INR: 96.00 (94.00-98.00) TWD: 31.90 (29.90–33.90) SGD: 1.28 (1.26–1.30), **MY '27:** BRL: 5.15 (4.95 – 5.35) MXN: 17.30 (17.10–17.50) ILS: 2.70 (2.60-2.80) INR: 98.00 (96.00-100.00) TWD: 31.90 (29.90–33.90) SGD: 1.28 (1.26–1.30)

**EM currency history**
J.P. Morgan EM Currency Index


Source: Bloomberg Finance L.P. Data as of July 31, 2026.

*JPM IB View

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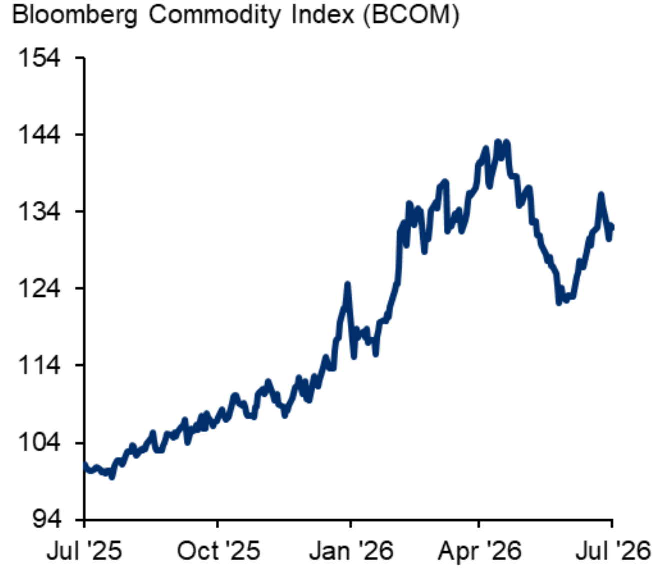
## COMMODITY VIEWS

**BCOM Index**

July marked a stark reversal from the trend seen in June, almost entirely due to reescalation in the Middle East. WTI Crude has seen a 22% increase since July 1st, and Brent is up nearly 17%. Crude barrels coming through the Strait of Hormuz have fallen sharply since the end of June, from around 13.5 mb/d to 400k b/d, constricting supply. That same supply-route anxiety spilled into gas, pushing Asian spot LNG to four-month highs as Europe worried about storage refills and weaker LNG inflows. Gold has remained flat throughout the month, signaling a bottoming process as headlines continue to whipsaw, and higher U.S. yields increase opportunity costs. LME Copper remains elevated from its mid-March slump, up around 12%. Agriculture and softs remained headline and weather driven—grains swung on USDA data, Midwest heat forecasts, and Black Sea export risk, while sugar rallied on drought and heat stress before easing on better conditions and weak demand. We reiterate that the index remains sensitive in both directions - while negotiations in Iran have been proposed, it's unclear whether they'll prove fruitful.

**What we're watching:** The path of the Iran conflict.

**Our view: YE '26:** 124-130, **MY '27:** 123-129



Source: Bloomberg Finance L.P. Data as of July 31, 2026.

**Gold**

Gold prices consolidated just above $4,000/oz in July. Recent data continue to highlight a strong inverse relationship between gold and real yields, reminiscent of the March-October 2022 period when markets aggressively repriced Fed expectations. Notably, 10-year real yields rose by around 20bps during the month, yet gold proved increasingly resilient around the $4,000 level, with the sensitivity to higher yields fading as July progressed. This reinforces our view that gold has entered a bottoming process. While near-term upside is likely to remain constrained by Fed uncertainties and elevated real yields, a more durable rebound should emerge once markets gain confidence that real yields have peaked. We remain bullish on gold over the medium term and expect its safe-haven characteristics to re-emerge as market narratives shift from inflation risks toward growth concerns. Our outlook into 2027 implies an attractive average 12-month return profile under the "new regime", anchored by sustained central-bank purchases, albeit without meaningful tailwinds from rates, the USD, or a resurgence in retail participation. Our medium-term constructive view is unchanged, underpinned by reserve-manager demand, rising global fragmentation, and long-term debasement risks. That said, we have moderated our upside ranges to reflect a higher-for-longer interest rate environment. Crucially, we do not view gold as a tactical trade, but as a strategic portfolio allocation with clear diversification benefits. Our analysis of asset-class returns over the past two decades suggests that a 5% allocation to gold in a balanced portfolio can effectively improve the overall Sharpe ratio, enhancing risk-adjusted return potential.

**What we're watching:** Fed policy trajectory, central bank purchases

**Our view: YE '26:** $4,350 – $4,650, **MY '27:** $4,850 – $5,150

Source: Bloomberg Finance L.P. Data as of July 31, 2026

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## Crude Oil

The U.S.–Iran memorandum of understanding has broken down: military exchanges have resumed, Iran is again using the Strait of Hormuz as leverage, and tanker attacks plus wider activity by Iranian-aligned groups point to a more unstable phase, not durable resolution. Risk is now spreading beyond Hormuz: Houthi attacks on Saudi-linked shipping raise the odds of disruption in the Bab el-Mandeb/Red Sea corridor, where a prolonged interruption could threaten flows ~4% of global supply. With Brent around $100/bbl, we estimate each unresolved month adds at least $10/bbl, with a non-linear upside as inventories tighten. Even with alternative routes, rerouting around Africa lifts voyage times, freight and insurance, reducing supply-chain efficiency. Our central view remains an eventual escalation but the path is now bumpier, implying flows could stay below normal and volatile in the near term. Product markets are the bigger concern: Middle East product exports remain depressed, leaving ~2.5 mb/d short and lifting cracks. Russia adds to tightness as refinery outages and export bans curb diesel; Black Sea loading risks persist. Iraq's internal strains could delay a ~2 mb/d output recovery. We aren't changing our base case yet.

**What we're watching:** The level of Hormuz throughput and any renewed disruptions, plus whether demand weakness persist as stranded supply returns.

**Our view: YE '26:** WTI: $69-$75 Brent: $72-$78, **MY '27:** WTI: $59-$65 Brent: $62-$68

**Brent crude oil 1-year price history**
$/bbl


Source: Bloomberg Finance L.P. Data as of 31 July 2026

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# ALTERNATIVES VIEWS

**Private Credit**

(Updated Quarterly: as of June 2026) AI disruption, markdowns, and elevated redemptions have led to concerns about private credit. Publicly listed BDCs are down ~11% YTD, trading at a ~19% discount to NAV, in contrast to the the broadly syndicated leveraged loan market up ~1.5%. But fears of a systemic crisis are overstated in our view. At this point, aggregate fundamentals look stable, with stress concentrated by sector, borrower size, and manager rather than reflecting broad deterioration. Private credit has grown meaningfully (~14% AUM CAGR over the past decade) but remains ~9% of total US corporate borrowing, and overall "risky credit" has been stable at ~20% of US GDP, suggesting a mix shift rather than a step-up in economy-wide risk. The investor base is ~80% institutional, which is generally longer-duration, limiting forced selling. What's more, a majority of private credit is in drawdown, closed-end vehicles. Bank linkages are also contained: loans to public BDCs broadly are ~12.5% of US bank lending, below concentrated exposures seen in past cycles (e.g., real estate at ~53% of bank lending ahead of the GFC). Non-traded BDC redemptions have been running at ~5% of NAV over the past couple quarters (with some vehicles experiencing larger withdrawal requests), and 1Q26 net flows dipped negative for the first time since late 2022. This appears driven by a mix of AI-driven concerns, negative sentiment and portfolio rebalancing rather than a reflection of fundamental deterioration. Importantly, defaults remain at or below historical averages (HY ~2.0%, leveraged loans ~2.6%, private credit ~2.7%). We expect elevated requests to persist over the next few quarters; of note, we believe queues and gating in evergreen funds are standard protective design features, not automatic distress signals. At the macro level, we expect resilient economic growth to continue supporting credit fundamentals. That said, stress is building among smaller borrowers (private credit defaults for borrowers with EBITDA below $25M are tracking at ~14%) and in sectors like autos and retail. Software is a key focus: direct lending has ~21% exposure (~40% including broader tech/services), the highest among credit markets. Software leveraged loan spreads have widened ~270bps YTD to ~790bps, though broader index moves ex-software remain more muted. We view software stress as a 3 to 5 year sector reset rather than an imminent macro credit event, as disruption is likely to be prolonged and uneven. As a simple stress test, if software defaults hit 15% with 40% recovery, credit losses would be ~2% unlevered over time (~4% levered assuming one turn of portfolio leverage) on a ~9% starting yield, painful but contained. Of note, this excludes MTM moves or other portfolio nuances which could make stress more acute. Over the past quarter we have seen modest widening in spreads (~25 to 50bps) and original issue discount, as some of this risk is being priced in. Outside the US, European pressure looks more macro-driven (inflation/rates) than tech-specific. Structural differences including lower leverage, stronger equity cushions, tighter covenants, and drawdown-dominated capital structures offer incremental downside mitigation and make Europe a potentially attractive opportunity within a broader private credit portfolio. On positioning, senior secured direct lending can still serve as an alternative source of income. Selectivity is paramount in this environment. Favor managers with diversified sector exposure, seniority in the capital structure, and larger borrowers (EBITDA above $50M). As a sizing framework, we recommend private credit as 15% of a core private market allocation, and it is critical to ensure positioning is appropriately sized given several years of direct lending outperformance. But private credit is more than just direct lending. We favor leaning into "credit complements" as yields in direct lending remain range-bound and pockets of stress emerge. Asset-backed finance offers lower correlation to corporate credit, diverse collateral pools, self-amortizing structures. There are also opportunities arising from Basel IV-driven bank retrenchment, particularly in Europe, though manager expertise is critical given the complexity of the asset class. Private credit secondaries are also a compelling addition, as LP stake transactions are a growing share of deal flow, unlocking high-quality portfolios at wider discounts with durable supply from 2015 to 2021 vintage funds facing deleveraging pressure.

**What we're watching:** Default and non-accrual trajectories, PIK usage, dividend coverage, AI disruption impact, yields vs. public markets, and whether redemptions shift from sentiment- to credit-driven.

**Private Infrastructure**

(Updated Quarterly: as of June 2026) Core infrastructure provides two key characteristics to investors: potential for stable returns (supported by long-term, inflation-resilient, contractual cash flows) and less volatile exposure to multi-year trends (acceleration in demand for power, resilient infrastructure escalating to a matter of national security). We believe these characteristics are increasingly relevant today as investors look to create durable portfolios in a shifting macro environment (e.g., elevated rates and inflation - both levels and volatility - vs. recent history) and an increasingly concentrated public equity market. Since 2Q08, core infrastructure has annualized high single digit to low double digit returns across various inflationary regimes[3]. Let's double click into the multi-year trends supporting these consistent returns. **Acceleration in demand for power — but selectivity matters:** After two decades of near-zero growth, US power demand is expected to grow at ~2.5% CAGR through 2030, driven by industrialization (reshoring, resurgence of U.S. manufacturing), data centers (driven by growth in AI), and electrification (building electrification, EV growth & charging infrastructure)[4]. This acceleration in demand at a time of constrained supply — further exacerbated by the expected retirement of 100–150GW of coal and nuclear plants in the near term — could create a power deficit by 2029, spurring significant investment across the power infrastructure value chain (generation, transmission, distribution, storage) and a resurgence in securing reliable sources of power (e.g., renewed focus on oil & gas in the US, select renewables in Europe). While we believe there is still room to go, the opportunity set is nuanced and entry price and risk management vary meaningfully by sub-sector. Transmission and grid remain the cleanest expression of the theme — decades of underinvestment have created a $550bn+ capex opportunity that utility balance sheets cannot fund alone, offering long-duration, regulated cash flows. Midstream is well-positioned as natural gas demand grows and LNG exports rise. On the cautious side, gas generation valuations have risen on scarcity, nuclear faces long lead times and cost overruns, and speculative data center development without contracted tenants warrants discipline. Renewable energy, despite policy headwinds, remains viable for experienced managers underwriting without subsidy assumptions, with a preference for operating over development assets. Across the board, we recommend partnering with cycle-tested managers who aim to deliver target returns within the initial contract life without relying on aggressive terminal value assumptions. **Resilient infrastructure now a matter of national security:** The past couple of years have also showcased in real-time the role that energy plays in influencing the geopolitical landscape. Securing reliable sources of energy/power — not only for essential services but also to power AI — has become a matter of national security. For investors, it means that investment in energy and power infrastructure will be supported by long-term secular forces, and that investing in globally diversified infrastructure is key as the type of asset (and therefore growth) you are getting exposure to will vary by region. This moves beyond just power and energy; it touches all forms of infrastructure (e.g., ports, roads, rails, bridges, telecom). Indeed, NATO's defense spending guidelines initiated in 2025 incorporate guidelines on spending on creating resilient infrastructure (1.5% of a country's GDP). Within midstream specifically, a projected doubling of US natural gas supply over the next five years will require major new infrastructure after years of underinvestment, creating the potential for attractive returns for owners of critical midstream assets. **Building a holistic infrastructure allocation:** Importantly, power is only one part of a well-constructed infrastructure allocation. We believe real assets (including real estate and infrastructure) should represent ~15% of a core private markets portfolio. Within infrastructure, while constructive on power, core exposures such as asset leasing — cargo/LNG ships, railcars, chassis — and industrial infrastructure are critical complements, often providing the diversification, income reliability, and inflation resilience that make infrastructure a durable portfolio building block. Investors have historically had low allocations to the asset class — the JPM 2026 Private Bank Family Office Report found that 79% of family offices have 0% allocation to infrastructure. The gap between opportunity and allocation is wide. Bottom line, for private investors, core infrastructure can present a unique opportunity to access both consistent returns (backed by contractual, inflation-resilient cash flows) and multi-year secular trends (power demand growth, resilient infrastructure escalating to a matter of national security). The key is disciplined sub-sector selection and partnering with experienced managers who have navigated prior cycles.

**What we're watching:** Impact of geopolitical uncertainty on transport, signs of a cyclical slowdown, signs of overinvestment in datacenters, valuations in power infrastructure

[3] MSCI, Bloomberg Finance L.P., data based on availability as of June 2025.

[4] Bank of America Research, as of July 2025.

**Private Real Estate**

(Updated Quarterly: as of June 2026) After a period of significant repricing, we believe U.S. commercial real estate is in the early stages of a recovery. Prices troughed in 2023 and have been recovering steadily since, with transaction volume projected to increase 16% year-over-year so far in 2026 and cap rates compressing across most property types. We believe real assets (real estate and infrastructure) should represent approximately 15% of a core private markets portfolio. Unlike the post-GFC recovery, which was amplified by cheap debt, performance at this point in the cycle will hinge on property fundamentals and asset management. A sustained recovery will likely be nuanced, and sector and market selection will be essential. **Demographic tailwinds are reshaping demand for housing.** Long-term structural forces are driving durable demand for rental housing across the U.S. Home ownership affordability remains stretched, supply deficits persist, and an aging population is accelerating demand for needs-based housing formats. Senior housing in particular is benefiting from rising occupancy, healthy rent growth, and muted new supply, and is expected to generate the highest NOI growth of any property sector over the next three years. These are not cyclical trends — they are decade-long shifts that we expect to underpin resilient, inflation-linked income for investors. **Supply discipline is creating a recovery in fundamentals.** Across most sectors, new construction has slowed materially. Industrial starts are down approximately 60% from 2022 highs, and residential construction remains constrained by cost pressures and policy uncertainty. This supply discipline, combined with resilient occupancy and rent growth, is setting the stage for a meaningful improvement in net operating income. Retail was the strongest performing sector in 2025, led by grocery-anchored formats resilient to e-commerce competition. Industrial vacancies, which likely peaked in 2025, are expected to recover toward 95% occupancy by 2027, after which we expect inflation-plus rent growth. Across sectors, Class A assets in well-located markets are leading the recovery and are expected to see the greatest cap rate compression going forward. **The maturity wall is generating potentially attractive entry points in real estate credit.** Hundreds of billions in real estate loans are scheduled to mature over the next two to three years, requiring refinancing at higher rates. Regional banks have materially reduced their CRE lending activity, creating a durable and growing capital gap. Private lenders are stepping in, offering structured strategies with equity-like return potential and debt-like downside mitigation. With commercial real estate debt origination already recovering — up 43% year-over-year as of Q4 2025 — the opportunity set is expanding, particularly in well-collateralized sectors where fundamentals remain strong. **Beyond the U.S., European real estate is presenting complementary opportunities.** Industrial sectors are seeing robust prime rent growth, supported by tight supply and large-scale fiscal stimulus and defense infrastructure investment. Multifamily is expected to continue to have strong demand and rental performance, with almost all major markets experiencing rising rents, coupled with residential construction starts falling sharply. **Bottom line, real estate is undergoing a selective, fundamentals-driven reinvention.** The conditions for a sustained recovery are increasingly in place — improving income growth, rising transaction volumes, and a capital gap that is creating potentially attractive entry points across both equity and credit. Investors who are selective about sectors, geographies, and asset quality are well-positioned to capture the next leg of potential returns.

**What we're watching:** datacenter and industrial valuations, signs of a macro slowdown, impact of tariffs on input costs, signals of impact of immigration policy on labor and therefore supply

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## Private Equity

(Updated Quarterly, as of June 2026). (As of June 2026). The median buyout manager has underperformed public markets over the past three years, partly because an AI-fueled rally in hyperscalers helped drive ~20% annualized returns in global public equities. While claims that private equity (PE) has "lost its way" are overstated, the industry is stratifying, and elevated entry multiples remain a headwind for recent vintages. Performance dispersion is stark: top-quartile managers have tended to outperform over the long run, while bottom-quartile outcomes lag—making manager selection paramount.

PE still offers differentiated exposure across sectors, geographies, and exit routes at a time when public equity concentration risk is rising. "Tech+" now represents more than half of the S&P 500, and the top 10 stocks are among the most correlated they have ever been, creating meaningful single-factor exposure. Core PE can diversify portfolios and provide alpha potential through less index-driven exposure.

Sector and geography matter. Buyout generally has greater exposure to industrials, healthcare, and financial services—sectors we remain constructive on over time. International buyout has typically outperformed public markets. Europe can rival US returns, supported by market fragmentation, a deep mid-market, fewer competing managers, and secular growth exposure (~30% of European PE deal activity is in tech/telecom vs. ~10% of MSCI Europe). Asia is increasingly compelling: APAC PE delivered a 145% total return over the past decade versus 83% for MSCI APAC, with India and Japan benefiting from growth, governance improvements, and carve-out tailwinds.

Exit routes are also evolving. Liquidity is broadening beyond IPOs and strategic sales to include GP-led secondaries and continuation vehicles—an important development after constrained exit markets. A deeper structural shift underpins private markets: companies are staying private longer and reaching larger scale amid rapid technological change, moving meaningful value creation into the pre-IPO phase. Going forward, we expect operational improvements—rather than multiple expansion and leverage—to be the primary driver of returns. This reflects a shift in the PE "return equation" from the 2008–2019 era, when leverage and multiple expansion dominated, to a post-ZIRP environment where revenue growth and EBITDA margin expansion matter more.

In that context, AI could be a "golden ticket" enabling step-change operational improvements, but it also introduces risks. In VC/Growth, capital is backing disruptors in a potential ~$6T "services as software" market by decade's end; leading frontier LLM companies reportedly added more net new annual recurring revenue (ARR) in 2025 than the rest of public software combined. But uncertainty around token pricing and the pace of adoption remains a swing factor. For buyout, firms that embed AI into operating models can strengthen value creation as labor-intensive services shift toward AI-enabled software delivery. Conversely, 2020–2022 SaaS investments underwritten at peak multiples face risk if AI erodes labor-scaled models.

Capital markets activity is a leading indicator for exits. If global M&A holds up, IPO issuance accelerates, and GP-led secondaries keep growing, activity could plausibly outpace 2021—making commitment pacing and vintage diversification more important, especially if distributions improve over the next 12–24 months. Gains, however, are unlikely to be evenly distributed: upside should concentrate among GPs with early access to category leaders and buyout managers with access to high-quality assets.

Do mega-IPOs end the thesis that most AI value accrues to private markets? Likely not. Longer private holding periods remain intact; public markets increasingly provide liquidity and access after substantial value creation has already occurred privately. Many AI leaders, if they list, may do so at far larger valuations than prior tech cohorts. Implication: public equity exposure alone may be insufficient; investors should consider complementing it with next-gen AI innovators and differentiated return streams via buyout, particularly given that 85–95% of companies globally with revenues >$100M are private.

Conclusion: PE and VC/Growth remain core to private markets allocations, but the environment demands selectivity. Within PE, we favor diversification across sector, size, and geography. Within VC, we prefer managers aligned with durable secular themes (e.g., applied AI and security). Across both, secondaries merit a dedicated allocation to mitigate the J-curve, reduce blind-pool risk via greater asset visibility, and diversify by vintage and manager.

**What we're watching:** AI disruption potential, capital market activity (dealmaking, exit activity, dry powder, fundraising levels), valuations.

**Hedge Funds**

(Updated Quarterly, as of June 2026). We believe hedge funds can serve as a critical diversifier, one that is increasingly necessary in today's market environment, where stock-bond correlations have grown volatile amid elevated inflation and interest rate swings driven by geopolitical fragmentation, persistent rolling inflation shocks, and fiscal activism. **A supportive macro backdrop.** The environment for hedge fund alpha generation is shaped by three key drivers: realized rate and equity market volatility, stock dispersion, and risk-free rates. Elevated volatility creates trading opportunities for statistical arbitrage and multi-strategy managers—and notably, single-stock volatility in the US is at its highest level since COVID. High dispersion, currently above the 90th percentile of its 10-year history, enhances alpha opportunities for fundamental stock-pickers. Meanwhile, risk-free rates remain elevated, providing a tailwind through cash balances and short-interest rebates. Taken together, the current environment is well-suited for a broad range of hedge fund strategies, as the key ingredients for alpha generation are firmly in place: elevated volatility, elevated dispersion, and risk-free rates above 2%. **History supports the thesis.** Hedge funds have historically provided solid diversification benefits, with some sub-strategies (like macro hedge funds) providing less correlated return streams and the ability to generate alpha in volatile markets. Over the past decade, adding a 10% allocation to a top-decile hedge fund manager within a 60/40 (funded from fixed income) would have improved the overall Sharpe ratio (from 0.48 to 0.6) thanks to a smoother ride through lower drawdowns. It is worth noting that these figures reflect top-decile manager outcomes and are not representative of the broader hedge fund industry—who you invest with is the single most important variable in determining outcomes. A useful case study is 2022: top macro and relative value managers were up while equities and fixed income fell anywhere from 15–30%, and the broader hedge fund universe was down ~5%. **2025 & 2026 performance through May.** As a reminder, 5 of 8 hedge fund industry categories outperformed the Bloomberg Global Aggregate in 2025. That momentum has carried into 2026: through May, hedge funds are up ~7%, comfortably ahead of the Bloomberg Global Aggregate's +50bps return over the same period. Performance has been broad-based, with every major strategy in positive territory—Equity Fundamental L/S (+10.9%), Systematic Macro/CTA (+8.0%), and Event Driven (+7.4%) leading the pack, while even the laggards (Relative Value +3.3%, Credit +3.4%) outpaced the Global Agg. By region, Asia-focused hedge funds have stood out, driven by exposure to China tech and Japan. (Source: Goldman Sachs Prime Services, May 2026) **Where we have conviction.** Within hedge funds, we are most constructive on strategies well-positioned for the current environment: relative value and macro (e.g., statistical arbitrage, discretionary macro), as well as merger arbitrage, supported by an improving dealmaking environment. High dispersion enhances alpha opportunities for stock-pickers and relative value managers, while elevated volatility creates additional trading opportunities across systematic strategies. On the dealmaking side, capital market activity this year is on pace to be the largest since 2021—driven by strong M&A and IPO activity—which is constructive for merger arbitrage. Additionally, beyond hedge fund's diversification role, they also offer a powerful vehicle for capturing thematic opportunities. Implemented through hedge funds, thematic investing becomes a dynamic, risk-aware approach to capturing alpha, combining long-term structural themes (such as Japan corporate governance, biotechnology, quant, and artificial intelligence) with shorter-term opportunistic and event-driven themes (such as merger arbitrage) within a disciplined portfolio framework.

**What we're watching:** signs of deleveraging and crowding; alpha generation drivers

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# VOLATILITY VIEWS

## Equity Vol

Last month we flagged that an acceleration in bond volatility was a risk that could spill into equities—especially the higher-momentum parts of the market. In July, a sharp jump in long-dated U.S. yields coincided with one of the worst one-month drawdowns in high-momentum equities since the GFC, coming as positioning and leverage in those areas had become stretched. Despite these historic moves, S&P 500 volatility stayed relatively contained. Rotation out of Tech/AI-adjacent winners and into lagging sectors helped cushion the index, even as leadership changed hands. Short-dated measures of expected S&P 500 price swings (option-implied volatility—i.e., the market's "priced" near-term move) hit one-month lows in early July, before drifting higher into month-end. S&P volatility still sits toward the low end of this year's range despite a ~25% selloff in Semiconductors (SMH) and the Nasdaq moving into correction territory after the July 29 FOMC meeting. Under the surface, dispersion remains high: single stocks/sectors moved sharply, but the index masked pain. **Our view**: structured notes may be one way to potentially benefit from elevated Semiconductor volatility. Put-writing could be considered as an additional approach to seek incremental portfolio yield.

**What we're watching:** Concentrated market leadership, spread between single name and index volatility, blockbuster IPOs

## Macro Vol

Macro volatility jumped in July, led by rates. Warsh's second FOMC press conference as Chair triggered a sharp repricing in the long end. As the Fed reframes how it measures inflation, the market demanded more compensation for long-term inflation risk: 10Y+ yields rose and the 30Y Treasury reached its highest level since 2007, alongside higher market-based inflation expectations. In swaps pricing continued to shift toward a "higher-for-longer" path. We expect option markets to embed larger event-risk premium going forward—extra implied volatility around key policy dates—Warsh's speech at Jackson Hole Aug 28 is the next focal point. Oil risk revived on renewed U.S./Iran tensions. Notably upside (call) option volatility moved higher as front month Brent touched $100, staying firm since; we see room to the downside in vols absent a major escalation. Credit markets are re-pricing risk as Tech becomes a larger weight in the issuance market. Hyperscaler earnings reiterated and/or raised capex plans, reviving free cash flow concerns and balance-sheet strain. Credit default swaps (CDS) spreads are widening: a JPM hyperscaler credit benchmark widened out to ~145bp on July 23 post Alphabet's results as investors continue to watch this space.

**What we're watching:** Warsh's soundbites, long end rates and inflation expectations, Hyperscaler CDS spreads

**Cross Asset Volatility Monitor**

| Underlier | 1 Month Vol | 1 Month MoM Change | 1 Month Historical | 1 Year Vol | 1 Year MoM Change | 1 Year Historical |
|---|---|---|---|---|---|---|
| **Equities - 100% Strike Implied Volatility** | | | | | | |
| S&P 500 Index | 15.14 | 0.73 | | 18.35 | -0.07 | |
| EURO STOXX 50 Index | 15.10 | 1.76 | | 17.69 | 0.06 | |
| Tokyo SE (TOPIX) Index | 23.38 | -1.52 | | 21.57 | -2.63 | |
| **Rates - SOFR Swaptions ATMF Strike Implied Volatility (BP, Annualized)** | | | | | | |
| 1Y | 85.90 | 10.24 | | 99.70 | 1.18 | |
| 5Y | 82.47 | 7.82 | | 88.72 | 1.96 | |
| 10Y | 67.71 | 2.64 | | 80.54 | 1.75 | |
| **Commodities - ATMF Strike Implied Volatility** | | | | | | |
| Oil (Brent) | 57.50 | -4.50 | | 33.17 | 2.06 | |
| Gold | 21.65 | 0.22 | | 21.65 | -0.22 | |
| **Currencies - ATMF Strike Implied Volatility** | | | | | | |
| EUR/USD | 5.60 | -0.10 | | 6.10 | -0.29 | |
| USD/JPY | 6.41 | -1.34 | | 8.33 | -0.36 | |
| USD/CNH | 2.12 | -0.19 | | 3.30 | -0.08 | |

1) Source: J.P. Morgan. Data as of July 29, 2026
2) ATMF refers to "At the Money Forward"
3) The illustration references the historical implied volatility over the last year. Green dot denotes high, red dot low, and blue dot current
4) Historical 1 year window observed for the range

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## THIS DOCUMENT

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

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The Global Investment Strategy Group provides industry-leading insights and investment advice to help our clients achieve their long-term goals. They draw on the extensive knowledge and experience of the Group's economists, investment strategists and asset-class strategists to provide a unique perspective across the global financial markets.

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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.
All data sourced from Bloomberg Finance L.P. as of May 09,2025, 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 are 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 market capitalization weighted index that is designed to measure the equity market performance of developed markets. The index consists of 23 developed market country indexes.

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

The **Russell 2000 Index** is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization. The real-time value is calculated with a base value of 135.00 as of December 31, 1986. The end-of-day value is calculated with a base value of 100.00 as of December 29, 1978.

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

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

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

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

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

## KEY RISKS

- Investments in smaller capitalization companies often involve significantly greater risks than the securities of larger, better-known companies because they may lack the management expertise, financial resources, product diversification and competitive strengths of larger companies. The prices of the securities of smaller companies may be subject to more abrupt or erratic market movements than larger, more established companies, as these securities typically are traded in lower volume and the issuers typically are more subject to changes in earnings and prospects. In addition to liquidity risks, when selling large positions in small capitalization securities, the seller may have to sell holdings at discounts from quoted prices or may have to make a series of small sales over a period of time, and dividends are not guaranteed.
- Investments in commodities may have greater volatility than investments in traditional securities, particularly if the instruments involve leverage. The value of commodity-linked derivative instruments 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. Use of leveraged commodity-linked derivatives creates an opportunity for increased return but, at the same time, creates the possibility for greater loss.
- Investing in alternative assets involves higher risks than traditional investments, including, without limitation, limited liquidity and valuation risk, and is suitable only for investors with sufficient knowledge and sophistication to evaluate the merits and risks of such investments. Alternative investments should not be deemed a complete investment program and distributions are not guaranteed. They may not be tax efficient, and an investor should consult with their tax professional prior to investing. Alternative investments often have higher fees than traditional investments and they may also be highly leveraged and engage in speculative investment techniques, which can magnify the investment loss or gain--including risk of loss of the entire investment. For comprehensive details around unique set of risks for specific alternative investments, please consult the offering memorandum
- 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. Share values can rise with strong earnings or positive market expectations, but they can also fall due to weak earnings or negative sentiment, and dividends are not guaranteed
- Investing in fixed income products (such as bonds) is subject to certain risks, including, but not limited to, interest rate, credit, inflation, call, default, prepayment and reinvestment risk. Any fixed income security sold or redeemed prior to maturity may be subject to substantial gain or loss.
- Preferred securities share characteristics of both stocks and bonds. Preferred securities are typically long dated securities with call protection that fall in between debt and equity in the capital structure. Preferred securities carry various risks and considerations which include: concentration risk; interest rate risk; lower credit ratings than individual bonds; a lower claim to assets than a firm's individual bonds; higher yields due to these risk characteristics; and “callable” implications meaning the issuing company may redeem the stock at a certain price after a certain date
- 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 are exposed to currency risk, since changes in exchange rates between the investment's foreign currency and the holder's domestic currency can impact returns. 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. Some international markets may not be politically or economically stable. Foreign holdings are subject to currency risk, as fluctuations in exchange rates between the investment's foreign currency and the holder's domestic currency can affect the value of the investment.
- Investing in emerging markets involves a greater degree of risk and increased volatility compared to developed markets. Changes in currency exchange

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rates and differences in accounting and taxation policies outside the investor's jurisdiction can raise or lower returns. Some markets may not be as politically and economically stable, in addition to differences in taxation policies, and legal systems outside the investor's jurisdiction may create additional risks. Investors should carefully consider these risks and consult with financial and legal advisors before investing in emerging markets.

- 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 investors to consult their tax advisors and legal counsel about the tax implications of these strategies. Investors are urged to carefully consider whether options or option-related products or strategies are suitable for their needs. In discussion of options and other strategies, results and risks are based solely on hypothetical examples cited; actual results and risks will vary depending on specific circumstances. Investors are urged to consider carefully whether option or option-related products in general, as well as the products or strategies discussed herein are suitable to their needs. In actual transactions, the client's counterparty for OTC derivatives applications is JPMorgan Chase Bank, N.A. and its affiliates. For a copy of the “Characteristics and Risks of Standardized Options” booklet, please contact your J.P. Morgan Advisor.
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