

Global macro update with J.P. Morgan Asset Management

GUIDE TO THE MARKETS

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12 April 2023

Agenda

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Mark Lovett, STANLIB Head of Investments
- 2 Global macro update**
Mike Bell, J.P. Morgan Asset Management
Global Market Strategist
- 3 Questions and answers**
Mark Lovett and Mike Bell
- 4 Closing**
Mark Lovett

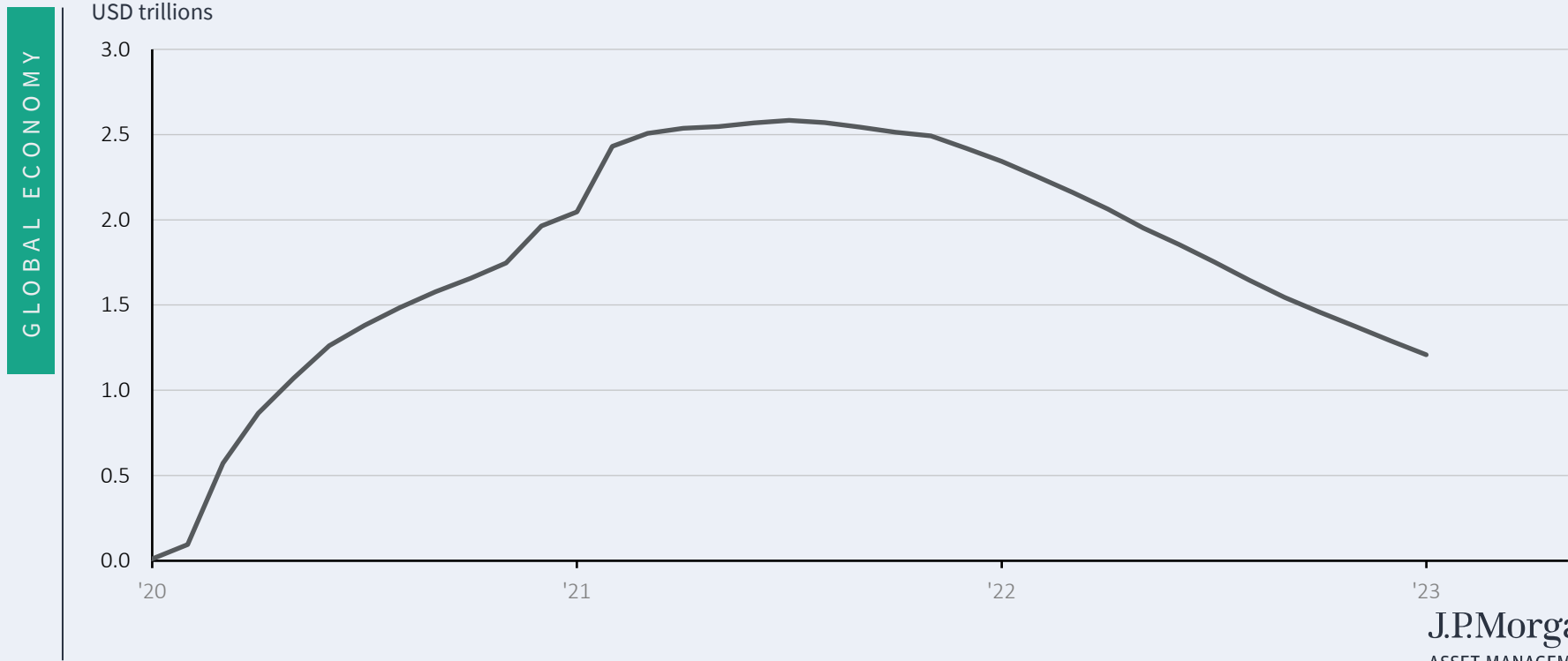
GUIDE TO THE MARKETS

UK | Q2 2023

As of 31 March 2023

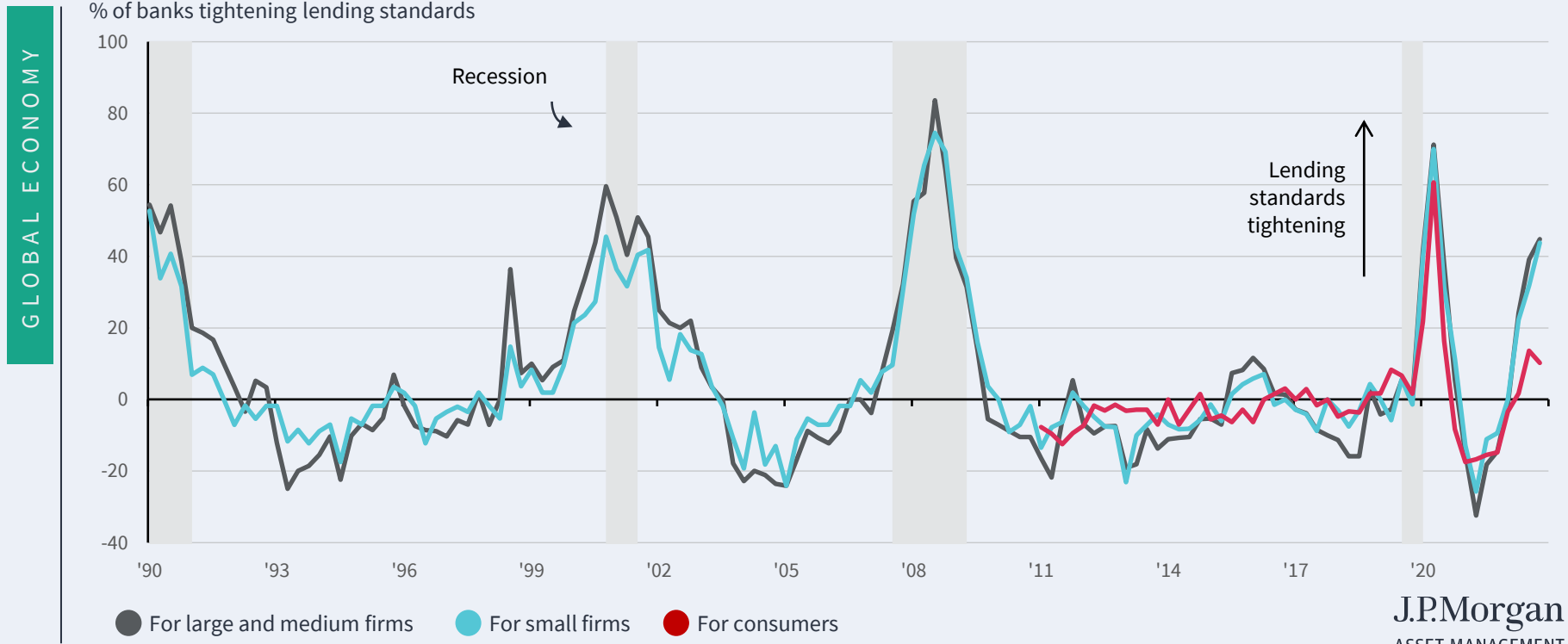
The US economy has been supported by pent up savings

US accumulated excess savings



But tighter credit conditions now pose a risk

US credit conditions



Source: Federal Reserve, Refinitiv Datastream, J.P. Morgan Asset Management. Data is from the Senior Loan Officer Opinion Survey. Periods of “recession” are defined using US National Bureau of Economic Research (NBER) business cycle dates. *Guide to the Markets – UK*. Data as of 31 March 2023.

And buying a home is expensive

US mortgage cost

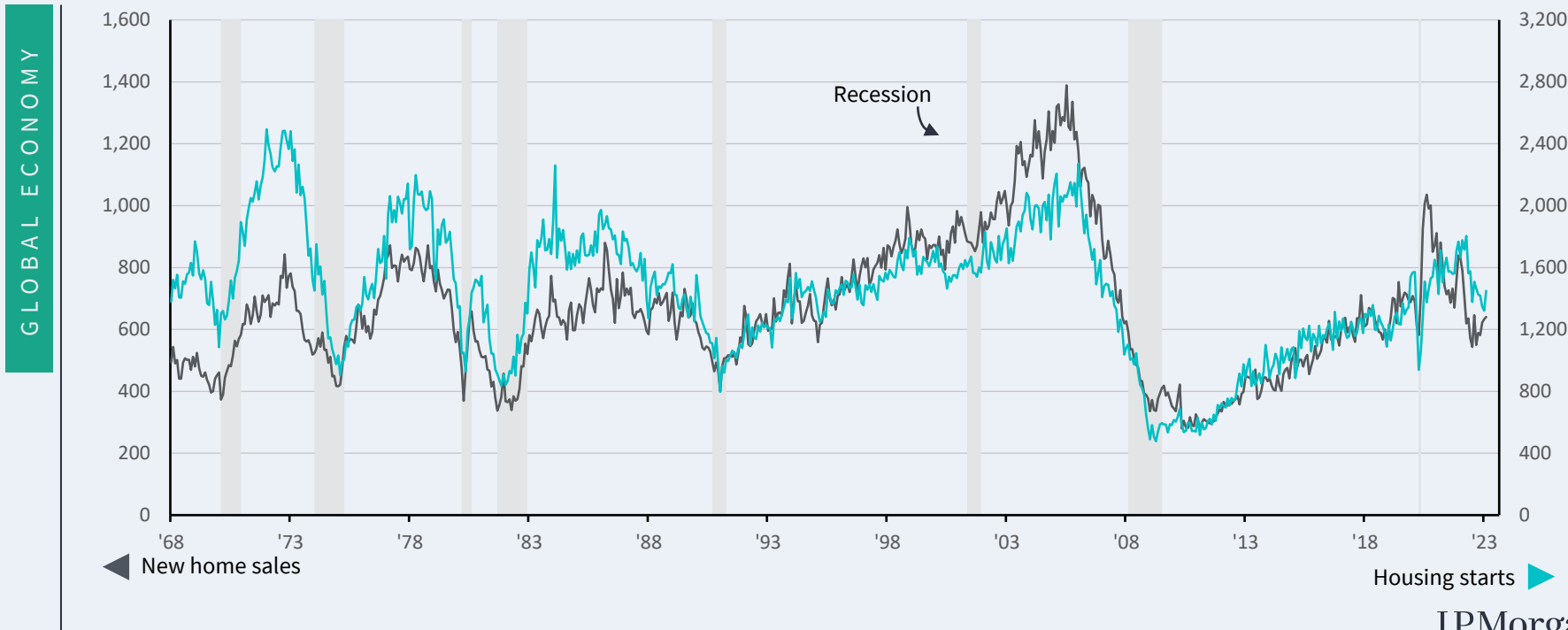


Source: National Association of Realtors, Refinitiv Datastream, J.P. Morgan Asset Management. The calculation is based on the national median-priced, existing single-family home relative to median family income as reported by the US Census Bureau *Guide to the Markets - UK*. Data as of 31 March 2023.

Declines in home sales tend to lead to recessions

US single-family home sales and housing starts

Thousands, seasonally adjusted annualised rate



Source: Census Bureau, Refinitiv Datastream, J.P. Morgan Asset Management. Periods of “recession” are defined using US National Bureau of Economic Research (NBER) business cycle dates. (Right) Census Bureau, National Association of Realtors, Refinitiv Datastream, J.P. Morgan Asset Management. Housing inventories include new and existing single-family homes for sale. *Guide to the Markets - UK*. Data as of 31 March 2023.

But there should be far fewer forced home sales than in 2008

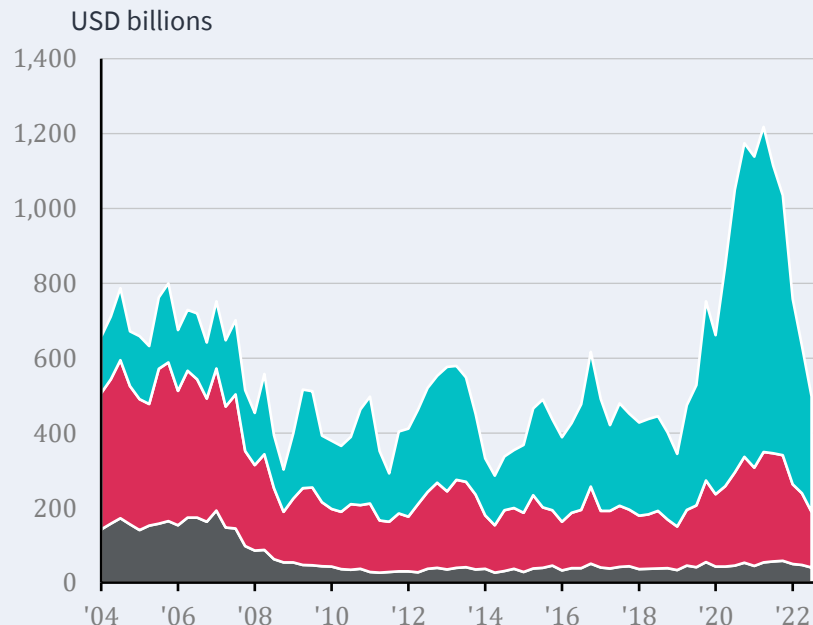
US accumulated excess savings

GLOBAL ECONOMY

Share of outstanding US mortgages on adjustable rates



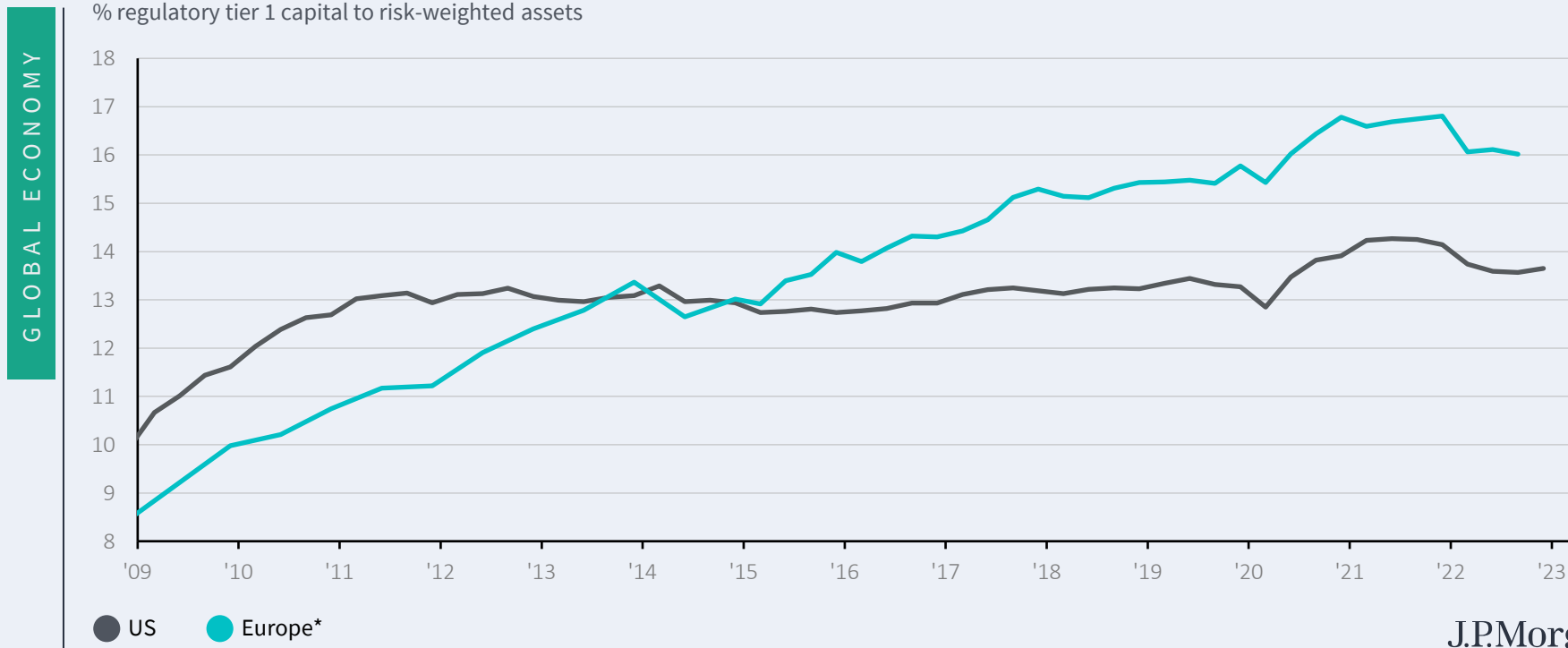
US mortgage origination by credit score



Source: (Left) Mortgage Bankers Association of America, Refinitiv Datastream, J.P. Morgan Asset Management. *Guide to the Markets - UK*. Data as of 31 March 2023. (Right) Federal Reserve Bank of New York, Refinitiv Datastream, J.P. Morgan Asset Management. Mortgages are grouped by FICO score. Subprime are those with FICO scores below 659, prime those between 660 and 759 and superprime those above 760. *Guide to the Markets - UK*. Data as of 31 March 2023.

And the banks are better capitalised

Core tier 1 capital ratios



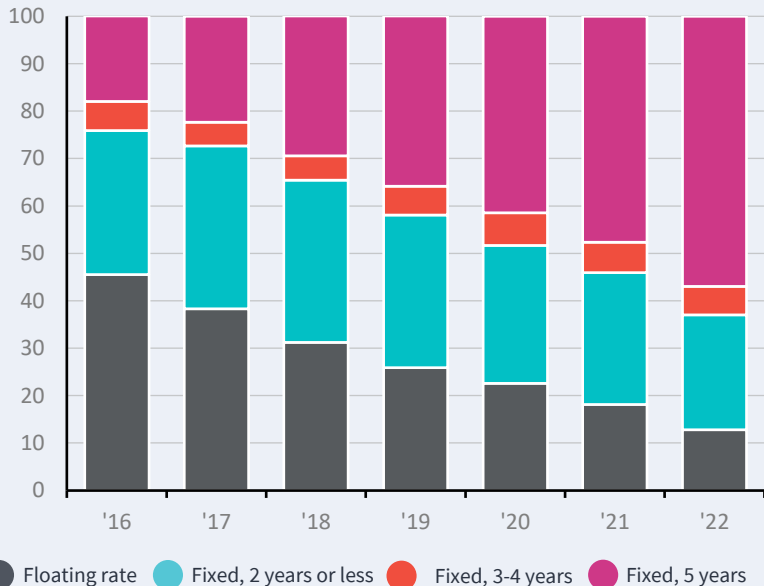
Source: Bloomberg, FDIC, IMF, Refinitiv Datastream, J.P. Morgan Asset Management. Core tier 1 ratios are a measure of banks' financial strength, comparing core tier 1 capital (equity capital and disclosed reserves) against total risk-weighted assets. *Europe shows average of France, Germany, Italy, Spain and UK. *Guide to the Markets - UK*. Data as of 31 March 2023.

UK interest rate rises will start to bite this year

GLOBAL ECONOMY

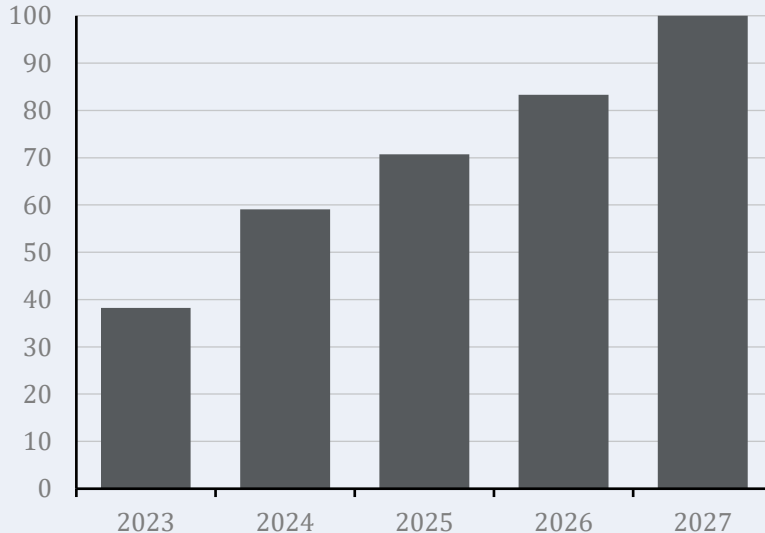
UK mortgages

% of mortgage stock



UK mortgages exposed to higher rates

Cumulative % of Q4 2022 outstanding mortgage debt



Source: (All charts) Bank of England, J.P. Morgan Asset Management. Mortgages exposed to higher rates are based on internal J.P. Morgan Asset Management calculations and estimates. The bars show the proportion of UK mortgage debt as of Q4 2022 that is either floating rate or with historical fixed rate agreements that will have expired by the end of each year. *Guide to the Markets - UK*. Data as of 31 March 2023.

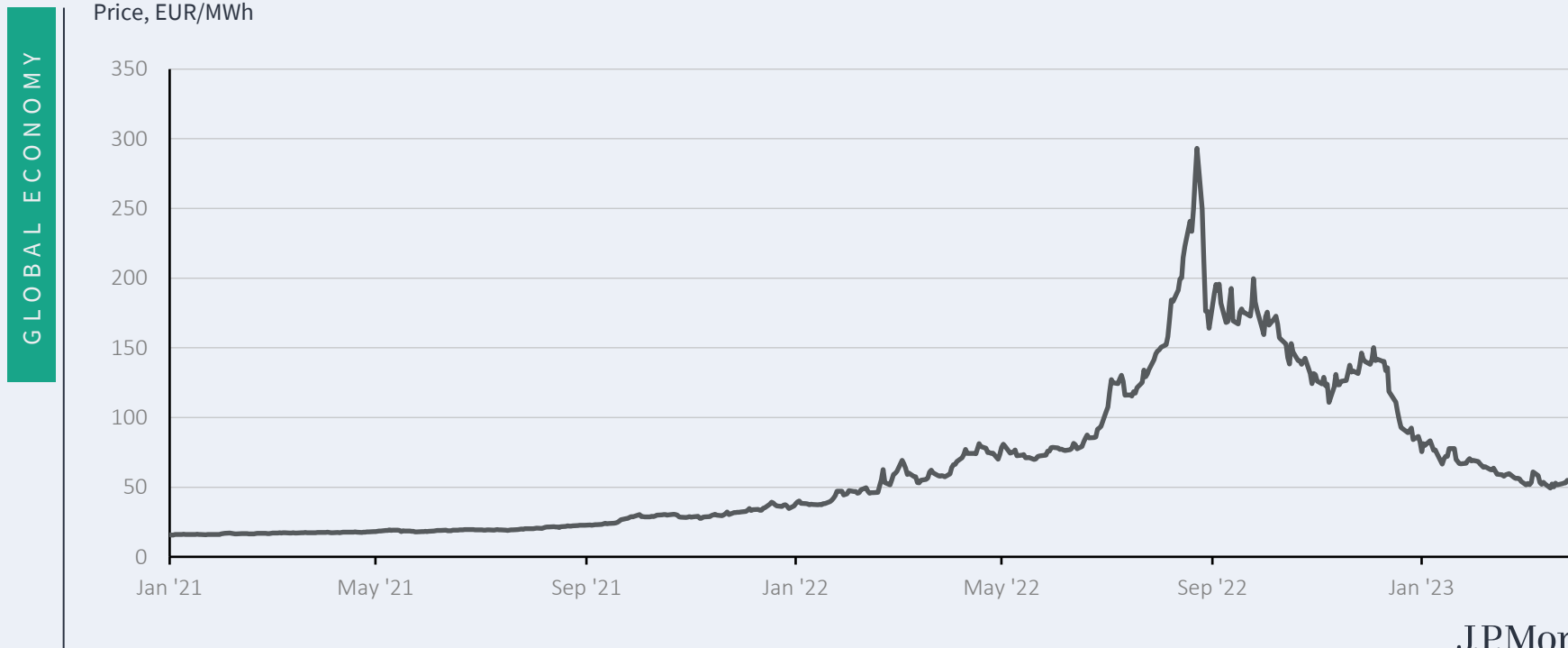
Sentiment in Europe was boosted by the sharp fall in gas prices

GPT

UK

32

Winter 2023 European natural gas future

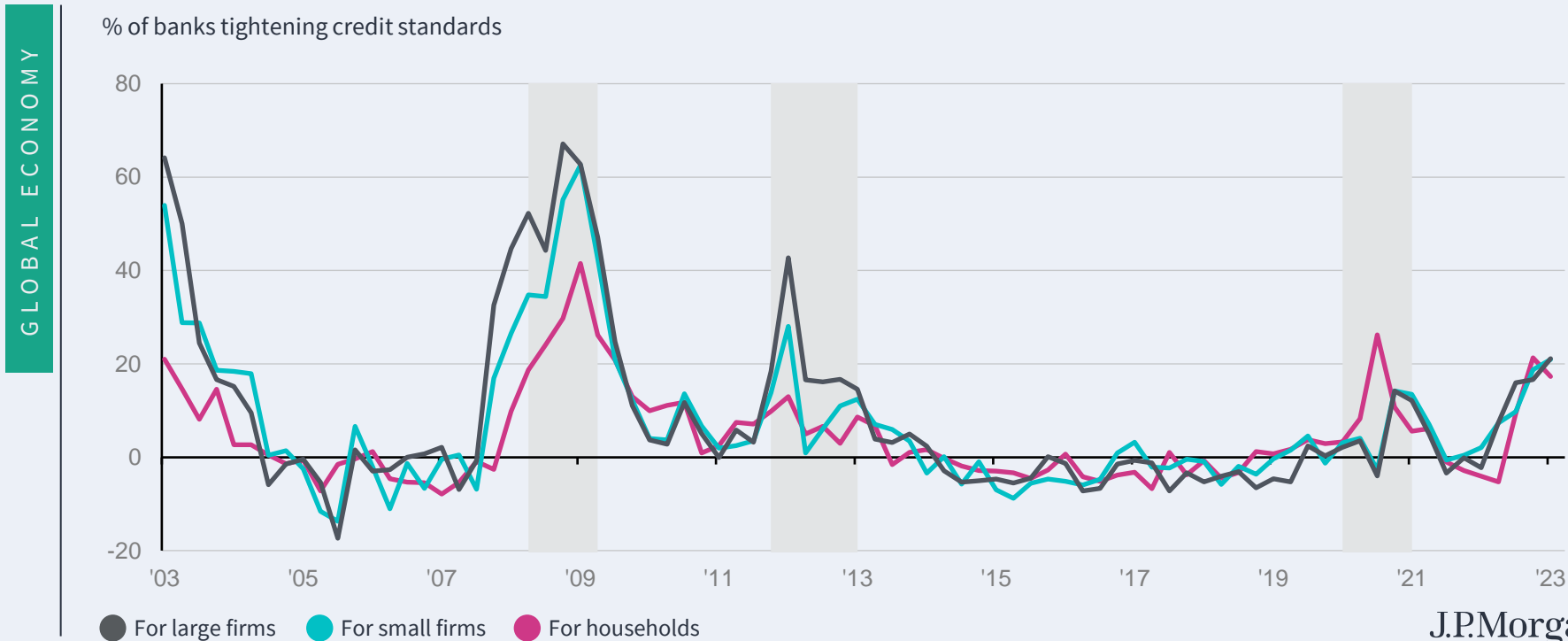


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Source: Bloomberg, TTF, J.P. Morgan Asset Management. Chart shows December 2023 TTF natural gas futures contract. Past performance is not a reliable indicator of current and future results. *Guide to the Markets - UK*. Data as of 31 March 2023.

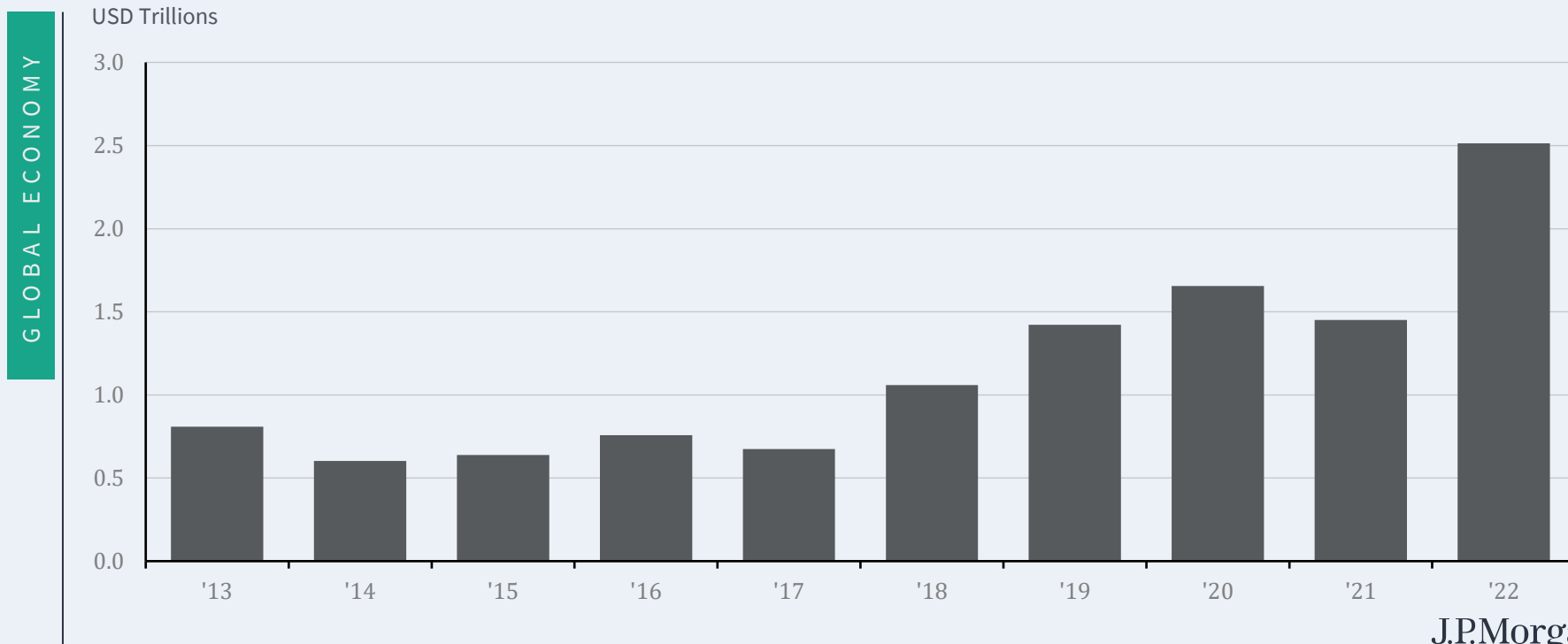
But credit conditions are now tightening in Europe too

Eurozone credit conditions



Source: European Central Bank, Refinitiv Datastream, J.P. Morgan Asset Management. Data is from the Euro Area Bank Lending Survey. *Guide to the Markets - UK*. Data as of 31 March 2023.

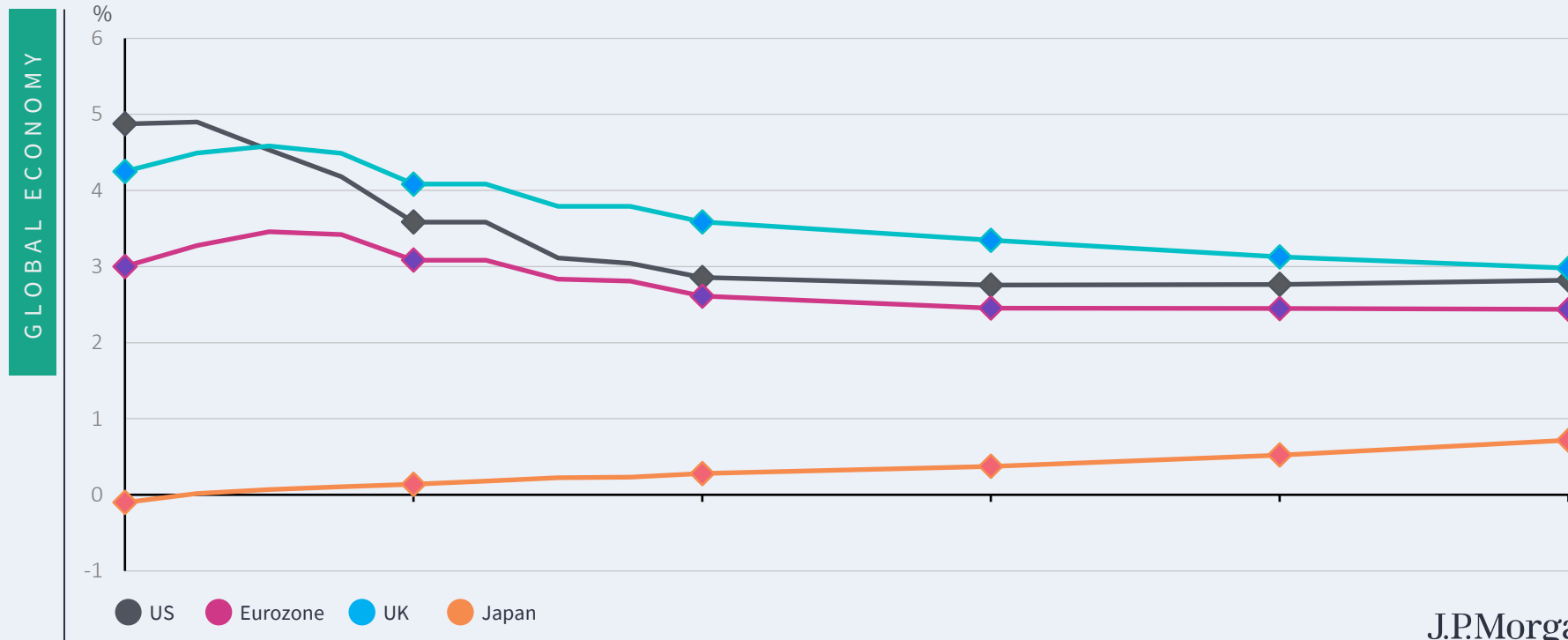
Increase in Chinese household deposits per year



Source: People's Bank of China, J.P. Morgan Asset Management. *Guide to the Markets - UK*. Data as of 31 March 2023.

Interest rates are probably near their peak

Market expectations for central bank policy rates

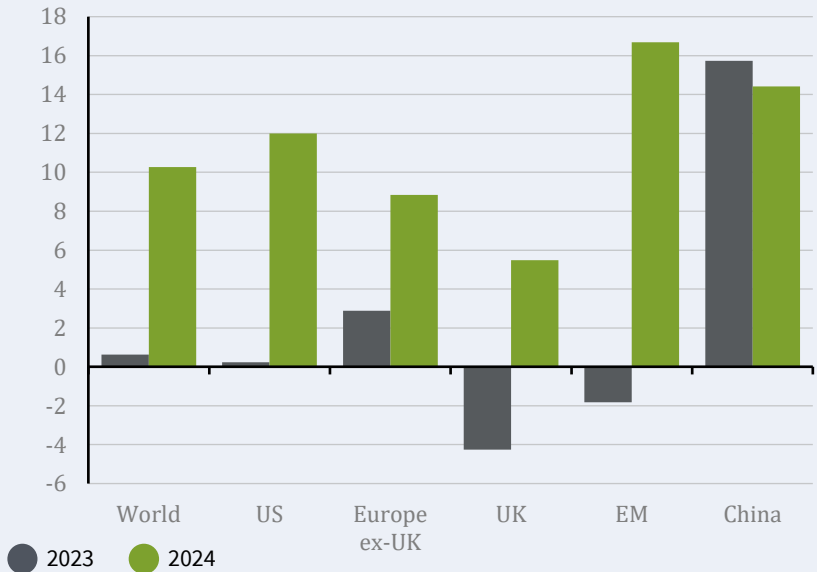


UK interest rate rises will start to bite this year

EQUITIES

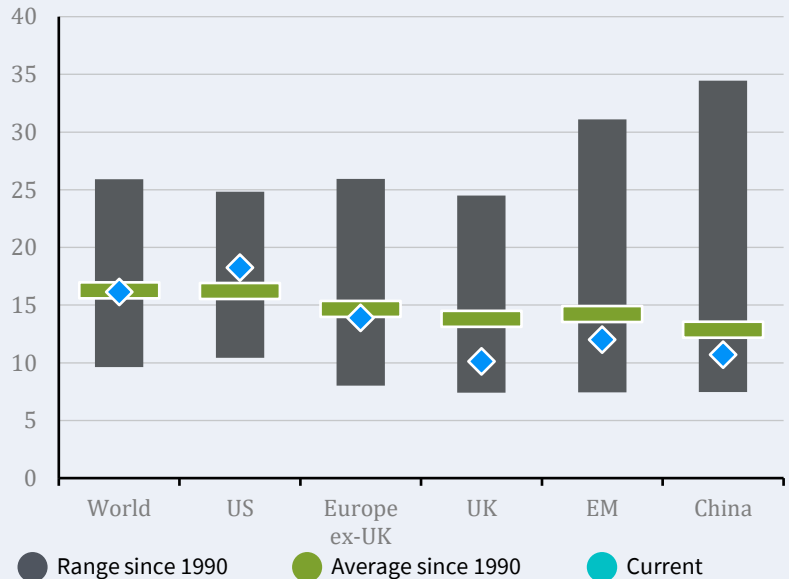
Consensus estimates for global earnings per share growth

% change year on year



Global forward P/E ratios

x, multiple



Source: (Left) FTSE, IBES, MSCI, Refinitiv Datastream, S&P Global, J.P. Morgan Asset Management. MSCI indices are used for World, Europe ex-UK, EM and China. UK is FTSE All-Share and US is S&P 500. Earnings data is based on 12-month forward estimates. (Right) IBES, MSCI, Refinitiv Datastream, S&P Global, J.P. Morgan Asset Management. Forward P/E ratio is price to 12-month forward earnings. MSCI indices are used for all regions/countries (due to data availability), except for the US, which is represented by the S&P 500. Range and average for China is since 1996, due to data availability. Past performance is not a reliable indicator of current and future results. *Guide to the Markets - UK*. Data as of 31 March 2023.

But falling bond yields might also support stocks in a recession

S&P 500 and 10 year treasury yield

Index level %



▲ S&P 500

▶ 10 year treasury yield (inverted)

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Source: Refinitiv Datastream, J.P. Morgan Asset Management. Data as of 5 April 2023

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Thank You

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A fund of funds is a portfolio that invests in portfolios of collective investment schemes, that levy their own charges, which could result in a higher fee structure for these portfolios

A Feeder Fund portfolio is a portfolio that invests in a single portfolio of a collective investment scheme that levies its own charges, which could result in a higher fee structure for the Feeder Fund.

A money market portfolio is not a bank deposit account. The price of each participatory interest (unit) is aimed at a constant value. The total return to the investor is primarily made up of interest received but, may also include any gain or loss made on any particular instrument. In most cases this will merely have the effect of increasing or decreasing the daily yield, but in an extreme case it can have the effect of reducing the capital value of the portfolio. An annualised seven day rolling average effective yield is calculated for Money Market Portfolios. Excessive withdrawals from the portfolio may place the portfolio under liquidity pressures; and that in such circumstances a process of ring-fencing of withdrawal instructions and managed pay-outs over time may be followed.

A portfolio that derives its income primarily from interest-bearing instruments calculates its yield daily and is a current effective yield.

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