

A person is seen from behind, sitting in a canoe on a calm lake. The person is holding a paddle. The lake is surrounded by dark, jagged mountains under a cloudy sky. The overall tone is dark and moody.

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Global macro update with J.P. Morgan Asset Management

## **GUIDE TO THE MARKETS**

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July 2023

# Agenda

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1

**Welcome and opening**  
Kevin Lings - STANLIB

2

**Global macro update**  
Karen Ward – J.P. Morgan Asset Management

3

**Questions and answers**  
Kevin Lings and Karen Ward

4

**Closing**  
Kevin Lings

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# INTRODUCTION AND WELCOME

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Kevin Lings

A person is seen from behind, sitting in a canoe on a calm lake. The person is holding a paddle. The lake is surrounded by dark, rugged mountains under a cloudy sky. The overall tone is dark and moody.

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# GLOBAL MACRO UPDATE WITH J.P. MORGAN ASSET MANAGEMENT

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Karen Ward, Chief Market Strategist EMEA



TOO GOOD TO BE TRUE

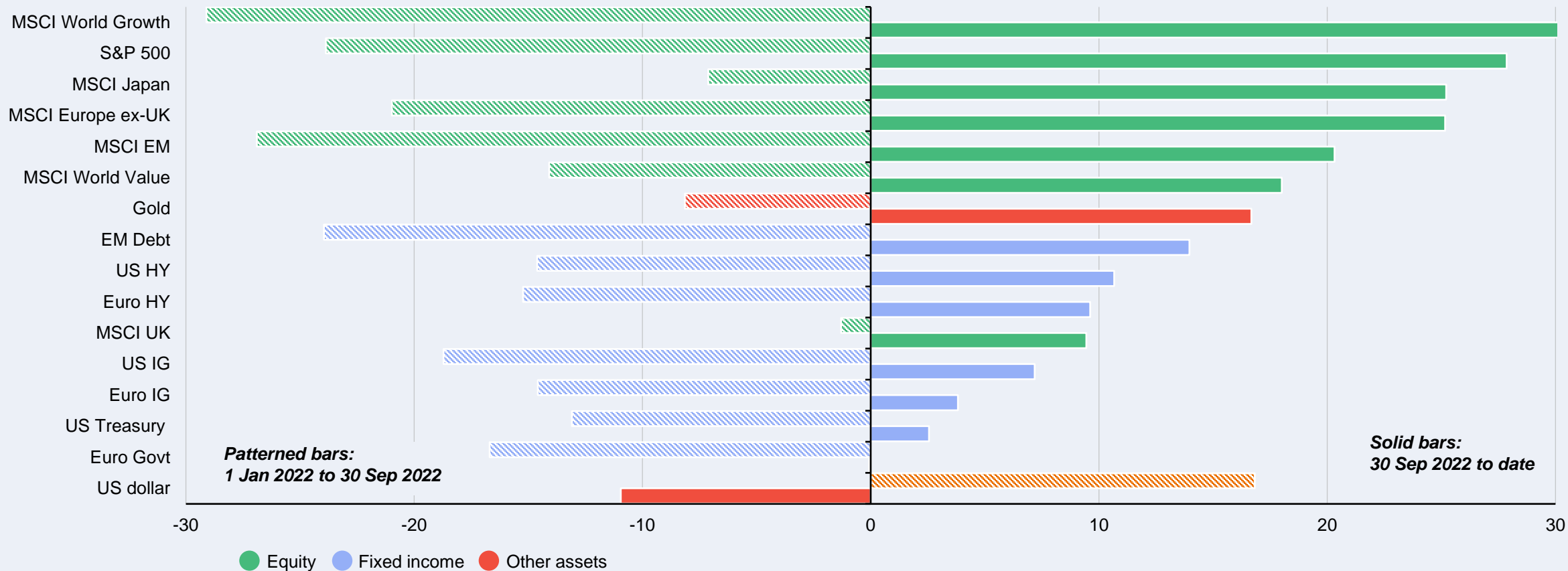
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# Both bond and stock markets are optimistic again

## Selected public and private market returns

% total return



Source: Bloomberg, ICE BofA, J.P. Morgan Economic Research, MSCI, Refinitiv Datastream, S&P Global, J.P. Morgan Asset Management. Equity returns are total returns and are shown in local currency, with the exception of EM which is in US dollars. Bloomberg Barclays Aggregates used for US Treasury, Euro Govt, US IG and Euro IG. Euro HY: ICE BofA Euro Developed Markets Non-Financial High Yield Constrained; US HY: ICE BofA US High Yield Constrained; EM Debt: JPM EMBI Global Diversified; US dollar: DXY index. Past performance is not a reliable indicator of current and future results. Data as of 17 July 2023.

# Economic data have been resilient

## Composite Purchasing Managers' Index (PMI)

Index level

Global economy

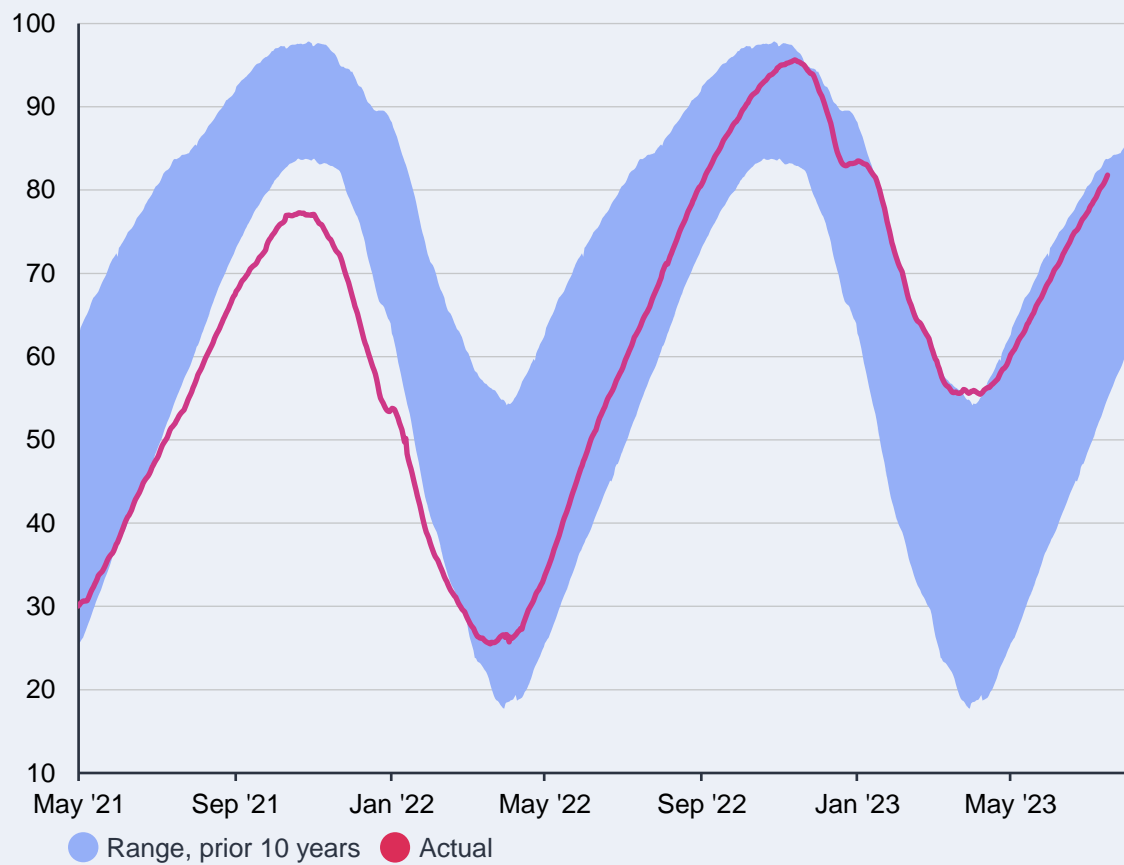


Source: S&P Global, J.P. Morgan Asset Management. A score of 50 indicates that economic activity is neither expanding nor contracting, above 50 indicates expansion. Guide to the Markets - UK. Data as of 17

# The energy crisis has eased...

## EU natural gas inventories

% of capacity



## EU and UK electricity prices

EUR/GBP per MWh, 30-day moving average



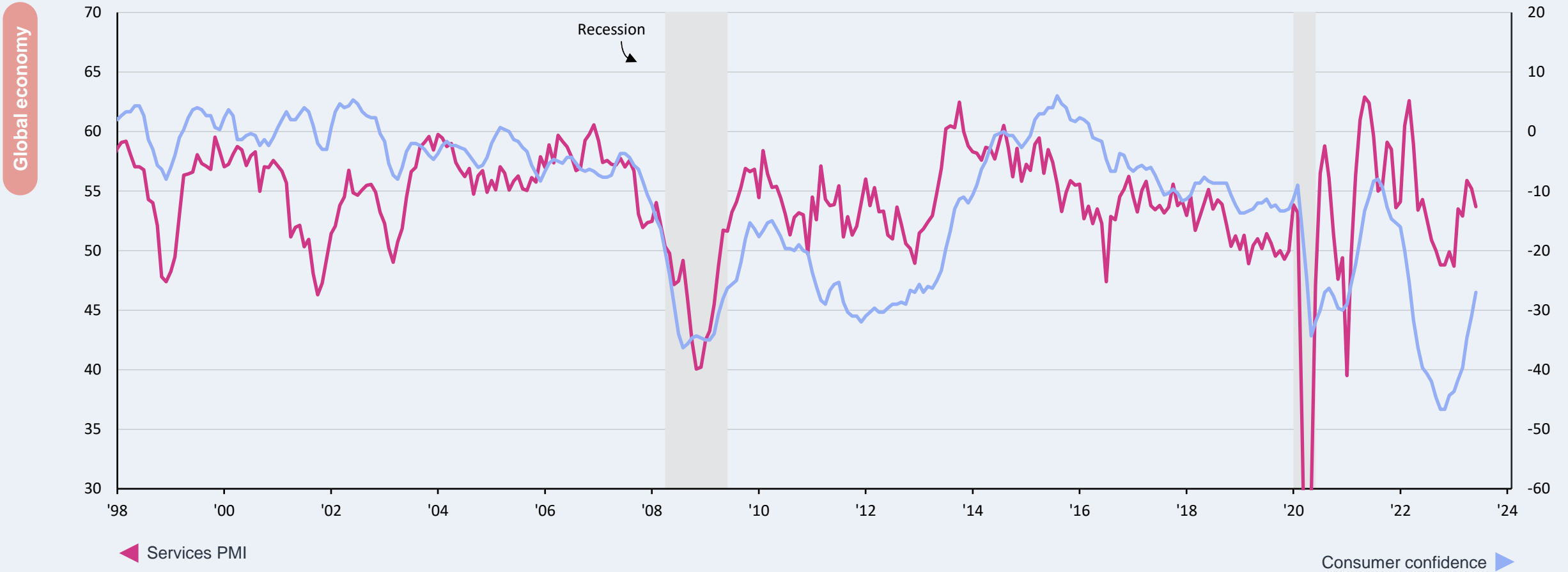
Source: (Left) Bloomberg, Gas Infrastructure Europe, J.P. Morgan Asset Management. (Right) APX UK, Refinitiv Datastream, TTF, J.P. Morgan Asset Management. UK price is the EPX daily fixing half hour 0730 – 0800 price, EU price is the Netherlands base load first day futures price. Past performance is not a reliable indicator of current and future results. Guide to the Markets - UK. Data as of 17 July 2023.



# ... and consumers are more optimistic

## UK consumer confidence and services sector

Index level (LHS); index level, three-month moving average (RHS)



# Government fiscal policy is supporting demand

Global economy

## Public sector investment

% change year on year, three-year moving average



## Public sector wage growth

% change year on year



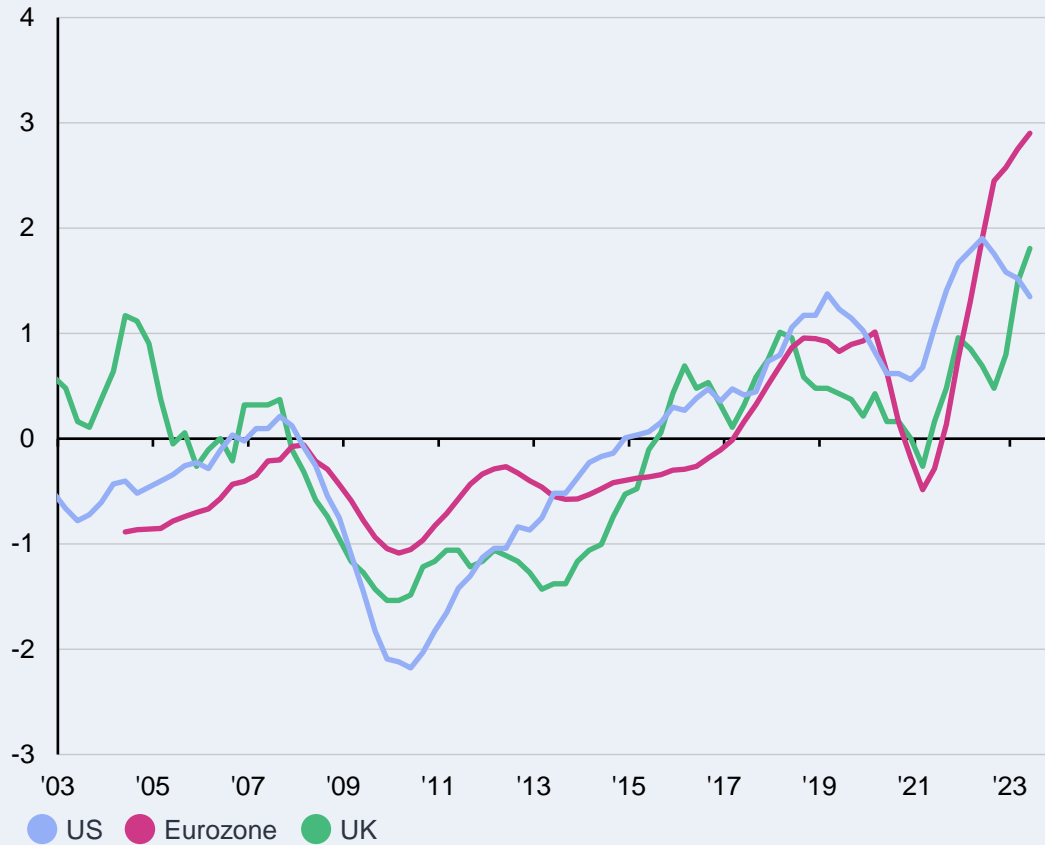
Source: (Left) Deutsche Bundesbank, INE, INSEE, ISTAT, OECD, Refinitiv Datastream, J.P. Morgan Asset Management. Chart shows a smoothed measure of government gross fixed capital formation. Forecast is OECD. Eurozone is GDP-weighted average of France, Germany, Italy and Spain. (Right) BLS, Eurostat, ONS, Refinitiv Datastream, J.P. Morgan Asset Management. Guide to the Markets - UK. Data as of 17 July 2023.

# But will resilient activity coincide with falling inflation?

Global economy

## Proportion of firms struggling to find workers

z-score, four-quarter moving average



## Core inflation

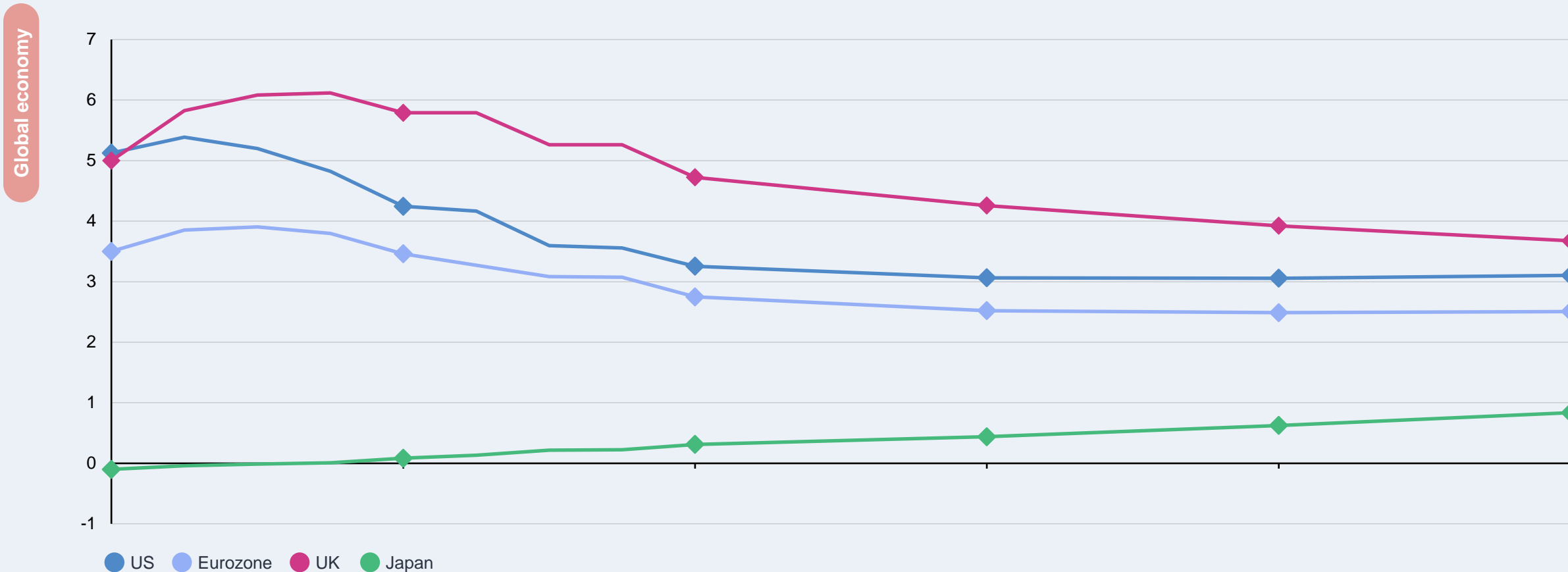
% change year on year



Source: (Left) CBI, DG ECFIN, National Federation of Independent Business, Refinitiv Datastream, J.P. Morgan Asset Management. (Right) BLS, Eurostat, ONS, Refinitiv Datastream, J.P. Morgan Asset Management. Core inflation excludes food and energy in the US, and food, energy, alcohol and tobacco in the eurozone and the UK. *Guide to the Markets - UK*. Data as of 17 July 2023.

# The UK is not the only bond market looking forward to rate cuts

Market expectations for central bank policy rates



Source: Bloomberg, J.P. Morgan Asset Management. Expectations are calculated using OIS forwards. Past performance is not a reliable indicator of current and future results. Guide to the Markets - UK. Data as of 17 July 2023.

# We still believe it will take a recession to get rid of inflation, which neither equities nor credit seem braced for

Equities  
Fixed Income

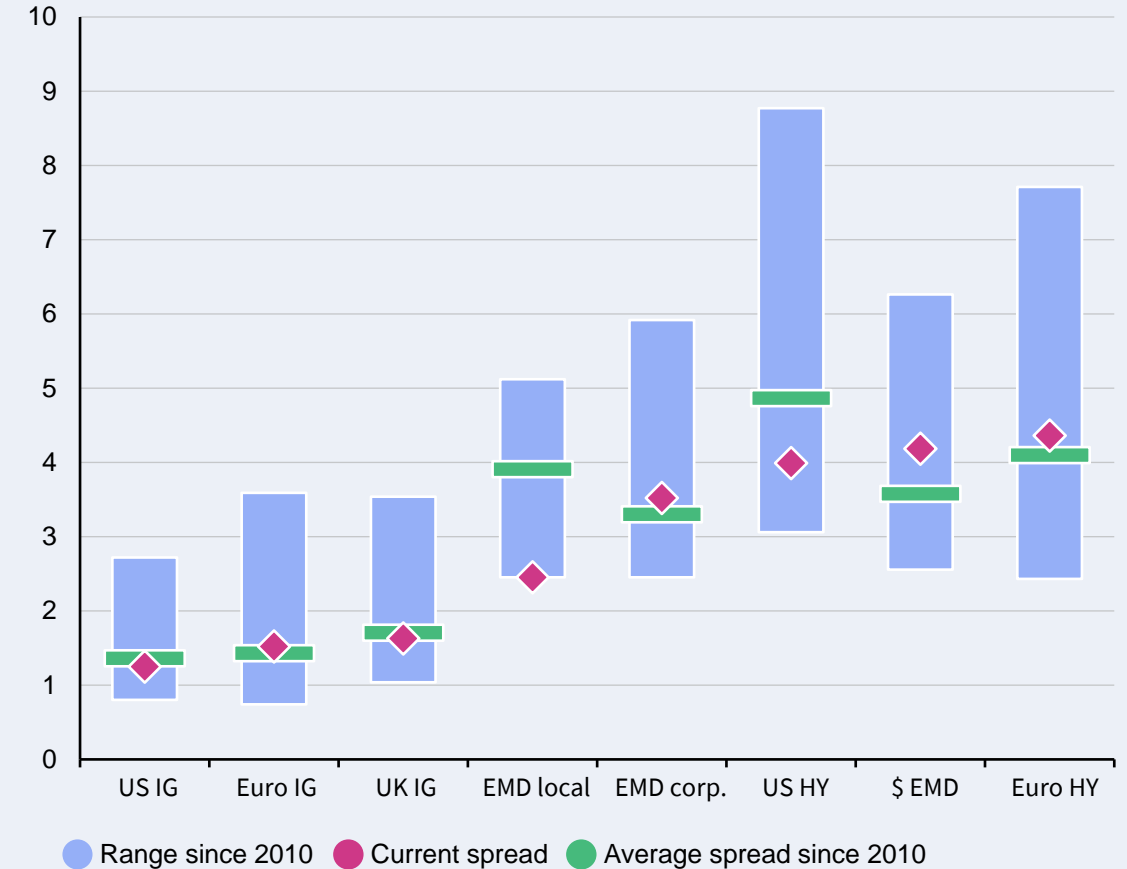
## Global forward P/E ratios

x, multiple



## Fixed income spreads

%, option-adjusted spread



Source: (Left) 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. (Right) Bloomberg, Bloomberg Barclays, ICE BofA, J.P. Morgan Economic Research, Refinitiv Datastream, J.P. Morgan Asset Management. Euro IG: Bloomberg Barclays Euro Agg. - Corporate; US HY: ICE BofA US High Yield Constrained; EM Debt: J.P. Morgan EMBI Global Diversified; Euro HY: ICE BofA Euro Developed Markets Non-Financial High Yield Constrained; US IG: Bloomberg Barclays US Agg. Corporate - Investment Grade; UK IG: Bloomberg Barclays Sterling Agg. - Corporates; EMD local: J.P. Morgan GBI-EM Global Diversified; EMD corporate: J.P. Morgan CEMBI Broad Diversified. Past performance is not a reliable indicator of current and future results. Guide to the Markets - UK. Data as of 17 July 2023.



# BOOSTING RESILIENCE IN EQUITIES

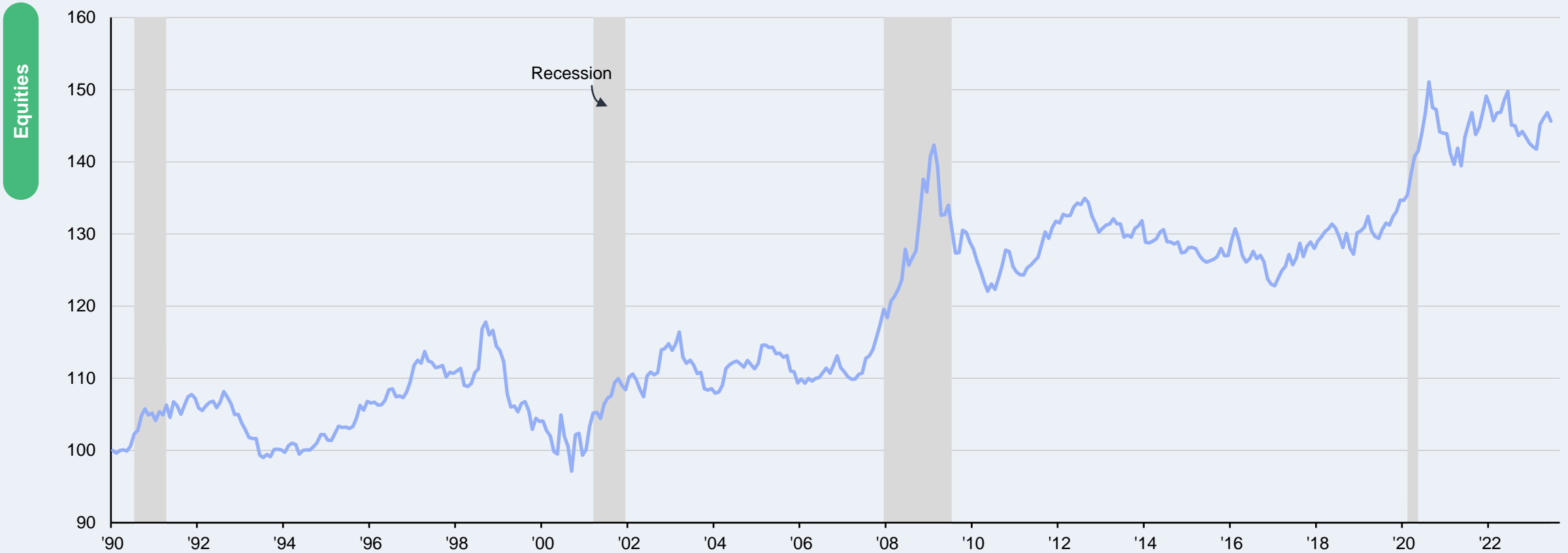
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# Focusing on quality

## S&P 500 Quality/S&P 500 relative performance

Relative total return index level, rebased to 100 in January 1990



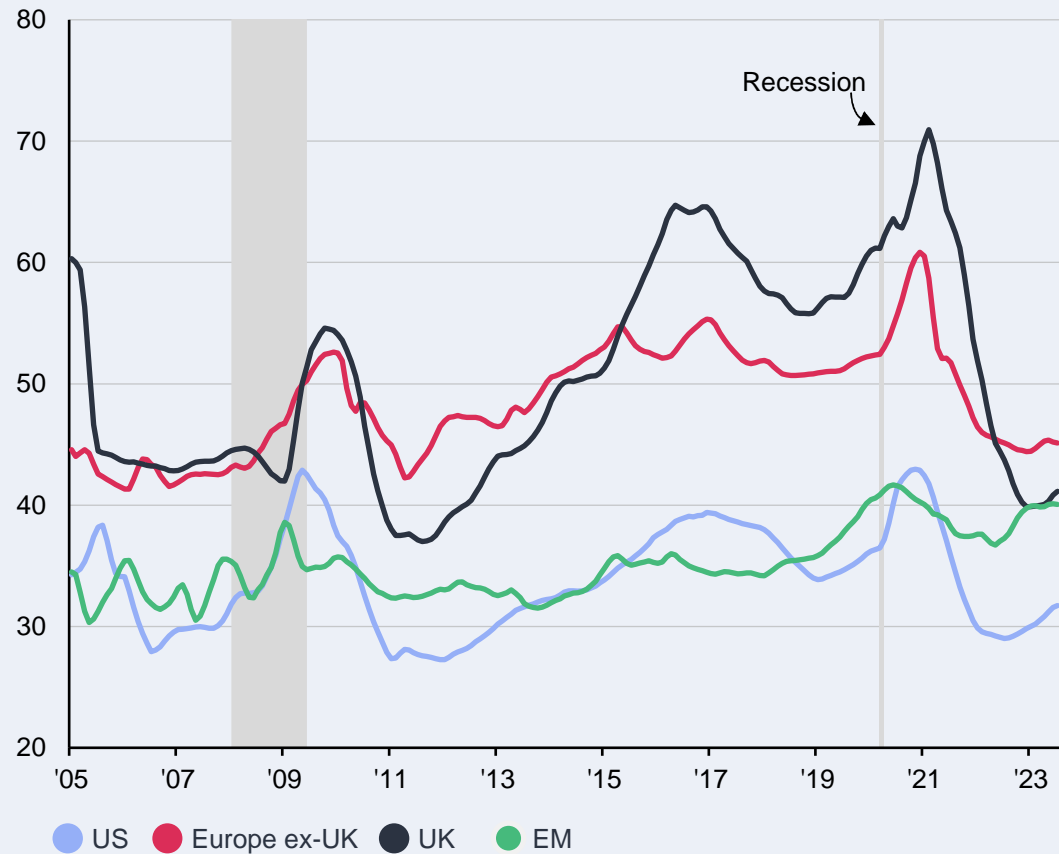
Source: J.P. Morgan Asset Management Quantitative Beta Solutions, S&P Global, J.P. Morgan Asset Management. S&P 500 Quality index is the top quartile quality stocks in the S&P 500 determined by JPMAM Quantitative Beta Strategies based on measures of profitability, financial risk and earnings quality. Periods of “recession” are defined using US National Bureau of Economic Research (NBER) business cycle dates. Past performance is not a reliable indicator of current and future results. Guide to the Markets - UK. Data as of 17 July 2023.

# Focusing on dividends

Equities

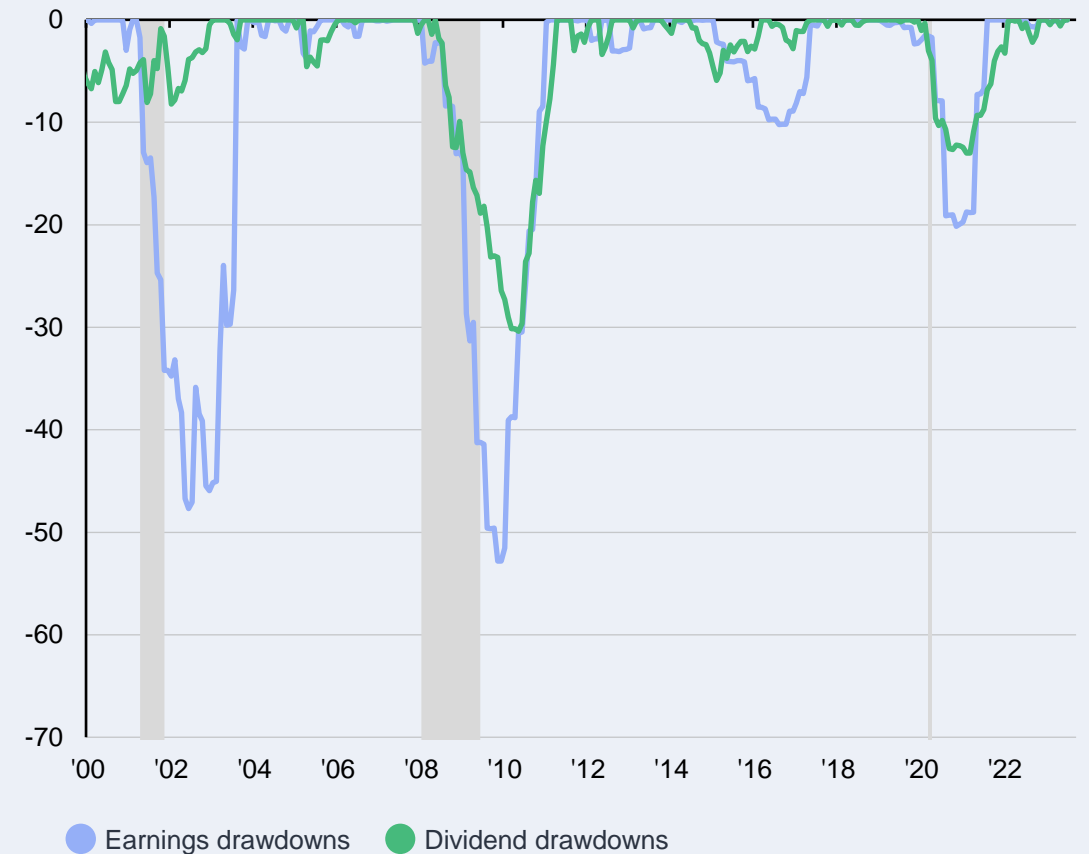
## Dividend payout ratios

% , three-month moving average



## MSCI World earnings and dividend drawdowns

% drawdown from rolling 2-year high



Source: (Left) FTSE, MSCI, Refinitiv Datastream, S&P Global, J.P. Morgan Asset Management. US is S&P 500, UK is FTSE All-Share, MSCI indices used for Europe ex-UK and EM. Dividend payout ratio shows 12-month trailing dividend per share divided by 12-month trailing earnings per share. (Right) Bloomberg, MSCI, J.P. Morgan Asset Management. Earnings and dividends are both calculated on a per share basis. Earnings data is last 12 months' earnings per share. Periods of "recession" are defined using US National Bureau of Economic Research (NBER) business cycle dates. Past performance is not a reliable indicator of current and future results. Guide to the Markets - UK. Data as of 17 July 2023.



# And being careful with concentration

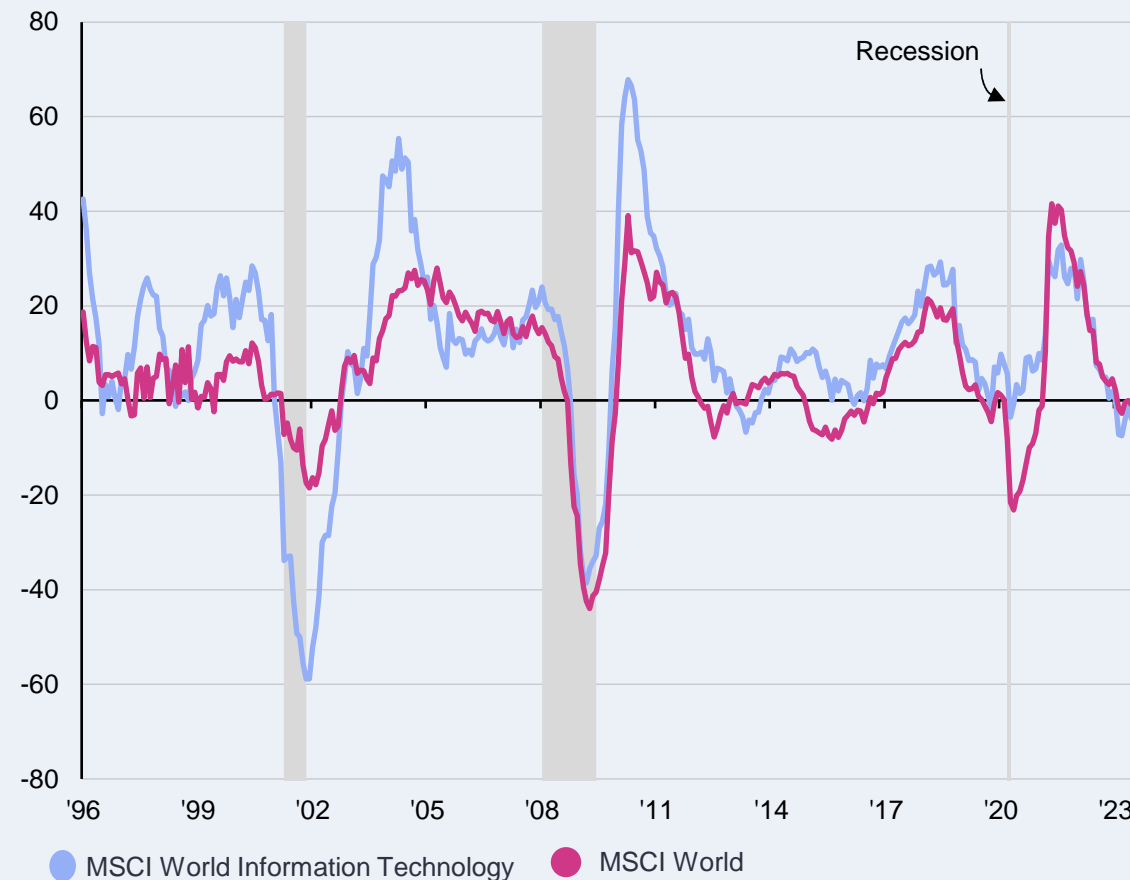
## Forward P/E ratio of the S&P 500 top 10 vs. the rest

x, multiple



## MSCI World IT sector and broad index earnings

% change year on year, 12-month forward earnings expectations



Source: (Left) FactSet, S&P Global, J.P. Morgan Asset Management. The top 10 stocks are based on the 10 largest index constituents at the start of each month. (Right) MSCI, Refinitiv Datastream, J.P. Morgan Asset Management. Periods of “recession” are defined using US National Bureau of Economic Research (NBER) business cycle dates. Past performance is not a reliable indicator of current and future results. Guide to the Markets - UK. Data as of 17 July 2023.



# THINKING MORE BROADLY ABOUT DIVERSIFICATION

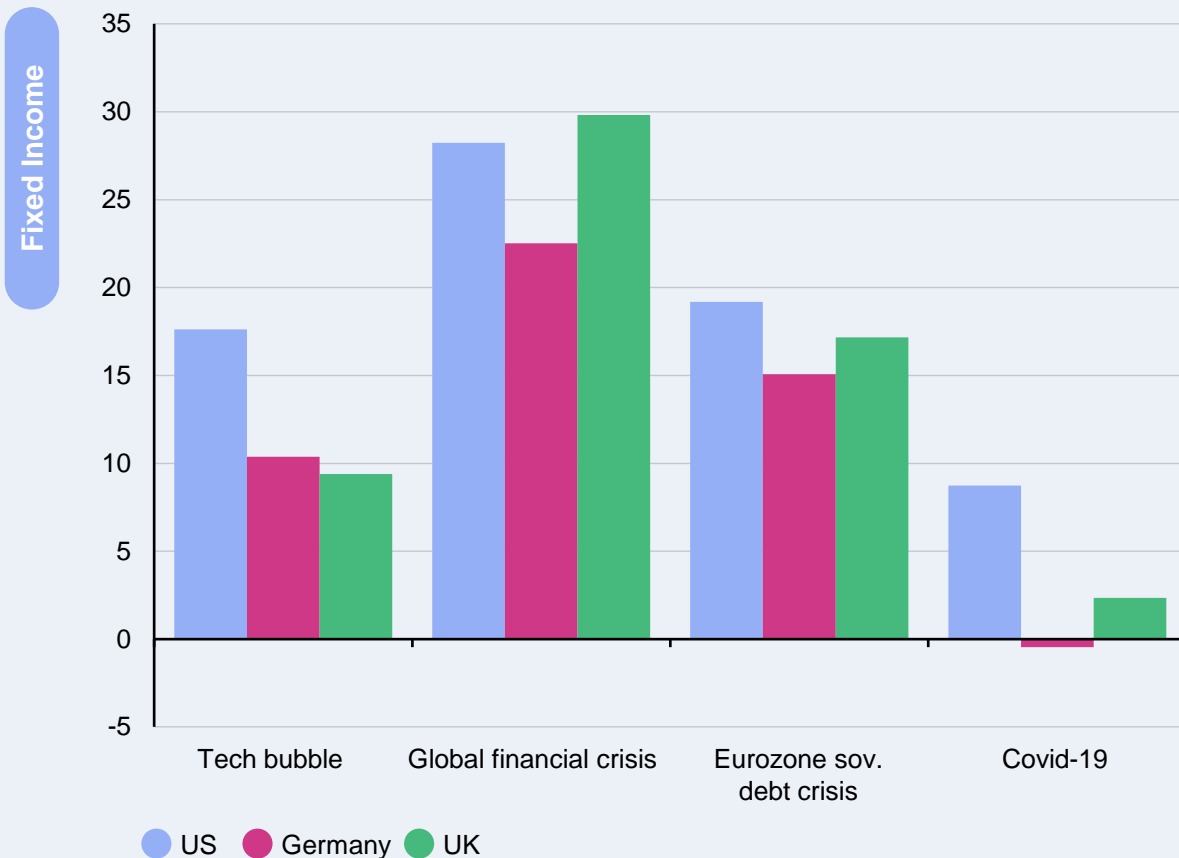
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# Bonds should diversify if a recession leads to disinflation

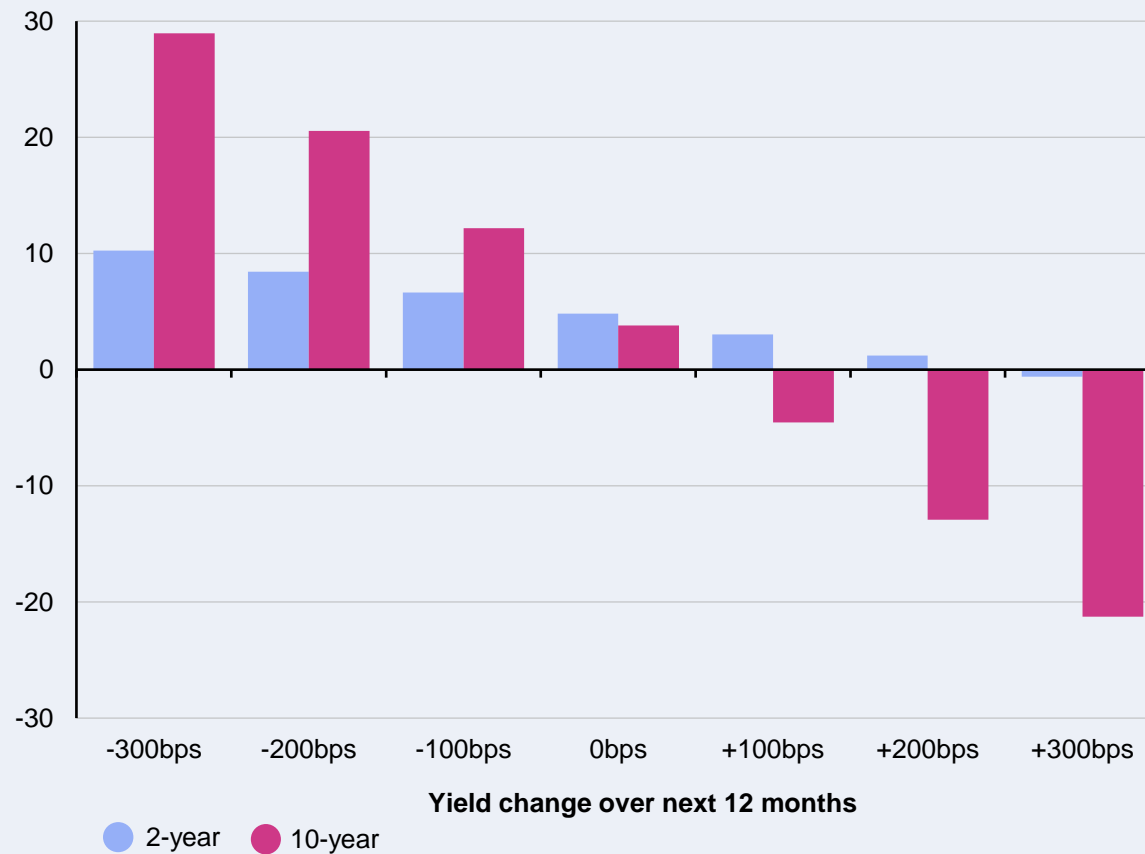
## Historical returns from 10-year gov't. bonds during shocks

%, total return over the period stocks were falling



## Total return scenarios for US Treasuries

%



Source: (Left) Refinitiv Datastream, J.P. Morgan Asset Management. Returns are shown over the period when MSCI World was falling in local currency terms. Tech bubble: 24 Mar '00 to 21 Sep '01; Global financial crisis: 13 Jul '07 to 9 Mar '09; Eurozone sovereign debt crisis: 18 Feb '11 to 3 Oct '11; Covid-19: 19 Feb '20 to 23 Mar '20. (Right) Bloomberg, J.P. Morgan Asset Management. Chart indicates the calculated total return achieved by purchasing US Treasuries at the current yield and selling in 12 months' time given various changes in yield. For illustrative purposes only. Past performance is not a reliable indicator of current and future results. Guide to the Markets - UK. Data as of 17 July 2023.

# Be wary of chasing higher yields

## Fixed income yields

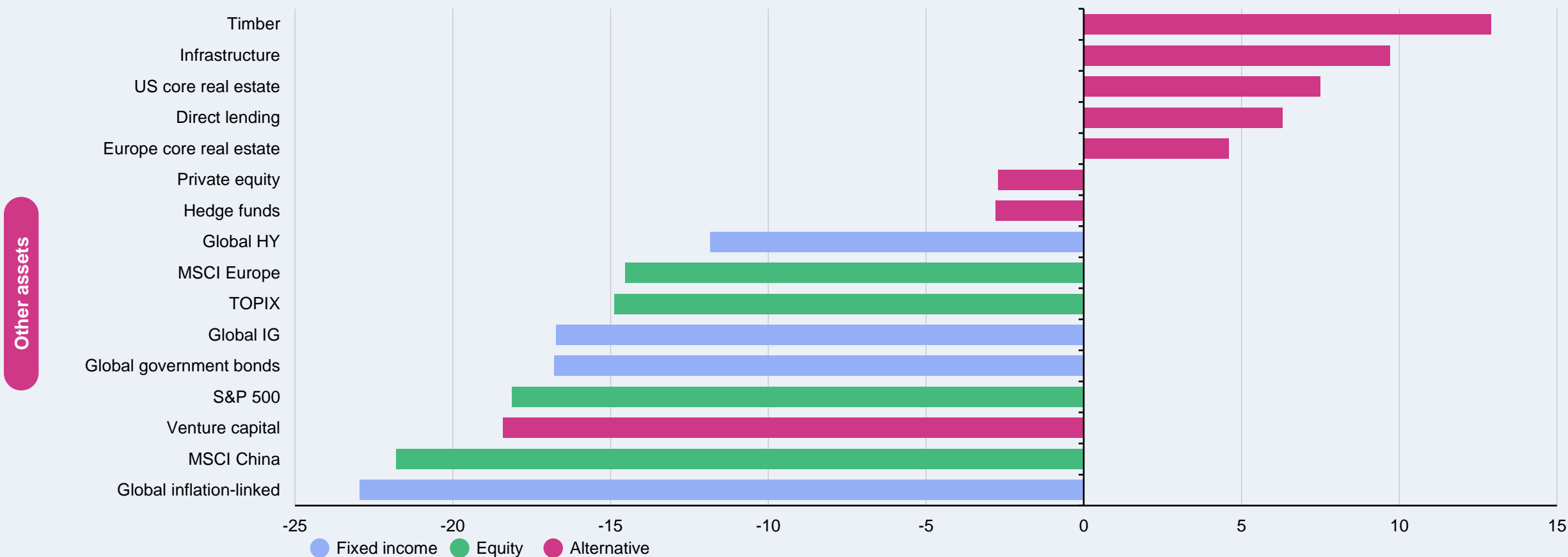


Source: Bloomberg, Bloomberg Barclays, ICE BofA, J.P. Morgan Economic Research, Refinitiv Datastream, J.P. Morgan Asset Management. Return correlation to MSCI All-Country World Index is calculated using monthly total returns since 2008. Indices used are as follows: Euro IG: Bloomberg Barclays Euro-Aggregate – Corporate; Global IG: Bloomberg Barclays Global Aggregate – Corporate; UK IG: Bloomberg Barclays Sterling Aggregate – Corporate; US IG: Bloomberg Barclays US Aggregate – Corporate; Convertible bonds: Bloomberg Barclays Global Convertible Rate Sensitive hedged to USD; Euro HY: ICE BofA Euro Developed Markets Non-Financial High Yield Constrained Index; Global HY: ICE BofA Global High Yield Index; US HY: ICE BofA US High Yield Constrained Index; EMD corporate: CEMBI Broad Diversified; EMD local: GBI-EM Global Diversified; EMD local – China: JP Morgan GBI-EM Broad Diversified China; EMD sovereign: EMBI Global Diversified; EMD sov. IG: EMBI Global Diversified IG; EMD sov. HY: EMBI Global Diversified HY. Past performance is not a reliable indicator of current and future results. *Guide to the Markets - UK*. Data as of 17 July 2023.

# Alts are also required for inflation diversification

## Selected public and private market returns in 2022

%, total return in USD



Source: Bloomberg, Burgiss, Cliffwater, FactSet, HRFI, MSCI, NCREIF, Refinitiv Datastream, S&P Global, J.P. Morgan Asset Management. Global government bonds: Bloomberg Global Aggregate – Government; Global inflation-linked: Bloomberg Global Inflation-Linked; Global IG: Bloomberg Barclays Global Aggregate – Corporate; Global HY: ICE BofA Global High Yield Index; Hedge funds: HRFI Fund Weighted Composite; US core real estate: NCREIF Property Index – Open End Diversified Core Equity; Europe core real estate: MSCI Global Property Fund Index – Continental Europe; Direct lending: Cliffwater Direct Lending Index; Global infrastructure: MSCI Global Quarterly Infrastructure Asset Index (equal-weighted blend); Timber: NCREIF Timberland Total Return Index. Private equity and venture capital are time-weighted returns from Burgiss. Past performance is not a reliable indicator of current and future results. Guide to the Markets - UK. Data as of 17 July 2023.



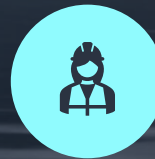
## LOW CARBON ENERGY

Renewables, electrification, CCS, sustainable transport & construction



## FOOD & WATER

Sustainable agriculture, water management, reforestation, green infrastructure



## LABOUR

Automation, artificial intelligence, healthcare



## MATERIALS

EM, commodities, metals processors and recyclers, miners

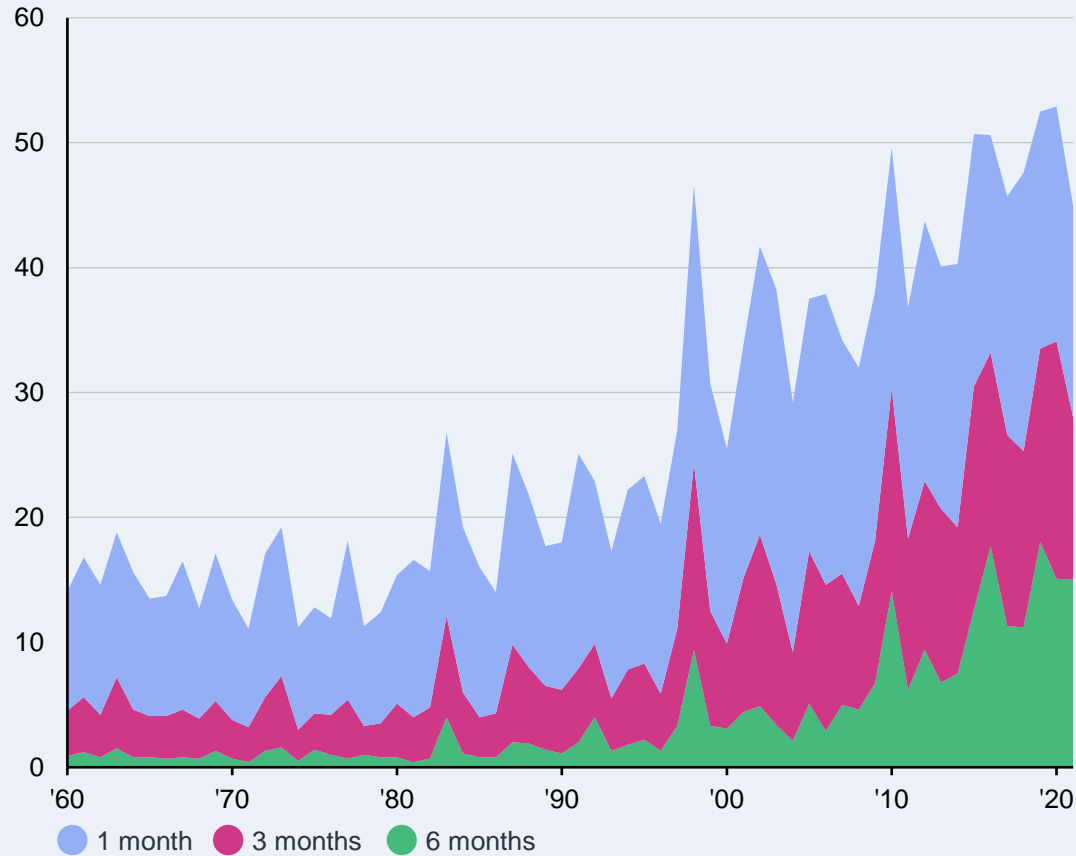
**FROM ABUNDANCE TO SCARCITY**

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# Expect more frequent bouts of climate-related inflation

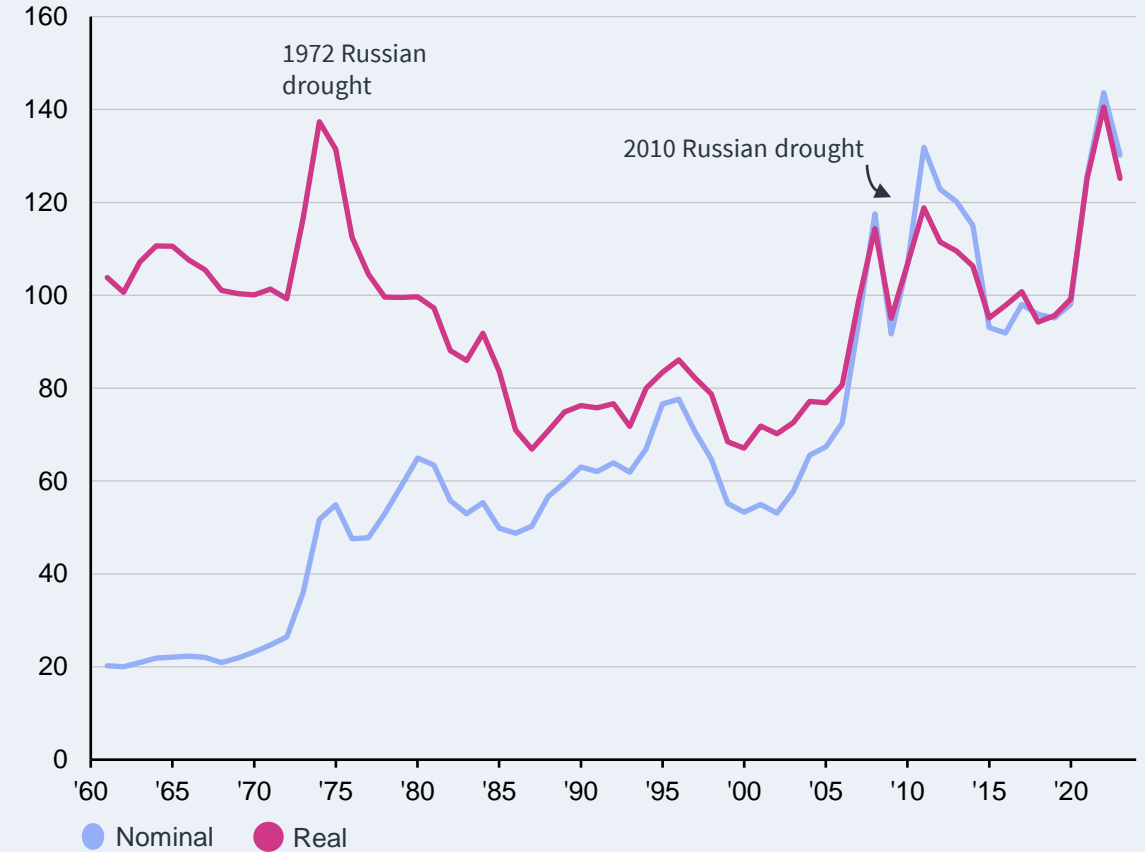
## Land affected by droughts

% of global land affected by droughts per year



## Food prices

Index level

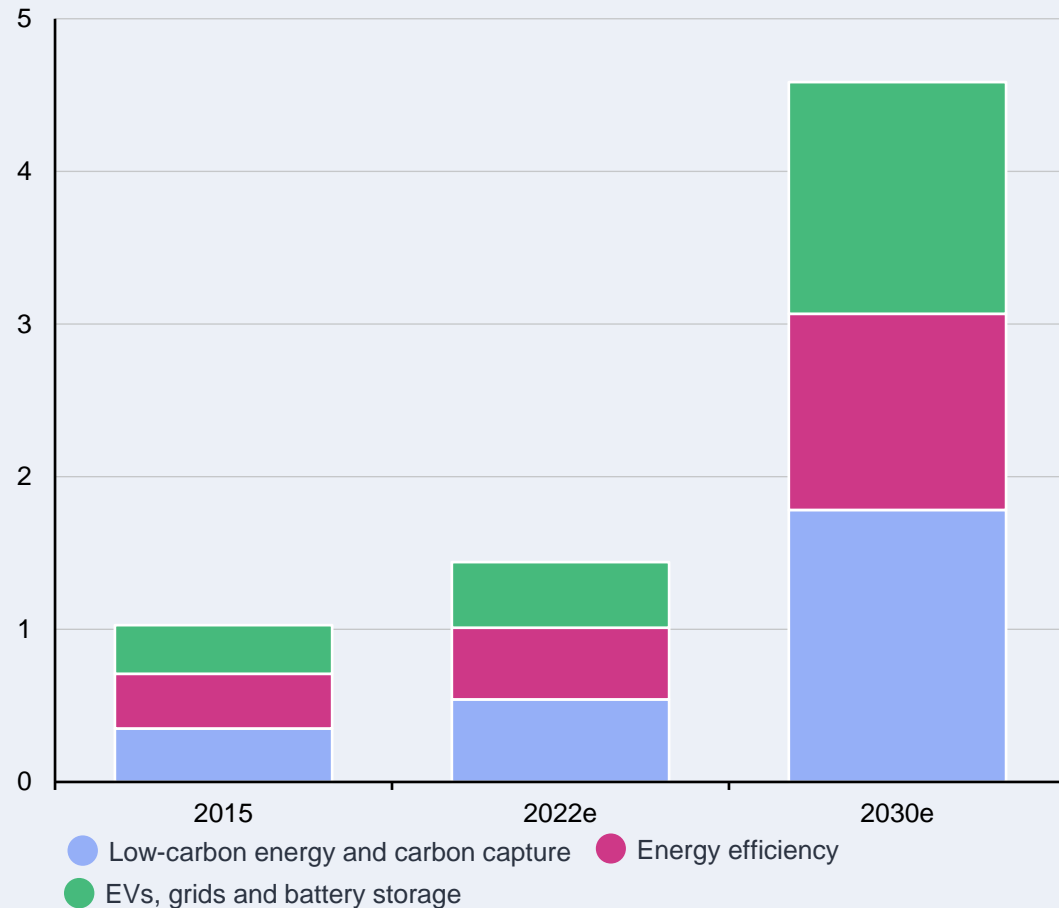


Source: (Left) Global Standardised Precipitation-Evapotranspiration Index Database, 2021. Beguería, S et al., The Lancet Countdown on Health and Climate Change: 2022 Report, J.P. Morgan Asset Management. (Right) Food and Agriculture Organization of the United Nations, J.P. Morgan Asset Management. *Guide to the Markets - UK*. Data as of 17 July 2023.

# Massive investment is needed for the energy transition

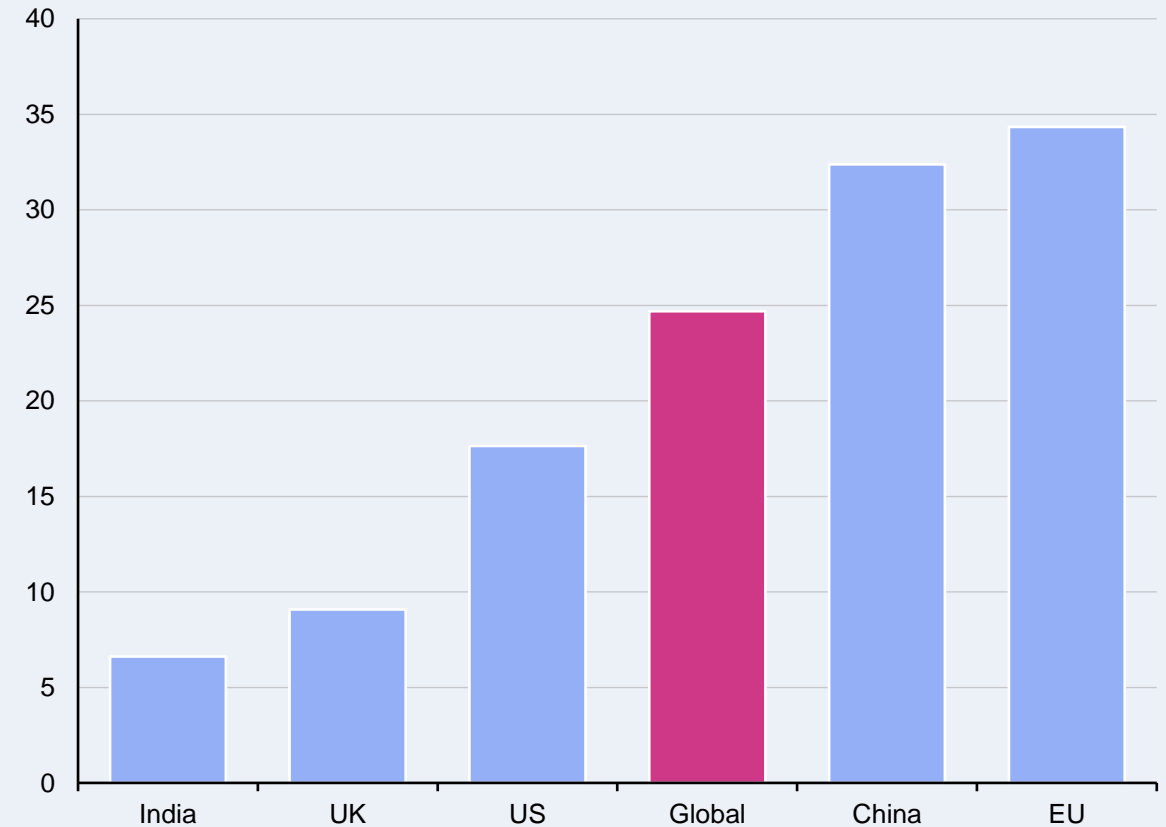
## Global investment in clean energy and energy efficiency

USD trillions



## Change in renewable capacity forecasts, 2022 vs. 2021

% increase in forecasted expansion over next five years



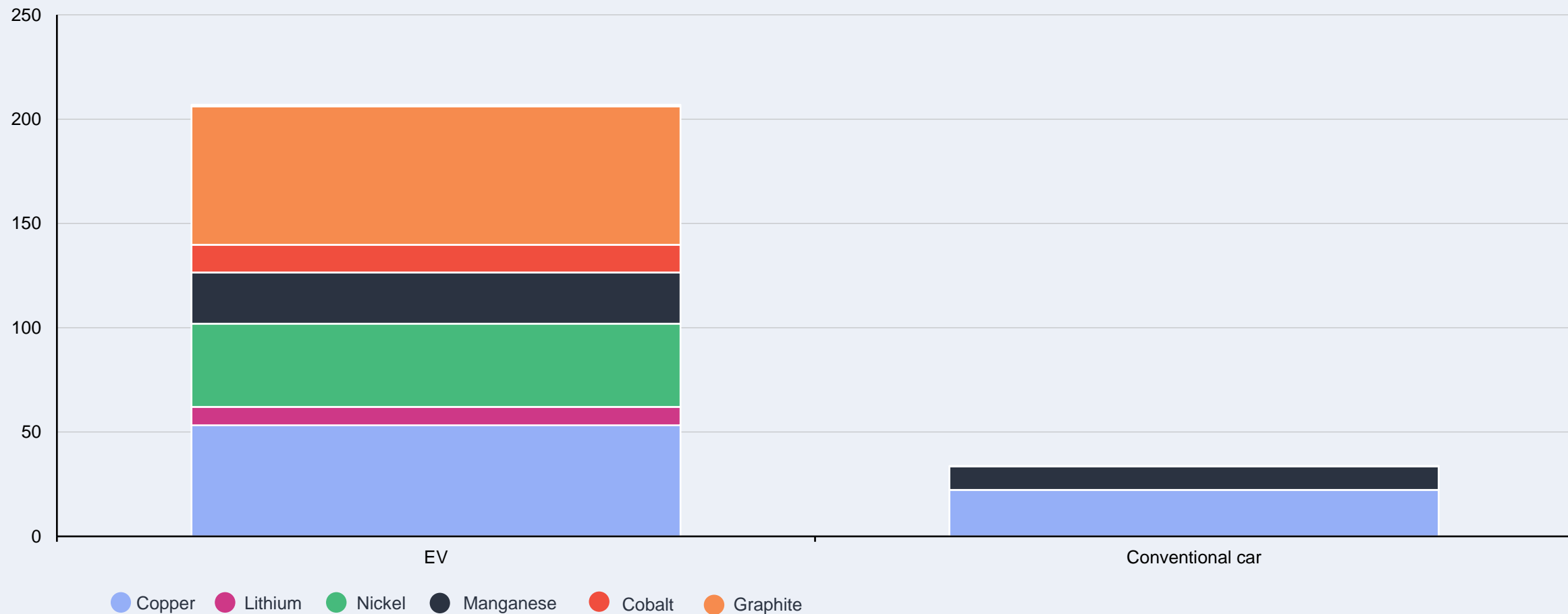
Source: (Left) IEA, J.P. Morgan Asset Management. Data is from the IEA's World Energy Investment 2022 report. 2030e is based on the IEA's net zero by 2050 scenario. (Right) IEA, J.P. Morgan Asset Management. Chart shows percentage increase in forecasted renewables capacity expansion from the IEA's 2021 Renewables report to the 2022 report. *Guide to the Markets - UK*. Data as of 17 July 2023.



# The energy transition requires huge amounts of 'green' minerals

## Mineral content of electric vehicles and conventional cars

Kilograms per vehicle



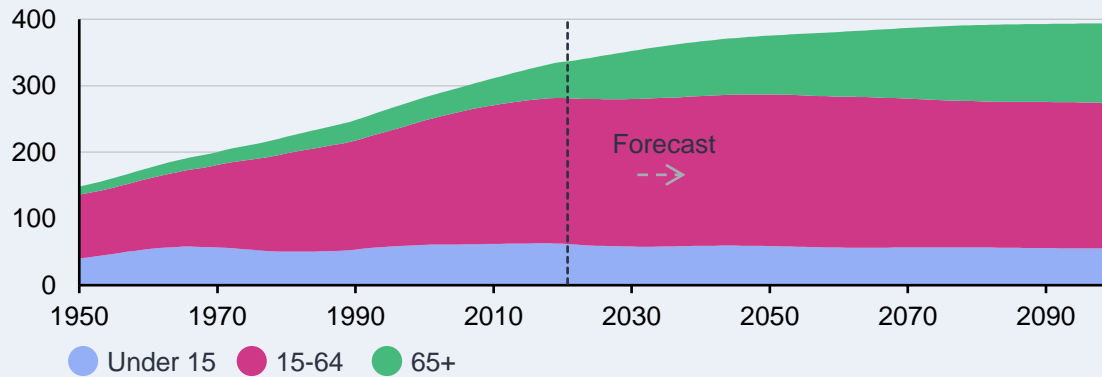
Source: IEA, J.P. Morgan Asset Management. Data is from the IEA's The Role of Critical Minerals in Clean Energy Transitions report. *Guide to the Markets - UK*. Data as of 17 July 2023.

# Labour scarcity will also be an issue in coming decades

Global economy

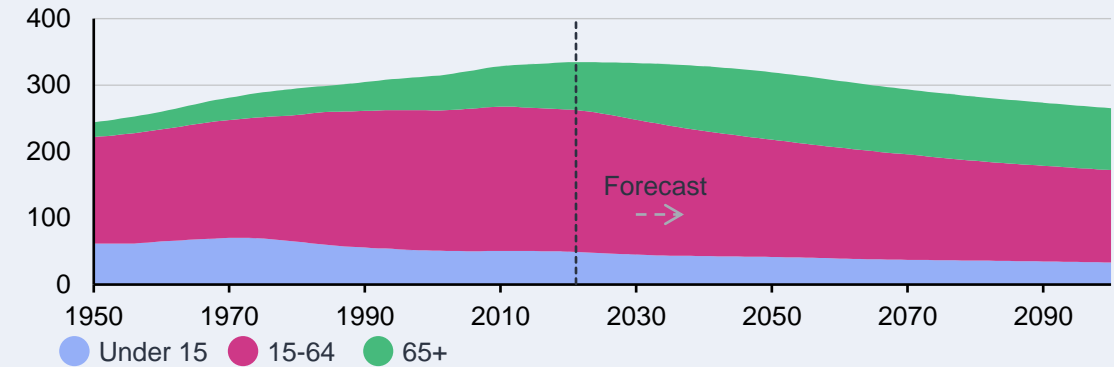
## Population split by age: US

Millions of people



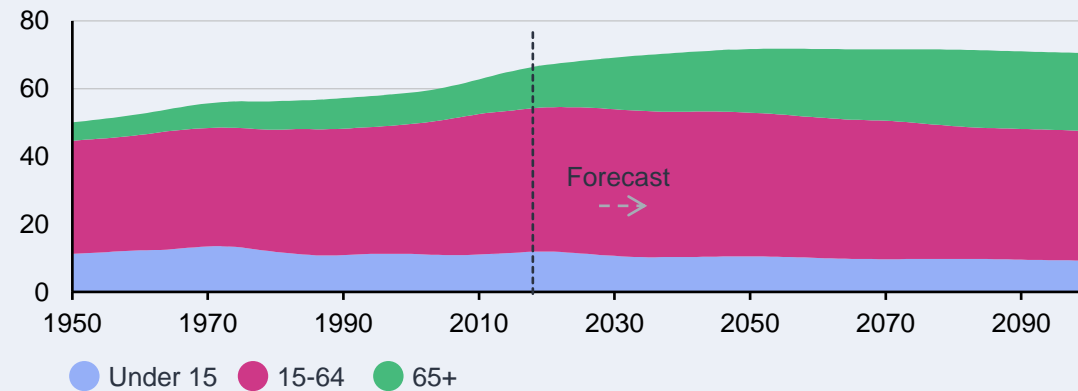
## Population split by age: eurozone

Millions of people



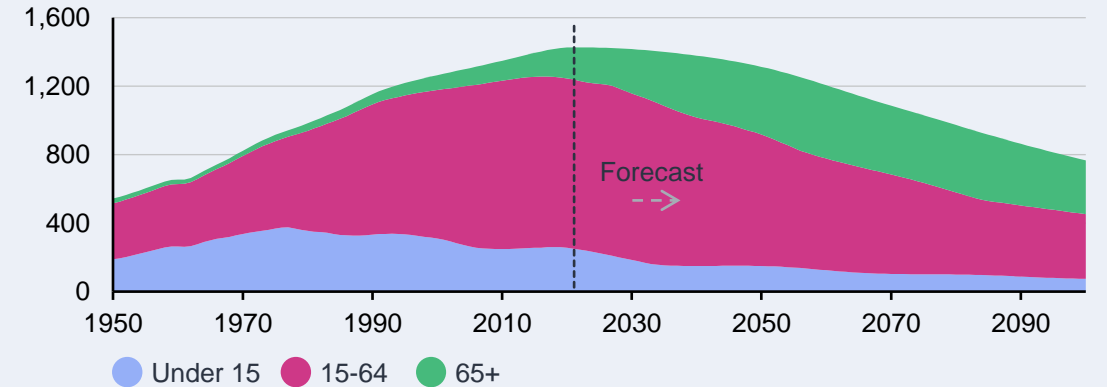
## Population split by age: UK

Millions of people



## Population split by age: China

Millions of people



# Summary

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1

Markets are hopeful Goldilocks is on her way back. This seems too good to be true

3

Which may create volatility in risk markets in H2. Focus on quality, income and avoid concentration

5

...but alts are required for true diversification

2

Economic weakness is - unfortunately - needed to get rid of inflation

4

Core bonds can diversify against recession risk that brings disinflation...

6

This will be a very different decade, we are in a new economic regime



## CENTRAL SCENARIOS AND RISKS

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# Summary views for the next 12 months

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## CENTRAL

Moderating inflation, pausing central banks, mild recessions

Government bond yields range bound, challenging environment for stocks with elevated volatility and muted total returns

## DOWNSIDE

Disinflationary recession scenario

Government bonds the best diversifiers, equities under pressure with Growth outperforming Value

Sticky inflation prevents CBs from riding to the rescue

Bond yields higher, real assets outperform, high valuation stocks hit hardest

## UPSIDE

Goldilocks: Growth remains resilient while inflation cools

Best scenario for risk assets

Source: J.P. Morgan Asset Management, as of July 2023. Opinions, estimates, forecasts, projections and statements of financial market trends are based on market conditions at the date of the publication, constitute our judgment and are subject to change without notice. There can be no guarantee they will be met.

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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

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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.

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