

STANLIB

A person in a dark hoodie stands on a wooden pier, looking out at a city skyline across a body of water. The scene is dimly lit, suggesting dusk or dawn, with the city lights reflecting on the water. The person is centered in the foreground, looking towards the horizon.

**A VIEW TO DISTANT HORIZONS**

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In partnership with J.P. Morgan Asset Management

# Agenda

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## Welcome and Introduction

Marius Oberholzer

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## JPMAM Long-term Capital Market Assumptions

John Bilton

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## Questions and Answers

Marius Oberholzer and John Bilton

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## Closing

Marius Oberholzer





November 2023

# Smarter portfolios for a world in transition

2024 Long-Term Capital Market Assumptions; 28<sup>th</sup> Edition

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Head of Global Multi-Asset Strategy,

Multi-Asset Solutions

J.P. Morgan Asset Management

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**J.P.Morgan**  
ASSET MANAGEMENT

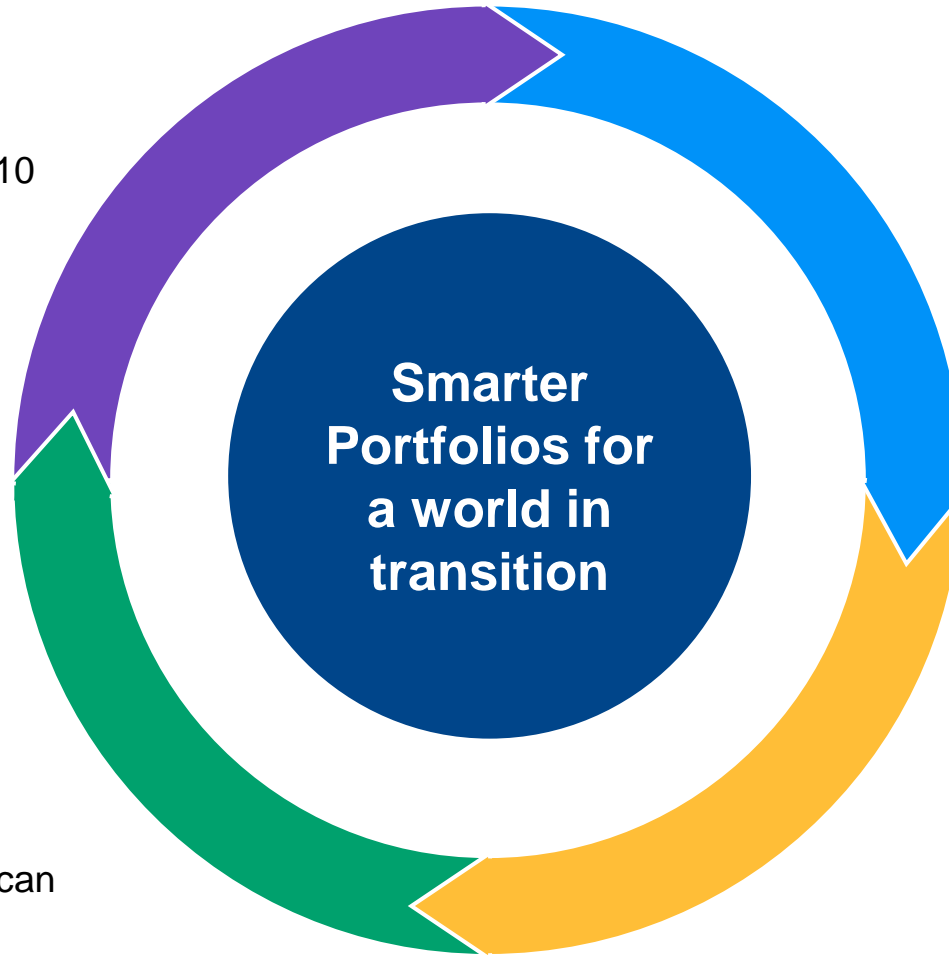
# Smarter portfolios for a world in transition

## Build on your 60/40:

- USD 60/40 forecast dips 20bps to 7.0%
- Still sees you double money in just over 10 years
- Beats cash by 410bps and inflation by 450bps annualized over 10 year horizon

## Enhance with active:

- End of free money means more differentiated asset returns as capital is deployed selectively
- Active allocation and manager selection can add 200bps of annualized alpha



## Extend out of cash:

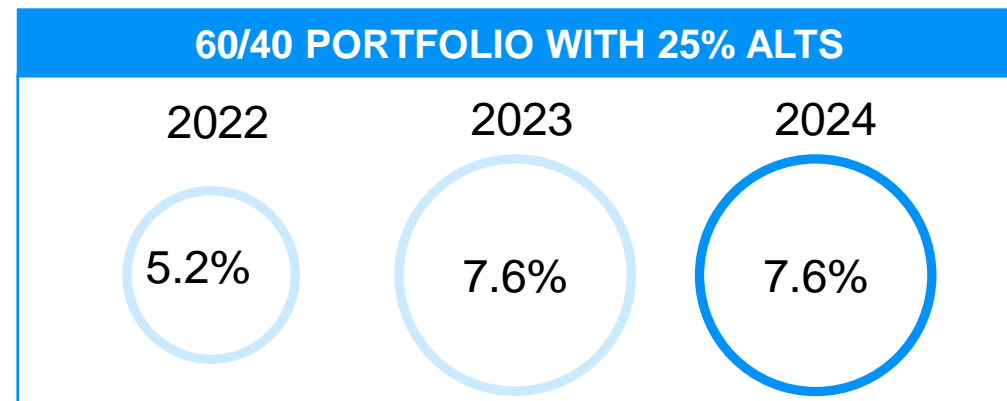
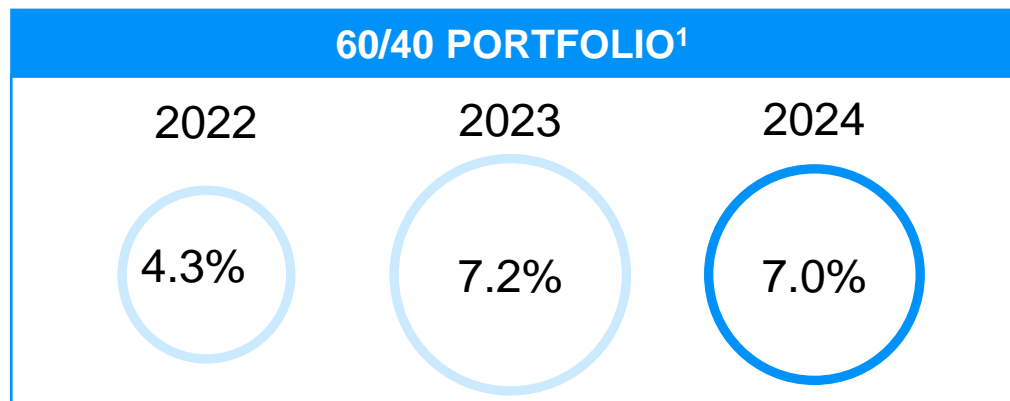
- In real terms, \$100 in 10 years will be worth:
  - \$104 invested in cash
  - \$154 invested in simple 60/40
  - \$163 in a 60/40 with 25% in alts
- ...and that's just the median manager

## Expand opportunity set:

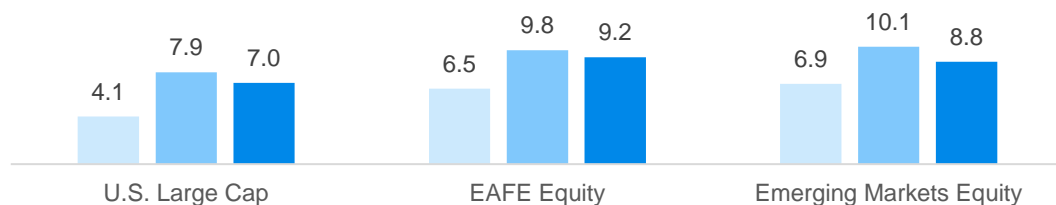
- Real assets forecasts rise on average by 100bps
- Aggregate bonds forecast of 5% is above pre-hikes U.S. equity forecast
- Many ways to diversify and enhance returns

# The key numbers (USD)

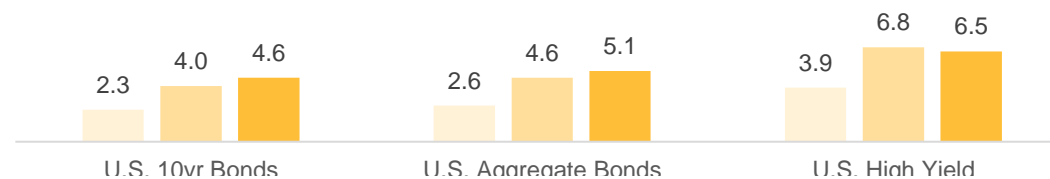
*“...forecast returns across most assets offer attractive long-term returns – use the whole toolkit...”*



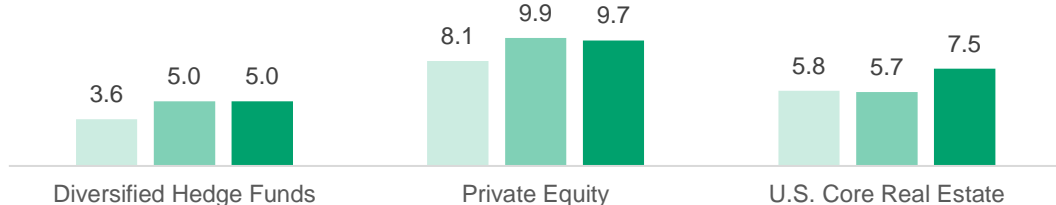
## Equities



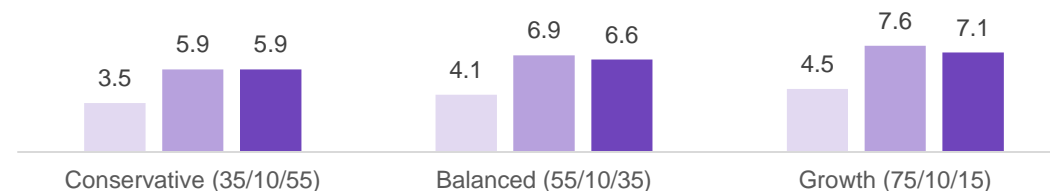
## Fixed Income



## Alternatives



## CIO Portfolios



Source: J.P. Morgan Asset Management. <sup>1</sup>Represents 60% MSCI ACWI / 40% U.S. Aggregate Bond Index. Note: left-hand side represents 2022 estimates, the middle represents 2023, and the right-hand side represents 2024 estimates. <sup>2</sup>Represents LTCMA estimates for WM CIO Conservative, Balanced, and Growth with Hedge Funds (Agg)

# Building smarter portfolios for a world in transition

## Economy in Transition:

Fiscal boost from industrial policy



## Policy in Transition:

From negative to positive real rates



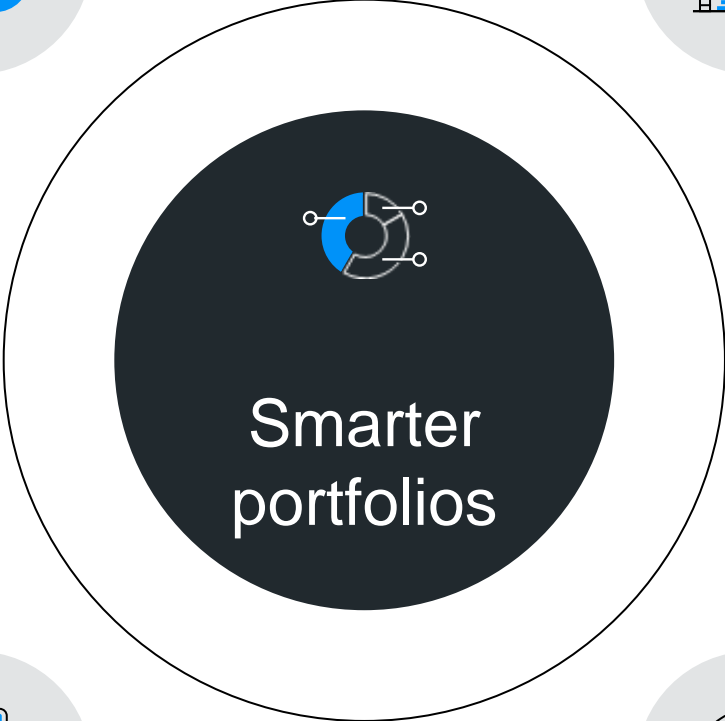
## Technology in Transition:

Productivity upside from AI and automation



## Climate in Transition:

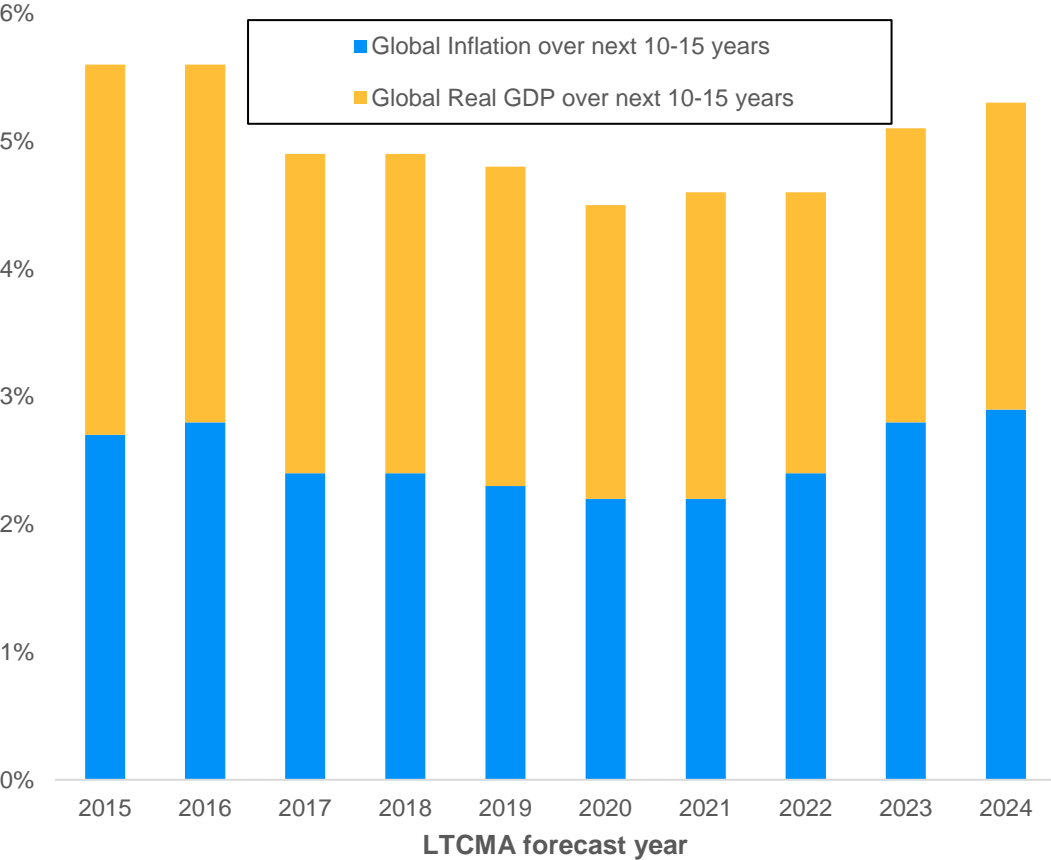
From conventional energy to renewable energy



Source: J.P. Morgan Asset Management.

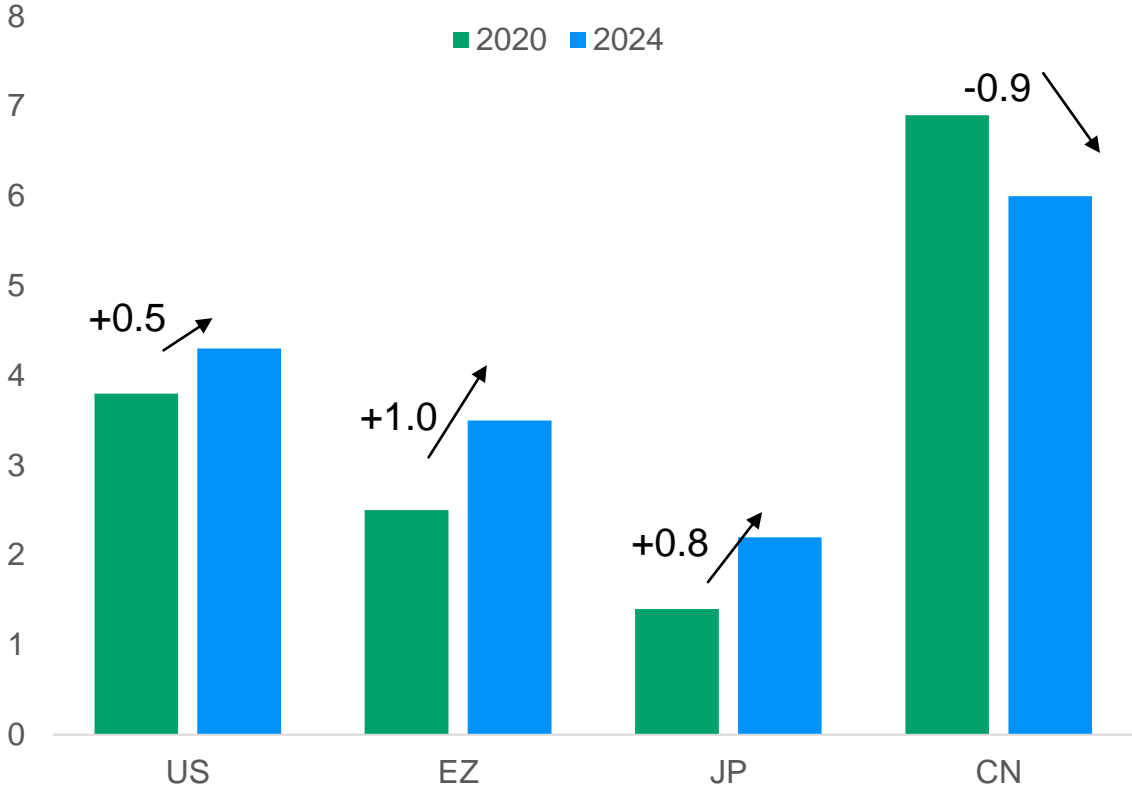
# Macro: Economies in transition

## Nominal growth has been revised up again



(LTCMA projections of 10-15 year average global growth and inflation from each calendar year)

## Japan and Europe have exited their nominal growth rut, China's challenges appear more structural



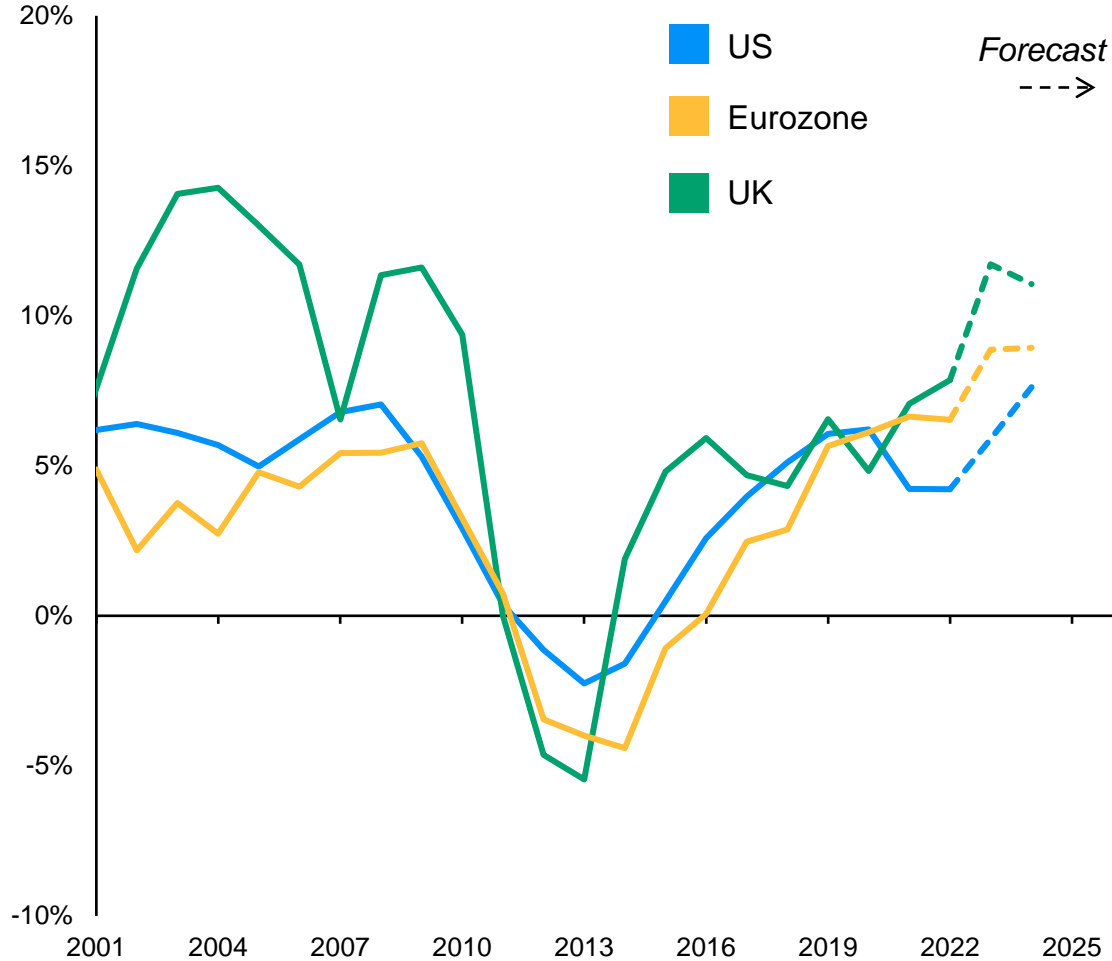
(LTCMA projections of 10-15 year average nominal growth)

Source: Bloomberg, Haver Analytics, JPMAM Multi-Asset Solutions. Forecasts, projections and other forward looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections and other forward statements, actual events, results or performance may differ materially from those reflected or contemplated. Data as of September 2023.

# Policy in transition

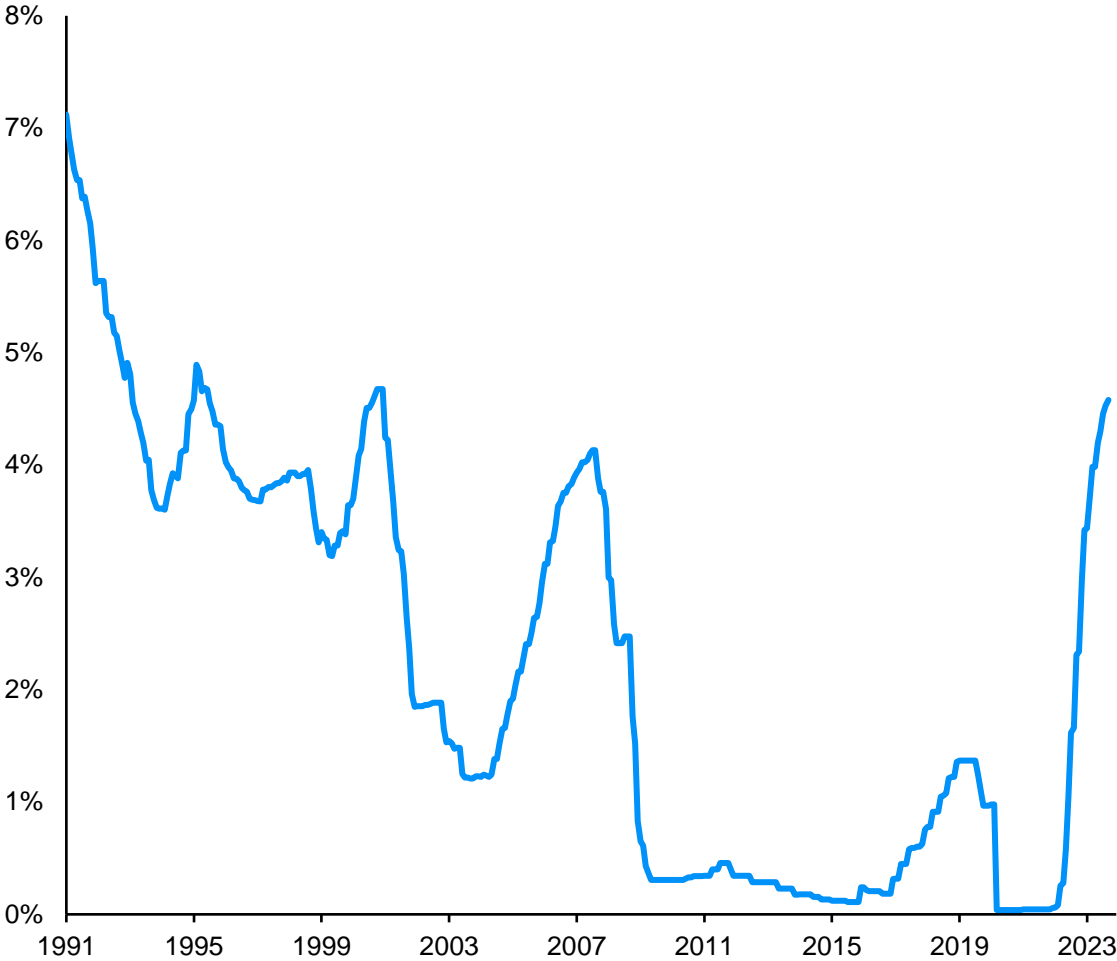
## Fiscal activism is back...

Public sector investment, % change year on year (3-year moving average)



## ...leaving less need for ZIRP and QE

G7 average policy rate, % (GDP-weighted)



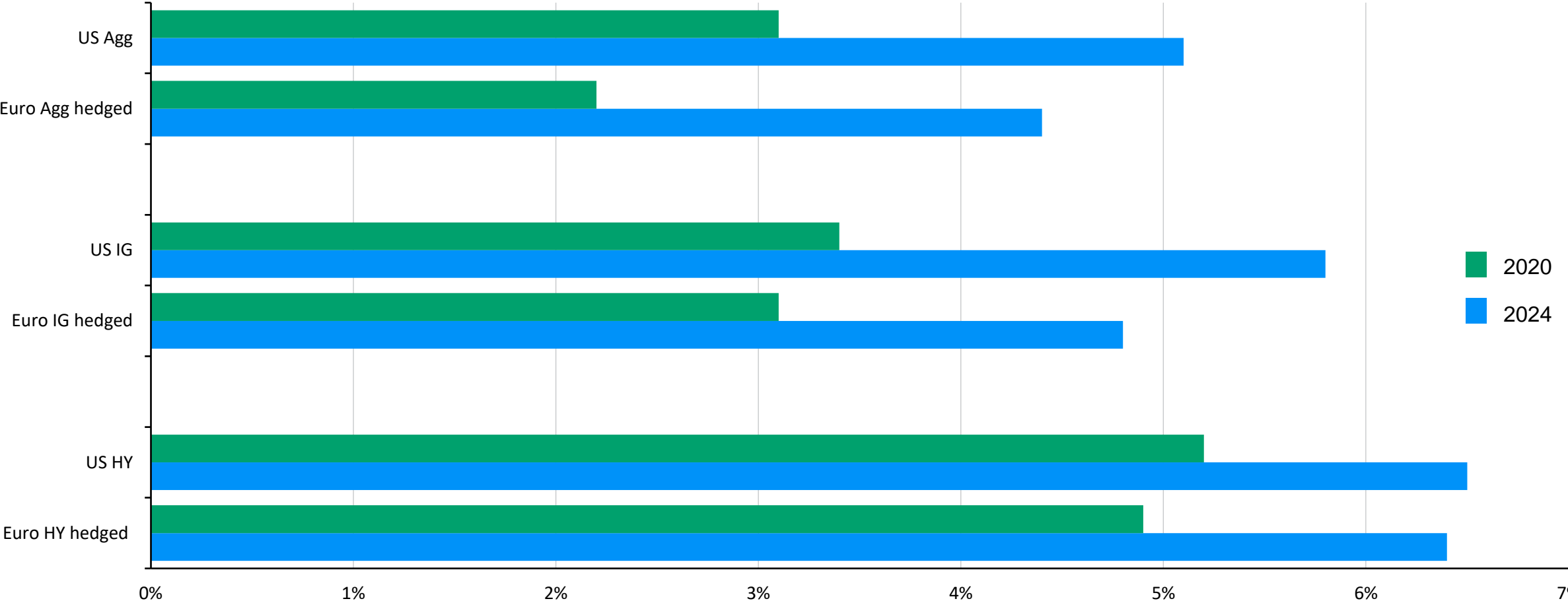
Source: (Left) Eurostat, LSEG Datastream, OECD, J.P. Morgan Asset Management. Eurozone is GDP-weighted average of France, Germany, Italy, and Spain. Forecasts are OECD. (Right) Bank of England, Bank of Japan, CANSIM, European Central Bank, Federal Reserve, LSEG Datastream, OECD, J.P. Morgan Asset Management. Data as of 6 October 2023.



# Bonds provide decent income once again

## Projected fixed income sector returns

LTCMA projections of 10-15 year average annual return, USD



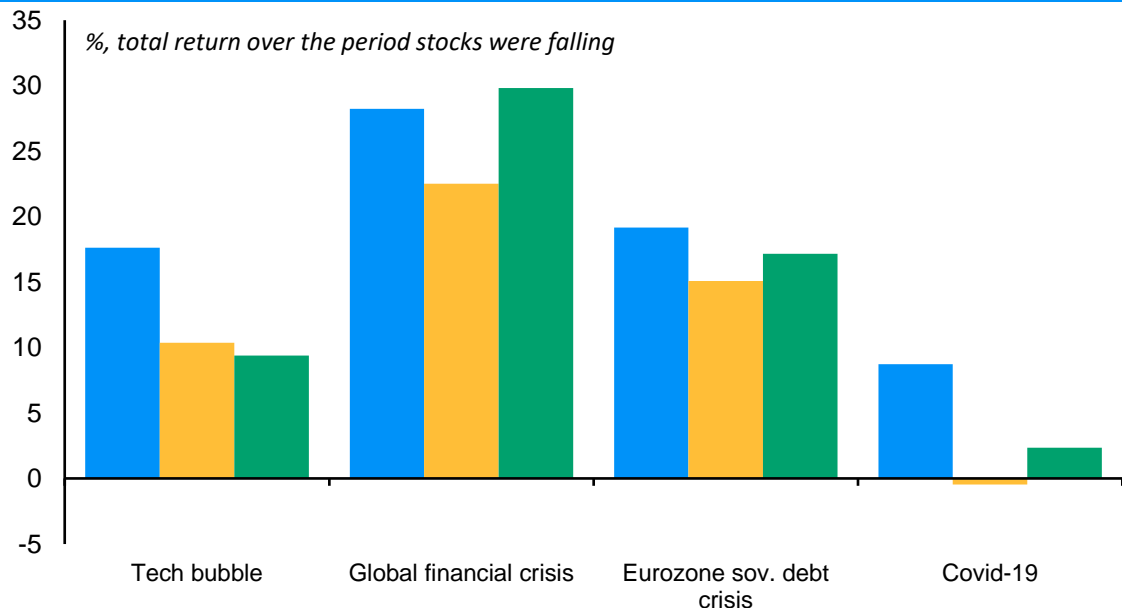
Source: JPMAM Multi-Asset Solutions. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections and other forward statements, actual events, results or performance may differ materially from those reflected or contemplated. Data as of September 2023.

# Bonds: Highest expected govt bond return since 2010

## Key takeaways for Fixed Income

- Cash returns well below current yields
- Duration premium remains attractive
- Bonds, once again, offer potential protection to growth shocks
- Credit still offers attractive pickup vs. government bonds with default and recovery rates returning to the long run average

### Historical returns from 10-year government bonds during shocks



## LTCMA 2024 Fixed Income Assumptions (USD)

	Inflation rate	Cash rate	10-yr bond yield	20+-yr bond yield	U.S. IG	U.S. HY	EMD (hard)
<b>2024 LTCMAs</b>							
<b>Cycle Neutral Rate / Spread</b>	2.50%	2.50%	3.40%	3.70%	160 bp	490 bp	380 bp
Rate / spread on Sept 30, 23	-	5.50%	4.60%	4.80%	120 bp	400 bp	430 bp
<b>Return (%)</b>	-	2.90%	4.60%	5.20%	5.80%	6.50%	6.80%
<b>2023 LTCMAs</b>							
<b>Cycle Neutral Rate / Spread</b>	2.60%	2.30%	3.20%	3.50%	160 bp	480 bp	380 bp
Rate / spread on Sept 30, 22	-	3.25%	3.80%	3.95%	170bp	560bp	560bp
<b>Return (%)</b>	-	2.40%	4.00%	4.20%	5.50%	6.80%	7.10%

Source: Bloomberg, J.P. Morgan Asset Management; data as of September 2022 and September 2023. IG = Investment Grade; HY = High Yield; EMD = Emerging Market Debt. Yield is not guaranteed and may change over time.

# FX: key USD crosses

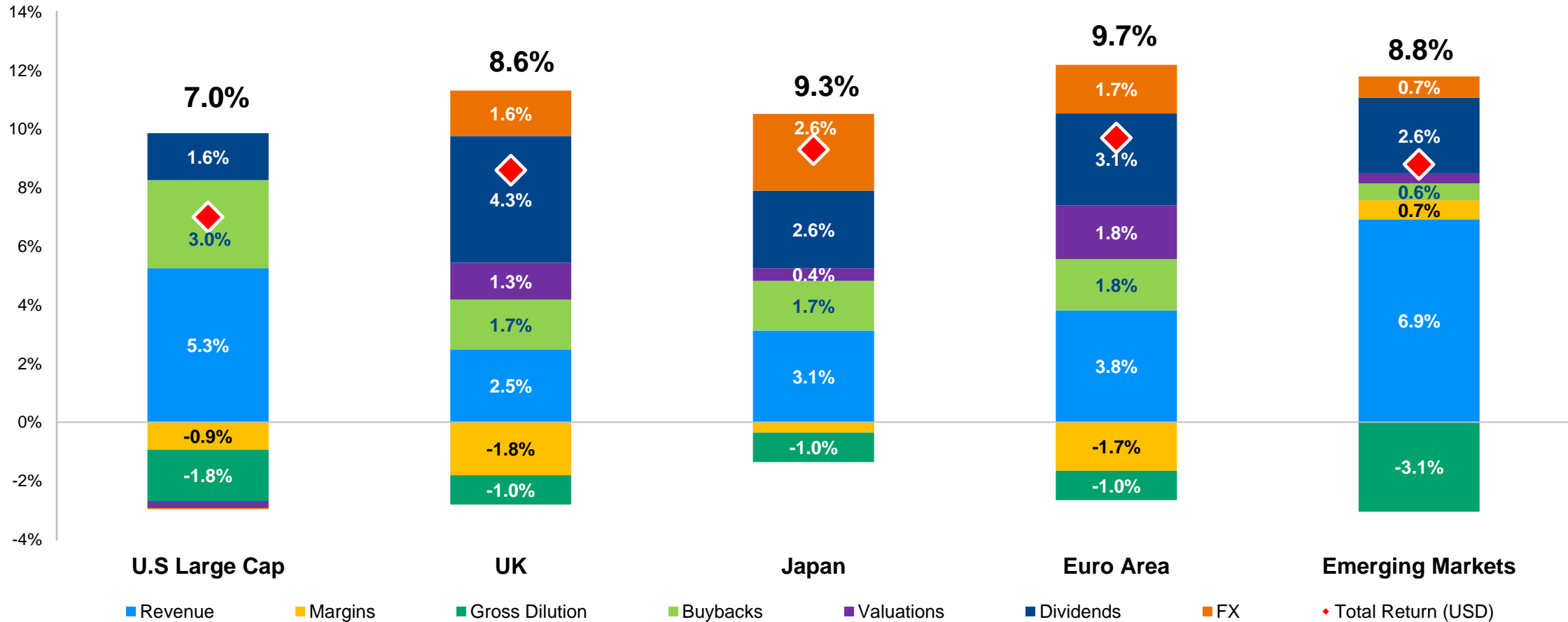
	Spot 30 <sup>th</sup> Sept 23	NOMINAL			REAL			FORECAST FUTURE SPOT LEVEL (CONVENTONAL, 10-15Y OUT)			
		2024	2023	Chg	2024	2023	Chg	2024	2023	Chg	Chg %
Australian dollar	0.64	<b>1.20%</b>	1.60%	-0.40%	1.10%	1.40%	-0.30%	<b>0.75</b>	0.78	-0.03	-4.30%
Brazilian real	5.01	<b>-2.50%</b>	-1.80%	-0.70%	-0.50%	0.00%	-0.50%	<b>6.88</b>	6.79	0.08	1.25%
Canadian dollar	1.35	<b>1.30%</b>	1.40%	-0.10%	1.00%	1.10%	-0.10%	<b>1.15</b>	1.16	-0.01	-0.52%
Swiss franc	0.91	<b>1.30%</b>	2.20%	-0.90%	0.21%	0.60%	-0.39%	<b>0.78</b>	0.75	0.03	3.82%
Chinese renminbi	7.30	<b>1.90%</b>	2.30%	-0.40%	0.54%	0.90%	-0.36%	<b>5.77</b>	5.35	0.41	7.74%
Euro	1.06	<b>1.70%</b>	2.10%	-0.40%	1.40%	1.30%	0.10%	<b>1.31</b>	1.27	0.03	2.70%
British pound	1.22	<b>1.60%</b>	1.85%	-0.25%	1.50%	1.70%	-0.20%	<b>1.49</b>	1.40	0.08	5.91%
Japanese yen	149.37	<b>2.60%</b>	2.60%	0.00%	1.50%	0.90%	0.60%	<b>108</b>	105	3.36	3.20%
Mexican peso	17.39	<b>-3.60%</b>	-1.50%	-2.10%	-2.12%	-0.10%	-2.02%	<b>27.49</b>	24.30	3.19	13.12%
Swedish krona	10.91	<b>2.30%</b>	2.60%	-0.30%	2.20%	2.10%	0.10%	<b>8.21</b>	8.06	0.15	1.81%

Source: J.P. Morgan Asset Management; data as of September 2023.

# Equities: robust return on strong revenue growth; margins present the main headwind

## Projected equity returns

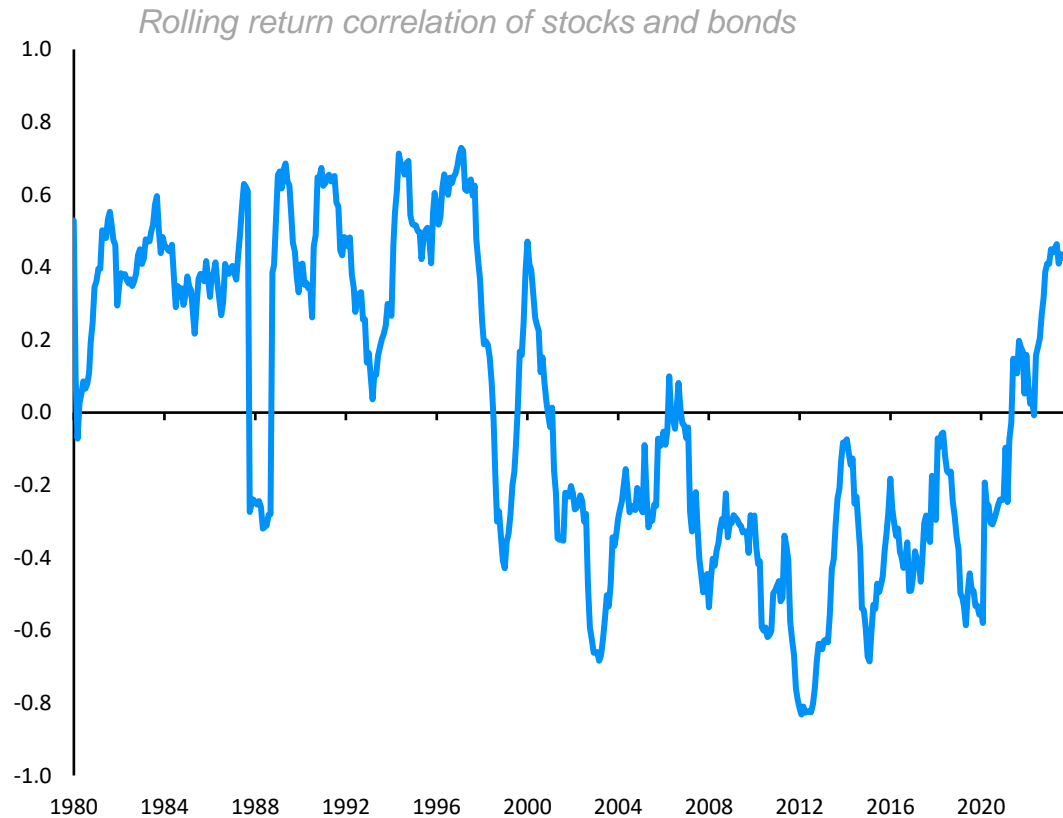
LTCMA projections of 10-15 year average annual return, USD



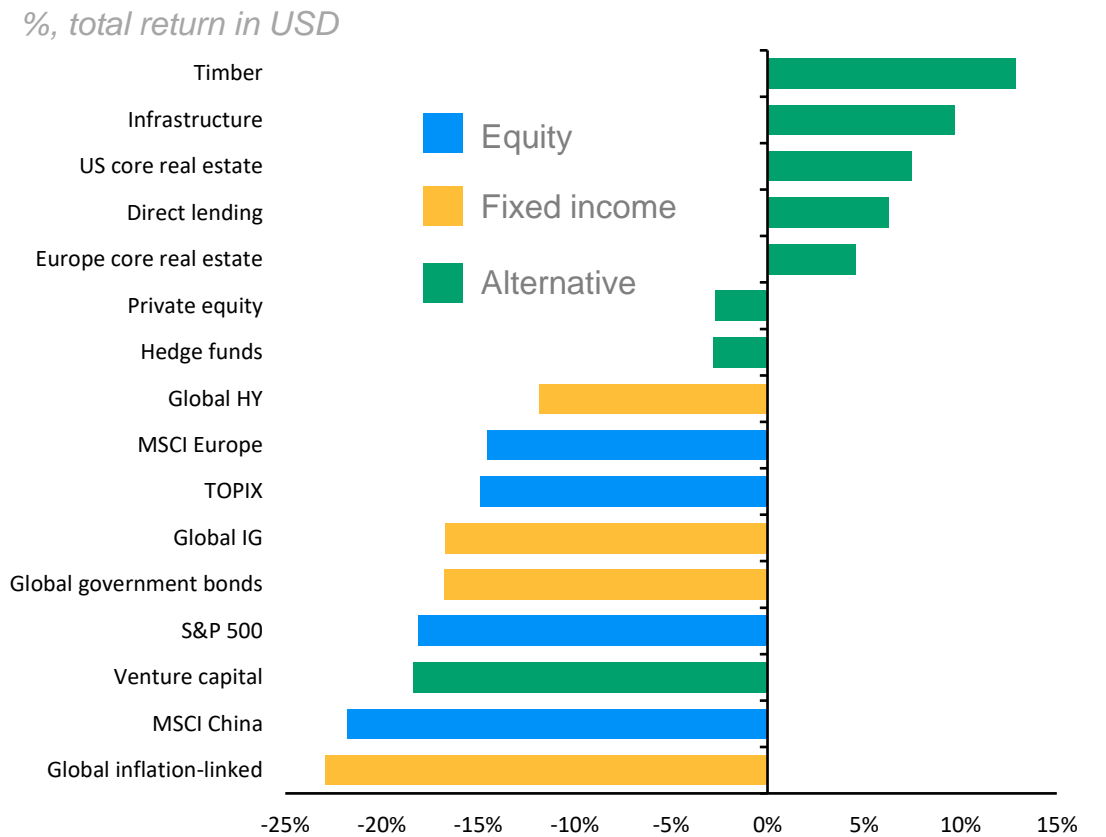
Source: JPMAM Multi-Asset Solutions. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections and other forward statements, actual events, results or performance may differ materially from those reflected or contemplated. Data as of September 2023.

# Thinking more broadly about diversification: Bonds for disinflation, alts for inflation

## S&P 500/U.S. 10-year Treasury correlations



## Selected public and private market returns in 2022

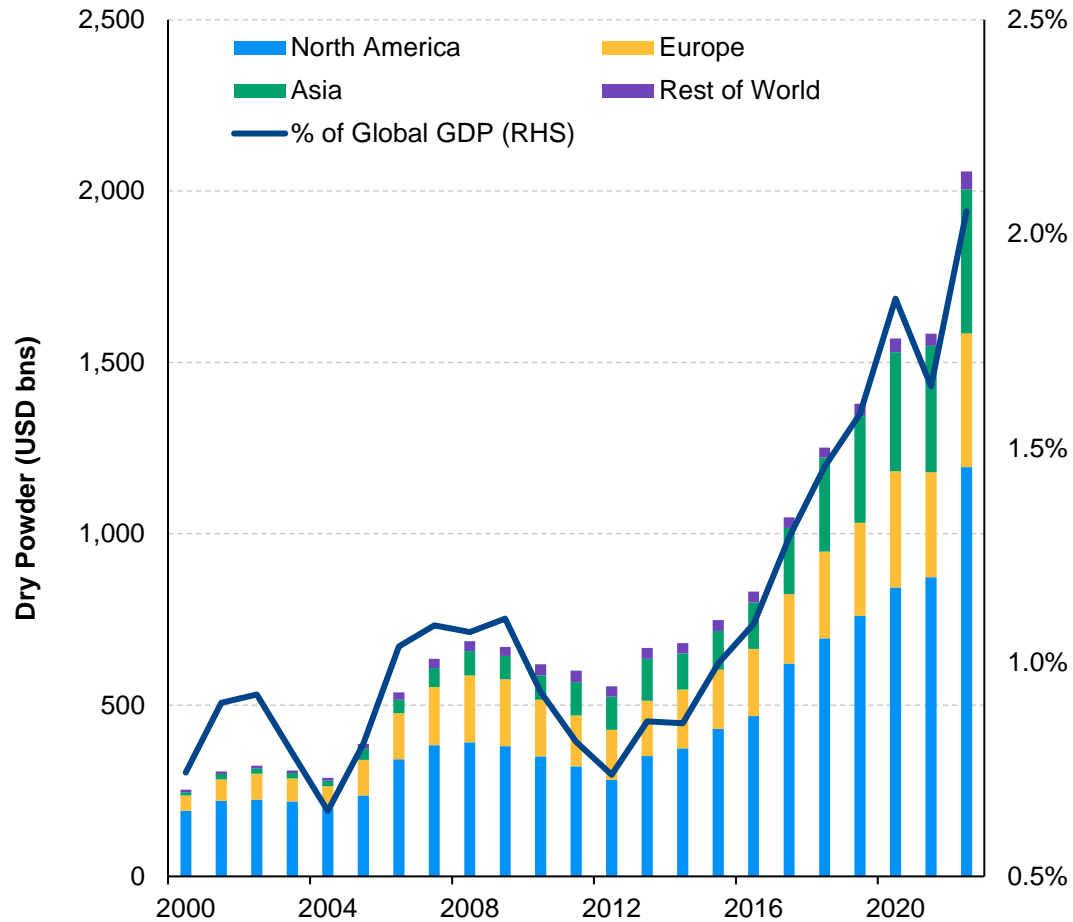


Source: (Left) LSEG Datastream, S&P Global, J.P. Morgan Asset Management. (Right) Bloomberg, Burgiss, Cliffwater, FactSet, HRFI, LSEG Datastream, MSCI, NCREIF, S&P Global, J.P. Morgan Asset Management. Global government bonds: Bloomberg Global Aggregate – Government; Global inflation-linked: Bloomberg 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 - Europe*. Data as of 6 October 2023.

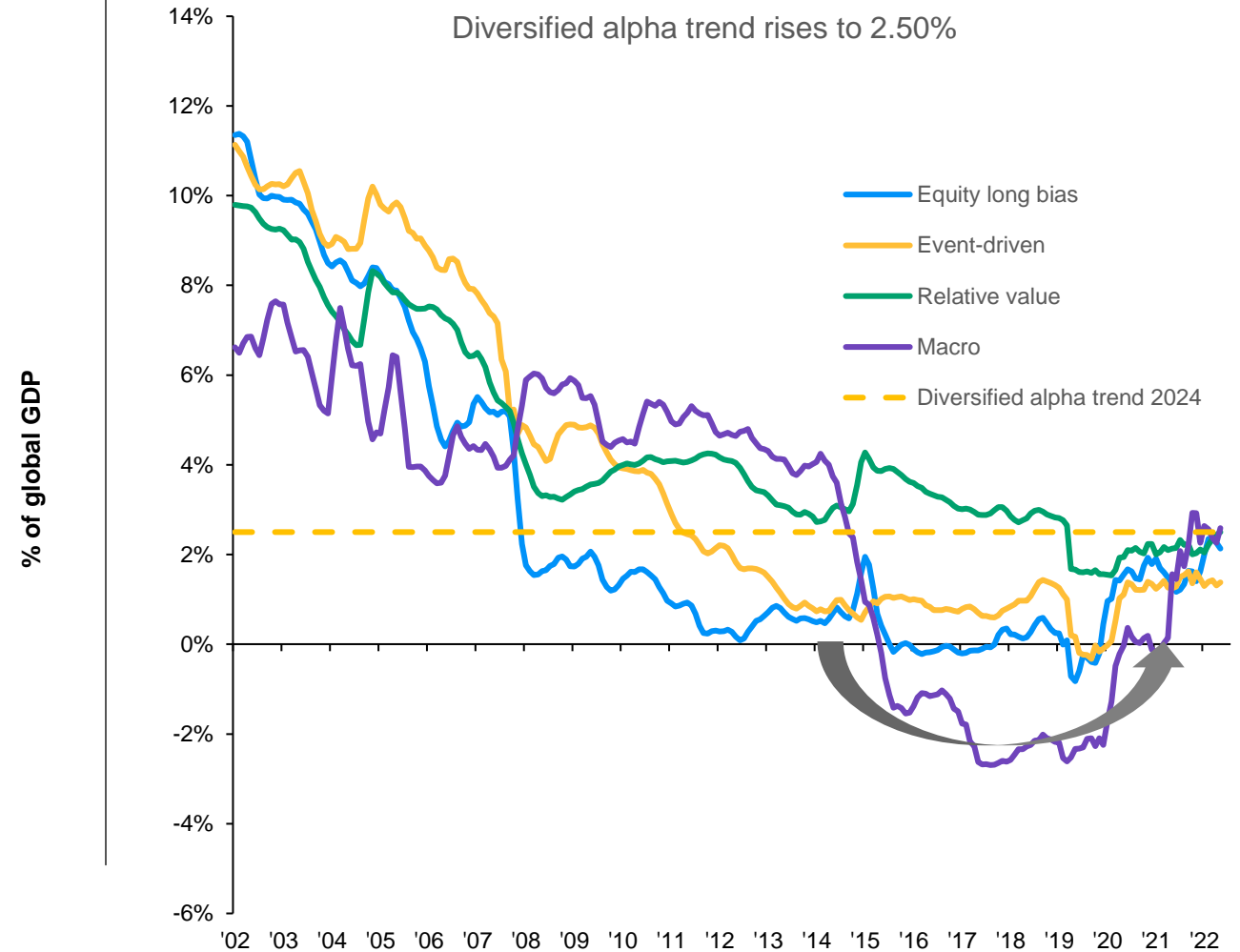


# There remains a lot of dry powder, and alternatives retain their strong alpha potential

There is still a lot of dry powder across private equity



Outlook for hedge fund alpha continues to improve

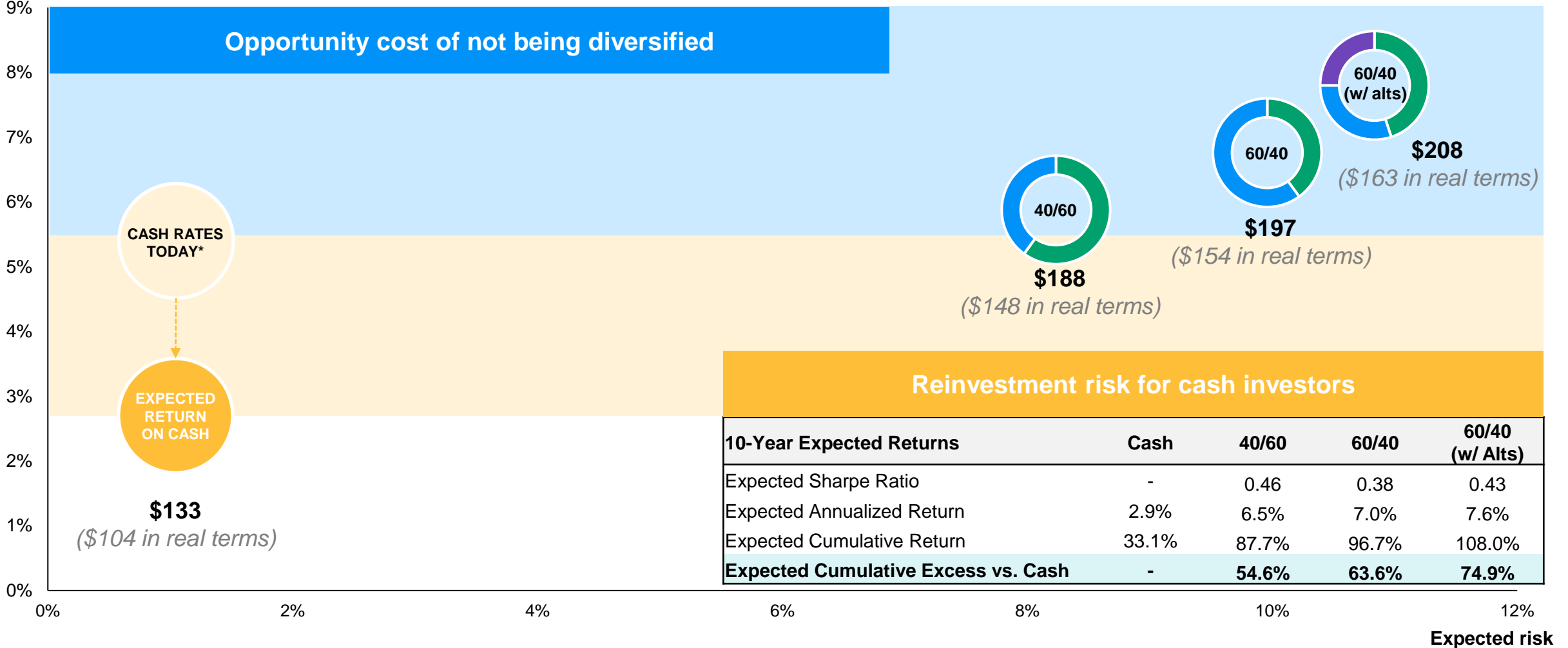


Source: Burgiss Private iQ, J.P. Morgan Asset Management; data as of September 2022. \*Includes buyout and expansion capital funds for vintages 2006 to 2022.

# Extend: The cash rate is a hurdle but not a barrier

Estimated **nominal** return and risk of \$100 over the next 10 years for Cash and Diversified Portfolios

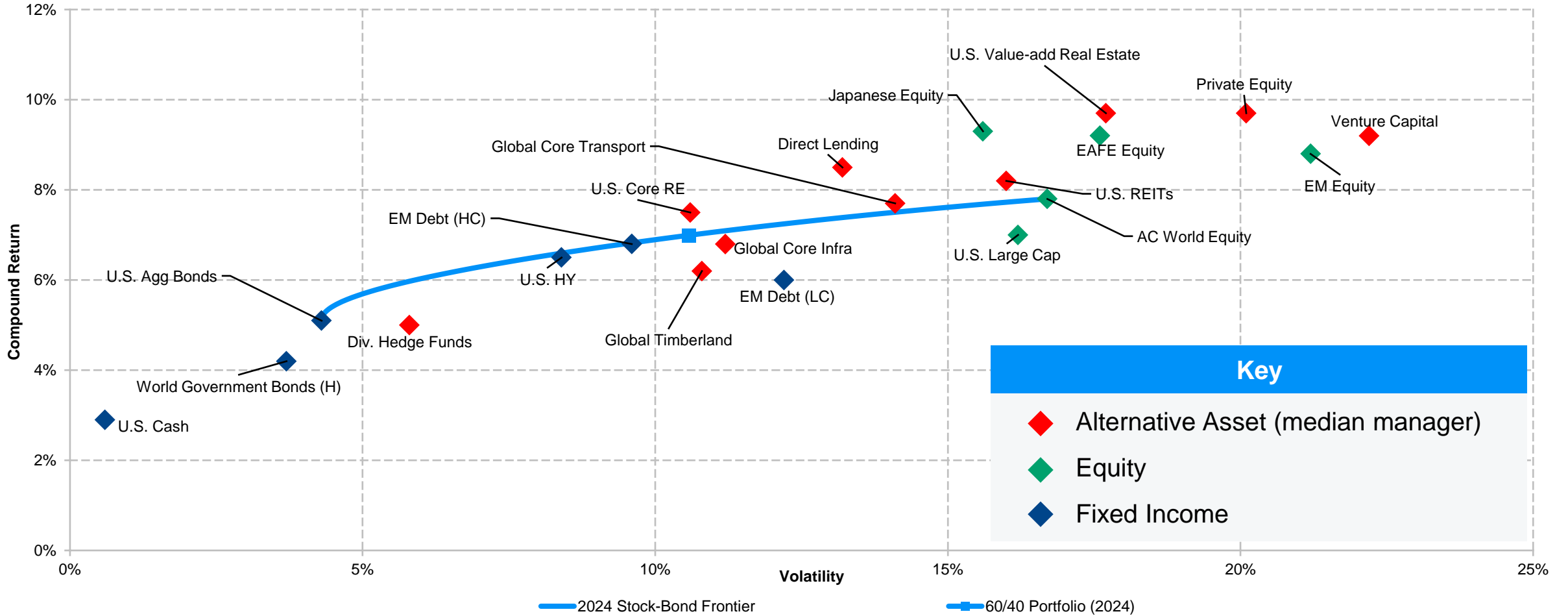
Expected return



Source: J.P. Morgan Asset Management. Expected risk and return based on 2024 Long-Term Capital Market Return Assumptions. Equity is represented by the MSCI ACWI, while fixed income is represented by the Bloomberg U.S. Agg Bond Index. 60/40 w/ alts = 45% MSCI ACWI, 15% Private Equity, 30% U.S. Agg, 10% U.S. Core Real Estate. Opinions, estimates, forecasts, and statements of financial market trends that are based on current market conditions constitute our judgment and are subject to change without notice. \*Being the current Fed funds rate (5.33%)

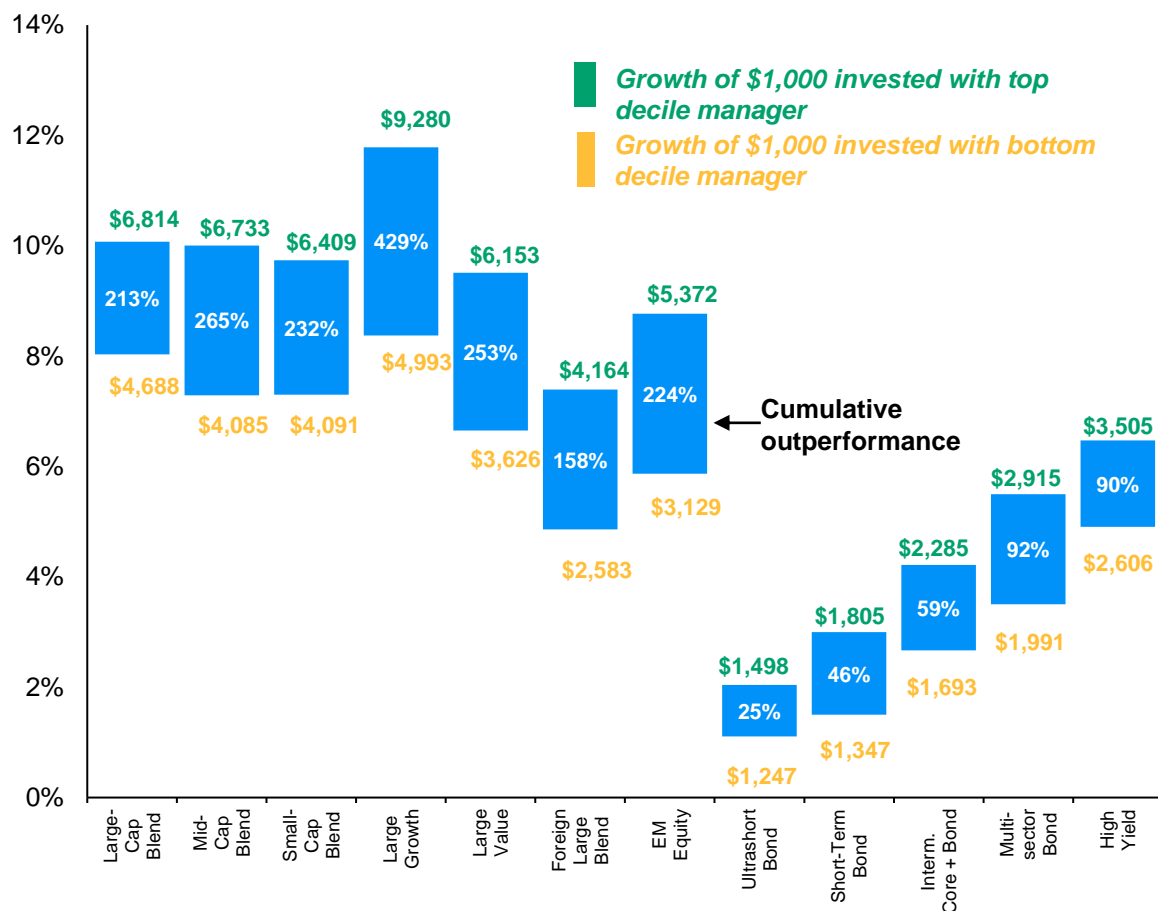
# Expand: the opportunity set to provide diversification and additional returns

Stock-bond frontier 2024 (USD) with other asset class median manager return forecasts plotted

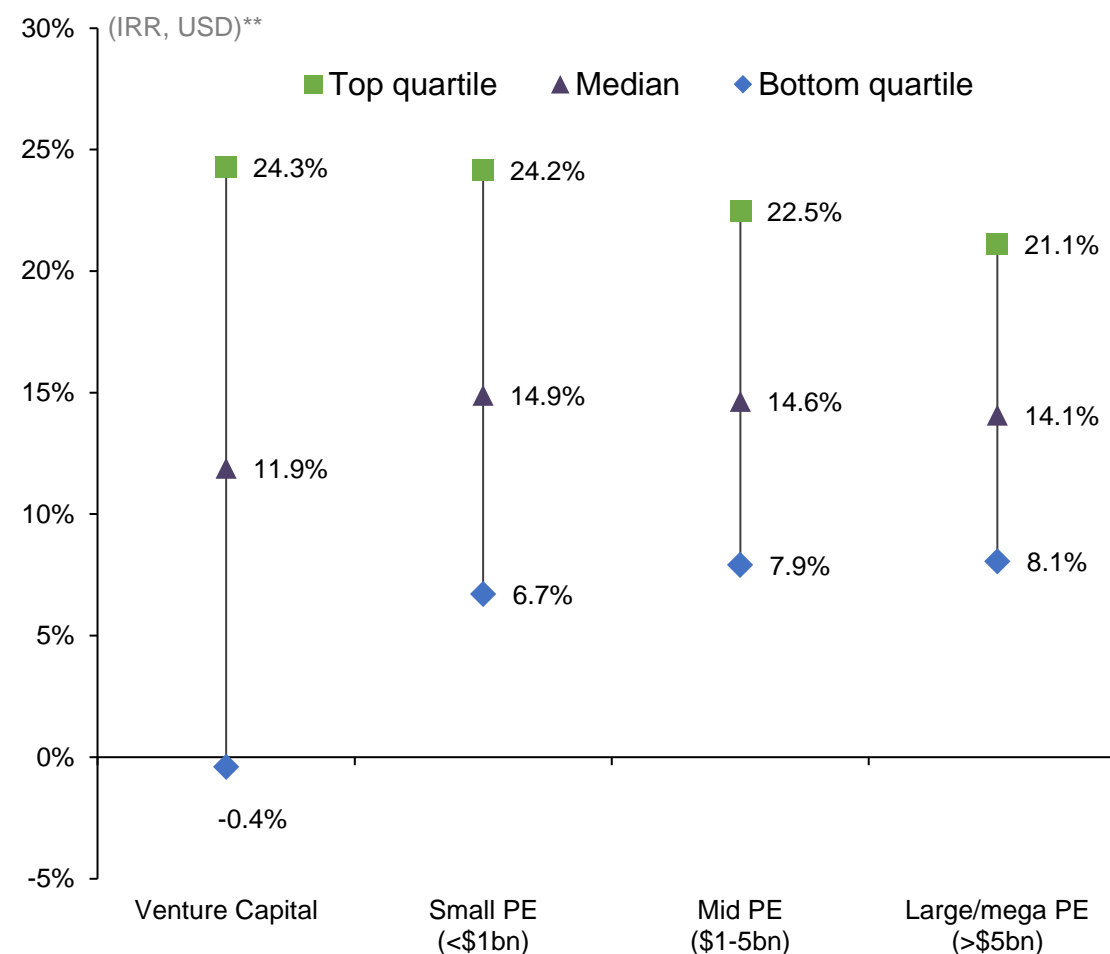


# Enhance returns through active asset allocation and manager selection

Manager selection and active can have a big impact...



... especially in Alts: Historical returns by quartile



Source: Burgiss Private iQ, Morningstar, J.P. Morgan Asset Management; data as of September 2022.

\*Represents average annual portfolio return dispersion between the 10<sup>th</sup> and 90<sup>th</sup> percentile over a 20-year period for each Morningstar Category, including mutual funds and ETFs. Returns are updated monthly and reflect data through 8/31/2023. This information is for illustrative purposes only, does not reflect actual investment results, is not a guarantee of future results and is not a recommendation. \*\*Includes buyout and expansion capital funds for vintages 2006 to 2022.

# Key takeaways...

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Nominal growth is higher,

and **better dispersed by region.**



Bonds are (still) back,

providing income and **will provide diversification from *disinflationary* shocks.**



Equity returns supported,

by **improved nominal growth**, but **margins are a headwind** in many regions.



Alts for alpha and diversification,

from **inflationary shocks.**



## ...And where we're leaning tactically today

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**Growth:** Expect growth at, or just below, trend in 2024; U.S. economy resilient, EU better from 2Q, China sluggish



**Policy:** Inflation cooling and hiking cycle over, expect prolonged pause with yields rangebound and curves flat



**Exchange rates:** USD support begins to wane as EUR improves in 1H24 with EU economy, JPY remains soft



**Credit:** Maturity wall more a 2025 issue, for now high yields and bonds at a discount to par make credit attractive



**Profits:** Earnings downgrade cycle done in U.S., still downside risks in EU; prefer U.S. and Japanese stocks



**Portfolios:** Correlations remain higher, but volatility set to decline in turn supporting carry in currencies and credit

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