

# J.P. Morgan Intermediate Municipal Strategy

## Separately Managed Account

### TOPLINE (2Q 2019)

Strategy ▲ 1.81%	Benchmark ▲ 1.84%
<p><b>Benchmark:</b> Bloomberg Barclays U.S. 1-15 Yr Blend (1-17) Muni Bond Index</p>	
<p><b>Markets</b> Risk assets and U.S. government securities rallied in the second quarter amid sub-trend global growth, ongoing trade tensions and a dovish shift from the Federal Reserve. The threat of intensifying trade tensions dominated the narrative. After appearing to progress early in the quarter, U.S.-China trade negotiations took an unexpected turn for the worse in early May when the Trump administration abruptly raised tariffs on \$200 billion of Chinese imports from 10% to 25%, and announced its intention to expand the 25% tariffs to the remaining \$300 billion of imports from China.</p>	
<p><b>Helped</b> Underweight key underperforming revenue subsectors aided performance.</p>	
<p><b>Hurt</b> The Strategy's high-quality bias held back results.</p>	
<p><b>Outlook</b> We continue to manage the Strategy conservatively using our consistent, bottom-up, value-driven investment approach. Security selection will continue to be the driver of performance over macroeconomic bets.</p>	

Past performance is not indicative of future returns. Performance is shown gross of fees. If fees were included, returns would be lower. Please see following page for additional performance.

### STRATEGY OVERVIEW



**Designed to** deliver monthly income (excluded from federal gross income) and capital preservation by investing in municipal bonds.

### APPROACH

- Invests primarily in a diversified portfolio of intermediate-term municipal bonds in an effort to protect after-tax investment value
- Aims to help minimize tax liability while producing income
- Conducts extensive risk/reward analysis to select securities

### QUARTER IN REVIEW

- The **JPMorgan Intermediate Muni Strategy** underperformed the benchmark, the Bloomberg Barclays US 1-15 Year Blend (1-17 Year) Municipal Bond Index, for the quarter ended June 30, 2019.
- **Electric** (3% versus 5%) and **Housing** (0% versus 1%) bonds underperformed in the index, returning 1.75% and 1.83%, so our underweight aided quarterly performance.
- In the index, **Leasing** (8% versus 7%) bonds returned 2.16%, outperforming the broad index by 32 basis points (bps). As a result, our modest overweight positively impacted performance.
- The **Strategy's slightly longer duration** (4.8 years versus 4.5 years) contributed as rates fell 24 bps in two years, 26 bps in five years, 23 bps in 10 years and 29 bps in 30 years.
- Lower-quality bonds outperformed for the period. The Strategy's high-quality bias hurt due to an overweight in **AA-rated and higher** (98% versus 70%) and underweight to **A-rated and lower** (2% versus 30%) bonds. In the index, AAAs returned 1.57%; AAs, 1.72%; As, 2.03%; and BBBs, 2.73%.
- High-beta sectors like **Industrial Revenue/Pollution Control Revenue** (0% versus 5%) outperformed for the period, returning 2.33%, so being underweight hurt.
- **Water and Sewer** (19% versus 8%) returned 1.79% in the index; thus, our 11% overweight weighed on performance.

### LOOKING AHEAD

- We continue to manage the Strategy conservatively using our investment process built on consistency of style, only adding credit when we feel we are adequately compensated in spread terms.
- Security selection will remain the driver of performance over macroeconomic bets. We employ a bottom-up, value driven investment approach.
- Municipals should continue to build on a solid 2018, providing strong risk and tax-adjusted returns given their attractiveness to taxpayers.
- For 2019, we expect issuance to range from \$325-\$350 billion.
- We anticipate three cuts this year and for the federal funds rate to end the year at 1.50%-1.75%. Ten-year yields should fall to a range between 1.75% and 2.25%.

## PERFORMANCE

### YIELD (%)

Yield to maturity (%)	2.16
Yield to worst (%)	1.60
Tax equivalent yield to maturity (%) <sup>1</sup>	3.65
Tax equivalent yield to worst (%) <sup>1</sup>	2.70

<sup>1</sup>The tax rate used to calculate the tax-equivalent yield is the 37% federal tax and the 3.8% ACA tax. Tax equivalent yield is calculated as tax-exempt yield divided by one minus the tax rate. Source: Perform /JPMAM.

### RETURN (%)

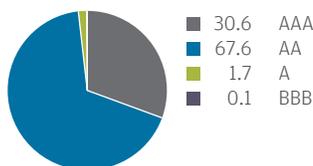
	3 MOS	YTD	1 YR	3 YRS	5 YRS	10 YRS
<b>Strategy</b> (gross of fees)	1.81	4.26	5.99	1.88	2.62	3.18
<b>Strategy</b> (net of max. allowable fees - 150 bps) <sup>2</sup>	1.43	3.48	4.42	0.36	1.10	1.65
<b>Benchmark</b>	1.84	4.40	6.12	2.29	3.03	3.91

Benchmark: Bloomberg Barclays U.S. 1-15 Yr Blend (1-17) Muni Bond Index. Past performance is not indicative of future returns. Performance includes the reinvestment of any income.

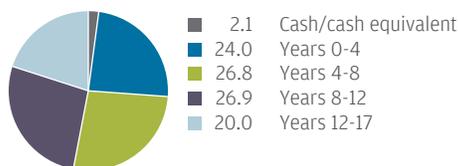
<sup>2</sup>Please note, actual fees associated with this strategy may be lower.

## HOLDINGS

### CREDIT QUALITY (%)



### MATURITY (%)



## PORTFOLIO ANALYSIS

Average price	\$116.25
Average maturity (years)	7.56
Effective (OA) duration (years)	4.81
Average credit quality	AA
Average coupon (%)	4.89
Average life (years)	5.43
% AMT	0.00
Turnover range	5-25%
Average number of holdings <sup>3</sup>	15-25

<sup>3</sup>Number of positions may vary by account size and parameters. Source: J.P. Morgan Asset Management, FactSet.

The above characteristics are from a representative portfolio. Actual account characteristics of individual accounts may be different. Portfolio characteristics are as of 6/30/2019 and are based on individual securities in the Portfolio on that date. Securities in the Portfolio are subject to change. Statistics shown are not indicative of future statistics and are not representative of future Portfolio performance.

## GENERAL DISCLOSURES

The Strategy might not achieve its objectives. Asset allocation/diversification does not prevent investment loss. Nothing in this document is an investment recommendation. Total return figures (for the Strategy and any index quoted) assume payment of fees and reinvestment of dividends (after the highest applicable foreign withholding tax) and distributions. Without fee waivers, strategy returns would have been lower. Due to rounding, some values may not total 100%.

This document is a general communication being provided for informational purposes only. It is educational in nature and not designed to be a recommendation for any specific investment product, strategy, plan feature or other purpose. Any examples used are generic, hypothetical and for illustration purposes only. Prior to making any investment or financial decisions, an investor should seek individualized advice from a personal financial, legal, tax and other professional advisors that take into account all of the particular facts and circumstances of an investor's own situation.

### RISK SUMMARY

Because this Strategy invests primarily in bonds, it is subject to interest rate risks. Bond prices generally fall when interest rates rise.

For some investors, income may be subject to the Alternative Minimum Tax. Capital gains, if any, are federally taxable. Income may be subject to state and local taxes.

Managed accounts are subject to market risks. Investment return and principal value will fluctuate so that when an account is liquidated, it may be worth more or less than the original value.

The securities highlighted have been selected based on their significance. They are not recommendation to buy or NOT FDIC INSURED | NO BANK GUARANTEE | MAY LOSE VALUE

sell. Contact your financial professional for a complete list of firm recommendations in the Portfolio for the last year or to assist you in evaluating your investment objective, and to make specific recommendations regarding your account. Representative portfolios and/or individual accounts may, or may not, hold the stocks mentioned above. Actual accounts will differ based on individual client account restrictions, investment guidelines, and account inception dates.

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### CREDIT QUALITY

J.P. Morgan Investment Management (JPMIM) receives credit quality ratings on underlying securities of the portfolio from the three major ratings agencies - S&P, Moody's and Fitch. When calculating credit quality breakdown, JPMIM selects the middle rating of the agencies when all three rate a security, the lower of two ratings if only two rate a security, and one rating if that is all that is

provided. Securities that are not rated by all three agencies are reflected as such.

### PORTFOLIO ANALYSIS DEFINITIONS

**Average Life:** The length of time the principal of a debt issue is expected to be outstanding.

Depending on the interest rate cycle, historical annual turnover has typically ranged between 5-25% per annum but may be higher or lower depending on market conditions. In periods where interest rates were at their lowest, turnover was low. In periods where interest rates were at their highest, turnover was high. There is typically a higher level of trading during periods of high interest rates due to tax loss harvesting and the increased opportunities to rebook securities at higher book yields.

**Duration:** Measures price sensitivity of fixed income securities to interest rate changes.

### INDEXES

Separately Managed Accounts have fees that reduce their performance: indexes do not. You cannot invest directly in an index.

The Bloomberg Barclays U.S. 1-15 Year Blend (1-17) Municipal Bond Index represents the performance of municipal bonds with maturities from 1 to 17 years.

*Past performance is no guarantee of future results.*

### ENTITIES

J.P. Morgan Asset Management is the brand name for the asset management business of JPMorgan Chase & Co and its affiliates worldwide.

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