Economic and Market Update

U.S. | 3Q 2020 | As of June 30, 2020
• Growth, jobs, profits & inflation
• Implications for those investing in fixed income
• Fixed Income, U.S. equities and International equities
• Diversified investing, risks & opportunities
COVID-19: U.S. confirmed cases and fatalities
Source: Johns Hopkins CSSE, J.P. Morgan Asset Management.

Confirmed cases and fatalities in the U.S.
As of June 30, 2020

Change in confirmed cases and fatalities in the U.S.
7-day moving average, as of June 30, 2020

Source: Johns Hopkins CSSE, J.P. Morgan Asset Management.
The Great Depression and post-war recessions
Length and severity of recession

“A recession is a significant decline in economic activity spread across the economy, normally visible in production, employment and other indicators. A recession begins when the economy reaches a peak of economic activity....The committee has determined that a peak in monthly economic activity occurred in the U.S. economy in February 2020.”


Great Depression:
26.7% decline in real GDP

Post WWII demobilization:
12.7% decline in real GDP

Financial Crisis:
4.0% decline in real GDP

Current recession:
12.8% decline* in real GDP

Source: BEA, NBER, J.P. Morgan Asset Management.
Bubble size reflects the severity of the recession, which is calculated as the decline in real GDP from the peak quarter to the trough quarter except in the case of the Great Depression, where it is calculated from the peak year (1929) to the trough year (1933), due to a lack of available quarterly data.
*Current recession reflects JPMAM estimate of peak to trough decline for the recession beginning after February 2020 according to the NBER.
High-frequency data
Year-over-year % change*

<table>
<thead>
<tr>
<th>Category</th>
<th>Min.</th>
<th>Current</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase mortgage applications</td>
<td>-35%</td>
<td>15%</td>
</tr>
<tr>
<td>U.S. seated diners</td>
<td>-100%</td>
<td>-65%</td>
</tr>
<tr>
<td>TSA traveler traffic</td>
<td>-96%</td>
<td>-79%</td>
</tr>
<tr>
<td>Driving direction usage</td>
<td>-47%</td>
<td>36%</td>
</tr>
<tr>
<td>Total global flights</td>
<td>-64%</td>
<td>-30%</td>
</tr>
<tr>
<td>Hotel occupancy</td>
<td>-69%</td>
<td>-42%</td>
</tr>
</tbody>
</table>

Source: Apple Inc., FlightRadar24, Mortgage Bankers Association (MBA), OpenTable, STR, Transportation Security Administration (TSA), J.P. Morgan Asset Management. *Driving directions and total global flights are 7-day moving averages and are compared to a pre-pandemic baseline. Guide to the Markets – U.S. Data are as of June 30, 2020.
Civilian unemployment rate and year-over-year wage growth for private production and non-supervisory workers

Seasonally adjusted, percent

<table>
<thead>
<tr>
<th>Year</th>
<th>Unemployment Rate</th>
<th>Wage Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>May 1975: 9.0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nov. 1982: 10.8%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jun. 1992: 7.8%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jun. 2003: 6.3%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oct. 2009: 10.0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>May 2020: 6.7%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>May 2020: 13.3%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: BLS, FactSet, J.P. Morgan Asset Management.

Corporate profits

S&P 500 earnings per share
Index annual operating earnings

- Consensus analyst estimates
- Earnings recessions

S&P 500 2020 earnings growth estimates
Year-over-year % change

- As of 12/31/2019
- As of 6/30/2020

Source: Compustat, FactSet, Standard & Poor’s, J.P. Morgan Asset Management.
Historical EPS levels are based on annual operating earnings per share. Earnings estimates are based on estimates from FactSet Market Aggregates. Past performance is not indicative of future returns.

Inflation

CPI and core CPI
% change vs. prior year, seasonally adjusted

<table>
<thead>
<tr>
<th></th>
<th>50-yr. avg.</th>
<th>Apr. 2020</th>
<th>May 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Headline CPI</td>
<td>3.9%</td>
<td>0.4%</td>
<td>0.2%</td>
</tr>
<tr>
<td>Core CPI</td>
<td>3.8%</td>
<td>1.4%</td>
<td>1.2%</td>
</tr>
<tr>
<td>Food CPI</td>
<td>3.9%</td>
<td>3.5%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Energy CPI</td>
<td>4.0%</td>
<td>-17.3%</td>
<td>-18.3%</td>
</tr>
<tr>
<td>Headline PCE deflator</td>
<td>3.4%</td>
<td>0.6%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Core PCE deflator</td>
<td>3.3%</td>
<td>1.0%</td>
<td>1.0%</td>
</tr>
</tbody>
</table>

Source: BLS, FactSet, J.P. Morgan Asset Management.
CPI used is CPI-U and values shown are % change vs. one year ago. Core CPI is defined as CPI excluding food and energy prices. The Personal Consumption Expenditure (PCE) deflator employs an evolving chain-weighted basket of consumer expenditures instead of the fixed-weight basket used in CPI calculations.

Federal funds rate expectations
FOMC and market expectations for the federal funds rate

Market expectations are the federal funds rates priced into the fed futures market as of the following date of the June 2020 FOMC meeting and are through December 2022. *Long-run projections are the rates of growth, unemployment and inflation to which a policymaker expects the economy to converge over the next five to six years in absence of further shocks and under appropriate monetary policy.

Federal acts to offset impact of coronavirus recession

<table>
<thead>
<tr>
<th>Amount ($ bn)</th>
<th>Measure</th>
</tr>
</thead>
<tbody>
<tr>
<td>$293</td>
<td>One-time recovery rebates checks amounting to $1,200 per adult and $500 per child up to certain income limits</td>
</tr>
<tr>
<td>$268</td>
<td>Boost to unemployment benefits, adding $600 per week to every check until July 31st, expanding program to cover contractors and self-employed and extending program from 26 weeks to 39 weeks</td>
</tr>
<tr>
<td>$27</td>
<td>Grants to airlines and businesses deemed important for national security. Non-forgivable loans through Fed are excluded as they are assumed to be repaid</td>
</tr>
<tr>
<td>$760</td>
<td>Small business relief, mostly &quot;forgivable loans&quot; for spending on payroll, rent and utilities</td>
</tr>
<tr>
<td>$150</td>
<td>Direct aid to state and local governments</td>
</tr>
<tr>
<td>$425</td>
<td>Health-related spending</td>
</tr>
<tr>
<td>$517</td>
<td>Other spending and tax breaks</td>
</tr>
<tr>
<td>$2.441 trillion</td>
<td>~11.8% of GDP</td>
</tr>
</tbody>
</table>

Federal budget surplus/deficit
% of GDP, 1990 – 2030, 2020 CBO Baseline

Federal net debt (accumulated deficits)
% of GDP, 1940 – 2030, 2020 CBO Baseline, end of fiscal year

Source: CBO, J.P. Morgan Asset Management. JPMAM estimates include costs of CPRSA, FFCR, CARES and PPPHCE Acts, signed into law on March 6, 18 and 27 and April 24 as estimated by CBO. Charts on right add impacts of these acts, interest cost of additional debt, an assumed extra $1 trillion in further acts in 2020 and 2021 and recession impacts on revenues, spending and GDP. Congressional Budget Office (CBO) March 2020 Baseline Budget Forecast. Note: Years shown are fiscal years (Oct. 1 through Sep. 30). Guide to the Markets – U.S. Data are as of June 30, 2020.
Interest rates and inflation

Nominal and real 10-year Treasury yields

Average

<table>
<thead>
<tr>
<th></th>
<th>1958</th>
<th>YTD 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal yields</td>
<td>5.94%</td>
<td>0.66%</td>
</tr>
<tr>
<td>Real yields</td>
<td>2.29%</td>
<td>-0.58%</td>
</tr>
<tr>
<td>Inflation</td>
<td>3.65%</td>
<td>1.24%</td>
</tr>
</tbody>
</table>

Real 10-year Treasury yields are calculated as the daily Treasury yield less year-over-year core CPI inflation for that month except for May and June 2020 where real yields are calculated by subtracting out April 2020 year-over-year core inflation.

S&P 500 valuation measures


Price to earnings is price divided by consensus analyst estimates of earnings per share for the next 12 months as provided by IBES since July 1995, and FactSet for June 30, 2020. Current next 12-months consensus earnings estimates are $143. Average P/E and standard deviations are calculated using 25 years of IBES history. Shiller’s P/E uses trailing 10-years of inflation-adjusted earnings as reported by companies. Dividend yield is calculated as the next 12-months consensus dividend divided by most recent price. Price to book ratio is the price divided by book value per share.

Price to cash flow is price divided by NTM cash flow. EY minus Baa yield is the forward earnings yield (consensus analyst estimates of EPS over the next 12 months divided by price) minus the Moody’s Baa seasoned corporate bond yield. Std. dev. over-/under-valued is calculated using the average and standard deviation over 25 years for each measure.

COVID-19: Global confirmed cases and fatalities

Source: Johns Hopkins CSSE, J.P. Morgan Asset Management.

North Asia countries are China, Hong Kong, Japan, South Korea and Taiwan. Southeast Asia includes Singapore, India, Indonesia, Malaysia, Pakistan, Philippines, Thailand, Bangladesh, Sri Lanka and Vietnam. North America includes Canada and U.S. Europe includes eurozone countries, Bulgaria, Croatia, Czech Republic, Denmark, Hungary, Poland, Romania, Sweden, United Kingdom, and Switzerland. Latin America countries are Chile, Brazil, Mexico, Argentina, Colombia, Peru, Venezuela, Ecuador, Panama, Paraguay, Costa Rica, Bolivia, Uruguay, El Salvador, Honduras, Cuba, Dominican Republic, Haiti, and Nicaragua.

MSCI All Country World ex-U.S. and S&P 500 Indices
Dec. 1996 = 100, U.S. dollar, price return

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P 500</td>
<td>21.7x</td>
<td>15.4x</td>
<td>1.9%</td>
<td>2.1%</td>
</tr>
<tr>
<td>ACWI ex-U.S.</td>
<td>16.7x</td>
<td>13.5x</td>
<td>3.0%</td>
<td>3.1%</td>
</tr>
<tr>
<td>As % of U.S.</td>
<td>77%</td>
<td>88%</td>
<td>155%</td>
<td>152%</td>
</tr>
</tbody>
</table>

Source: FactSet, MSCI, Standard & Poor’s, J.P. Morgan Asset Management.
Forward price to earnings ratio is a bottom-up calculation based on the most recent index price, divided by consensus estimates for earnings in the next 12 months (NTM), and is provided by FactSet Market Aggregates. Returns are cumulative and based on price movement only, and do not include the reinvestment of dividends. Dividend yield is calculated as consensus estimates of dividends for the next 12 months, divided by most recent price, as provided by FactSet Market Aggregates. Past performance is not a reliable indicator of current and future results.

Asset class returns

<table>
<thead>
<tr>
<th>Year</th>
<th>EM Equity</th>
<th>REITs</th>
<th>EM Equity</th>
<th>Fixed Income</th>
<th>EM Equity</th>
<th>REITs</th>
<th>REITs</th>
<th>Small Cap</th>
<th>REITs</th>
<th>REITs</th>
<th>Small Cap</th>
<th>EM Equity</th>
<th>Cash</th>
<th>Large Cap</th>
<th>Large Cap</th>
<th>Fixed Income</th>
<th>REITs</th>
<th>Cash</th>
<th>REITs</th>
<th>EM Equity</th>
<th>Cash</th>
<th>Large Cap</th>
<th>Large Cap</th>
<th>Fixed Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>34.5%</td>
<td>35.1%</td>
<td>38.8%</td>
<td>5.2%</td>
<td>79.0%</td>
<td>27.9%</td>
<td>8.3%</td>
<td>19.7%</td>
<td>28.0%</td>
<td>2.8%</td>
<td>38.8%</td>
<td>28.0%</td>
<td>1.8%</td>
<td>31.5%</td>
<td>6.1%</td>
<td>1.8%</td>
<td>28.7%</td>
<td>0.5%</td>
<td>28.7%</td>
<td>8.3%</td>
<td>21.2%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>21.4%</td>
<td>32.6%</td>
<td>16.2%</td>
<td>1.8%</td>
<td>59.4%</td>
<td>26.9%</td>
<td>7.8%</td>
<td>19.6%</td>
<td>32.4%</td>
<td>13.7%</td>
<td>32.4%</td>
<td>13.7%</td>
<td>1.4%</td>
<td>27.9%</td>
<td>8.3%</td>
<td>1.4%</td>
<td>25.5%</td>
<td>-3.1%</td>
<td>25.5%</td>
<td>7.9%</td>
<td>18.6%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>14.0%</td>
<td>26.9%</td>
<td>11.6%</td>
<td>25.1%</td>
<td>18.2%</td>
<td>32.5%</td>
<td>3.1%</td>
<td>18.6%</td>
<td>23.3%</td>
<td>6.0%</td>
<td>6.0%</td>
<td>6.0%</td>
<td>0.5%</td>
<td>21.8%</td>
<td>7.8%</td>
<td>0.5%</td>
<td>22.7%</td>
<td>-4.5%</td>
<td>22.7%</td>
<td>7.8%</td>
<td>17.3%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>12.2%</td>
<td>18.4%</td>
<td>7.1%</td>
<td>16.8%</td>
<td>17.9%</td>
<td>21.2%</td>
<td>5.2%</td>
<td>0.0%</td>
<td>11.8%</td>
<td>14.6%</td>
<td>11.8%</td>
<td>14.6%</td>
<td>4.1%</td>
<td>28.0%</td>
<td>9.7%</td>
<td>4.1%</td>
<td>28.0%</td>
<td>-4.5%</td>
<td>28.0%</td>
<td>9.7%</td>
<td>17.3%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>8.1%</td>
<td>15.3%</td>
<td>7.0%</td>
<td>15.1%</td>
<td>16.3%</td>
<td>7.3%</td>
<td>4.9%</td>
<td>0.4%</td>
<td>11.6%</td>
<td>2.1%</td>
<td>11.6%</td>
<td>2.1%</td>
<td>0.4%</td>
<td>21.1%</td>
<td>7.8%</td>
<td>0.4%</td>
<td>21.1%</td>
<td>-4.5%</td>
<td>21.1%</td>
<td>7.8%</td>
<td>17.3%</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>4.9%</td>
<td>15.3%</td>
<td>5.5%</td>
<td>27.2%</td>
<td>14.8%</td>
<td>16.0%</td>
<td>0.7%</td>
<td>10.7%</td>
<td>8.6%</td>
<td>2.0%</td>
<td>8.6%</td>
<td>2.0%</td>
<td>10.7%</td>
<td>20.2%</td>
<td>6.6%</td>
<td>10.7%</td>
<td>20.2%</td>
<td>-4.5%</td>
<td>20.2%</td>
<td>6.6%</td>
<td>17.3%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>4.6%</td>
<td>13.7%</td>
<td>4.8%</td>
<td>13.3%</td>
<td>25.0%</td>
<td>13.3%</td>
<td>4.2%</td>
<td>12.2%</td>
<td>12.2%</td>
<td>0.0%</td>
<td>12.2%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>12.2%</td>
<td>14.0%</td>
<td>0.0%</td>
<td>12.2%</td>
<td>-4.5%</td>
<td>12.2%</td>
<td>14.0%</td>
<td>17.3%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>3.0%</td>
<td>4.3%</td>
<td>1.6%</td>
<td>18.9%</td>
<td>11.1%</td>
<td>8.2%</td>
<td>4.2%</td>
<td>-2.0%</td>
<td>4.2%</td>
<td>1.8%</td>
<td>4.2%</td>
<td>-2.0%</td>
<td>1.8%</td>
<td>4.2%</td>
<td>3.4%</td>
<td>1.8%</td>
<td>4.2%</td>
<td>-4.5%</td>
<td>4.2%</td>
<td>3.4%</td>
<td>17.3%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>2.4%</td>
<td>2.1%</td>
<td>15.7%</td>
<td>53.2%</td>
<td>18.2%</td>
<td>0.1%</td>
<td>0.1%</td>
<td>0.1%</td>
<td>-9.5%</td>
<td>-1.1%</td>
<td>0.1%</td>
<td>-9.5%</td>
<td>-1.1%</td>
<td>0.1%</td>
<td>13.4%</td>
<td>0.1%</td>
<td>-9.5%</td>
<td>-4.5%</td>
<td>-9.5%</td>
<td>13.4%</td>
<td>17.3%</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

Source: Barclays, Bloomberg, FactSet, MSCI, NAREIT, Russell, Standard & Poor’s, J.P. Morgan Asset Management.

All indexes are unmanaged and an individual cannot invest directly in an index. Index returns do not include fees or expenses.

Equities:
The Dow Jones Industrial Average is a price-weighted average of 30 actively traded blue-chip U.S. stocks.
The MSCI ACWI (All Country World Index) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets.
The MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada.
The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.
The MSCI Europe Index is a free float-adjusted market capitalization index that is designed to measure developed market equity performance in Europe.
The MSCI Pacific Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the Pacific region.
The Russell 1000 Index® measures the performance of the 1,000 largest companies in the Russell 3000.
The Russell 1000 Growth Index® measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.
The Russell 1000 Value Index® measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.
The Russell 2000 Index® measures the performance of the 2,000 smallest companies in the Russell 3000 Index.
The Russell 2000 Growth Index® measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values.
The Russell 3000 Index® measures the performance of the 3,000 largest U.S. companies based on total market capitalization.
The Russell Midcap Index® measures the performance of the 800 smallest companies in the Russell 1000 Index.
The Russell Midcap Growth Index® measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecasted growth values. The stocks are also members of the Russell 1000 Growth index.
The Russell Midcap Value Index® measures the performance of those Russell Midcap companies with lower price-to-book ratios and lower forecasted growth values. The stocks are also members of the Russell 1000 Value index.
The S&P 500 Index is widely regarded as the best single gauge of the U.S. equities market. The index includes a representative sample of 500 leading companies in leading industries of the U.S. economy. The S&P 500 Index focuses on the large-cap segment of the market; however, since it includes a significant portion of the total value of the market, it also represents the market.

Fixed income:
The Bloomberg Barclays 1-3 Month U.S. Treasury Bill Index includes all publicly issued zero-coupon US Treasury Bills that have a remaining maturity of less than 3 months and more than 1 month, are rated investment grade, and have $250 million or more of outstanding face value. In addition, the securities must be denominated in U.S. dollars and must be fixed rate and non-convertible.
The Bloomberg Barclays Global High Yield Index is a multi-currency flagship measure of the global high yield debt market. The index represents the union of the US High Yield, the Pan-European High Yield, and Emerging Markets (EM) Hard Currency High Yield Indices. The high yield and emerging markets sub-components are mutually exclusive. Until January 1, 2011, the index also included CMSH high yield securities.
The Bloomberg Barclays Municipal Index represents the tax-exempt bond market.
The Bloomberg Barclays US Dollar Floating Rate Note (FRN) Index provides a measure of the U.S. dollar floating rate bond market.
The Bloomberg Barclays US Corporate Investment Grade Index is an unmanaged index consisting of publicly issued US Corporate and specified foreign debentures and secured notes that are rated investment grade (Baa3/BBB or higher) by at least two ratings agencies, have at least one year to final maturity and have at least $250 million par amount outstanding. To qualify, bonds must be SEC-registered.
The Bloomberg Barclays US High Yield Index covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (sovereign rating of Baa1/BBB+ or higher) and below using the middle of Moody’s, S&P, and Fitch) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included.
The Bloomberg Barclays US Mortgage Backed Securities Index is an unmanaged index that measures the performance of investment grade fixed-rate mortgage backed pass-through securities of GNMA, FNMA and FHLMC.
The Bloomberg Barclays US TIPS Index consists of Inflation-Protection securities issued by the U.S. Treasury.
The J.P. Morgan Emerging Market Bond Global Index (EMBI) includes U.S. dollar denominated Brady bonds, Eurobonds, traded loans and local market debt instruments issued by sovereign and quasi-sovereign entities.
The J.P. Morgan Domestic High Yield Index is designed to mirror the investable universe of the U.S. dollar domestic high yield corporate debt market.
The J.P. Morgan Corporate Emerging Markets Bond Index Broad Diversified (CEMBI Broad Diversified) is an expansion of the J.P. Morgan Corporate Emerging Markets Bond Index (CEMBI). The CEMBI is a market capitalization weighted index consisting of U.S. dollar denominated emerging market corporate bonds.
The J.P. Morgan Emerging Markets Bond Index Global Diversified (EMBI Global Diversified) tracks total returns for U.S. dollar-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, Eurobonds. The index limits the exposure of some of the larger countries.
The J.P. Morgan GBI EM Global Diversified tracks the performance of local currency debt issued by emerging market governments, whose debt is accessible by most of the international investor base.
The U.S. Treasury Index is a component of the U.S. Government index.
Other asset classes:

The Alerian MLP Index is a composite of the 50 most prominent energy Master Limited Partnerships (MLPs) that provides investors with an unbiased, comprehensive benchmark for the asset class.

The Bloomberg Commodity Index and related sub-indices are composed of futures contracts on physical commodities and represents twenty two separate commodities traded on U.S. exchanges, with the exception of aluminum, nickel, and zinc.

The Cambridge Associates U.S. Global Buyout and Growth Index® is based on data compiled from 1,768 global (U.S. & ex – U.S.) buyout and growth equity funds, including fully liquidated partnerships, formed between 1986 and 2013.

The CST/Tremont Hedge Fund Index is compiled by Credit Suisse Tremont Index, LLC. It is an asset-weighted hedge fund index and includes only funds, as opposed to separate accounts. The Index uses the Credit Suisse/Tremont database, which tracks over 4500 funds, and consists only of funds with a minimum of US$50 million under management, a 12-month track record, and audited financial statements. It is calculated and rebalanced on a monthly basis, and shown net of all performance fees and expenses. It is the exclusive property of Credit Suisse Tremont Index, LLC.

The HFRI Monthly Indices (HFRI) are equally weighted performance indexes, utilized by numerous hedge fund managers as a benchmark for their own hedge funds. The HFRI are broken down into 4 main strategies, each with multiple sub strategies. All single-manager HFRI Index constituents are included in the HFRI Fund Weighted Composite, which accounts for over 2200 funds listed on the internal HFRI Database.

The NAREIT EQUITY RETIT Index is designed to provide the most comprehensive assessment of overall industry performance, and includes all tax-qualified real estate investment trusts (REITs) that are listed on the NYSE, the American Stock Exchange or the NASDAQ National Market List.

The NFI-ODCE, short for NCREIF Fund Index - Open End Diversified Core Equity, is an index of investment returns reporting on both a historical and current basis the results of 33 open-end commingled funds pursuing a core investment strategy, some of which have performance histories dating back to the 1970s. The NFI-ODCE Index is capitalization-weighted and is reported gross of fees. Measurement is time-weighted.

Definitions:

**Investing in alternative assets** involves higher risks than traditional investments and is suitable only for sophisticated investors. Alternative investments involve greater risks than traditional investments and should not be a complete investment program. They are not tax efficient and an investor should consult with his/her tax advisor prior to investing. Alternative investments have higher fees than traditional investments and they may also be highly leveraged and engage in speculative investment techniques, which can magnify the potential for investment loss or gain. The value of the investment may fall as well as rise and investors may get back less than they invested.

**Bonds** are subject to interest rate risks. Bond prices generally fall when interest rates rise.

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.

**Derivatives** may be riskier than other types of investments because they may be more sensitive to changes in economic or market conditions than other types of investments and could result in losses that significantly exceed the original investment. The use of derivatives may not be successful, resulting in investment losses, and the cost of such strategies may reduce investment returns.

**Distressed Restructuring Strategies** employ an investment process focused on corporate fixed income instruments, primarily on corporate credit instruments of companies trading at significant discounts to their value at issuance or obligor (par value) at maturity as a result of either formal bankruptcy proceeding or financial market perception of near term proceedings.

**Merger arbitrage strategies** which employ an investment process primarily focused on opportunities in equity and equity related instruments of companies which are currently engaged in a corporate transaction.

**Mid-capitalization** investing typically carries more risk than investing in well-established "blue-chip" companies. Historically, mid-cap companies' stock has experienced a greater degree of market volatility than the average stock.

**Price to book value** compares a stock's market value to its book value. **Price to cash flow** is a measure of the market's expectations of a firm's future financial health. **Price to dividends** is the ratio of the price of a share on a stock exchange to the dividends per share paid in the previous year, used as a measure of a company's potential as an investment.

**Real estate** investments may be subject to a higher degree of market risk because of concentration in a specific industry, sector or geographical sector. Real estate investments may be subject to risks including, but not limited to, declines in the value of real estate, risks related to general and economic conditions, changes in the value of the underlying property owned by the trust and defaults by borrower.

**Relative Value Strategies** maintain positions in which the investment thesis is predicated on realization of a valuation discrepancy in the relationship between multiple securities.

**Small-cap** investments typically carry more risk than investing in well-established "blue-chip" companies, since smaller companies generally have a higher risk of failure. Historically, smaller companies' stock has experienced a greater degree of market volatility than the average stock.

**Emerging markets** can be more volatile. The normal risks of investing in foreign countries are heightened when investing in emerging markets. In addition, the small size of securities markets and the low trading volume may lead to a lack of liquidity, which leads to increased volatility. Also, emerging markets may not provide adequate legal protection for private or foreign investment or private property.

**Equity market neutral strategies** employ sophisticated quantitative techniques of analyzing price data to ascertain information about future price movements and relationships between securities, select securities for purchase and sale. Equity Market Neutral Strategies typically maintain characteristic net equity market exposure no greater than 10% long or short.

**Global macro strategies** trade a broad range of strategies in which the investment process is predicated on movements in underlying economic variables and the impact these have on equity, fixed income, hard currency and commodity markets.

**International** investing involves a greater degree of risk and increased volatility. Changes in currency exchange rates and differences in accounting and taxation policies outside the U.S. can raise or lower returns. Some overseas markets may not be as politically and economically stable as the United States and other nations.

There is no guarantee that the use of long and short positions will succeed in limiting an investor's exposure to domestic stock market movements, capitalization, sector swings or other risk factors. Using long and short selling strategies may have higher portfolio turnover rates. Short selling involves certain risks, including additional costs associated with covering short positions and a possibility of unlimited loss on certain short positions.

**Investments in** alternative assets 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.
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