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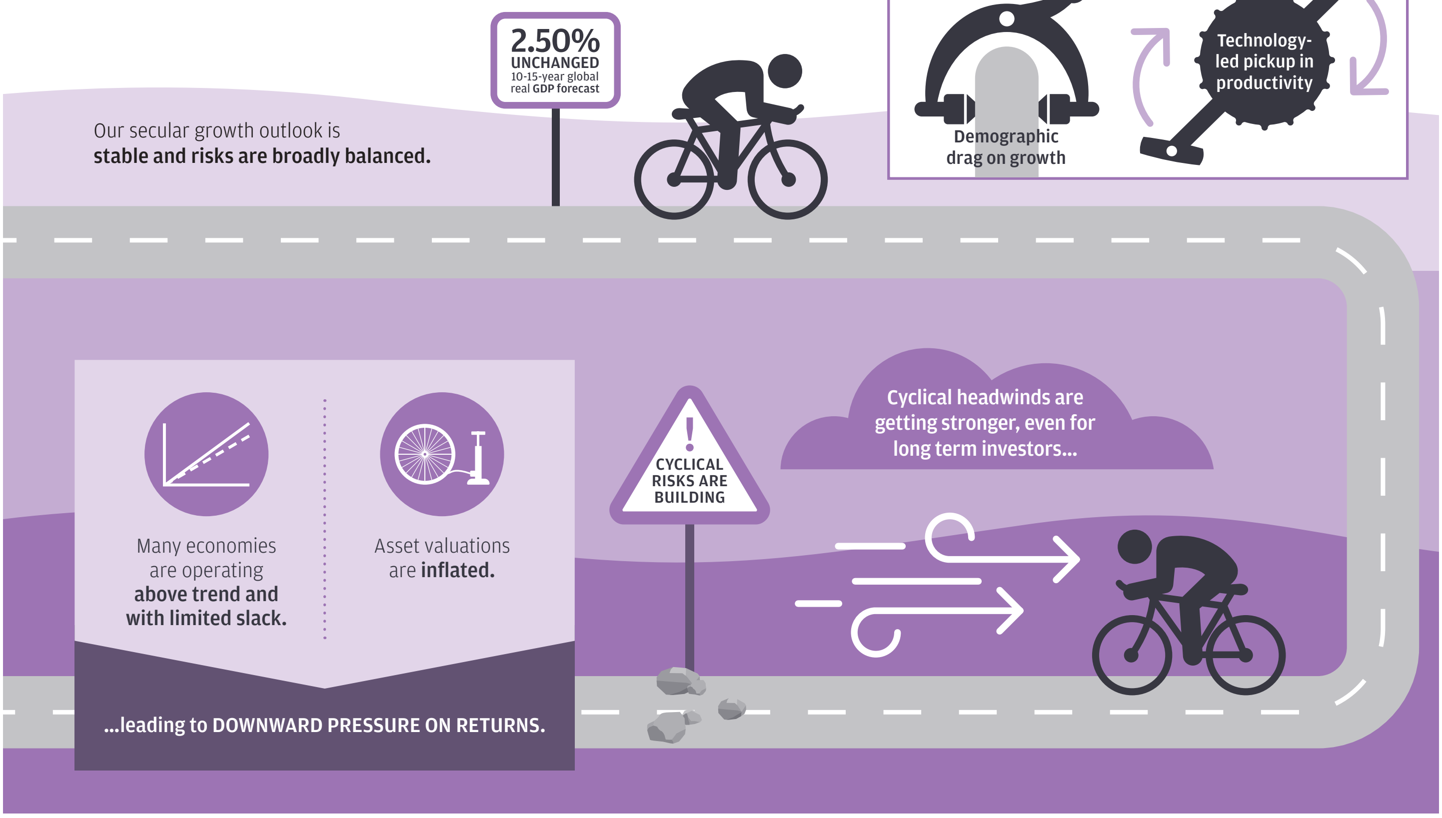
2019 LONG-TERM CAPITAL MARKET ASSUMPTIONS: AN OVERVIEW

1 WE REMAIN SECULAR OPTIMISTS BUT ARE ALSO CYCLICAL REALISTS.



2 CYCLICAL HEADWINDS ARE LEADING INVESTORS TO LOOK OUTSIDE CORE ASSETS TO FIND RETURNS.

2019 LTCMA FORECASTS THE RACE FOR RETURNS LEADERBOARD
EMERGING MARKET EQUITY
PRIVATE EQUITY
EMERGING MARKET SOVEREIGN DEBT
ALL COUNTRY WORLD EQUITY
U.S. HIGH YIELD BONDS
U.S. AGGREGATE BONDS
U.S. CASH

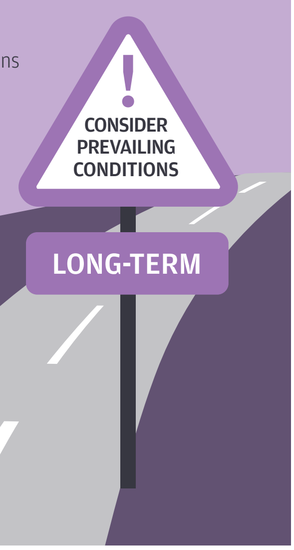
ALTERNATIVES are a bright spot, supported by fee reduction and improved alpha trends.

GLOBAL EQUITY returns are unchanged, but with some regional divergence.

BOND RETURN FORECASTS are a little higher this year, notably in the U.S.

Warning, traditional risk-return frameworks may not capture all aspects of risk, especially in late cycle (e.g. illiquidity risk).

EVEN LONG-TERM INVESTORS need to consider prevailing conditions when they invest, as the entry point affects returns.



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3 PORTFOLIOS MAY BE PROFOUNDLY AFFECTED

Expected return for
U.S. 60 / 40 STOCK / BOND PORTFOLIO IS UP

5.25% → 5.50%

DRIVEN BY HIGHER **BOND RETURNS**

PORTFOLIOS ALLOCATIONS ARE REFLECTING LATE-CYCLE DYNAMICS

2019 SHARPE RATIO U.S. STOCKS = **0.24**

2019 SHARPE RATIO U.S. GOVERNMENT BONDS = **0.42**

How investors manage this transition is **CRITICAL TO MAINTAINING PORTFOLIO PERFORMANCE**

END OF CURRENT CYCLE

RETURN TO EQUILIBRIUM

GLOBAL MARKETS

POLICY NORMALIZATION

As U.S. policy normalization is more advanced, U.S. bond Sharpe ratios exceed stocks (in other regions the opposite is true).

Sharpe ratios are valuable tools, but may not capture all risks.

MARKET CYCLE

4 MANAGING OUTSIDE THE MEAN WILL HELP LONG-TERM INVESTORS IN LATE CYCLE AND BEYOND

Late-cycle markets represent a discontinuity and investors need to **ADAPT THEIR APPROACH**.

TRADITIONAL INVESTMENT APPROACH

DISCONTINUITY IN THE MARKET – NEW TOOLS REQUIRED?

Average return expectations and normalized risk-return profiles

Anticipate a discontinuity and ensure all elements of risk are appropriately rewarded

Beyond this current cycle, **MANAGING OUTSIDE THE MEAN** will help investors prepare for potential changes to the nature of the cycle itself.

Focus on active investment around **SECULAR THEMES** such as technology.

Understand when norms of the past **NO LONGER APPLY** to the future.

DISLOCATIONS

Consider the most likely dislocations today to become the **SECULAR THEMES OF TOMORROW**.

Including:
- Taming of the business cycle
- Rising levels of public debt
- Changing roles of public and private markets

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NEXT STEPS

For more information, contact your J.P. Morgan representative.

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