Quarterly Commentary

New York's 529 Advisor-Guided College Savings Program®

Oversight by J.P. Morgan's Multi-Asset Solutions Group

- Dedicated team of **more than 100 investment professionals**[1]
- More than **$237 billion in global assets** under management[1]
- Builds 529 Plan portfolios, selects investments and **makes adjustments as market conditions change over time**

Performance commentary

Portfolios across the Plan delivered positive returns as stock and bond markets rallied in the first quarter. However, our slightly defensive positioning resulted in some underperformance versus benchmarks. Because stocks fared much better than bonds, portfolios early in the glide path tended to miss out on a bit more of the upside.

▲ Performance contributors

Dynamic allocations to U.S. core bonds and short-term bonds provided portfolio ballast in a hectic market and generated positive excess returns.

▼ Performance detractors

Broad underweights to stocks, particularly outside the U.S.; underweight to high yield bonds

Key macro views

- **Our outlook and portfolio positioning remain cautious.** Recent banking sector stresses imply tighter lending standards and higher, more immediate recession risks. It's looking very likely that 2023 will bring disappointing growth and ongoing adjustment.
- **Growth risks appear greatest in the U.S.** In Europe, lower energy prices and fiscal tailwinds suggest some resilience, while a reopened Chinese economy may benefit from pent-up demand and excess savings. Barring a deep U.S. recession, the old adage of "America sneezes and the rest of the world catches a cold" may not apply this time.
- **Our highest-conviction call is to overweight duration,** given weak growth and downside risks. With stocks unloved for more than a year and sentiment still pessimistic, we don't expect to further cut back our modest equity underweight.
- **We are neutral on credit,** favoring investment-grade bonds over high yield. We expect the dollar to weaken and see upside for the yen and euro. Yields along the front end of the curve are attractive, but cash looks most useful as dry powder for when market opportunities arise.

Contributors

Gary Herbert, CFA
Co-CIO, Multi-Asset Solutions U.S.

Morgan Moriarty, CFA
Portfolio Manager

Navdeep Saini
Portfolio Manager

Douglas Polak, CFA, CAIA
Investment Specialist

[1] As of December 31, 2022.

NOT FDIC INSURED | NO BANK, STATE OR FEDERAL GUARANTEE | MAY LOSE VALUE

Market commentary

Stronger **global growth** was a pleasant surprise during the quarter, perhaps best illustrated by the rebound in U.S. and European composite Purchasing Managers' Index (PMI) business surveys. Lower energy/oil prices and China's economic reopening likely contributed to improving business sentiment. Against this backdrop, developed market stocks returned nearly 8%.

The **geopolitical environment** remains challenging, with no end in sight for the war in Ukraine and renewed U.S.-China tensions.

Headline **inflation** continued to ease over the quarter on the back of falling energy prices. However, core inflation generally remained stickier, forcing global central banks to further tighten monetary policy. Given cooling inflation data and turmoil surrounding Silicon Valley Bank, the Federal Open Market Committee voted unanimously to raise the federal funds rate by just 0.25% in March, to a target range of 4.75%-5%.

Silicon Valley Bank marked the second largest bank failure in American history, leading to a major selloff in U.S. and European financial sectors. Despite the hit, the S&P 500 Index rose in March, buoyed by strong returns from growth stocks that benefited from falling bond yields. The Index gained 7.5% over the quarter, while U.S. Treasuries were up 3%.

Asset allocation and trade commentary

As 2023 began, we were positioned for many of the same themes that defined 2022 – weaker equities, higher yields and few places to hide from market tumult. Portfolio underweights included U.S. core and high yield bonds as well as stocks in developed international countries. We balanced those positions with an overweight to short-term bonds offering attractive yields in the midst of Federal Reserve tightening.

As the quarter unfolded, we made the following adjustments:

- Reduced and ultimately ended underweights to non-U.S. stocks and high yield bonds
- Shifted to a neutral equity position, taking assets from U.S. large caps to fund an emerging markets overweight. We felt that China's reopening, coupled with earlier and more aggressive central bank tightening across developing countries, had set the stage for a period of outperformance.
- Overweighted developed international stocks at the expense of U.S. large caps toward mid-quarter
- Compressed some of our relative value trades and leaned back into core bonds as stresses in the global banking sector began to emerge
- Closed our position in shorter-term bonds and initiated an overweight to core bonds
- Ended our overweight to international stocks while maintaining an underweight to U.S. large caps

As a result, we ended the quarter with a U.S. equity underweight spread between large caps as well as value strategies overexposed to financial firms. We restarted an underweight to U.S. high yield while continuing to overweight core bonds. We believe that, as economic conditions worsen, high yield spreads should widen while core bonds resume their traditional role as a safe haven in uncertain times.

Outlook

Asset allocation tilts reflect our cautious stance as well as asymmetric risks – specifically, the impact of carry in an inverted yield curve and regional differences in growth and monetary policy. We are overweighting duration with high conviction, particularly in the U.S., with lower conviction in our cash overweight. Our modest equity underweight reflects falling earnings and still-elevated valuations on one hand, with already-low sentiment and already-light portfolio positioning on the other hand.

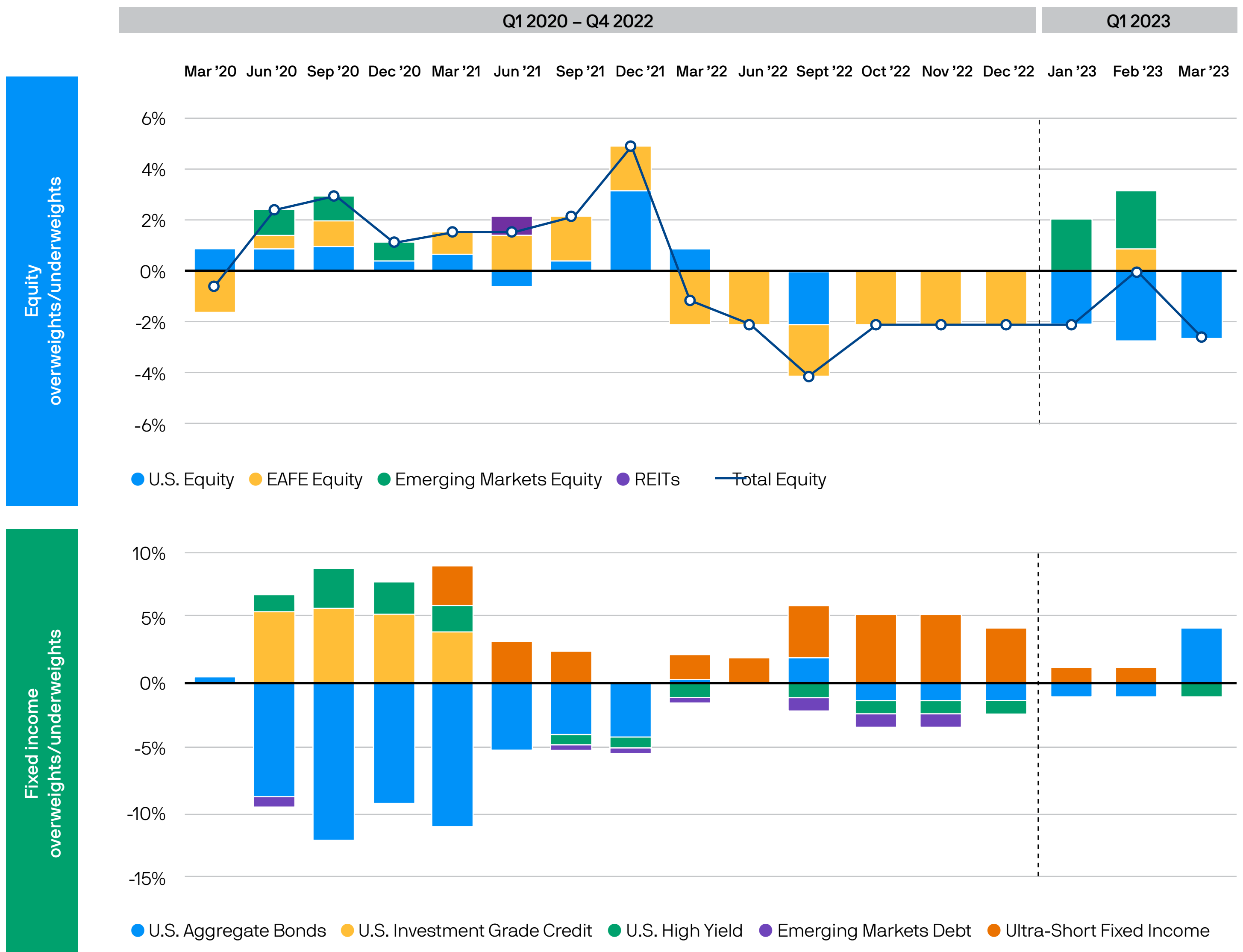
The end of a Fed hiking cycle often coincides with improved returns from U.S. Treasuries. Today's inverted curve and high cash yields may create carry headwinds for long-duration positions. However, if the growth outlook deteriorates, bond performance would likely provide welcome ballast to portfolios across a range of scenarios. Within bond markets, we favor the U.S. and U.K.

In equities, risks are skewed to the downside across our economic scenarios. Still, the lack of investor exuberance after the 2022 slump offers support in all but the bleakest growth outcomes. Earnings look set to decline further, making stocks vulnerable to bouts of multiple de-rating as market stresses increase. Currently, we favor higher-quality and more defensive sectors generating cash flow. We expect U.S. large caps to outperform small caps and see resilience in European and U.K. stocks. In emerging markets equities, a softer dollar lends some support, but the outlook in China is ultimately pivotal.

Credit spreads have widened in recent weeks, approaching levels that historically suggest strong returns, but we remain concerned that sentiment could weaken further as defaults increase. We are neutral on credit, with a preference for shorter maturities (less than five years) and higher-quality bonds (A-rated or better) from issuers in more defensive sectors. Elsewhere, we note some relative value opportunities in parts of local currency emerging markets debt.

Overall, as investors shift their focus from inflation fears to growth concerns, stock-bond correlations will likely decline. While this would aid portfolio diversification, we remain mindful of the increasing economic risks. We're emphasizing our duration overweight rather than equity underweight because we expect bonds to perform well in most plausible scenarios, and more significant equity trimming isn't warranted at this point.

Evolution of equity and fixed income positions

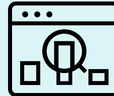


Source: J.P. Morgan Asset Management, as of 3/31/2023. *Shown for illustrative purposes only.* ***Past performance is no guarantee of future results.*** The manager seeks to achieve the stated objectives. There can be no guarantee the objectives will be met. +/- represents overweight/underweight relative to strategic asset allocation targets set in August 2019.

For more information

To learn more about college investing or New York's 529 Advisor-Guided College Savings Program:

- Consult your financial professional
- Visit www.ny529advisor.com
- Call 1-800-774-2108 (M-F, 8 a.m. – 6 p.m. ET)



Click here to learn more about Plan portfolios and performance.

For more information about New York's 529 Advisor-Guided College Savings Program, you may contact your financial professional or obtain an Advisor-Guided Plan Disclosure Booklet and Tuition Savings Agreement at www.ny529advisor.com or by calling 1-800-774-2108. This document includes investment objectives, risks, charges, expenses, and other information. You should read and consider it carefully before investing.

Before you invest, consider whether your or the Beneficiary's home state offers any state tax or other state benefits such as financial aid, scholarship funds, and protection from creditors that are only available for investments in that state's qualified tuition program.

The Comptroller of the State of New York and the New York State Higher Education Services Corporation are the Program Administrators and are responsible for implementing and administering New York's 529 Advisor-Guided College Savings Program (the "Advisor-Guided Plan"). Ascensus Broker Dealer Services, LLC serves as Program Manager for the Advisor-Guided Plan. Ascensus Broker Dealer Services, LLC and its affiliates have overall responsibility for the day-to-day operations of the Advisor-Guided Plan, including recordkeeping and administrative services. J.P. Morgan Investment Management Inc. serves as the Investment Manager. J.P. Morgan Asset Management is the marketing name for the asset management business of JPMorgan Chase & Co. JPMorgan Distribution Services, Inc. markets and distributes the Advisor-Guided Plan. JPMorgan Distribution Services, Inc. is a member of FINRA.

No guarantee: None of the State of New York, its agencies, the Federal Deposit Insurance Corporation, J.P. Morgan Investment Management Inc., Ascensus Broker Dealer Services, LLC, JPMorgan Distribution Services, Inc., nor any of their applicable affiliates insures accounts or guarantees the principal deposited therein or any investment returns on any account or investment portfolio.

New York's 529 College Savings Program currently includes two separate 529 plans. The Advisor-Guided Plan is sold exclusively through financial advisory firms who have entered into Advisor-Guided Plan selling agreements with JPMorgan Distribution Services, Inc. You may also participate in the *Direct Plan*, which is sold directly by the Program and offers lower fees. However, the investment options available under the Advisor-Guided Plan are not available under the *Direct Plan*. The fees and expenses of the Advisor-Guided Plan include compensation to the financial advisory firm. Be sure to understand the options available before making an investment decision.

The Advisor-Guided Plan is offered through financial intermediaries, including broker-dealers, investment advisers and firms that are registered as both broker dealers and investment advisers and their respective investment professionals. Broker-dealers and investment advisers are subject to different standards under federal and state law when providing investment advice and recommendations about securities. Please ask the financial professional with whom you are working about the role and capacity in which their financial intermediary acts when providing services to you or if you have any questions in this regard.

The Program Administrators, the Program Manager and JPMorgan Distribution Services, Inc., and their respective affiliates do not provide legal or tax advice. This information is provided for general educational purposes only. This is not to be considered legal or tax advice. Investors should consult with their legal or tax advisors for personalized assistance, including information regarding any specific state law requirements.

If you are a person with a disability and need additional support in viewing the material, please call us at 1-800-774-2108 (M-F, 8 a.m. – 6 p.m. ET) for assistance.

April 2023 | 529-QC

09el212309192956