Market Insights

# 2027 Year-Ahead Investment Outlook

## Finding Balance in a Moderating Economic Environment



### In brief:

- We expect 2027 to be a year of economic moderation as less fiscal stimulus and a deceleration in the AI buildout constrain growth and lower tariffs, lower energy prices, mild wage increases and strong productivity gains all lead to cooler inflation.
- After one or two further rate hikes, we expect the Fed to go on hold. Falling inflation and continued economic growth should prevent a sharp rise in Treasury yields or credit spreads, and bonds should continue to provide reasonable income even after inflation.
- AI should continue to drive equity returns and earnings in 2027. However, risks around AI funding and regulation point to the need to diversify across AI innovators, enablers and adopters, as well as sectors less impacted by the AI boom.
- Technology will remain a key driver of foreign stocks in 2027, but less exclusively so than in 2026 and with more volatility, suggesting investors should take an active approach toward international equity investing, including adding European and Japanese stocks that are less tech-heavy than EM indices.
- Alternatives can play an important role in stabilizing portfolios given less potential for bond market gains to offset stock market losses. That being said, investors should recognize the exposure of many alternative assets to the AI theme dominating public markets and diversify among alternatives accordingly.
- Following super-strong U.S. equity performance in recent years, many investors may find that they have more exposure to mega-cap tech stocks than they intended, pointing to the need for thoughtful and tax-efficient rebalancing.

J.P.Morgan
ASSET MANAGEMENT

# Executive summary: Finding balance in a moderating economic environment

After a tumultuous 2026, 2027 should see an economy of moderation. Economic growth should slow, reflecting less fiscal stimulus, a deceleration in still-growing AI-related capital spending and weak demographics impacting both labor supply and consumer demand. Job growth should remain weak, even as the unemployment rate drifts down. And inflation should slide, assuming that a wind-down of the war with Iran allows energy prices to fall and tariff rates to stay flat or decline, as Washington focuses on attacking the affordability problem.

In this environment, the Federal Reserve could feel comfortable in raising interest rates just once more in December, in a more dovish stance than is currently priced in futures markets. This could leave long-term yields range-bound near current levels with fixed income providing better yields than for most of the period since the Great Financial Crisis. That being said, heavy borrowing from both sovereign issuers and corporations financing the AI buildout could limit any rally in bonds if the stock market falters.

The outlook for corporate earnings remains positive, reflecting strong capital spending and corporate success in maintaining margins. However, both U.S. and EM equity indices are heavily exposed to the AI boom, underscoring the need for active management and broader international exposure.

Alternatives can also continue to play an important role in stabilizing portfolios given less potential for bond market gains to offset stock market losses. That being said, investors should recognize the exposure of many alternative assets to the AI theme dominating public markets and diversify among alternatives accordingly.

Finally, investors should recognize that the strong gains in U.S. equity markets over the past four years may have left them overexposed to U.S. stocks in general and mega-cap tech stocks in particular. While our baseline forecast is one of moderation, shocks, by definition, cannot be forecast, and the best protection against shocks should come from thoughtful and tax-efficient rebalancing.

# A path of moderation

If 2026 was the year of boom and doom, 2027, at least from an economic perspective, should be a year of moderation.

Economic growth should continue to reflect a very divergent and K-shaped economy.

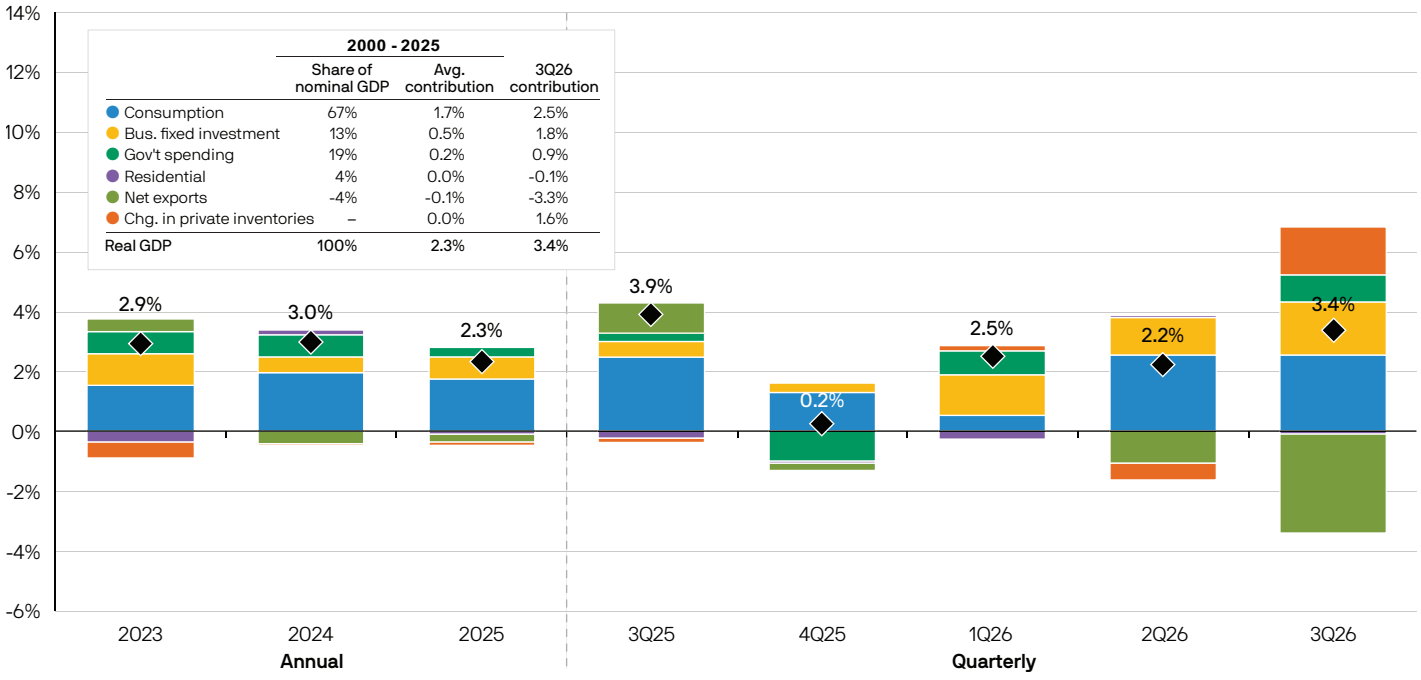
Capital spending on equipment, intellectual property and all the infrastructure associated with the AI buildout will continue to be very strong, although it could grow more slowly than in 2026 as it runs into potential hurdles of local opposition to data centers and, potentially, some regulatory pushback. Higher interest rates and the reality that hyperscalers are now having to tap capital markets in a big way to fund the buildout could also slow the pace of expansion. Despite this, a capital spending boom and strong consumer spending among the richest households should help drive the economy forward.

On the negative side, weak job growth, wage growth and demographic growth should all inhibit consumer spending by lower- and middle-income households. Political gridlock after the midterm elections will likely rule out any further fiscal stimulus or tax breaks, and, without this, we expect overall real consumer spending growth that is closer to 1% than 2%.

Other areas of weakness include housing, which is being impacted by high mortgage rates, at least by recent standards, and very weak demographics. A surge in imports, mainly due to the AI buildout, will also continue to drag on growth, while state and local government spending will be subdued due to very slow growth in the tax base for sales taxes, property taxes and personal income taxes. Putting it all together, we expect real GDP to climb by 1.6% over the next four quarters compared to 2.5% in the year ending in the fourth quarter of 2026.

### Contributors to real GDP growth

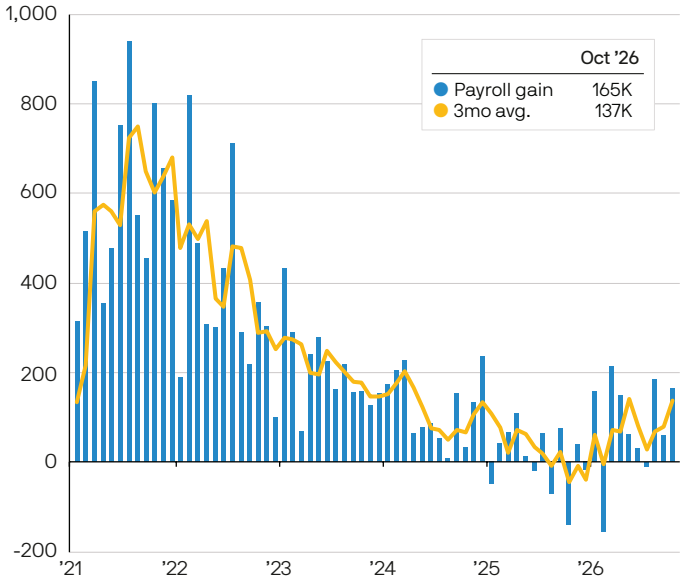
Exhibit 1: Seasonally adjusted annualized rate




Source: BEA, FactSet, J.P. Morgan Asset Management.
*Guide to the Markets – U.S.* Data are as of November 10, 2026.

### Nonfarm payroll gains

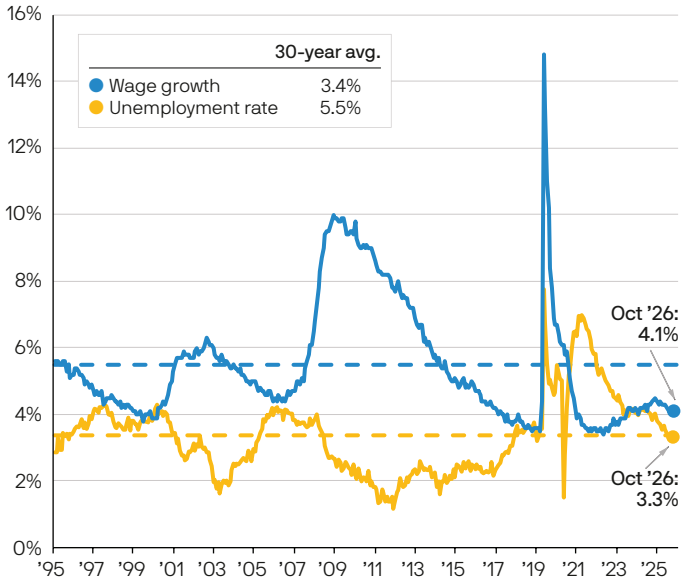
**Exhibit 2A: Month-over-month change and 3-month moving average, thousands, SA**




Source: BLS, FactSet, J.P. Morgan Asset Management.
Private production and non-supervisory jobs represent just over 80% of total private nonfarm jobs.
*Guide to the Markets – U.S.* Data are as of November 10, 2026.

### Civilian unemployment rate and annual wage growth

**Exhibit 2B: Private production and non-supervisory workers, seasonally adjusted, %**




Source: BLS, FactSet, J.P. Morgan Asset Management.
*Guide to the Markets – U.S.* Data are as of November 10, 2026.

On jobs, we expect payroll employment growth to remain lackluster despite moderate economic growth. Looking at the relationship between real GDP growth and job gains over the past 40 years, the 2.3% real GDP growth seen between the third quarter of 2024 and the third quarter of 2026 should have led to a monthly gain of roughly 155,000 net new jobs over the past two years. However, monthly job growth has averaged just 48,000 since September 2024. We believe this pattern mainly reflects a lack of available workers due to a sharp reversal of immigration policy over the past two years, and we expect this pattern of roughly 50,000 net new jobs per month to continue in 2027. However, because of a lack of labor supply, we expect the unemployment rate to drift down to below 4% over the course of the next year.

Despite a tight labor market, real year-over-year wage growth has been negative for seven consecutive months, and we expect wage gains to remain meager in 2027.

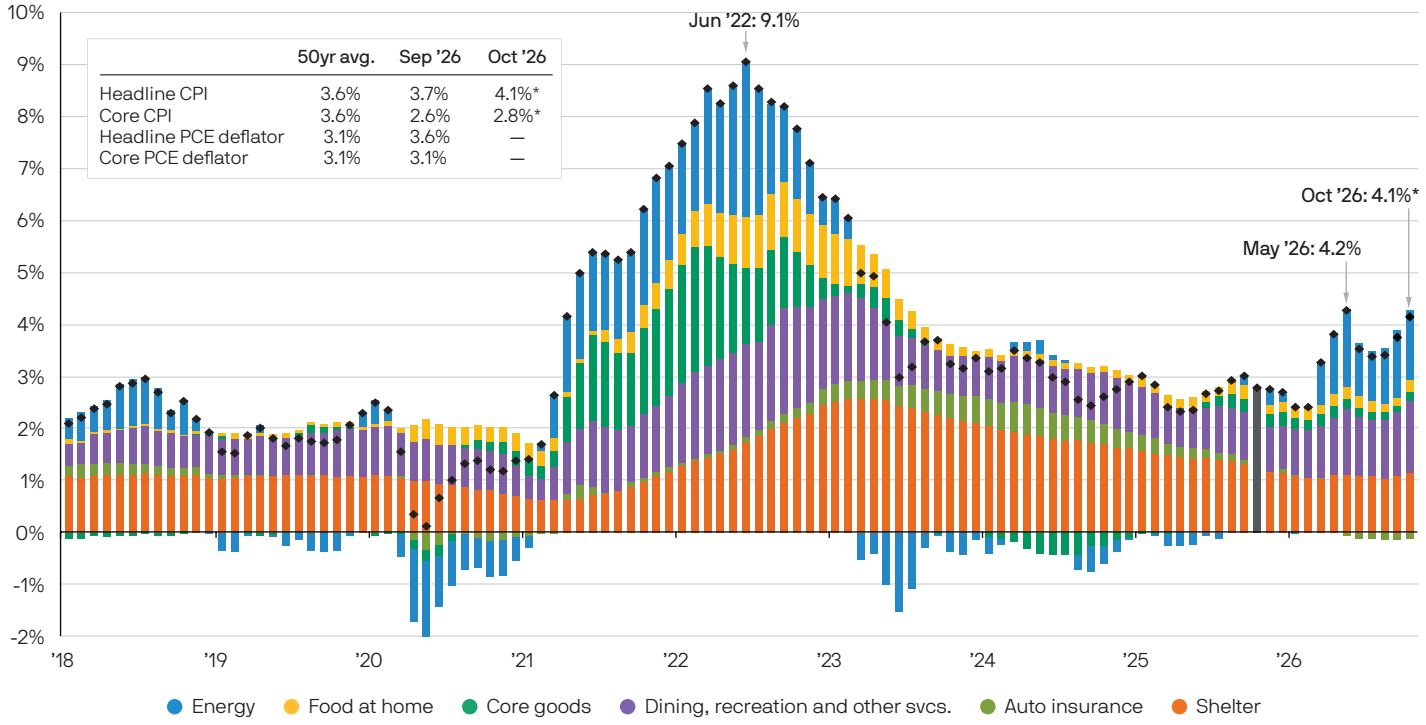
We also expect to see a pattern of moderation in inflation.

Headline CPI inflation climbed to over 4% year-over-year in October, almost matching its spring peak of 4.1% in May. The inflation surge has largely been caused by higher energy prices due to the Iran war, the feedthrough effects of higher tariffs over the past two years, fiscal stimulus in the form of bumper income tax refunds, still sticky housing inflation as measured by the Bureau of Labor Statistics and the impact of the AI buildout on consumer electronics prices.

In 2027, we expect many of these forces to fade. In particular, we believe some compromise is likely in the Middle East to allow for a resumption of more normal flows through the Strait of Hormuz. Divided government should allow for a further whittling away of tariff rates while dimming the possibility of further fiscal stimulus. In addition, a steady rise in the rental vacancy rate should subdue rents on new leases, allowing for a gradual decline in measured inflation. Given this, even if AI spending remains robust, we expect headline consumption deflator inflation to drift down from 3.7% year-over-year in the fourth quarter of 2026 to 2.3% by the fourth quarter of 2027.

### Contributors to headline CPI inflation

Exhibit 3: Contribution to year-over-year % change in CPI, non-seasonally adjusted




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

Contributions mirror the BLS methodology on Table 7 of the CPI report. Values may not sum to headline CPI figures due to rounding and underlying calculations. "Shelter" includes owners' equivalent rent, rent of primary residence and tenants' and household insurance. "Food at home" includes alcoholic beverages. "Other services" includes services not shown separately elsewhere in the chart, including health care services, education and communication and other personal services. Headline and core PCE deflator inflation shown are based on seasonally adjusted data due to data availability. Official October 2025 data are unavailable due to the government shutdown. *October 2025 and 2026 figures shown are J.P. Morgan Asset Management estimates.

*Guide to the Markets – U.S.* Data are as of November 10, 2026.

# Fixed income: Income and resilience in a range bound market

## FOMC: Swapping hawks for doves

The Federal Reserve will look different next year. As usual, four Reserve Bank presidents will rotate onto the 12-member voting Federal Open Market Committee (FOMC), a shift that could matter as policy evolves. Since Warsh became Chair, three of the four rotating presidents have dissented in favor of raising rates over the past three meetings. In 2027, however, three hawks appear likely to give way to three more patient doves,[1] reducing the risks of aggressive tightening.

We expect a rate hike in December 2026, with upside risk of another hike in March 2027 if inflation proves more persistent. Thereafter, we expect the Fed to pause for an extended period as it assesses the effect of tighter policy on growth and prices.

Moreover, a new era of forward silence is beginning to take shape at the Fed. Chair Warsh has recently outlined a schedule under which seven of the eight meetings in 2027, and six of eight in 2028, would be "live" meetings to consider policy changes. As a result, there will generally be longer stretches between policy decisions, placing greater weight on each meeting. Altogether, a more patient Fed and fewer policy signals call for humility in forecasting policy rates.

[1] Neil Kashkari (Minneapolis), Beth Hammack (Cleveland) and Lorie Logan (Dallas) all dissented in favor of raising rates at the July 2026 meeting. Hammack dissented in favor of raising rates at the October meeting along with Governor Lisa Cook. Goolsbee (Chicago), Daly (San Francisco), Barkin (Richmond) and Venable (Atlanta) will rotate onto the committee next year and are broadly viewed as favoring a more patient approach.

## Stay in your lane, long rates

We expect the U.S. 10-year Treasury yield to spend much of 2027 in a 4.75%–5.25% range. Normalizing growth, gradually cooling inflation and a patient Fed should keep yields from rising sharply, barring another external inflation shock.

A substantial decline also seems unlikely outside a recession or severe market correction, neither of which is our base case. Elevated fiscal deficits and debt-service costs will sustain Treasury financing needs, while government and corporate issuance compete for investor capital. A higher neutral federal funds rate also makes a return to the old low-yield regime unlikely. We foresee more than $2 trillion of net privately held Treasury borrowing in 2027. While we expect the Treasury to rely on bills and shorter-dated issuance rather than abruptly increasing long-bond supply, it does not erase the effects of persistent deficits and rising debt levels.

## Tight spreads amid climbing supply

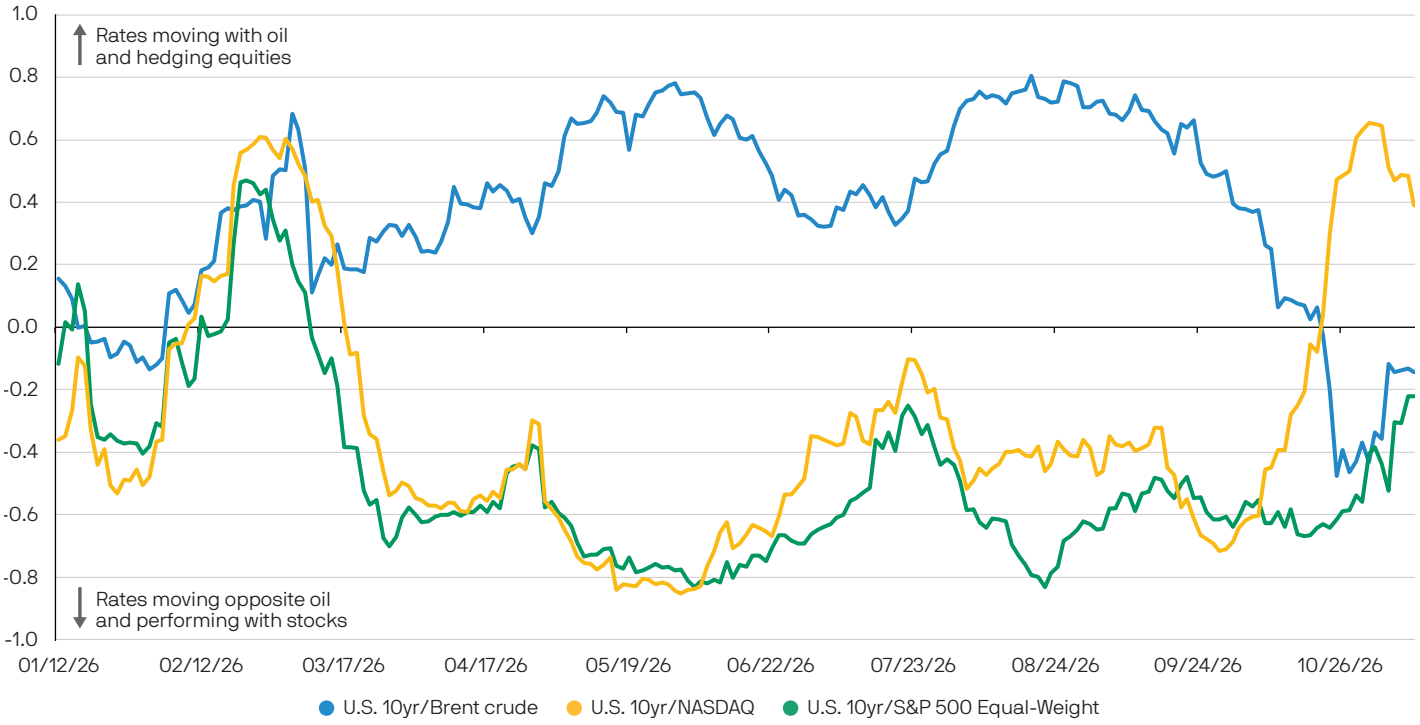
Over the past two years, credit spreads have spent 80% of the time in the top decile of historical tights,[2] while all-in yields have spent 70% above 5%. Attractive yields have compensated for tight spreads, and we expect that dynamic to continue, though with wider dispersion under the surface. Strong expected corporate earnings should contain defaults, leaving supply as a key driver of sector spreads and relative performance.

We expect roughly $265 billion of hyperscaler[3] USD-investment-grade issuance in 2027, up from $225 billion this year to finance AI infrastructure. This volume has tested investors' appetite for duration and has caused technology spreads to widen, but more issuance does not mean a broad deterioration in credit.

If earnings growth remains strong as we expect, issuers should be able to service their debt, and

**Treasury yields are decoupling from oil as bonds hedge AI-driven equity volatility**

Exhibit 4: Rolling 30-day correlation between the nominal U.S. 10-year Treasury yield, Brent crude and stocks




Source: FactSet, J.P. Morgan Asset Management. Data are as of November 10, 2026.

[2] Based on 25 years of daily OAS data for the Bloomberg US Corporate Index.
[3] Hyperscalers are Amazon, Alphabet, Microsoft, Oracle, Meta and SpaceX.

investors should continue to find value in all-in yields. We expect spreads to widen modestly but remain tight historically. Security selection will be key as the market distinguishes well-funded AI investment from borrowing reliant on overly optimistic future returns.

### Investment implications

Fed tightening and supply-side inflation shocks have challenged fixed income's role as a portfolio diversifier. However, it's worth emphasizing that yields remain attractive, and encouragingly, bonds have recently proven they can still be an effective hedge.

As shown in **Exhibit 4**, Treasury yields tracked oil for most of 2026, rather than moving against equities. More recently, yields have become strongly correlated with the NASDAQ, i.e., when the AI trade weakens, Treasuries have benefited. High-quality duration can therefore still provide portfolio ballast in 2027, particularly amid sensitivity to hyperscaler capital spending, even if rates remain elevated and rangebound.

## Equities: Strong growth amid disruption

U.S. equities enter 2027 with a strong fundamental backdrop and the potential for a more favorable market environment. Corporate earnings have been exceptional in 2026, with expectations for S&P 500 earnings growth more than doubling from 15% at the start of the year to 33% today—an unusually strong pace for a non-recovery year. Yet despite these upgrades, the S&P 500 has gained just 10.9% year-to-date, as valuation multiples have contracted 17.4%.

Looking ahead, consensus expects earnings growth of 16% in 2027 and 17% in 2028. If companies can deliver, earnings should remain a powerful tailwind for equities. Easing uncertainty around interest rates, geopolitics and returns on AI investment could also support a recovery in multiples. Meanwhile, broadening earnings growth could provide a more balanced foundation for markets, as strength across sectors helps offset intermittent tech weakness.

### Can the AI boom continue to deliver?

The AI buildout should remain a powerful earnings engine, although its rewards will be uneven. Consensus expects hyperscaler capital spending growth to slow from 93% in 2026 to 44% in 2027, but upward revisions appear likely. Strong cloud demand, expanding AI workloads and persistent power and computing bottlenecks should benefit semiconductor manufacturers and suppliers of electrical equipment, networking and other critical infrastructure. These businesses remain among the clearest beneficiaries of the AI boom.

For the hyperscalers funding the buildout, the economics are more complicated. Strong cloud growth and contracted backlogs demonstrate robust demand, but investment is absorbing free cash flow and increasing reliance on costly external financing. AI also threatens some of the profitable legacy businesses helping fund the buildout. Investors must weigh these pressures against a multiyear opportunity whose full benefits will take time to materialize.

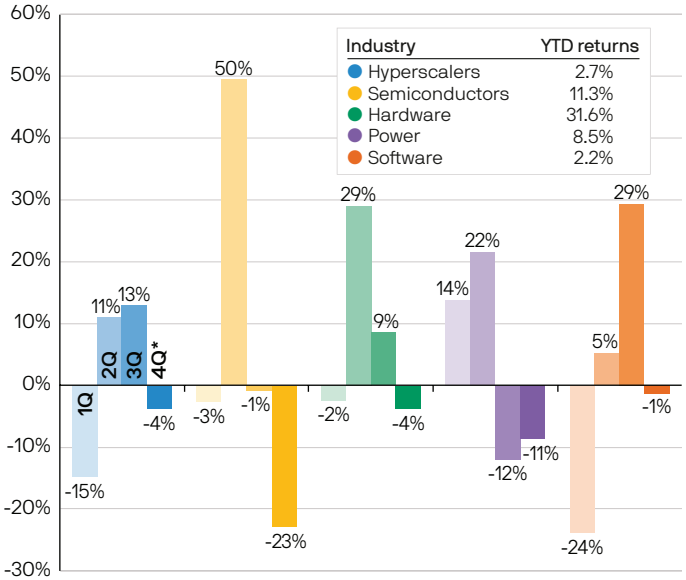
What could restore confidence in the AI trade? Primarily, evidence that spending is translating into durable value:

- **Revenue conversion:** Cloud growth, AI workloads and contracted backlogs translating into realized, recurring revenues.
- **Improving economics:** AI revenues growing faster than inference, power, networking and depreciation costs, supporting margins.
- **Capital discipline:** Attractive incremental returns, sustainable financing and a path toward stronger free cash flow.

Progress here, alongside easing financing pressures and infrastructure bottlenecks, could support a recovery in valuations. Conversely, intensifying competition, disruption to legacy businesses or monetization lagging rising costs could prolong market skepticism, even amid robust demand.

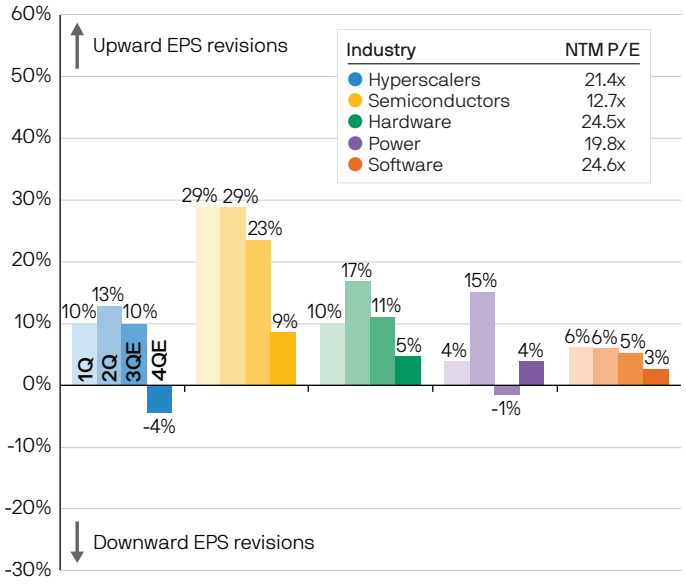
### AI-related industry performance

Exhibit 5A: 2026, quarterly price return




### AI-related industry earnings expectations

Exhibit 5B: 2026 qtr-over-qtr change in next 12 mon. EPS proj.




Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management. Q4* price return is quarter-to-date. Hyperscalers = market-weighted composite of AMZN, GOOGL/GOOG, META, MSFT and ORCL. Other categories use GICS industries. Hyperscalers also appear in their applicable industry categories. Past performance is not a guarantee of future results. Data are as of November 10, 2026.

## Who will benefit as AI adoption spreads?

Alongside the buildout, corporate AI adoption is accelerating but remains early. Nearly two-thirds of large companies are building or deploying AI agents, yet barely one in 10 has scaled them across the business.[4] On Ramp's platform, the median AI-paying firm spends just $16 per employee monthly, versus over $800 for the top 10%. As useful and reliable applications emerge, spending should broaden across industries and functions.

That creates opportunities for adoption enablers: enterprise software, cybersecurity, data providers and consultants integrating AI into workflows. Early leaders may also be distinguished by proprietary data, domain or regulatory expertise and network effects. For most end users, however, productivity gains will likely take time to identify and remain difficult to measure.

AI will also be disruptive. The so-called "SaaSpocalypse" earlier this year showed how quickly markets can reassess earnings prospects and valuations when AI threatens established business models. Yet disruption also creates opportunities for incumbents to reinvent themselves and for successful adopters to gain a competitive edge.[5] Over time, AI should support a more productive and profitable corporate America, but the path will be bumpy.

Several sectors also have less AI-centric earnings catalysts: health care from drug innovation and recovering fundamentals, financials from capital market activity and lending and select industrials from aerospace, defense and manufacturing investment. These additional tailwinds could help support markets when technology leadership falters.

Overall, less demanding valuations and a strong earnings backdrop leave us constructive on equities in 2027. But rapid technological change will challenge investors' assumptions about future earnings and appropriate valuations, driving market dispersion and bouts of volatility.

[4] KPMG AI Quarterly Pulse Survey, Q3 2026.

[5] The "SaaSpocalypse" refers to the early-2026 software selloff amid fears of disruption from agentic AI. Software stocks subsequently rebounded in 3Q as investors recognized opportunities for incumbents to enable AI adoption and agent orchestration.

# International equities: Giving credit where credit is due

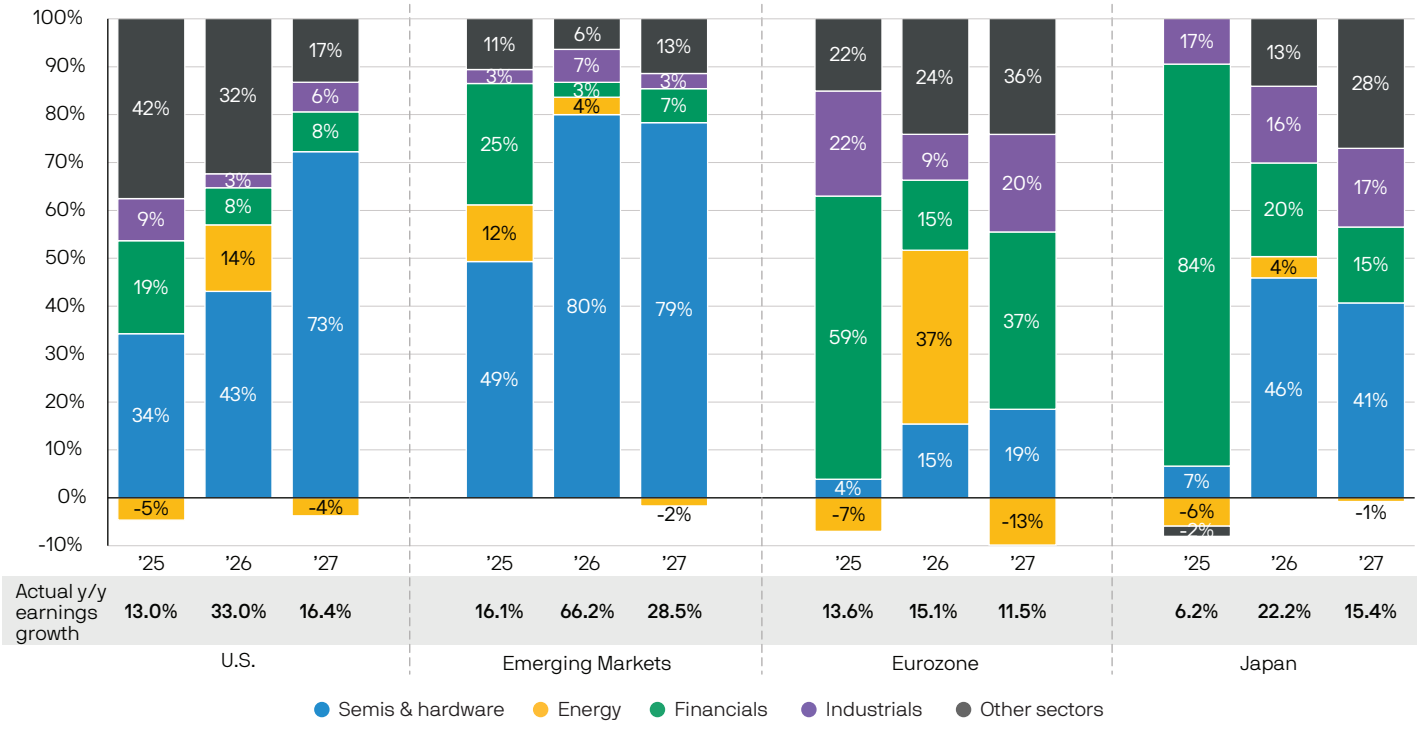
2026 was another solid year for international equities, with the MSCI All Country World Index ex-U.S. up 11.3% (as of Nov 10th) (in line with the S&P 500). This was the year that the earnings supercycle went global, with above-average earnings growth in all the major regions: emerging markets (EM) +66%, Japan +22% and the eurozone +15% (in U.S. dollar terms). Breaking down this year's returns, it was all about earnings: The upward revisions to international earnings growth expectations boosted returns by 34%. On the other hand, multiples contracted 23% and currencies weakened versus the U.S. dollar by 2.0%. 2027 may see a different breakdown, with multiples doing the heavy lifting as investors better appreciate the continued robustness of global earnings.

There have been many factors behind these strong earnings, including solid global economic growth, moderately higher interest rates, elevated fiscal spending, higher energy prices and, of course, the AI-related capex cycle. As in U.S. equities, industries related to the AI buildout saw the strongest upward revisions to earnings expectations and, hence, the strongest returns. This meant that Asia was the star of the show given its heavy concentration in "hard tech," especially semiconductors. EM Asia was up 14% (led by Korea and Taiwan) and Japan (led by its tech sector) was up 14%.

2027 should be another year of solid, above-average global earnings growth, albeit with some moderation versus 2026's extraordinary surge (as in the U.S.). The AI buildout has been and is set to continue to be a major contributor to global earnings growth, especially in EM (**Exhibit 6**). Semis and hardware have contributed nearly 80% to EM earnings growth this year and a similar

## Global earnings contribution by industry

Exhibit 6: Contribution to year-over-year USD earnings growth




Source: Standard & Poor's, MSCI, FactSet, J.P. Morgan Asset Management.
Data are as of November 10, 2026.

contribution is expected for next year as demand for chips and hardware is set to far outstrip supply for another year. This is also expected to continue to be a key driver for Japan, with these hard tech sectors expected to contribute a similar 41% to Japanese earnings growth next year.

But next year is unlikely to be a repeat of this year in terms of returns, as the AI story moves on to a new chapter. Investors are expected to remain wary of the AI capex phase itself, especially with the upcoming expected deceleration in 2028. Instead, investors are likely to remain focused on AI's adoption and monetization. That means returns in markets like Korea and Taiwan may moderate, but does not mean there are no opportunities in Asia. China, Korea and Japan remain leaders in the "physical AI" market via industrial robotics – but investors have not given those companies credit (yet).

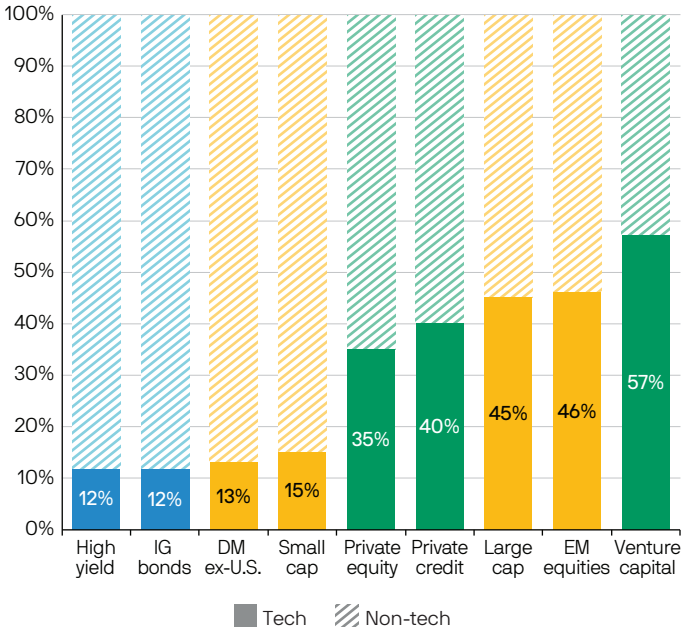
Next year should also see investors better appreciate other areas of solid earnings growth via higher multiples for non-AI heavy regions and sectors. This is especially true for Europe, which has been underappreciated this year given concerns about France's fiscal situation and the potential effect of higher energy prices on consumers. Despite that, earnings have been solid, rising 15% year-over-year and 11% expected for next year. Japan also continues to stand out with 15% expected earnings growth, with 59% of that coming from non-hard tech sectors. These earnings are also being driven by secular over cyclical themes: fiscal spending on defense and infrastructure, corporate governance reform and the end of deflation/negative rates. This favors the value style, in particular, which can help diversify portfolios by region, thematics and style – something that will be valuable during the next inevitable AI-related equity market correction in 2027.

# Alternatives: Expanding the diversification toolkit

Alternatives have traditionally been viewed as sources of alpha in portfolios, but coming into 2027, the diversification benefits are arguably just as important for investors looking to preserve long-term gains. In the face of highly concentrated and technology-focused public markets, the breadth of the private markets opportunity set and the ability to access genuinely differentiated sources of return are important factors.

### Exposure to technology by asset class*

Exhibit 7: Share of total




Source: FactSet, FTSE Russell, MSCI, Preqin, S&P Global, J.P. Morgan Asset Management.

High yield: J.P. Morgan High Yield Index. IG (investment grade) bonds: JPM US Liquid Index (JULI). Small cap: Russell 2000 Index. Large cap: S&P 500 Index. DM ex-U.S.: MSCI EAFE Index. EM equities: MSCI EME Index. Private market data are updated quarterly. Credit weight is the percentage of total index market value while equity weight is the percentage of total index market cap. *Public equities figures include information technology and communication services sector weights. Private equity, private credit and venture capital are approximated by summing the technology and business services sector deal values as the share of total aggregate deal value over the last five years for deals tracked by Preqin.

This slide comes from our *Guide to Alternatives*.

*Guide to the Markets – U.S.* Data are as of November 10, 2026.

Genuine hedging from tech volatility can be found in sectors that are inherently unconnected to the AI trend such as real estate, infrastructure or private equity. More nuanced exposures to areas of the AI buildout theme that are not available on public markets today, such as

pre-IPO companies or financing of high-growth tech companies, can be accessed through investments in venture capital or private credit.

Alternatives are not immune to the macro environment, and in 2027 investors in alternatives must evaluate their portfolios in the context of rising interest rates and persistent inflation. Markets have now spent several years adapting to more expensive capital, and modest additional tightening does not dramatically change the investment calculus. But a more demanding financing environment means that managers cannot easily add costly leverage to enhance returns, and must add value in different ways.

## Private equity: Back to basics

In private equity, higher financing costs put the focus on finding unique and compelling high-growth companies to invest in, as well as squeezing out margin expansion through operational improvements.

Many of today's leading AI companies, and potentially some of the next decade's winners, remain privately held. Private equity and venture capital therefore provide important access to innovation that public markets alone cannot capture.

Outside of the tech space, there is potential for healthy returns and diversification in the small and middle market of private equity, where established businesses in traditional industries can benefit from new capital, commercial expansion and technology adoption. The beneficiaries of AI need not all be companies developing the technology. Many will be smaller businesses that use it to improve productivity within their own specialty domains.

## Private credit: Resilient, but under scrutiny

Despite the headlines warning of looming risks in private credit, the asset class has demonstrated resilience. Higher interest rates cut both ways: Since most private credit is in the form of floating-rate loans, coupon income quickly resets higher for investors, but debt-service burdens also rise for the borrowers.

The microscopes have been out and searching for cracks since 2022, and they are unlikely to be put away in 2027 as rates continue to rise. Investors should monitor signs of strain, including greater use of payment-in-kind interest, and assess underlying credit quality and manager capability.

Redemption requests at some interval funds, particularly those with large exposures to software loans (perceived as a risk by some in the age of AI), have tested investor confidence. This is an important learning opportunity for a maturing market. Investors need to assess whether a fund's structure suits their time horizon and liquidity needs. Private credit can enhance returns over the long run. But, like all alternatives, it comes with the trade-off of potentially lower liquidity.

## Real assets: Recovery and reinvestment

Real estate is showing signs of recovery, but the diversity of the market – spanning residential, commercial and industrial property – means that many trends are at play under the surface.

Financing costs and refinancing needs remain challenges for sectors like office. But there are reasons for optimism elsewhere. The same higher rates that have challenged property valuations have also constrained new development. Over time, growing demand can improve the supply-demand balance and lead to higher property valuations. Higher mortgage rates mean that more families are renting rather than buying homes, which can be a tailwind for portfolios containing apartment buildings.

Infrastructure benefits from a number of broad mega-trends. Rising electricity demand and aging power grids mean there is a great need for investment in new and replacement infrastructure. Energy-hungry data centers are accelerating the urgency, but much of the spending addresses the more mundane tasks of modernizing energy systems and building the resilience required for decades to come.

## Hedge funds: Opportunities in dispersion

For hedge funds, 2026 brought substantial movements in interest rates, currencies, commodities and equity markets. These created opportunities for macro and relative-value strategies, although abrupt reversals also caught some managers offside.

For hedge funds, volatility is opportunity, and so, looking ahead, we see a favorable environment for skilled active managers. The market's intense focus on AI has contributed to valuation dispersion and, in some cases, left less fashionable sectors overlooked.

# Asset allocation: Know what you own

Over the course of many years, truly diversified portfolio construction – cross-asset and cross-geography exposure – had slowly become unpopular. This is because certain assets had consistently outperformed their counterparts: stocks over bonds, growth equity over value and U.S. over "international." In 2025, that changed: The opportunity set shifted dramatically, with bonds rallying and the ex-U.S. equity market surging. Looking back on 2026, it appears that many investors were successful in "right-sizing" their portfolios to re-position in the face of those shifts.

When thinking about portfolio construction in 2027, the benefits of diversification should be more apparent than ever, and investors must ask themselves a series of outcome-oriented questions: Are they looking for income, capital preservation or growth? Are they tolerant of volatility or risk-averse? And is liquidity a concern? The answers inform allocation decisions, and both traditional and alternative assets play a role.

How these assets will perform is tied to the macro backdrop. Here, the picture is as muddled as ever: Growth is cooling but not cold, with a low unemployment rate obscuring a meaningful slowdown in job creation and tepid wage growth, and consumption progressing unevenly between the wealthiest and the less fortunate; headline inflation is persistently warm on higher energy prices, but core price growth is in check; and significant policy changes are underfoot. All of this has translated into a dramatic repricing in interest rates across the curve, which has led in part to volatility in markets.

Beneath this volatility the opportunity set has shifted again. Fixed income faces near-term headwinds with a recent Fed pivot, but the asset class is arguably more attractive thanks to higher starting yields. However, while allocations to intermediate core bonds have increased to near 12-month highs, 80% of investors remain underweight duration relative to the Bloomberg U.S. Aggregate. This may be an opportune time to revisit that allocation, as yields have arguably repriced too aggressively and could have room to drift modestly lower. That said, investor sentiment will ultimately inform the appropriate strategy: Concerns around a slowing economy would suggest an extension in duration, for example, as current yields make bonds an effective ballast against recession. The credit conversation follows a similar path: While a benign macro backdrop supports a greater allocation to credit, the slowing economy would encourage an emphasis on active management.

In equities, the AI trade has broadened out beyond the "Magnificent 7" over the past several years and now encompasses names across both the value and growth parts of the U.S. stock market. While greater participation is encouraging, the concentration is unnerving, and between deep AI penetration and a major index rebalancing, portfolios that have shifted U.S. equities toward a more balanced value and growth allocation continue to be exposed to elevated levels of stock-specific risk. In addition, interest in foreign markets has remained resilient after rebounding in 2025. Over the course of the year, the average allocation to ex-U.S. equities has risen from 20% to 25%, a meaningful increase but still well below what is considered "diversified."

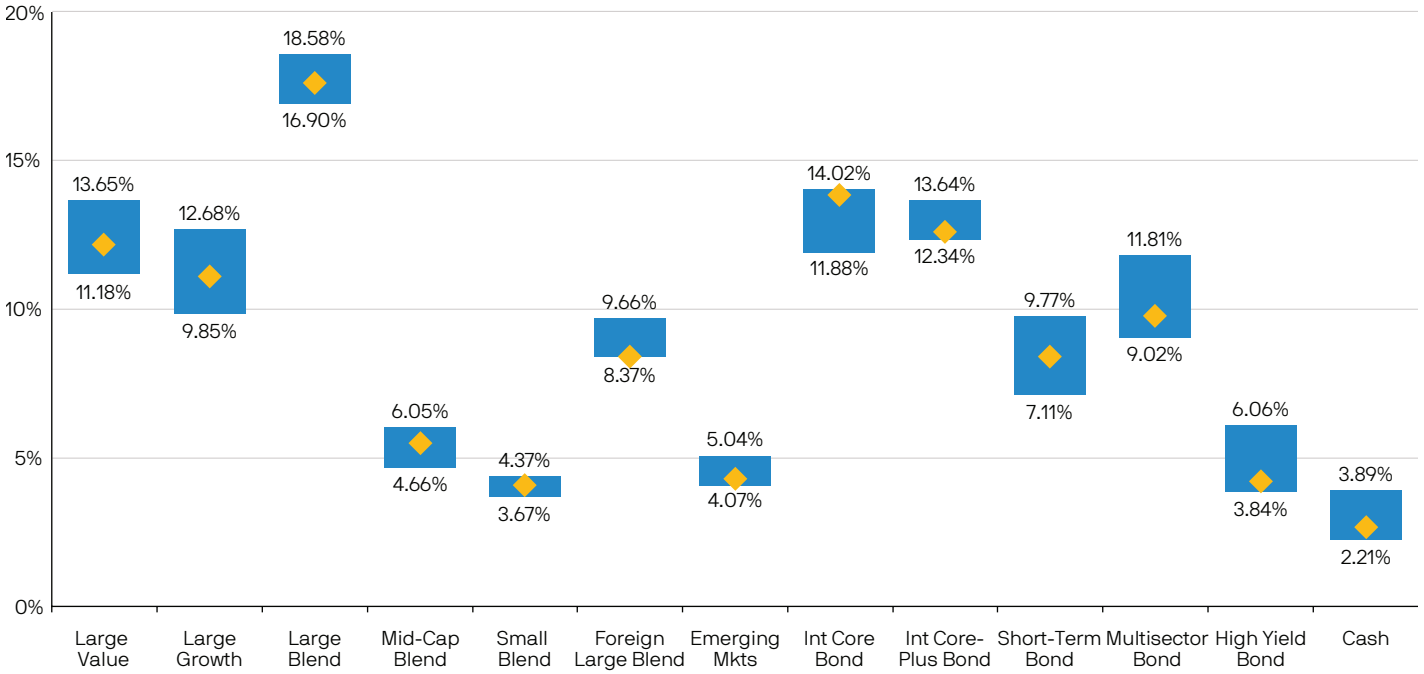
These allocations lead to missed opportunities: Structural shifts in foreign markets, which led to improved fundamentals in 2025, have persisted, allowing them to continue to compete with the added benefit of minimal AI exposure in developed markets outside of the U.S. Moreover, while the breadth of U.S. equity market performance once again hasn't improved as much as initially expected, it is trending in the right direction: The "Magnificent 7" has accounted for less of 2026's S&P 500 performance than in previous years and earnings growth continues to broaden out. That said, with a continued earnings supercycle already embedded in forward estimates, today's compressed multiples are only as attractive as those earnings prove durable, which argues for a bigger role in 2027 for select value sectors whose earnings are less dependent on the AI theme, though growth should continue to fare well as the long-term secular force of AI continues to mature. In other words, portfolios should be balanced.

For alternatives, the outcome-oriented approach toward portfolio construction is particularly relevant. Public equity returns increasingly hinge on AI-related earnings following through, while heavy AI-related issuance is adding to bond supply and could limit any rally in bonds if stocks falter. With both sides of the traditional portfolio increasingly tied to the same

theme, alternatives less exposed to AI, such as real estate, infrastructure and select private equity, can offer a more differentiated source of diversification. These assets will also become increasingly approachable despite some headline risk, as regulatory shifts and technology continue to "democratize" access through lower minimums and greater liquidity. For this reason, the traditional stock/bond framework of "60/40" should be reformed into one that also includes alternative assets: a "60/40+," for example, where, depending on desired outcome, alternative assets are folded in to complement public holdings, should result in stronger, less correlated returns with reduced volatility. All told, while the traditionally diversified portfolio may not be as relevant as before, this is because it has evolved, not because it is unnecessary. In fact, as policy change reshapes the global landscape and the investment backdrop shifts, rebalancing into a well-diversified portfolio is more critical than ever. Unfortunately, that rebalancing has a cost: taxes. For this reason, investors should also incorporate tax management into portfolio construction in 2027, with an emphasis on ETFs for their tax efficiency and "tax loss harvesting"[6] to improve after-tax outcomes.

**Investors have started right-sizing, but remain offside in key sub-asset classes**

Exhibit 8: Average allocations in moderate models, last 12 months




Source: J.P. Morgan Asset Management. Note average allocations will not sum to 100 as not all categories are represented in each portfolio analyzed. "Moderate models" refers to an investment portfolio benchmarked to the 60/40 portfolio. Data are as of November 10, 2026.

[6] In periods of market stress, investors can capitalize on negative performance by realizing a loss in a position, deducting that loss from the year's tax bill and reinvesting the proceeds into a security or basket of securities with similar characteristics. Market volatility can be transformed into tax savings without deviating from long-term allocation goals or moving into cash. This process is called "tax loss harvesting."

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

The **Composite PMI future output index** is a gauge of economic growth and can provide valuable insights into GDP, service sector growth and industrial production trends well ahead of official data.

The **Bloomberg Euro Aggregate Corporate Index** is a benchmark that measures the corporate component of the Euro Aggregate Index. It includes investment grade, euro-denominated, fixed-rate securities.

The **Bloomberg Pan-European High Yield Index** measures the market of non-investment grade, fixed-rate corporate bonds denominated in the following currencies: euro, pounds sterling, Danish krone, Norwegian krone, Swedish krona and Swiss franc. Inclusion is based on the currency of issue, and not the domicile of the issuer. The index excludes emerging market debt.

The **Bloomberg U.S. Aggregate Treasury Bond Index** is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. This includes Treasuries, government-related and corporate securities, mortgage-backed securities, asset-backed securities and collateralized mortgage-backed securities.

The **ICE BofA MOVE Index** tracks fixed income market volatility.

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 **J.P. Morgan Leveraged Loan Index** is designed to mirror the investable universe of U.S. leveraged loans.

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 United States and 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 **MSCI World with USA Gross Index** measures the performance of the large- and mid-cap segments across 23 developed market countries. With 1,540 constituents, the index covers approximately 85% of the global investable equity opportunity set.

The **Russell 1000 Index®** measures the performance of the 1,000 largest companies in the Russell 3000.

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 **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 overall market.

The **U.S. Treasury Index** is a component of the U.S. government index.

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