



Strategic Investment Advisory Group

Narrowing the gap: U.S. exceptionalism and developed markets

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J.P.Morgan
ASSET MANAGEMENT

Our Mission

The Strategic Investment Advisory Group (SIAG) approaches today's investment challenges with a global view across asset classes. Through an unrivaled collaboration that unites our deep expertise and research within each investment sector, we offer the power of perspective to help our most sophisticated clients achieve their long-term investment goals and build stronger portfolios.

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Jared Gross
Head of Institutional Portfolio Strategy

Contributors

John Bilton
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Myles Bradshaw
Head of Global Aggregate Strategies

Thomas Buckingham, CFA
Portfolio Manager, International
Equity Group

Kathleen Clum
Research Analyst, Institutional
Portfolio Strategy

Nelson Edwards, CFA
Investment Specialist, International
Equity Group

Mark Ferguson
Global Head of Equity Research

Janet He
Head EM Sovereign & Country
Research

Tai Hui
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Didier Lambert, CFA
Head EM Local Currency Debt

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Global Strategist, Multi-Asset
Solutions

Addison Muir
Research Analyst, Institutional
Portfolio Strategy

Mayur Patel, CFA
Portfolio Manager, International
Equity Group

Nandini Ramakrishnan
Global Macro Strategist, Equities

Gabriela Santos
Chief Market Strategist, Americas

Pulkit Sharma, CFA, CAIA
Head of Alternatives Investment
Strategy & Solutions

Karen Ward
Chief Market Strategist, EMEA

Adrian Wong
Global Market Strategist, APAC

Kyle Williams, CFA
Portfolio Manager, International
Equity Group

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George Gatch
CEO
J.P. Morgan
Asset Management

The future of U.S. exceptionalism is a topic that is widely discussed among investors. The relative strength of the U.S. economy and markets has shaped capital flows and informed asset allocation for many years.

Some argue that the era of U.S. exceptionalism is already ending, but we see reasons to think otherwise. We believe that broader U.S. exceptionalism could prove resilient. However, some key supports for U.S. strength appear to be approaching inflection points, while some legacy weaknesses in non-U.S. developed markets are showing improvement. Collectively these shifts could lead to a rebalancing of asset allocations across global markets and a greater convergence across growth rates, investment returns and capital flows.

In “**Narrowing the gap: U.S. exceptionalism and developed markets,**” our Strategic Investment Advisory Group (SIAG) explores:

- The nature and causes of U.S. exceptionalism, with a focus on structural vs. cyclical factors
- The prospects for renewed strength in Europe, driven by significant policy shifts
- The potential for a comeback in Japan, supported by corporate reforms
- The ability of China and broader emerging markets to influence these outcomes

Passive strategies are most directly exposed to the overweight in U.S. markets. In response, investors can look to diversify portfolios globally and leverage active management to pursue localized opportunities across rising and falling markets.

I’d like to take this opportunity to thank the deep team of SIAG contributors. Our ability to deliver industry-leading insights like these demonstrates our unsurpassed expertise across every investment sector, better positioning us to help our most sophisticated clients achieve their long-term investment goals and build stronger portfolios.

As always, we hope you and your clients find these insights valuable.

A handwritten signature in black ink, appearing to read 'G. Gatch', with a long horizontal flourish extending to the right.



IN BRIEF

- In recent decades, the U.S. has experienced strong economic growth, high corporate profits, an appreciating currency and premium market valuations—to a degree not seen elsewhere in the developed world. This relative strength is commonly referred to as “U.S. exceptionalism.”
- Other developed markets have exhibited less compelling fundamentals, making U.S. assets relatively more appealing and encouraging global portfolio flows into U.S. markets. Are these differences more structural or cyclical in nature? It’s a critical question for long-term investors.
- Some key supports for U.S. strength appear to be approaching inflection points, while some legacy weaknesses in non-U.S. developed markets are showing improvement. Collectively these shifts could lead to a rebalancing of asset allocations across global markets.
- It is unlikely that another country or region could assume the dominant position currently occupied by the U.S. However, even a modest convergence in relative outlook between the U.S. and other economies could lead to a more balanced distribution of capital without a single dominant center of gravity.
- Investors are overweight U.S. exposure to a historic degree, with passive strategies most vulnerable to a shift in sentiment. A pivot toward active management across global benchmarks will facilitate more dynamic allocation of capital across currencies, market sectors, countries and firms.



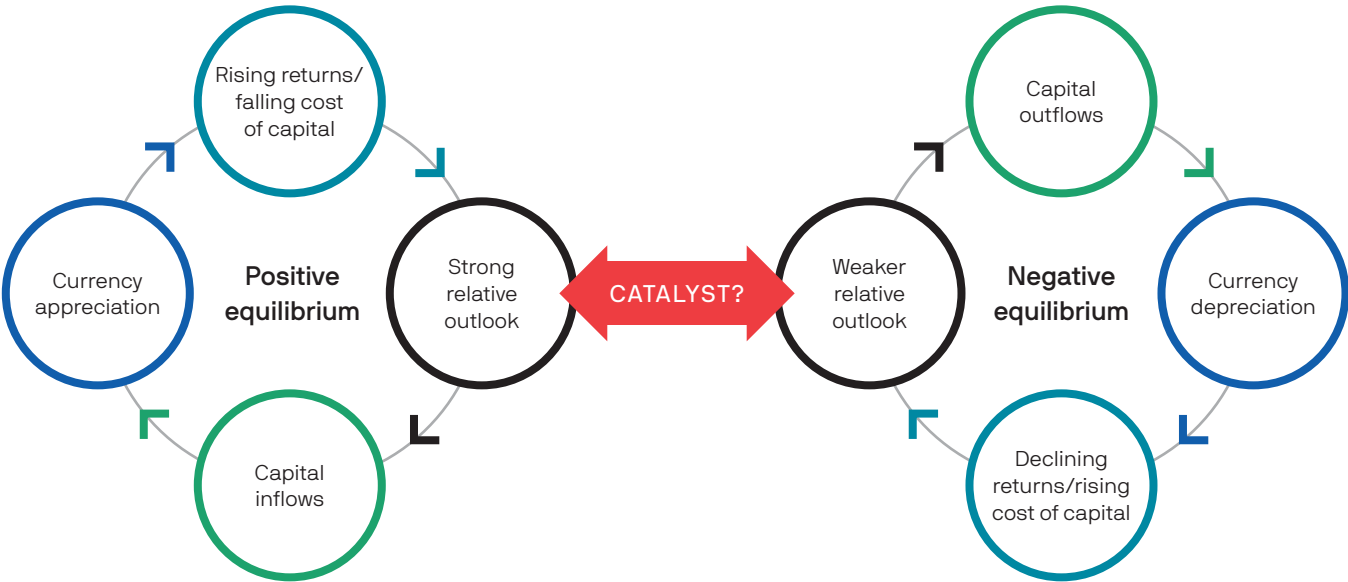
**narrowing the gap:
U.S. exceptionalism and
developed markets**

Since the global financial crisis (GFC), the U.S. has outperformed other developed markets—particularly Europe and Japan—in terms of the consistency of growth, levels of productivity and profitability, and financial market returns. No single factor explains this period of exceptionalism, but several distinguishing elements across the economy, financial markets and legal and regulatory framework have made the U.S. a preferred destination for global capital. Both the reality—and the perception—of durable relative strength has served to maintain the global bias in favor of U.S. assets (Exhibit 1).

U.S. exceptionalism may not be going away, but the degree of separation between the U.S. and other regions seems to be narrowing. Some historical supports for U.S. exceptionalism may have simply reached their natural limit, while others may be diminishing outright. At the same time, some long-present weaknesses in other countries and regions may be showing signs of genuine improvement. Any significant convergence along these lines could lead to a self-reinforcing cycle in which a decline, or reversal, of capital flows weakens the U.S. outlook, leading to further outflows, and so on.

One need not believe that U.S. exceptionalism is ending to see elevated risks to market valuations. We hold the view that broader U.S. exceptionalism could be resilient, despite the weakening of some supports. Past episodes in which other countries and regions appeared poised to surpass the U.S.

The U.S. has experienced a positive feedback loop
EXHIBIT 1: DESCRIBING STATES OF POSITIVE AND NEGATIVE EQUILIBRIUM



Source: J.P. Morgan Asset Management; data as of July 31, 2025.

proved to be ephemeral, and in many cases the U.S. emerged stronger. However, the extended period of U.S. outperformance in recent decades, and with it the heavy weight to U.S. assets in portfolios, makes the risk of a normalization a concern to asset allocators.

The challenge for asset allocators

Market exceptionalism poses a conundrum to the strategic asset allocation process. Long-term return projections involve many variables, but current valuations are a key starting point in assessing future performance across markets. Allocators typically assume some degree of mean reversion: Strong returns and high valuations in a particular region, market or sector—even when supported by positive fundamentals—are generally consistent with lower future expected returns. Investors take note of these differentials and shift marginal capital allocations from richly valued markets to less expensive ones.

In this context, the sustained outperformance of a particular market over multiple cycles and episodes of volatility, resulting in persistently elevated valuations, requires deeper explanation. If strong returns are driven by structural advantages, then the time horizon and magnitude of potential outperformance may be much greater. In other words, mean reversion may take a while. Investors could be making a costly mistake if they rebalance capital too quickly.

But the reverse is true as well. Maintaining an allocation to an expensive market based on confidence in its exceptional attributes leaves an investor vulnerable to underperformance if these advantages fade. Here's the critical questions investors cannot yet answer with certainty: Do the strong relative returns on U.S. assets reflect structural factors that will continue to hold going forward? Or are the returns also explained by cyclical factors in the U.S. and elsewhere

that are subject to greater variability and potential reversal?

Resolving these questions will take time. But markets are forward looking, and may not wait until all of the answers are known before adjusting. **To help investors prepare, in this paper we explore:**

- The nature and causes of U.S. exceptionalism, with a focus on structural vs. cyclical factors
- The prospects for renewed strength in Europe, driven by significant policy shifts
- The potential for a comeback in Japan, supported by corporate reforms
- The ability of China and broader emerging markets to influence these outcomes

Maintaining an allocation to an expensive market based on confidence in its exceptional attributes leaves an investor vulnerable to underperformance if these advantages fade.

1



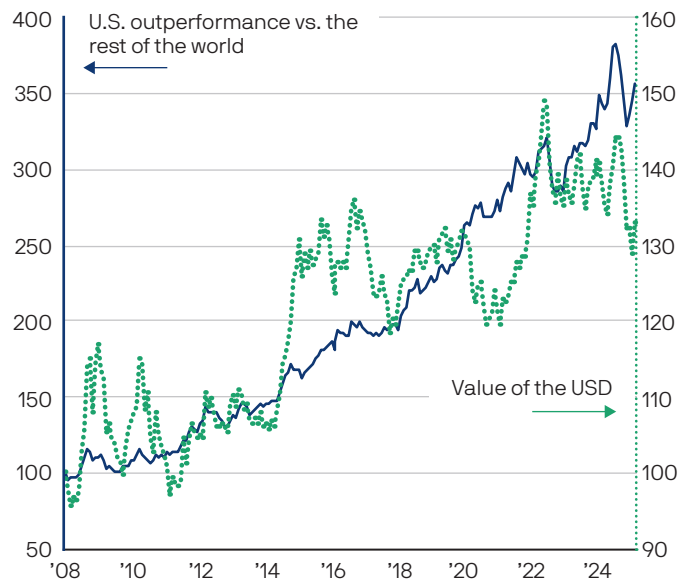
The nature of U.S. exceptionalism

The positive feedback loop supporting U.S. market valuations

U.S. financial markets have enjoyed a benign equilibrium since the global financial crisis of 2008. Emerging from the crisis, aggressive fiscal support and attractive valuations lured investment capital to the U.S. Both asset prices and the value of the U.S. dollar increased, improving returns for foreign investors (**Exhibit 2**). The growing global appetite for U.S. assets financed large current account deficits at low cost, allowing the U.S. to enjoy higher levels of relative growth and making U.S. assets yet more attractive.

U.S. equity markets and currency appreciated following the GFC

EXHIBIT 2: U.S. EQUITY OUTPERFORMANCE RELATIVE TO THE REST OF THE WORLD AND VALUE OF USD

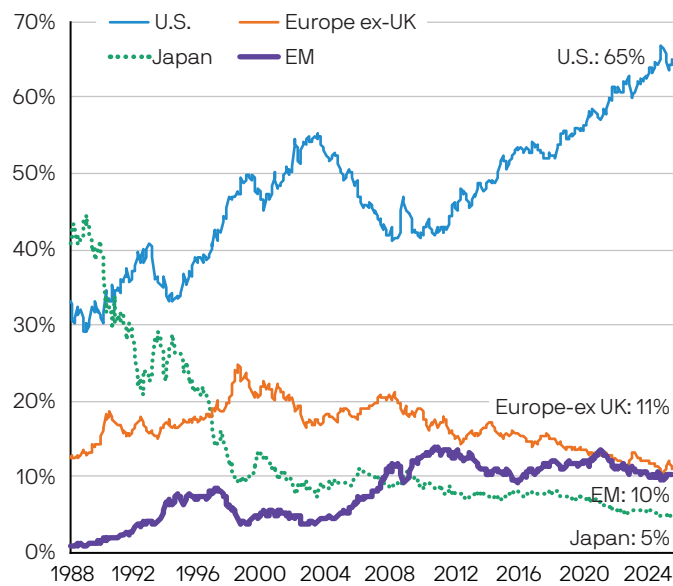


Source: Bloomberg, J.P. Morgan Asset Management; data as of July 31, 2025. Indices: MSCI USA Index, MSCI ACWI ex-U.S. Index, the U.S. Dollar Index, indexed to 100 on January 1, 2008.

The U.S. now accounts for a historically large share—roughly 65%—of global stock market capitalization, significantly more than its share of global GDP. In the past few years, this trend has been reinforced by the presence of large and highly profitable technology companies in the U.S. (the so-called Magnificent Seven). But the trend goes back much further, suggesting that this is more than just a technology story (Exhibit 3). Other factors are at work as well.

The U.S. had been growing its share of the global equity market over decades

EXHIBIT 3: WEIGHT COUNTRIES/REGIONS IN MSCI ALL COUNTRY WORLD INDEX

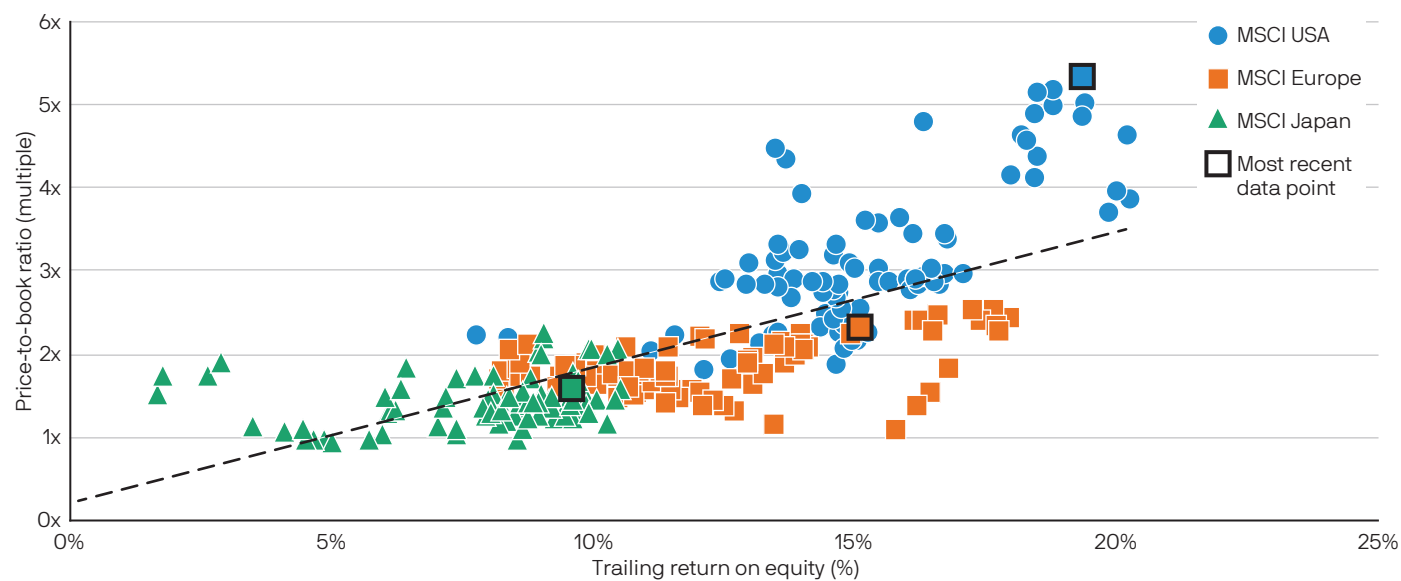


Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management; data as of July 31, 2025.

The simplest explanation may be the strong fundamentals of U.S. companies (Exhibit 4). The return on equity (RoE) for U.S. public companies has not only remained at the higher end of the global range but has increased further in recent years. As a result, investors are willing to pay more for U.S. firms (a higher price-to-book). But that sentiment depends on continued investor confidence in the durability of U.S. valuations relative to other markets.

U.S. companies have strong fundamentals and high valuations

EXHIBIT 4: QUARTERLY RETURN ON EQUITY AND PRICE-TO-BOOK RATIOS (2003–2025)



Source: Bloomberg, J.P. Morgan Asset Management; data as of July 31, 2025.

The appreciation of U.S. equity markets has contributed to a positive feedback loop for other market sectors. Capital inflows raise the value of the dollar and improve returns to foreign investors on all categories of U.S. assets—equity and debt, public and private. At the same time, U.S.-based investors face performance headwinds on foreign assets, reinforcing the tendency to maintain a home-country bias.

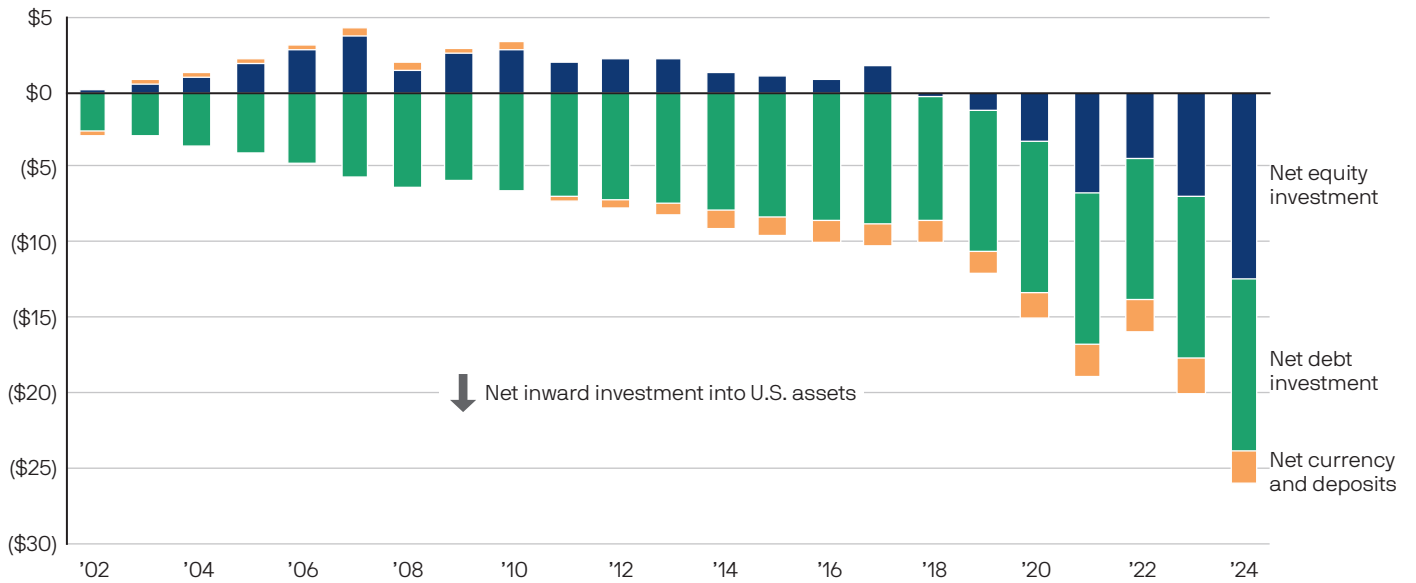
Maintaining steady capital inflows is critically important because the U.S. depends on foreign buyers of financial assets—across debt, equity and the dollar—to finance consistently large current

account deficits (**Exhibit 5A** and **Exhibit 5B**). Much of this financing takes the form of a large and growing sovereign debt.

This is one real-world impact of U.S. exceptionalism: The U.S. maintains a higher credit rating than its high debt-to-GDP ratio would imply, and yet has had little or no difficulty in financing that debt at a low cost. Seemingly “obvious” tripwires, including periodic debt limit struggles, recent credit downgrades and projected increases in budget deficits, have thus far had little or no impact on investors’ willingness to supply capital.

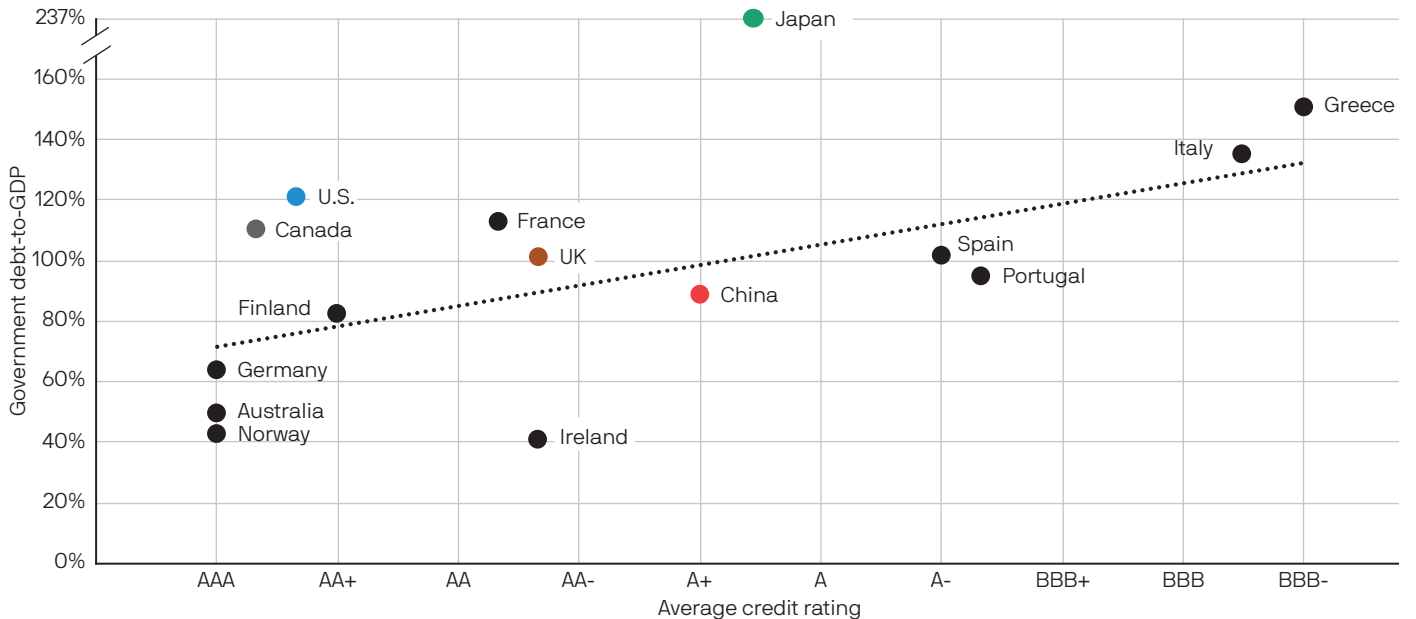
Foreign capital inflows help the U.S. defy its debt challenges

EXHIBIT 5A: U.S. NET INTERNATIONAL INVESTMENT POSITION (USD TRILLIONS)



Source: BEA, Bloomberg, J.P. Morgan Asset Management; data as of December 31, 2024. Equity and debt investments include funds.

EXHIBIT 5B: GOVERNMENT DEBT-TO-GDP VS. AVERAGE CREDIT RATING



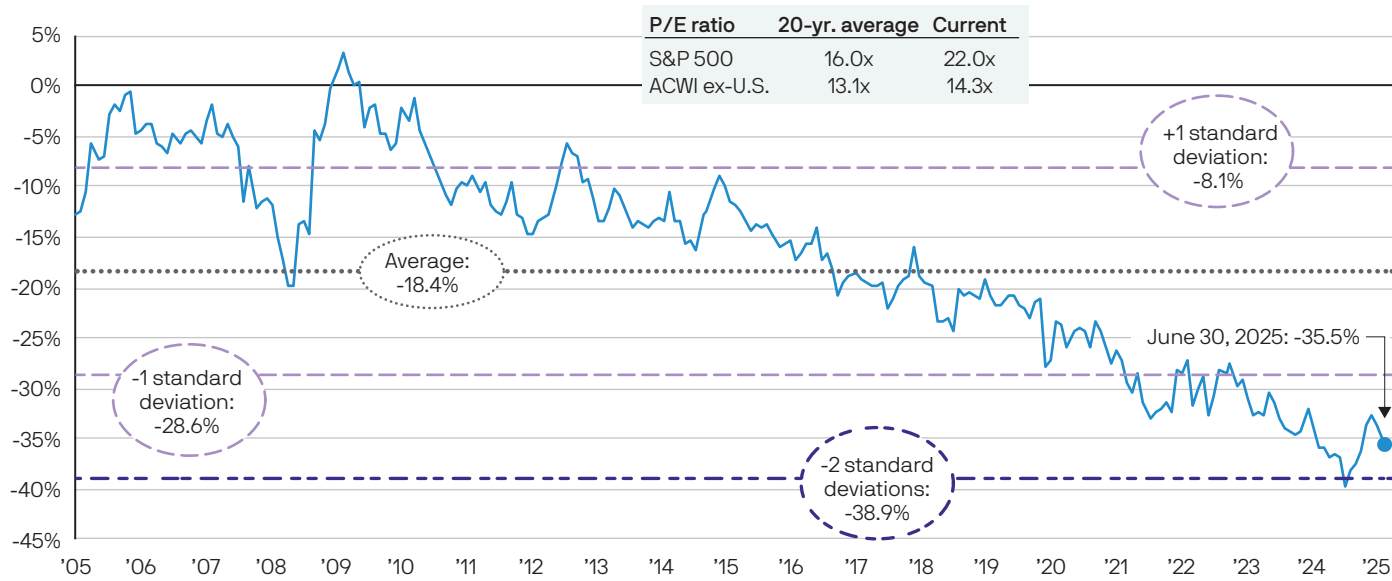
Source: Bloomberg, International Monetary Fund, J.P. Morgan Asset Management; data as of December 31, 2024. Credit ratings are an average of Moody's, Standard & Poor's and Fitch rating agencies.

What if this benign equilibrium becomes unstable? Should the relative appeal of U.S. markets decline, both foreign and domestic investors may seek higher returns elsewhere. Capital outflows could weaken the dollar and require higher U.S. Treasury rates to finance large deficits. Elevated borrowing costs could ripple through the economy and markets, reducing future growth prospects and impacting asset valuations.

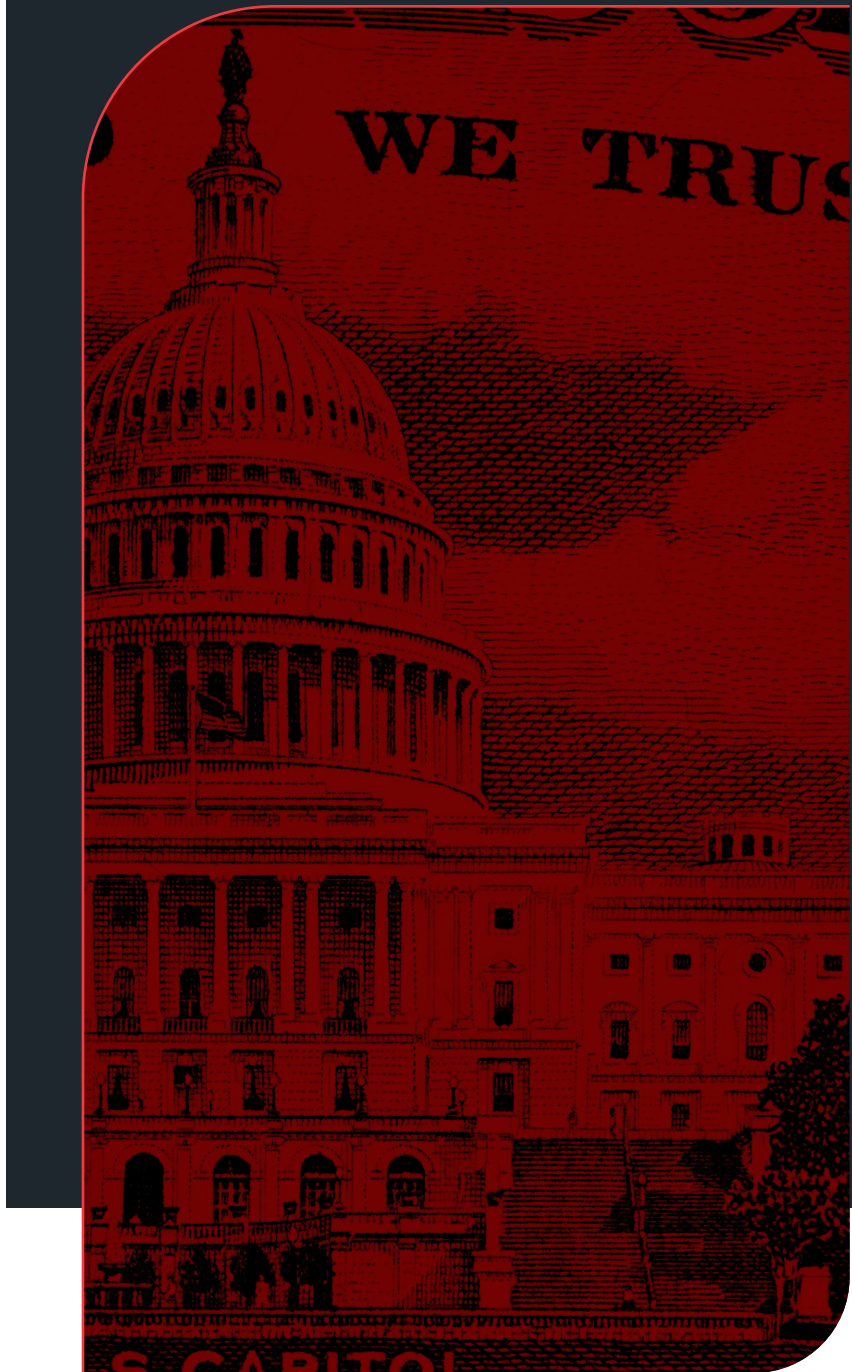
No one knows for certain how big a repositioning of the relative standing of the U.S. would be required to cause such a shift. Perhaps even a modest erosion in the U.S. outlook could have a significant impact on global capital flows—particularly if other regions are becoming more competitive at the same time. Should this process gain momentum, the room for valuations to adjust is quite significant (Exhibit 6).

The U.S. market trades at a significant premium to the developed market world

EXHIBIT 6: MSCI ACWI EX-U.S. PRICE-TO-EARNINGS DISCOUNT RELATIVE TO THE U.S.



Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management; data as of June 30, 2025.



2

Fundamental causes of U.S. exceptionalism

The power of reserve currency status

Here we shift perspective and consider some of the deeper causes of U.S. exceptionalism. In a sense, the story begins in 1971, when the U.S. went off the gold standard and the U.S. dollar proceeded to become the linchpin of the global currency market, serving as one leg of most bilateral currency transactions worldwide.

The dollar's dominant position as a reserve asset has declined marginally in recent years, but by almost any metric it remains the world's most important currency (**Exhibit 7A** and **Exhibit 7B**):

- U.S. dollar assets represent 58% of global foreign currency reserves; the euro accounts for the next largest share at 20%.
- The USD makes up a large portion of international payments and foreign exchange transactions. As of 2022, the currency was used in 54% of foreign trade invoices globally.
- Foreign governments and corporations frequently borrow money in USD to insure their creditors against foreign exchange risk, with 64% of world debt denominated in USD (up from approximately 50% in 2010).

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58% of global foreign currency reserves

the euro accounts for the next largest share at **20%**

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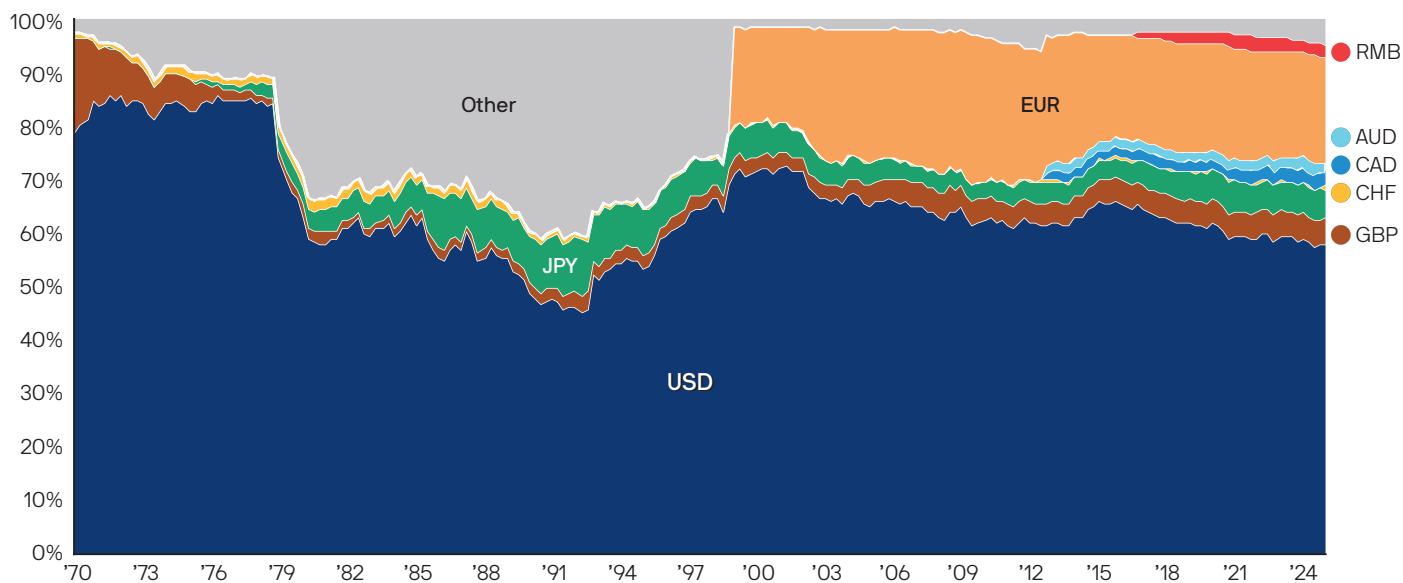
54% of foreign trade invoices globally

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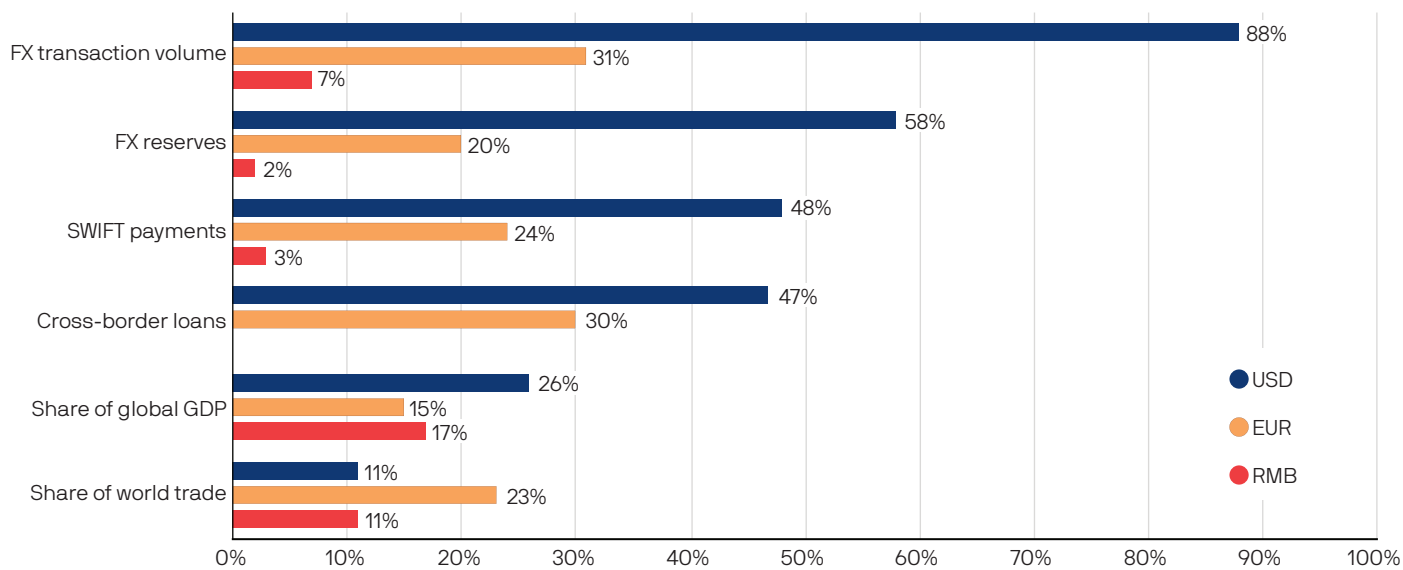
The U.S. dollar represents the largest portion of global reserves

EXHIBIT 7A: SHARE OF GLOBAL FOREIGN EXCHANGE RESERVES BY CURRENCY



Source: International Monetary Fund, J.P. Morgan Asset Management; data as of March 31, 2025.

EXHIBIT 7B: KEY METRICS OF RESERVE CURRENCY DOMINANCE



Source: Bank of International Settlements, Bloomberg, Haver, International Monetary Fund, J.P. Morgan Asset Management; data as of June 14, 2025. We show no data on cross-border loans for China.

Except for the euro, which at its inception in 1999 consolidated numerous European currencies into a single widely accepted unit of exchange, there are no credible alternatives to the U.S. dollar in terms of market depth and liquidity. While other reserve currencies generally represent strong, stable economies with a meaningful presence in the global economy and financial markets, they don't provide the same flexibility to central banks and monetary authorities. The dollar's unique strengths—liquidity, convertibility and widespread acceptance—make it the default choice.

The U.S. enjoys significant benefits from its reserve currency status, including lower borrowing costs and more liquid financial markets. Losing this status would diminish the basis for continued exceptionalism, but is that likely? The odds are against a major shift in global reserve holdings anytime soon. Even in the context of a shifting U.S. trade policy that could reduce trade flows between the U.S. and other major economies, the market size and liquidity of the dollar cannot be easily replicated.

Reserve managers are not profit maximizers. Rather, they diversify their holdings to serve critical objectives such as liquidity, convertibility, use in trade and debt service. The dollar is currently superior in every respect by a significant margin. The euro is the clear second choice, but it has few if any outright natural advantages over the dollar. Other developed currencies are in much the same position. China presents an unusual example of an economy that accounts for a large component of global trade and GDP, but where strict capital controls and limited convertibility have kept the currency to only 2% of global reserves.

Alternative reserve assets could emerge from the realm of cryptocurrency, with Bitcoin as the most likely contender. Bitcoin is an innovative financial asset and potential store of value but its narrow

acceptance, low liquidity and high volatility complicate its use. Moreover, the full integration of Bitcoin into the global financial system faces significant challenges, including technical complexity, lack of regulation, fixed supply and highly concentrated holdings. These shortcomings could be overcome as cryptocurrency markets mature, but in the meantime, any role as an official reserve asset would be limited.

Without a credible alternative, it remains unlikely that the dollar will lose its preferential status anytime soon. But a decline in the dollar's value is not dependent on losing reserve status, even partially—there have been significant periods of devaluation before, most recently in the period immediately preceding the GFC.

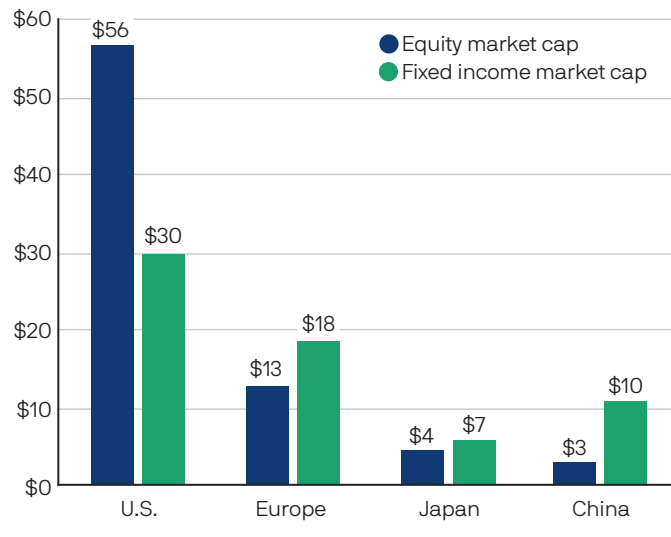
Depth of capital markets

The U.S. boasts the deepest and most liquid capital markets across public (and private) equity and debt. These markets translate U.S. and global savings into investment on a massive scale, allocating capital efficiently across public and private sector needs. This strengthens the U.S. economy, making it an appealing destination for investors, and also positions the U.S. as an attractive location for non-U.S. entities to raise capital.

Exhibit 8 illustrates the capitalization of major public equity and fixed income markets. The U.S. equity market's sheer scale and liquidity allows it to absorb global capital flows far more easily than other markets. A similar story can be told about the U.S. debt capital markets, which are the largest subcomponent of the global bond universe and a major location for capital raising by foreign governments and firms.

Scale and liquidity help make the U.S. the market of choice for investors

EXHIBIT 8: MARKET CAPITALIZATION, GLOBAL EQUITY AND FIXED INCOME INDICES (USD TRILLIONS)



Source: Bloomberg, J.P. Morgan Asset Management; data as of August 18, 2025.

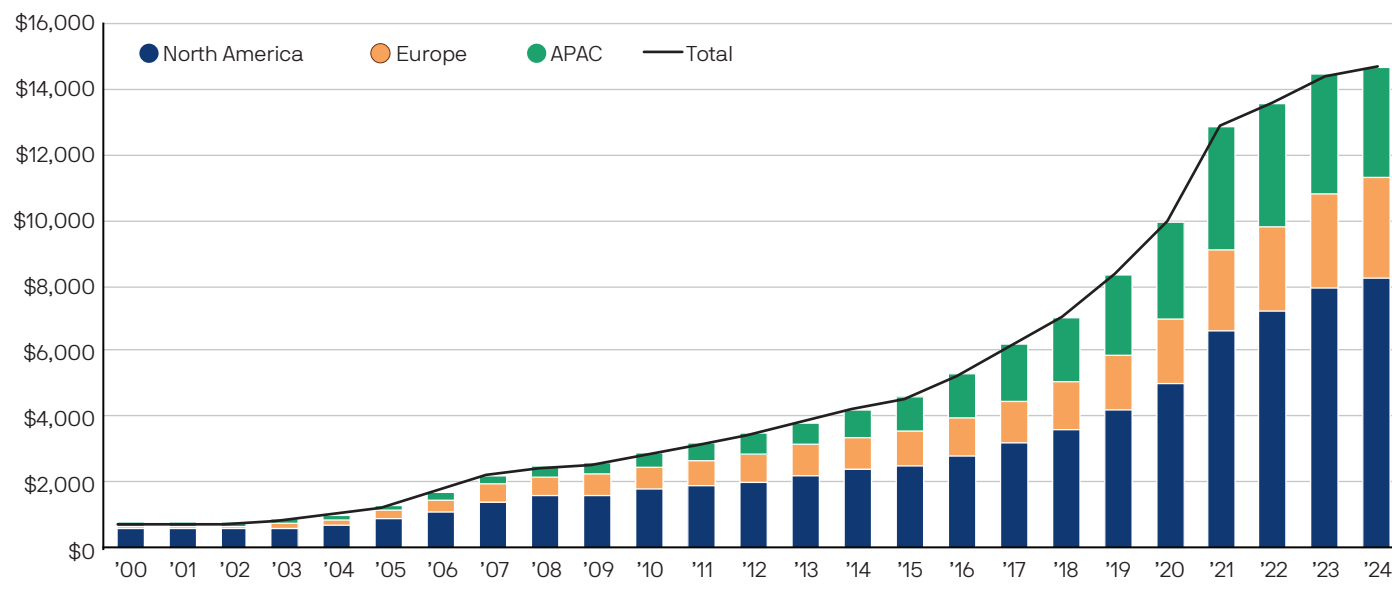
Private capital represents a large and growing component of U.S. capital markets (Exhibit 9). Private capital supports early-stage venture and growth investing, leveraged buyouts of mature businesses and private lending to firms outside of traditional banking and debt channels. These markets distribute a steady flow of capital to firms that would otherwise have difficulty sourcing funds in the public markets—increasing economic dynamism and providing attractive returns to investors.

U.S. capital markets have evolved over many decades. No other country or region offers the U.S. combination of a large, capital-intensive economy, a highly competitive financial services sector, a large and sophisticated institutional investment community and widespread commitment to financial assets by retail investors. While we see little evidence that these strengths are fading, there are signs that others are learning from the U.S. example.

For instance, both Europe and Japan are streamlining historically fragmented and inefficient financial

The U.S. continues to drive private markets

EXHIBIT 9: PRIVATE ASSETS UNDER MANAGEMENT BY REGION (USD BILLIONS)



Source: Preqin, J.P. Morgan Asset Management; data as of December 31, 2024. APAC represents Asia and Australia. Asset classes included: natural resources, private debt, infrastructure, real estate and private equity.

markets, encouraging the development of local private capital, and building a more robust investor culture among private savers. Collectively, these changes could lead to a narrowing of the gap with the U.S. Considering the smaller total capitalization of these markets, any rebalancing of global capital in their direction could have a large price impact—potentially sparking wider investor interest.

A large and competitive labor market

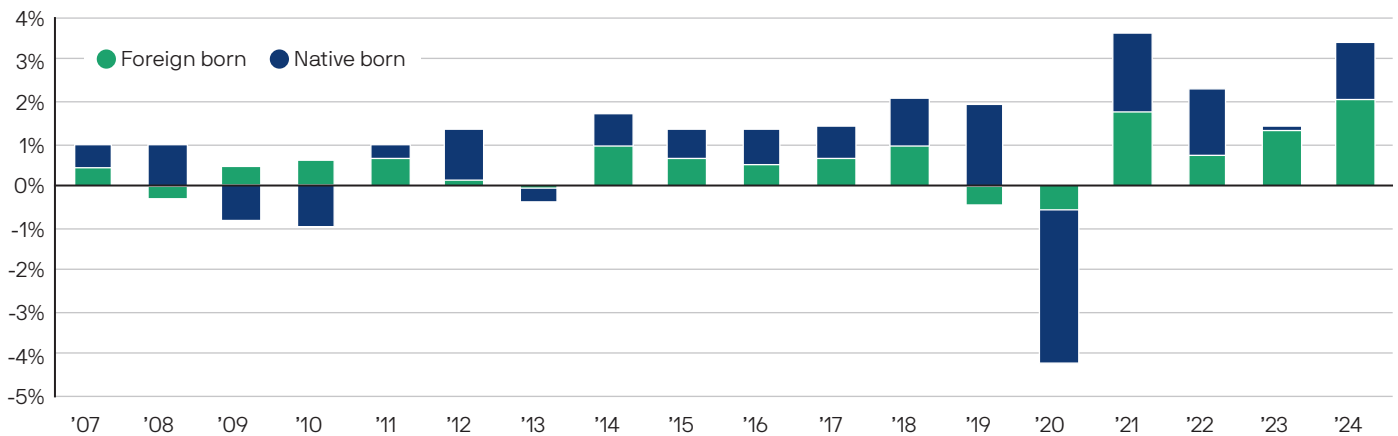
Historically, a large and productive labor force has been a boon to the U.S. economy, which has enjoyed high levels of labor force participation for both men and women and a consistent supply of foreign-born workers to offset the demographic pressures. The U.S. is not immune to the demographic challenges facing other developed economies, including a slowly aging population and inadequate replacement birth rates. But it is in a better position. Rapidly aging populations in Europe and Japan, and the oncoming “demographic cliff” in China, pose distinctly more difficult challenges in those regions.

Notably, the supply of labor in the U.S. has proven durable during recent shocks. COVID resulted in a sharp but short-lived drop in labor force participation, but it has since recovered, particularly among prime-age workers 18 to 54 years old. Of greater concern would be a long-term decline in immigration (**Exhibit 10**). Reducing the population of foreign-born workers could increase employment among the native-born, but not without potential trade-offs related to labor supply, wages and productivity.

Other U.S. advantages include flexible labor markets in which worker mobility is high and firms can hire and fire with limited constraints (**Exhibit 11**), and a high level of human capital. U.S. primary and secondary educational systems are not exceptional when compared with many other developed countries, but the combined scale and quality of U.S. colleges and universities is unique. They produce large populations of skilled graduates, including many foreign students who remain in the U.S. to work after they have completed their studies.

The U.S. has come to rely on foreign-born labor

EXHIBIT 10: YEAR-OVER-YEAR U.S. LABOR FORCE GROWTH, NATIVE AND IMMIGRANT CONTRIBUTION



Source: Bureau of Labor Statistics, J.P. Morgan Asset Management; data as of January 31, 2025. Year-over-year change in the labor force calculated from January of each year. For example, the 2024 figures are calculated by subtracting the size of the labor force as of January 31, 2024 from the size of the labor force as of January 31, 2025.

An internally focused and consumer-driven economy

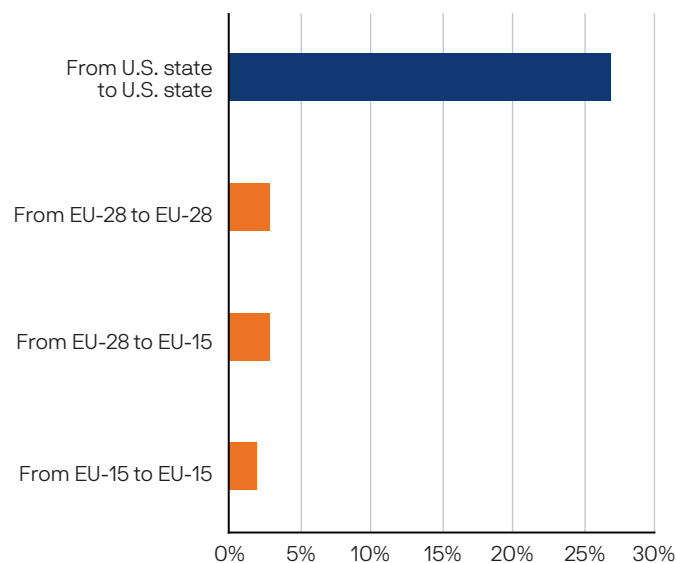
The U.S. economy differs from other developed markets in the degree to which economic activity is internally focused, providing some insulation against the impact of global business cycles and trade disruptions. Economic expansions have tended to be of much longer duration than contractions, with expansions averaging four years or more and recessions less than two years in duration (at least since the Great Depression).

Compared with other developed markets, the U.S. economy is less concentrated in manufacturing-focused export sectors that are subject to greater international competition. The U.S. is a leader in services, which are often domestically focused but can also support sizable exports. Recent tariff increases explicitly aim to push against this trend by incentivizing greater domestic manufacturing activity, but the degree to which these efforts will be successful is yet unknown.

The U.S. maintains a higher share of GDP from household consumption (**Exhibit 12**) vs. other developed economies, in part because U.S. households have a higher propensity to spend their income rather than save it. Savings rates are much higher elsewhere in the developed world and in China—leaving them with stronger balance sheets but slower growth and less diversified economies. It is important to note that the distribution of economic activity in the U.S. is not mirrored in the capitalization of the stock market, where consumer sectors represent only about one-third of equity value.

U.S. labor markets are characterized by high mobility

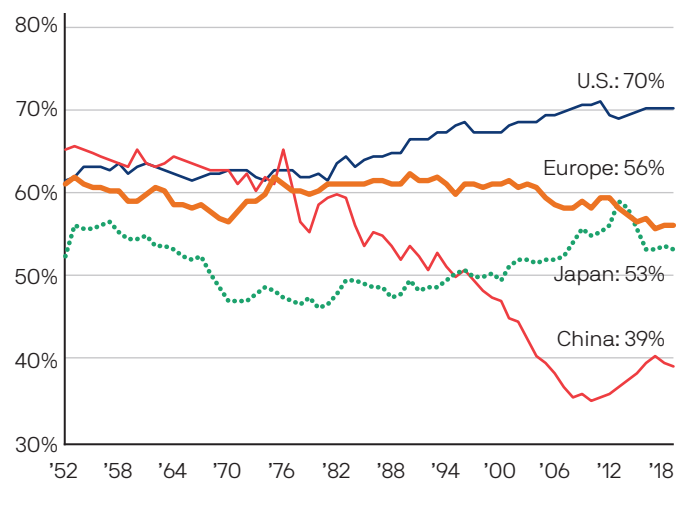
EXHIBIT 11: LABOR MOBILITY (SHARE OF U.S. OR EU WORKING-AGE POPULATION)



Source: Anthony Edo, J.P. Morgan Asset Management; data as of 2016. EU-15: the 15 member states before 2004; EU-28: Enlarged EU with 28 member states, including the UK before its withdrawal.

Compared with its peers, the U.S. has more household consumption

EXHIBIT 12: HOUSEHOLD CONSUMPTION, SHARE OF GDP SINCE 1952



Source: Feenstra et al. - Penn World Table (2023), J.P. Morgan Asset Management; data as of July 31, 2025. GDP per capita is expressed in international USD at 2017 prices, using multiple benchmark years to adjust for differences in the cost of living between countries over time. Europe represents the average of France, Germany and UK.

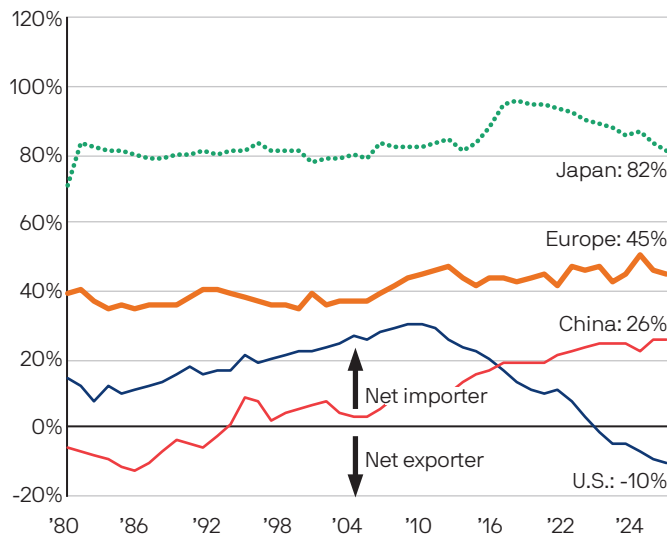
Energy independence: A competitive advantage globally

Unlike other major developed economies, the U.S. can source 100% of its energy needs domestically, drawing on both diversified energy production across fossil fuels and renewables (**Exhibit 13**). The U.S. is moving toward even greater levels of self-sufficiency and a growing role as an exporter, a marked contrast to its status as a large net energy importer some 20 years ago. Coal, which once accounted for about half of the U.S. energy generation mix, is less than 20% today and declining. Nuclear power has remained relatively stable, while natural gas and renewables have grown sharply.

This positive, top-down supply picture obscures a slightly less positive reality on the ground: The U.S. has underinvested in its energy distribution infrastructure—pipelines, long distance transmission lines and storage—limiting the efficient use of the energy produced (**Exhibit 14**). Nevertheless, the U.S. remains well insulated from the type of external energy supply shock that posed a serious economic challenge in the 1970s and early 1980s.

Once a net energy importer, the U.S. is now a net energy exporter

EXHIBIT 13: NET IMPORTS OF FOSSIL FUELS AS A PERCENT OF PRIMARY ENERGY



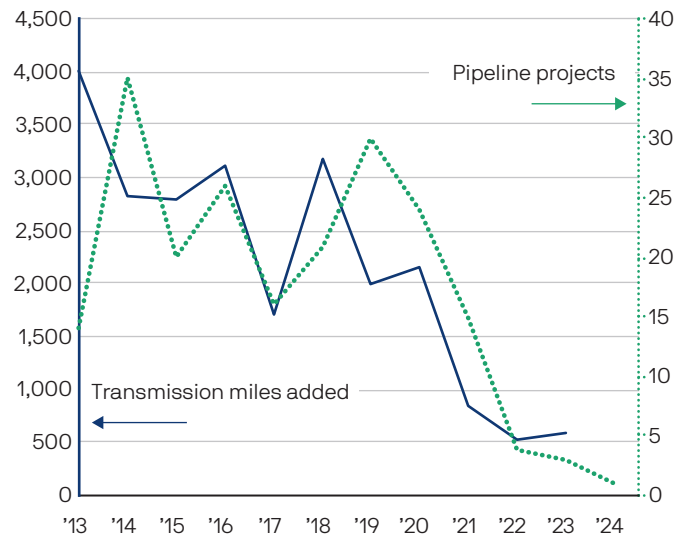
Source: Energy Institute Statistical Review of World Energy, J.P. Morgan Asset Management; data as of December 31, 2024.

Europe’s recent struggles dealing with natural gas supply disruptions following Russia’s invasion of Ukraine underscored the importance of energy independence and supply diversification. European companies historically paid roughly double the cost for energy compared to U.S. firms, and these costs skyrocketed following the invasion. Even after the EU moved aggressively to import non-Russian gas and expand access to renewables, European companies still spend roughly 4x what U.S. companies did on energy. That’s a meaningful competitive disadvantage.

Key engines of future growth, such as artificial intelligence and the energy-hungry data centers it requires, demand local access to massive amounts of electricity. Low cost and stable supplies are critical variables in the calculus of where to build these facilities. Access to fossil fuels, nuclear and renewables leaves the U.S. in a structurally advantageous position relative to many other developed economies.

The U.S. needs to increase transmission and pipeline capacity

EXHIBIT 14: U.S. TRANSMISSION LINE AND PIPELINE GROWTH



Source: S&P Global, U.S. Energy Information Agency, J.P. Morgan Asset Management; pipeline data as of January 31, 2024 and transmission data as of January 31, 2023.

Pivoting from trade efficiency to tariff revenue

From the advent of the General Agreement on Tariffs and Trade (GATT) in the 1940s and through the modern era of the World Trade Organization (WTO), the U.S. pursued a trade agenda focused on lowering tariffs and trade barriers globally. Over time, the overall level of trade increased significantly, helped by advances in shipping technology (containerization) and the extension of supply chains to maximize production efficiency. Growing trade boosted the global economy and many export-oriented economies experienced rapid development.

The impact on the U.S. economy was mixed. Domestic manufacturing suffered as production shifted to lower-cost locations in Asia and elsewhere, but consumers and business benefited from access to cheaper goods and new markets around the world. China's admission into the WTO accelerated the transition of the U.S. economy from manufacturing to services, but it did not diminish overall U.S. growth or the country's appeal as

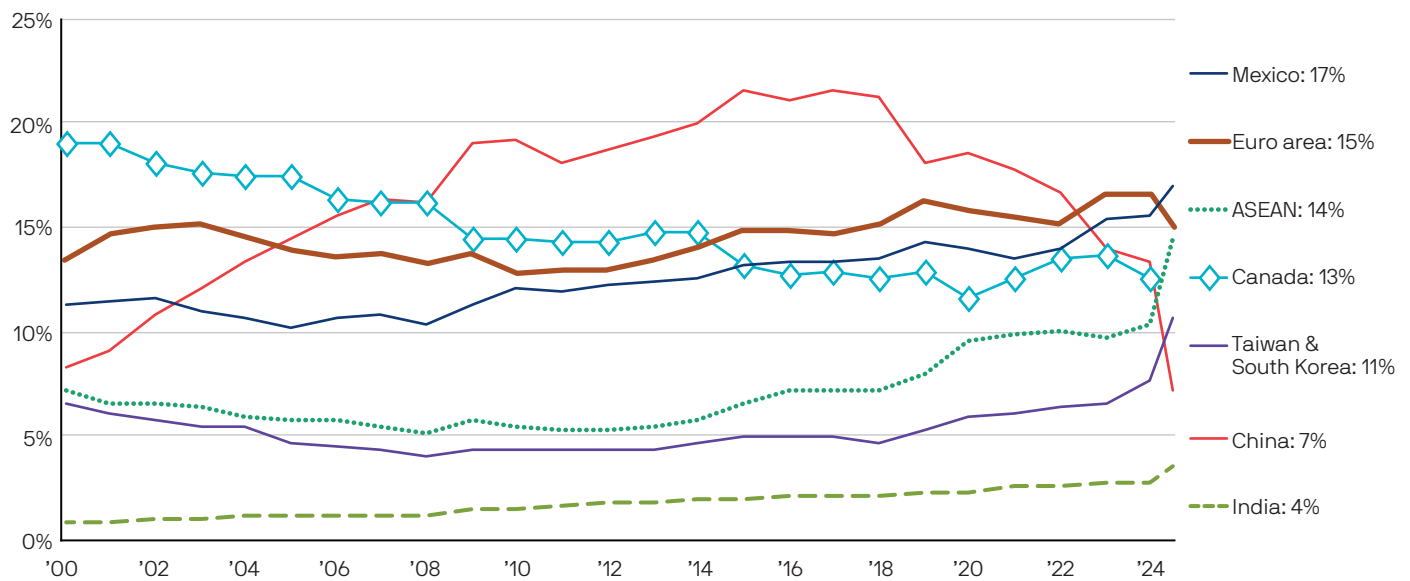
a destination for investment capital. U.S. willingness to engage in relatively open global trade strengthened the dollar's status as the world's currency, enhanced corporate profitability and contributed to a sustained period of disinflation and low interest rates.

In recent years, the official U.S. position on trade changed dramatically. This shift began with the U.S. tariffs on Chinese exports imposed during the first Trump administration and maintained under the Biden administration. The early phase of this approach resulted in a significant rerouting of U.S. imports from China to non-China Asia and Mexico—in some cases, representing transshipment of Chinese goods through these locations to avoid tariffs (**Exhibit 15**). More comprehensive global tariffs implemented during the current Trump administration are explicitly designed to limit this sort of geographic sleight-of-hand.

Companies will find it more difficult to avoid such comprehensive tariffs and as a result, goods prices in the U.S. may rise—either because of the tariffs

U.S. imports have shifted away from China

EXHIBIT 15: U.S. GOODS IMPORTS BY ORIGIN



Source: FactSet, U.S. Census Bureau, World Trade Organization, J.P. Morgan Asset Management; data as of June 30, 2025. Canada data is as of December 31, 2024.

themselves or because manufacturing “re-shores” to the higher cost U.S. market.

As long as tariff policy is unsettled, global patterns of capital investment may be more volatile. High tariffs pose a serious challenge to export-oriented economies that have based their industrial policy on access to the U.S. market. Some production may relocate to the U.S. and in some cases, producers may simply maintain offshore production with tariff costs passed along (fully or partially) to consumers. To the extent that costs cannot be fully passed through, profits may suffer.

Exporters will seek to replace lost U.S. demand elsewhere, but it may be difficult to find other export markets or to increase domestic consumption sufficiently to close the gap. Protecting domestic industries may become more widespread, and global trade may well diminish over time. One casualty will be demand for U.S. dollars, at least at the margin, as trade and economic activity flows elsewhere.

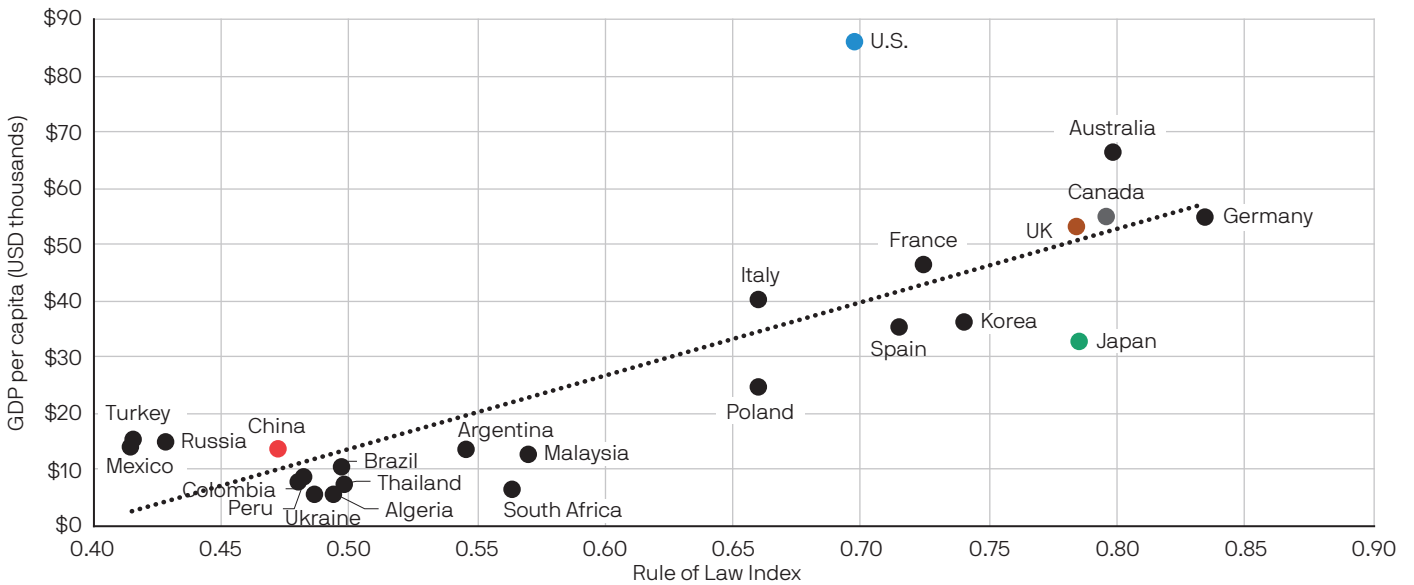
Rule of law and strong institutions

Clear rules are essential to the functioning of complex economies and financial markets, in part because when long-term investors are committing capital, they depend on legal contracts and well-defined, unbiased processes for dispute resolution. Data show that the rule of law is positively correlated with higher levels of GDP per capita, and countries with robust legal systems and stable economic policies have been able to attract capital in larger amounts and at lower cost than other countries.

The U.S. has long been at or near the top of the World Justice Project’s Rule of Law Index, shown below, along with other highly developed economies in Europe and Asia (Exhibit 16). We see some “clustering” of nations in high/medium/low groups, with the U.S. in the middle of the highest cohort.

Stronger adherence to rule of law is associated with higher GDP

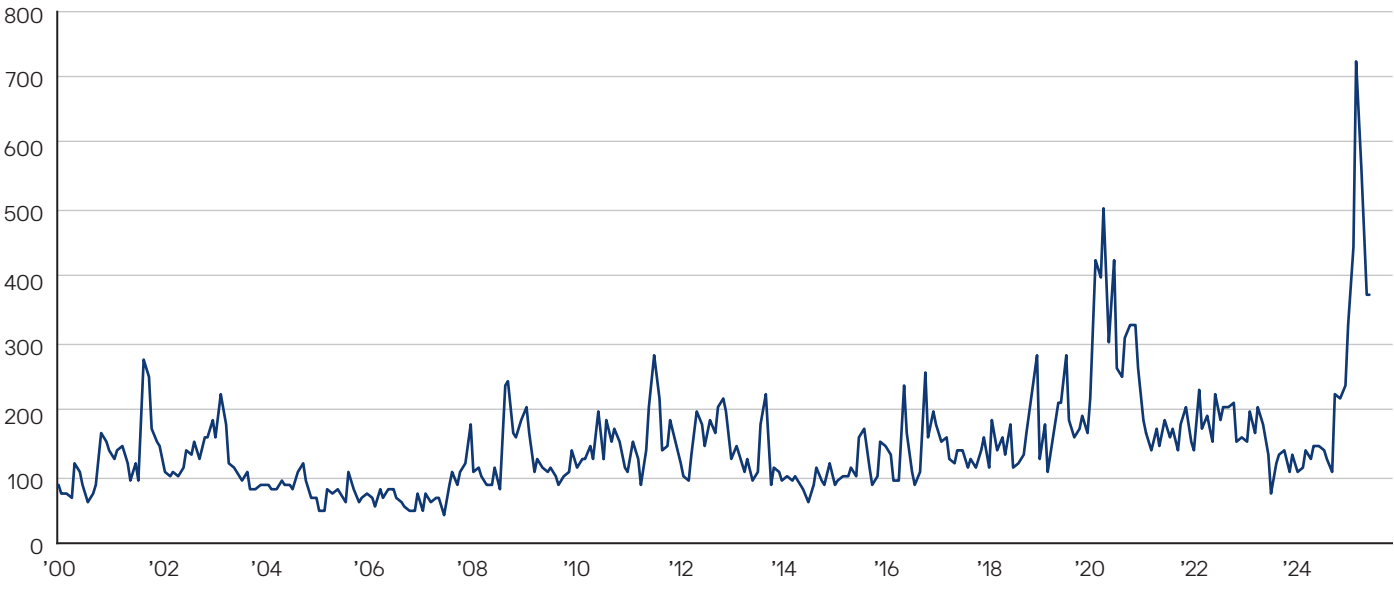
EXHIBIT 16: GDP PER CAPITA VS. RULE OF LAW INDEX



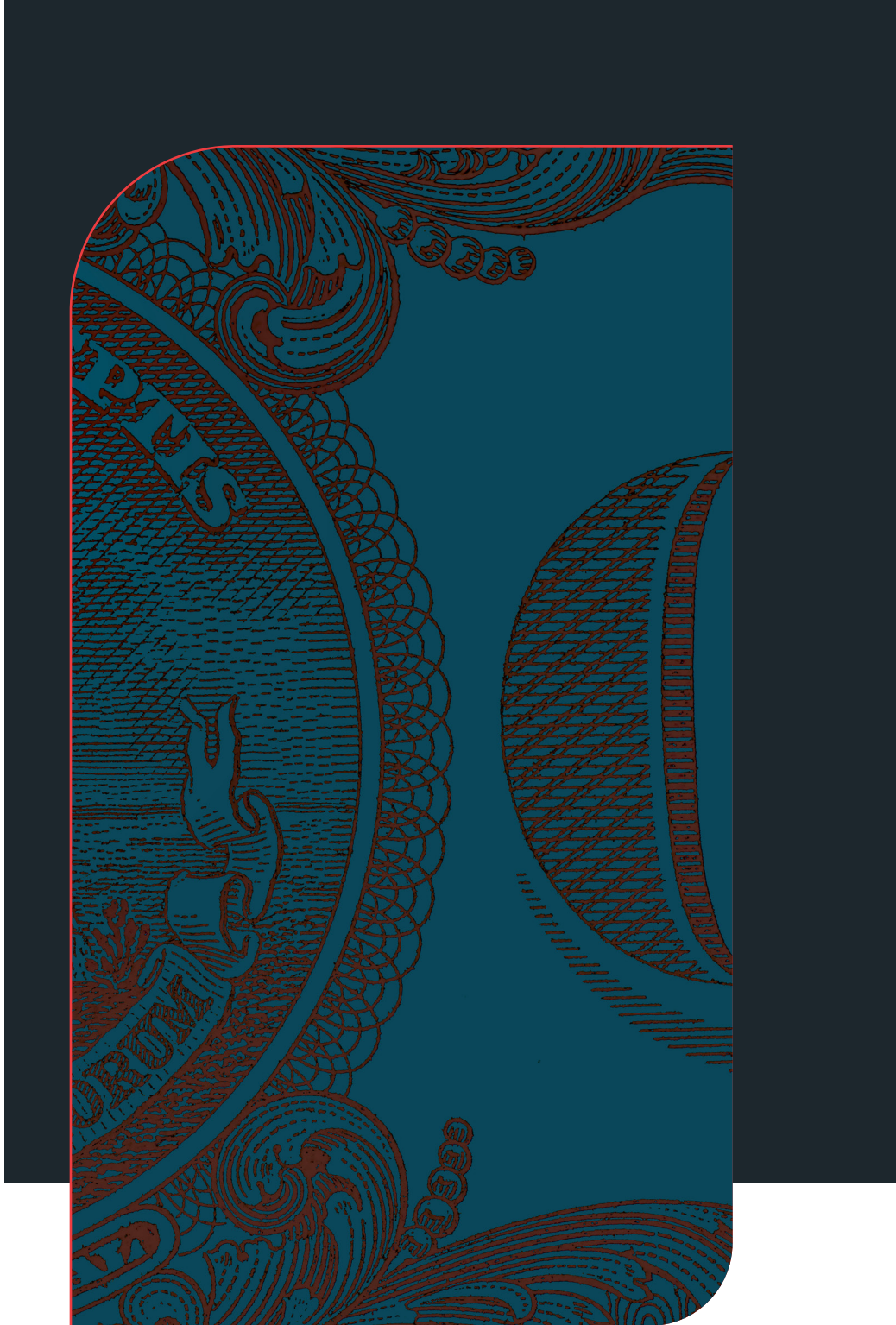
Source: World Bank, World Justice Project, J.P. Morgan Asset Management; data as of December 31, 2024. Includes countries with over 25 million in population.

Measures of economic policy stability offer a less positive outlook, with a trend toward instability and more volatility (**Exhibit 17**). In recent decades, more significant policy changes and reversals have occurred from one administration to the next. Although these shifts fall within the guardrails of normal democratic process, investors generally prefer a higher level of consistency across time.

Economic policy instability in the U.S. has risen
EXHIBIT 17: U.S. ECONOMIC POLICY INSTABILITY INDEX (2000–2025)



Source: Bloomberg, J.P. Morgan Asset Management; data as of July 31, 2025. The index gauges economic policy uncertainty based on three components: newspaper coverage, tax code provisions set to expire and disagreement among economic forecasters.



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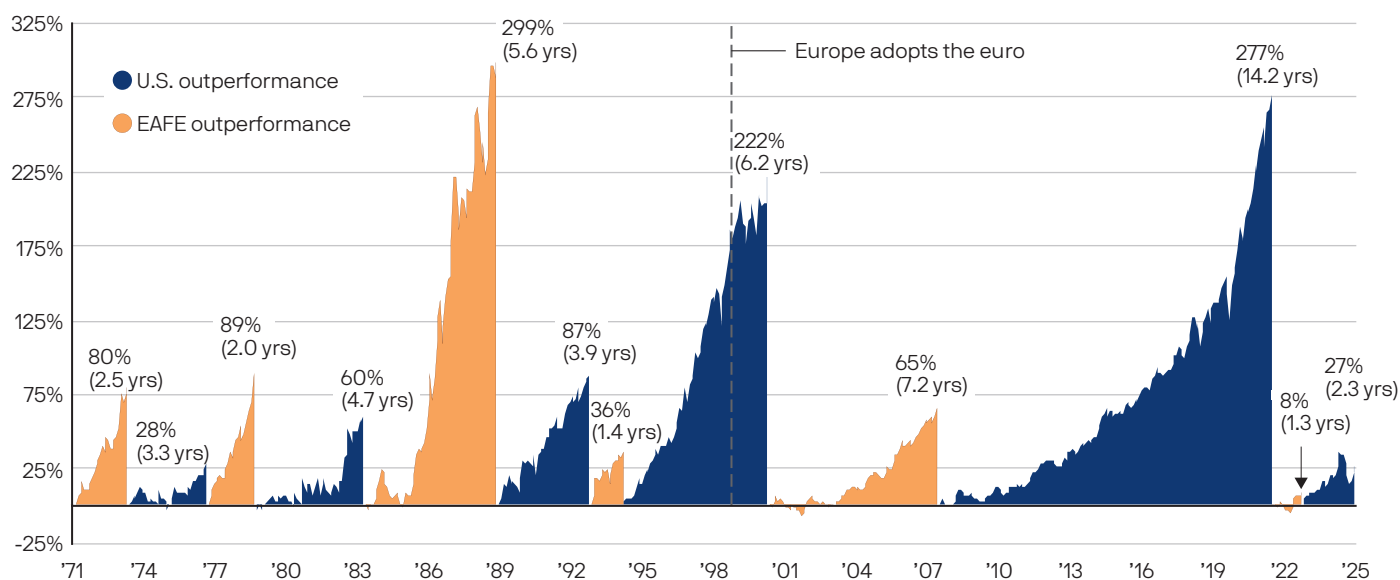
Reversal of fortune for Europe?

As we've discussed, U.S. exceptionalism could face challenges from growing strength—or diminished weakness—in non-U.S. developed markets.

As a region, Europe offers a level of economic scale, sector diversification and financial sophistication to rival the U.S. Until the global financial crisis, U.S. and European markets swapped alternating periods of relative strength, which were generally of limited duration and magnitude (**Exhibit 18**). That pattern suggests that when economies and markets are driven by a normal ebb and flow of business cycles, changes in market expectations and valuations follow the economic shifts.

The U.S. and Europe have alternated cycles of outperformance

EXHIBIT 18: CUMULATIVE OUTPERFORMANCE DURING EACH REGIME, * U.S. VS. EAFE INDEX



Source: FactSet, MSCI, J.P. Morgan Asset Management; data as of July 31, 2025. Indices used in the exhibit are the MSCI EAFE Index and the MSCI USA Index.

*Regime change determined when cumulative outperformance peaks and is not reached again in the subsequent 12-month period.

The last major period of European outperformance occurred in the 1980s, prior to the adoption of the euro, and a more modest run of relative strength came during the period leading up to the GFC. Since then, however, the U.S. has experienced an essentially uninterrupted run of market outperformance. The magnitude and duration of that outperformance are unprecedented. What's less clear: Is this a structural or cyclical change?

If U.S. outperformance reflects the emergence of structural advantages, then high relative U.S. valuations may be a more permanent condition. However, U.S. outperformance may reflect a longer-than-normal cyclical slowdown, or temporary inefficiencies in the euro-area economy that policy could address. In that case, a reversal of the recent cycle could lead to a period of extended U.S. underperformance, possibly catching many investors unprepared.

Exhibit 19 considers the broad set of structural factors that drive U.S. exceptionalism, here applied to the euro area. In many, though not all, respects, there are reasons to think that Europe may be able to narrow gaps with the U.S. in ways that will improve its position as a destination for capital. Whether these improvements will be sufficient to displace the U.S. remains uncertain.

As a region, Europe offers a level of economic scale, sector diversification and financial sophistication to rival the U.S.

How does Europe rank in drivers of exceptionalism?

EXHIBIT 19: EURO AREA STRUCTURAL FACTORS DRIVING EXCEPTIONALISM

Reserve currency status	<ul style="list-style-type: none">• The euro remains the clear second choice for global currency reserves given its broad use in trade, ease of convertibility and deep and liquid markets.• More fiscal spending will increase the size and liquidity of the European sovereign debt market, adding to the supply of EUR reserve assets for central banks.• Given a large export sector, euro currency strength poses a greater economic headwind than dollar strength to the U.S.
Depth of capital markets	<ul style="list-style-type: none">• The eurozone has deep and liquid equity and bond markets, though not to the same extent as the U.S. Europe's national/sub-regional fragmentation remains a barrier to increasing market efficiency.• Steps toward greater fiscal unification offer the prospect of a deeper and more liquid regional debt market with less yield dispersion across individual countries and firms.• Banking and capital market unification would produce a more competitive financial services industry across the eurozone.
Labor market dynamics	<ul style="list-style-type: none">• Aging populations and very low birth rates create persistent demographic challenges for labor supply; overall immigration is insufficient to offset this.• Strong labor unions and worker-friendly governments have resulted in a high-cost labor market.• Europe may become a relatively more favorable destination for highly educated immigrants.
Diverse and resilient economy	<ul style="list-style-type: none">• Greater exposure to both manufacturing and exports increases economic cyclicality.• Willingness to expand fiscal deficits, and more growth-friendly central bank policies, should provide an offset to growth shocks.• Increasing investment in defense, infrastructure, energy and technology sectors may stimulate long-term productivity growth.
Energy independence	<ul style="list-style-type: none">• Fossil fuel production within the euro area is limited and cannot meet demand, leading to dependence on imports to fill the gap.• Increasing investment in renewables has reduced the energy shortfall but further supply diversification is needed.• Willingness to retain fossil fuel usage and re-start nuclear generation within a more pragmatic approach to ESG considerations.
Openness to trade	<ul style="list-style-type: none">• Strong export sector based on high value manufacturing, luxury goods and food products.• Internal trade barriers limit efficiency gains within the eurozone. Broadly open to free trade globally, except for some agricultural sectors and "national champion" industries.• Industrial manufacturing (autos in particular) is vulnerable to high volume Chinese exports.
Rule of law/strong institutions	<ul style="list-style-type: none">• Many EU member states are among the highest scoring nations with respect to rule of law, though some Southern and Eastern European countries lag.• The European Central Bank (ECB) plays an outsized role given fiscal constraints at the individual country level, but its narrow mandate can be a limitation.• High levels of regulation and bureaucratic influence create a less business friendly environment, but reforms are in process.

Source: J.P. Morgan Asset Management; data as of July 31, 2025.

Growth-oriented policy changes

Policymakers will play an important role in determining the relative strength of the European economy in the near term. Several initiatives are underway to improve European growth and competitiveness. Among these are:

- In a significant change from past policy, Germany is now using its strong balance sheet in support of increased fiscal spending, with a particular focus on defense. Over the next decade, these initiatives could add up to 3% of GDP growth for Europe's largest economy.
- As EU defense budgets increase, funds will flow to regional producers supporting manufacturing and jobs across Europe. Fearing what they perceive to be a growing threat from Russia, more EU countries are reaching the North Atlantic Treaty Organization (NATO) target of 2% of GDP for defense spending. At the recent NATO defense summit, there was agreement on raising total spend to 5%, including 3% on defense and an additional 2% on infrastructure.
- Diversification of the euro area's energy supply and continued investment in renewables could make the European economy more resilient to global energy supply and price shocks.
- A healthier European banking system, and the prospect for further fiscal expansion and integration at the sovereign level, should deepen capital markets and lower the cost of capital across the region.
- With regulators' encouragement, private sector companies have begun embracing shareholder-friendly capital management techniques such as share buybacks, which will elevate earnings per share (EPS) and reduce volatility over time.

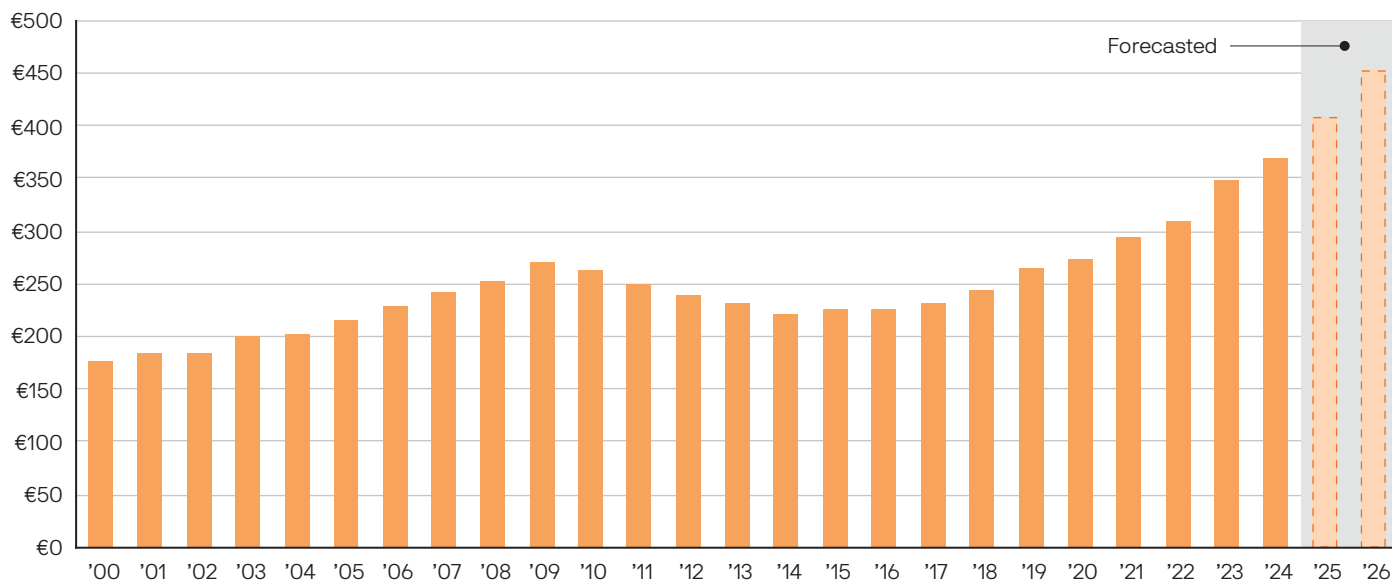
A cyclical boost from fiscal spending

Following the creation of the common currency, the eurozone maintained a structural bias toward fiscal restraint, even when economic circumstances might have dictated more countercyclical policy. For example, the annual growth in government investment was higher in the benign environment leading up to the GFC than in the critical period following the sovereign debt crisis—when it fell to roughly zero for a decade. This combination of a slow recovery from a banking crisis and an extended period of fiscal austerity contributed to European economic and market underperformance.

Recently, however, the willingness of the EU to tolerate higher levels of deficit spending has spurred substantial growth in government investment (**Exhibit 20**). Government spending, which initially rose during COVID and then again more significantly following the Russian invasion of Ukraine, will likely be a key feature in the eurozone for some time to come. The launch of the EU recovery fund (NextGenerationEU) and Germany's recent debt brake reform (in which defense spending above 1% of GDP will not be subject to any borrowing limit) provide much needed room to increase debt-financed investment and fiscal stimulus.

The eurozone plans to increase fiscal spending after a stagnant decade

EXHIBIT 20: EUROZONE GOVERNMENT FIXED CAPITAL FORMATION (NOMINAL EURO BILLIONS)



Source: Organisation for Economic Co-operation and Development (OECD), J.P. Morgan Asset Management; data as of June 3, 2025. Data for 2025 and 2026 reflect OECD forecasts. The eurozone figures are the sum of France, Germany, Italy and Spain.

European policymakers increased their targeted defense spending, both in response to the direct military threat from Russia and amid concerns that the U.S. was less willing to make up the gap from Europe’s underinvestment in its own defense (**Exhibit 21**). But anxiety over the military capability of NATO’s EU members to counter the Russian threat is a strong motivation to build out a more robust military capability and the defense sector that drives it. This will require a multi-year commitment to grow and maintain defense spending at levels well above historical norms.

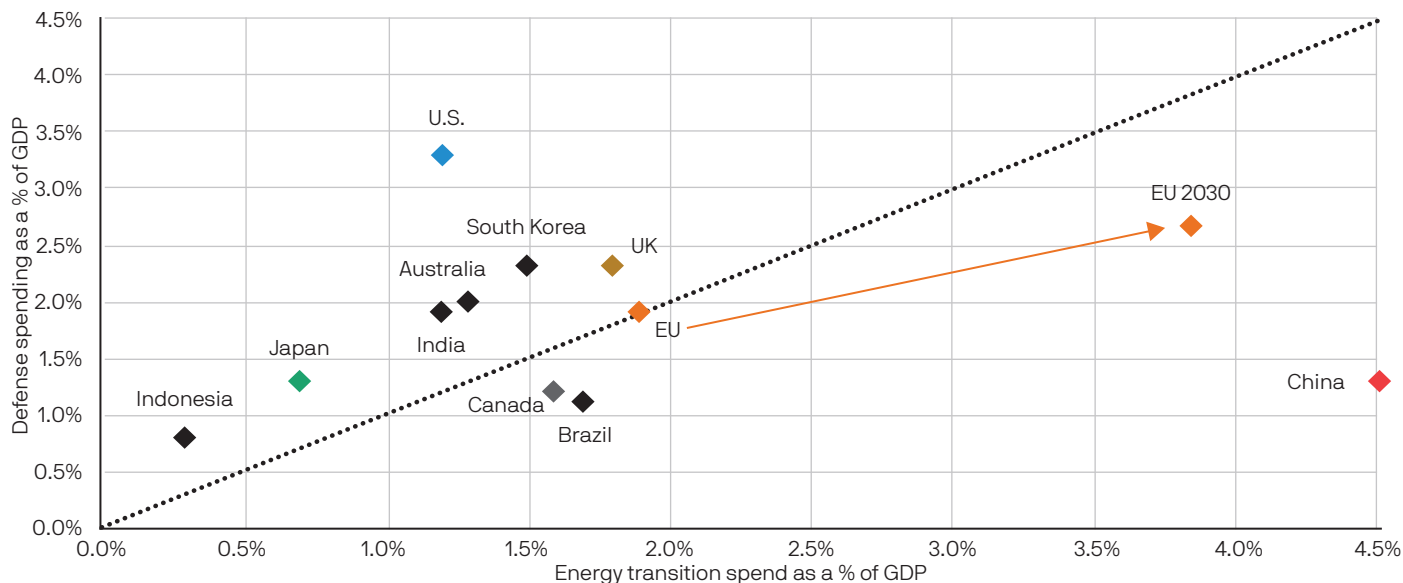
Easing bureaucracy at the margins

In recent years, the EU has begun taking some steps to reform overly burdensome regulations. It’s a work in progress. Policymakers look to cut red tape and foster a more competitive and innovative environment, while maintaining the EU’s core values. Market participants have long viewed EU regulations as a barrier to innovation and growth, particularly where overlapping regional and local rules add complexity.

The recent introduction of the Omnibus package by the European Commission marks a new phase in this deregulatory project. The package aims to simplify key EU Green Deal regulations by narrowing their scope of application, delaying implementation timelines and softening enforcement mechanisms:

The EU is taking steps to bolster defense and infrastructure spending

EXHIBIT 21: DEFENSE AND ENERGY TRANSITION EXPENDITURE AS A SHARE OF GDP



Source: Bloomberg New Energy Finance, International Institute for Strategic Studies, International Monetary Fund, J.P. Morgan Asset Management; data as of 2024.

- Significantly, the Omnibus package reduces the number of companies subject to sustainability reporting requirements, saving billions of euros in annual administrative costs and allowing companies to redirect resources toward investment.
- The package also narrows the scope of supply chain regulations to cover only direct business partners, lowering compliance costs associated with doing business in European markets.

The EU is also creating a digital single market (DSM) that will apply consistent regulation across the eurozone, minimizing uncertainty for businesses and leveling the competitive playing field.

Banking and capital market unification

The European sovereign debt crisis of the early 2010s was the watershed moment in the story of European regulatory reform. In a fragmented financial sector, many eurozone banks suffered substantial losses during the crisis and struggled to recapitalize their balance sheets. But the severity of the crisis also created a political imperative to improve the system. Since then, the EU has made real progress in developing a more coherent and streamlined model of bank regulation and fostering a single capital market across the region.

The European banking union, launched in 2012, shifted key elements of bank regulation away from individual sovereign governments and increased the influence of the European Central Bank (ECB) as a regional regulator. The banking union is built on three foundational pillars:

- Single Supervisory Mechanism (SSM): The SSM empowers the ECB to oversee Europe’s largest banks, known as “significant institutions.”
- Single Resolution Mechanism (SRM): The SRM has been instrumental in managing bank resolutions efficiently, minimizing costs for taxpayers.
- Pan-European deposit insurance: Still a work in progress, the European Deposit Insurance Scheme (EDIS) promises to enhance depositor protection across the EU, increasing confidence in the banking system regardless of location.

The capital markets union (CMU), initially proposed in 2014, aims to integrate capital markets across the EU, improving competitiveness and harmonizing financial regulations. Capital market integration strengthens Europe’s strategic autonomy. By making capital-raising more efficient, the CMU reduces reliance on offshore financial markets and bolsters Europe’s ability to fund key initiatives internally.

At the peak of the sovereign debt crisis, many questioned the solvency of the European banking systems and some feared the breakup of the eurozone itself. The landscape today could not look more different: Recapitalized European banks returned 200 billion euros in buybacks and dividends to shareholders in 2024, and recently surpassed the RoE of U.S. banks. Investors have been rewarded. Shares in eurozone banks have returned 125.7% since the beginning of 2023.

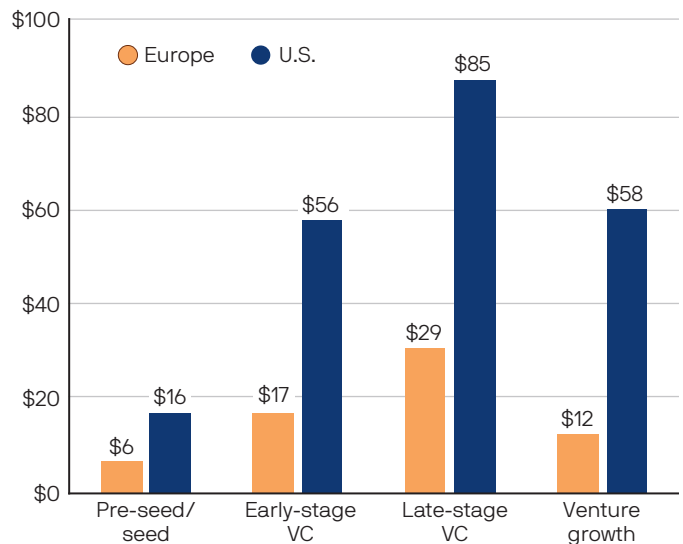
Closing the innovation gap with the U.S.

Outside of banking, there remains a great deal of work to be done if Europe is to meaningfully close the gap with the U.S. in other sectors. Nowhere is this more important than in the technology sector. Europe has some bright spots in chipmaking equipment and certain software sectors, but the relative position of the U.S. will almost certainly remain far stronger for the foreseeable future.

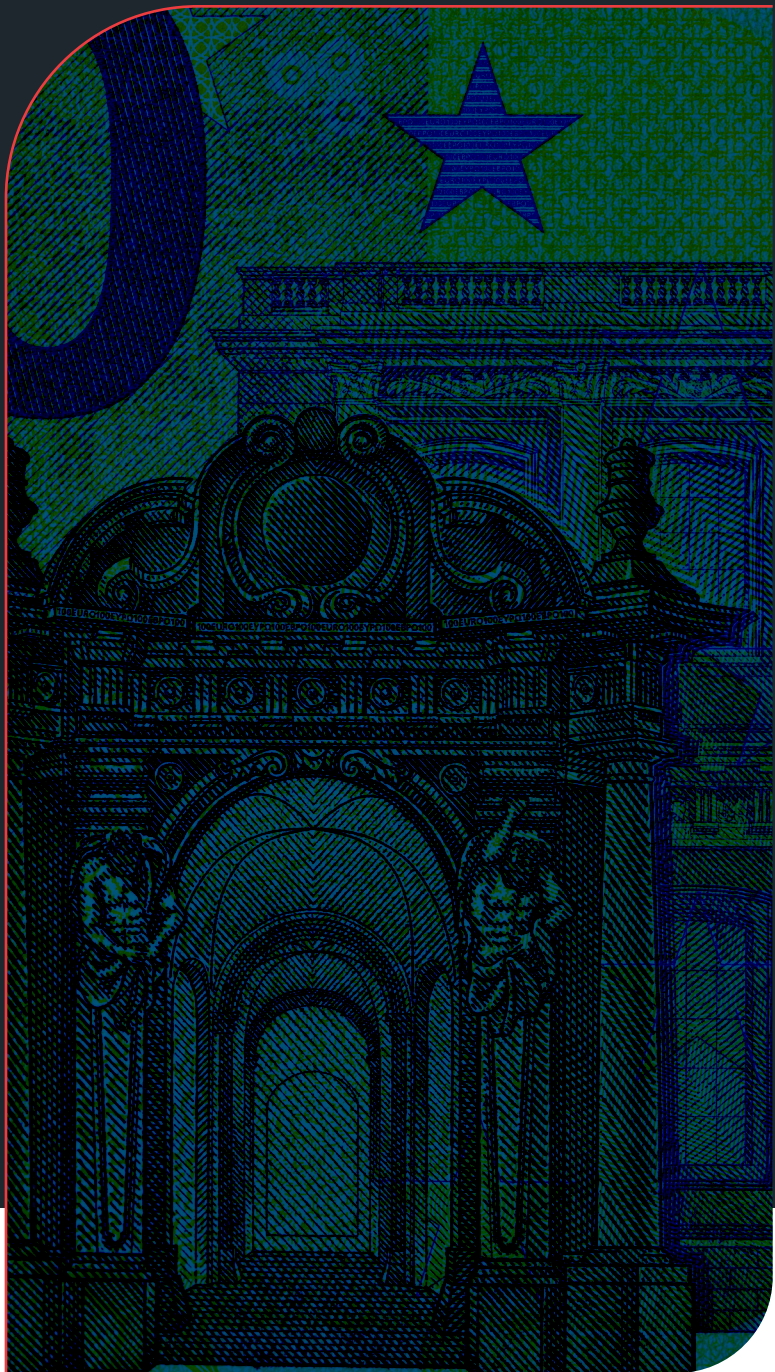
The prevalence of technology firms in the U.S. is not an accident but rather the direct result of a dynamic venture capital and growth equity industry fostering innovation and providing ample capital to growing firms over the early stages of their lifecycle. This creates a positive feedback loop that entices founders to come to the U.S. and remain there as their companies grow and eventually go public. The European venture capital industry is much smaller than its U.S. counterpart and will need many years of growth to make a dent in the U.S. lead (**Exhibit 22**).

The EU lags the U.S. in the venture capital space

EXHIBIT 22: VENTURE CAPITAL INVESTMENT BY DEVELOPMENT STAGE (2024, USD BILLIONS)



Source: Pitchbook, J.P. Morgan Asset Management; data as of June 30, 2025.



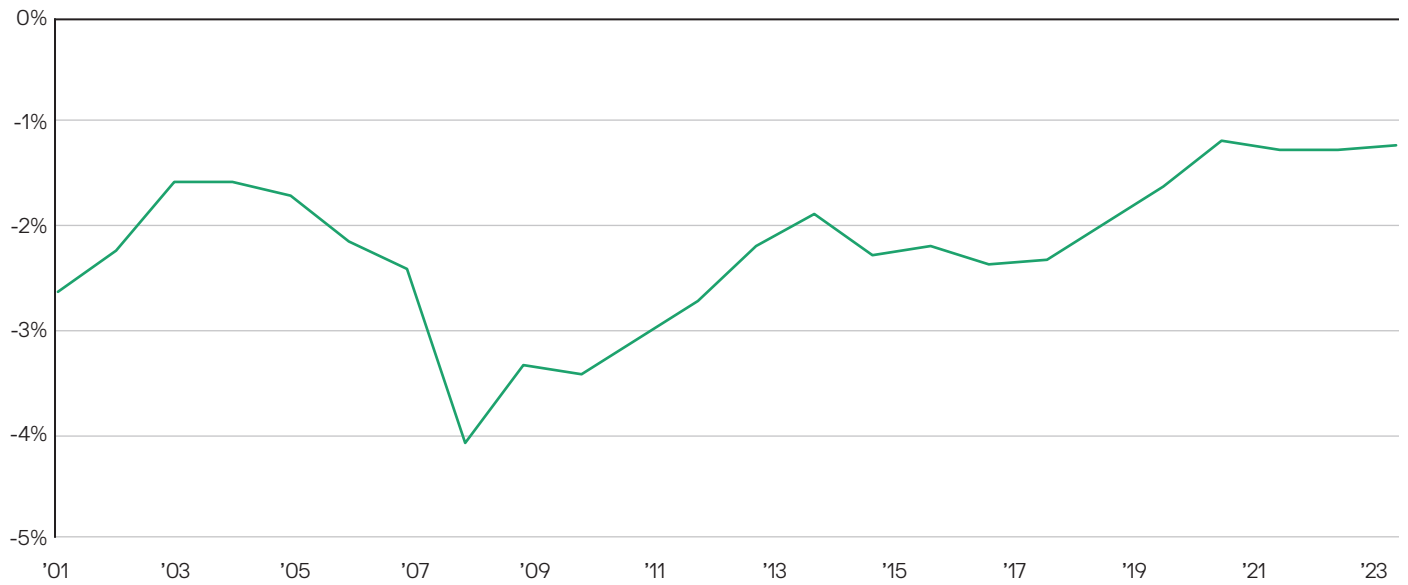
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Is Japan ready for a comeback?

During Japan's "lost decades," which ran from 1990 to roughly 2010, it would have been difficult to imagine that the struggling economy could ever pose a challenge to U.S. exceptionalism. But today Japan, like Europe, offers investors a large and diversified economy, robust equity and fixed income markets and the potential to deliver market performance that builds on more attractive initial valuations. Over the past few years, Japanese equity performance has turned positive as economic green shoots and market reforms have driven capital inflows after years of investor underweights to Japan (**Exhibit 23**).

An underweight to Japanese stocks remains, but has improved over time

EXHIBIT 23: JAPAN PORTFOLIO WEIGHT ESTIMATE VS. MSCI ACWI JAPAN INDEX WEIGHT



Source: International Monetary Fund Coordinated Portfolio Investment Survey, J.P. Morgan Securities Japan, J.P. Morgan Asset Management; data as of September 30, 2024.

How then does Japan compare with other countries on the key structural components of exceptionalism (Exhibit 24)? Are there reasons to believe that Japan's recently improved performance could extend further?



How does Japan rank in drivers of exceptionalism?

EXHIBIT 24: JAPAN STRUCTURAL FACTORS DRIVING EXCEPTIONALISM

Reserve currency status	<ul style="list-style-type: none">• The yen is a widely held reserve currency, but usually in much smaller weights than the U.S. dollar or euro.• The yen is generally viewed as a safe-haven currency, particularly across Asian markets, and may benefit if market volatility increases.• Increasing demand from investors for Japanese financial assets could lead the yen to strengthen, supporting performance of the currency.
Depth of capital markets	<ul style="list-style-type: none">• Japan has deep and liquid equity and bond markets, with largely institutional participation and a less active retail market.• Although Japanese companies have traditionally been shareholder-unfriendly, capital market reforms are helping to increase financial efficiency in the corporate sector.• Extreme debt/GDP ratio is a source of concern for fixed income investors, as is the high share of debt held by the Bank of Japan. Repatriation of capital may cause the yen to strengthen.
Labor market dynamics	<ul style="list-style-type: none">• Rapidly aging populations and very low birth rates create persistent demographic challenges for labor supply.• Net migration has turned positive in recent years, but not enough to offset demographics given reluctance to embrace immigration.• Female labor force participation has increased steadily in recent decades and is now on a par with the U.S.
Diverse and resilient economy	<ul style="list-style-type: none">• Well-diversified economy: High exposure to domestic services provides some economic stability, offset somewhat by a large manufacturing-focused export sector.• Increasing investment in defense creates opportunities for internal investment and employment/wage gains.
Energy independence	<ul style="list-style-type: none">• Japan is energy dependent, with supply concentrated in imported fossil fuels including oil, coal and liquefied natural gas (LNG).• Nuclear power was curtailed following the 2011 Fukushima disaster but is beginning to come back online.• Increasing investment in renewables has reduced the energy shortfall but further diversification of supply is needed.
Openness to trade	<ul style="list-style-type: none">• Japan has a strong export sector based on high value manufacturing, but it is also a large importer of natural resources.• Japan has very low tariffs across the board, with an exception for certain agricultural products.• Japan has been a leader in foreign direct investment, moving production offshore when appropriate.
Rule of law/strong institutions	<ul style="list-style-type: none">• Japan ranks highly with respect to rule of law and has maintained a stable multi-party democracy since the end of World War II.• The Bank of Japan and Ministry of Finance lead the regulation of financial markets, with support from securities exchanges and industry organizations.• High levels of regulation and bureaucratic influence have created a less business friendly environment, but reforms are underway.

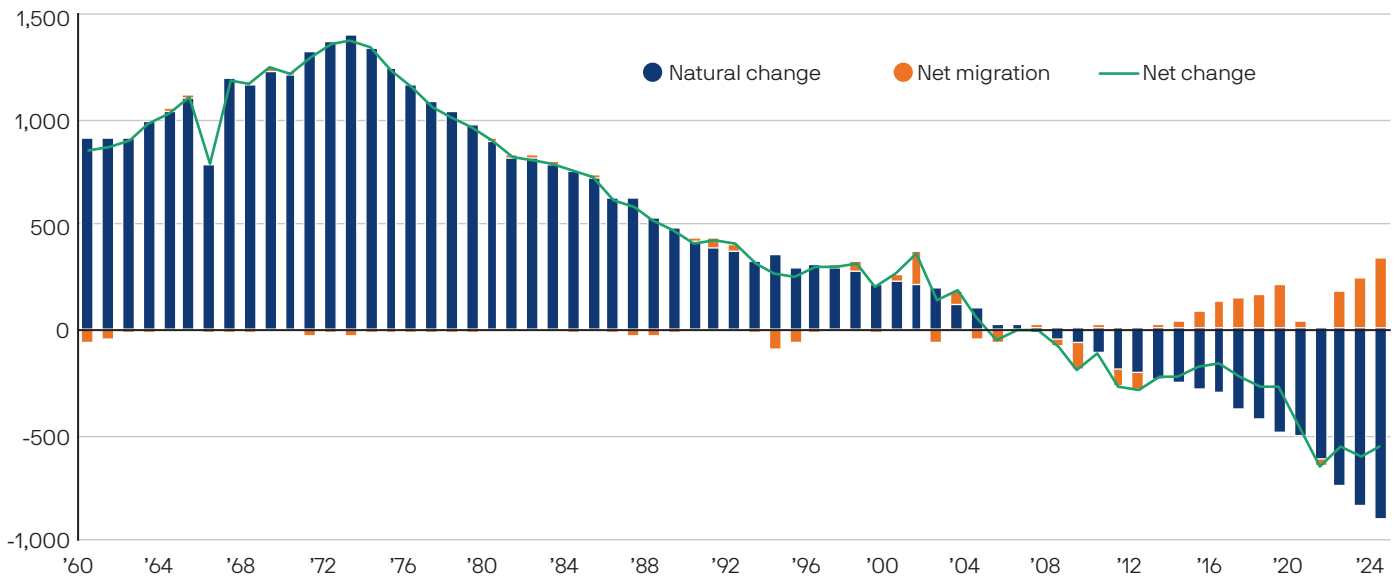
Source: J.P. Morgan Asset Management; data as of July 31, 2025.

Demographic pressures, corporate resilience

It is impossible to discuss Japan's outlook without considering the headwinds created by demographic pressures. Japan's population is aging rapidly. Despite an upturn in net migration—which is itself no small thing in a traditionally insular society—the absolute population level is in steep decline (**Exhibit 25**). Births exceed deaths by a material margin and the percentage of the population in the oldest age cohorts is rising rapidly.

Despite positive net migration, Japan's population continues to trend downwards

EXHIBIT 25: JAPAN POPULATION CHANGE OVER TIME (THOUSANDS)



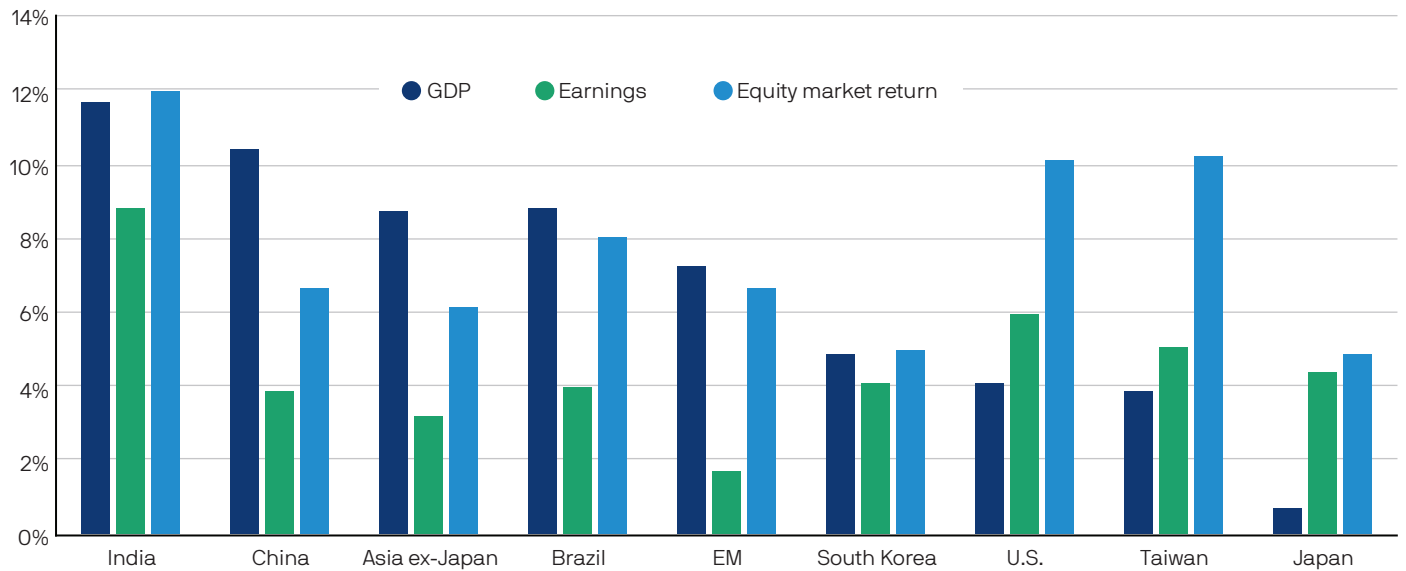
Source: Japan Ministry of Internal Affairs and Communications, J.P. Morgan Asset Management; data as of December 31, 2024.

As a result of this downward trend, Japan has a dependency ratio (percentage of non-working individuals relative to working individuals) above 70. For comparison, the U.S. ratio is 55 and the majority of EU countries range from the low 50s to the low 60s. Every country in the world with a higher dependency ratio than Japan has an extremely young population with many dependent children. There is virtually no plausible path for Japan to stabilize or reverse its demographic trend, which poses a clear challenge to the country's growth rate for the foreseeable future.

However, it is sometimes observed that “the stock market is not the economy” (and vice versa). Even as Japan's economy underperformed other developed markets for many years, it still featured many solidly profitable companies. Remarkably, since 2010 Japanese nominal GDP has been flat while the TOPIX index's percentage growth in EPS has fully matched that of the S&P 500 (and both have comfortably exceeded the MSCI Europe). Against a dismal domestic economic backdrop, Japanese companies have been able to deliver both solid earnings and positive market returns (**Exhibit 26**).

Despite muted economic growth, Japan's earnings and returns remain positive

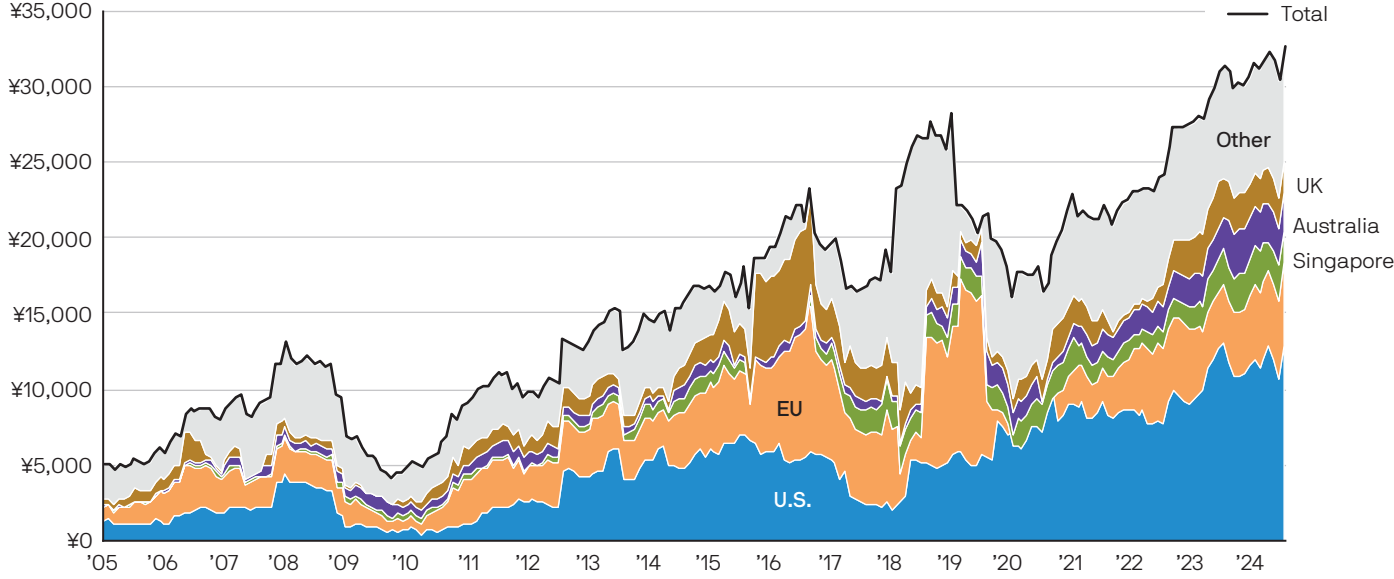
EXHIBIT 26: NOMINAL GDP GROWTH, EARNINGS AND EQUITY MARKET RETURNS (2004–2023, ANNUALIZED)



Source: FactSet, MSCI, World Bank, J.P. Morgan Asset Management; data as of April 30, 2025.

How did they do it? A key reason is Japan’s longstanding commitment to investing overseas, both through foreign direct investment and financial asset purchases (Exhibit 27). Many Japanese corporations export directly from Japan while also maintaining local production around the world. At a national level, Japan recycles its large current account surplus into holdings of foreign assets, ranking as one of the world’s largest creditors. The strength of the global balance sheet builds economic resiliency and provides Japan with greater flexibility against macroeconomic shocks, including tariffs.

Japan has been a leader in foreign direct investment
 EXHIBIT 27: JAPAN DIRECT INVESTMENT ABROAD (YEN BILLIONS)



Source: Ministry of Finance Japan, J.P. Morgan Asset Management; data as of June 30, 2025.

After decades of disinflation, Japan’s core inflation rate has stabilized above 2% for the past few years, and wages have begun to increase as well. Urban land prices, which came to symbolize the Japanese asset bubble of the late 1980s and early 1990s, have begun to move upward after almost 30 years of decline. In many countries, clear evidence of a wage-price spiral might be treated with alarm, but in Japan this is welcome news.

Corporate reforms are delivering real change

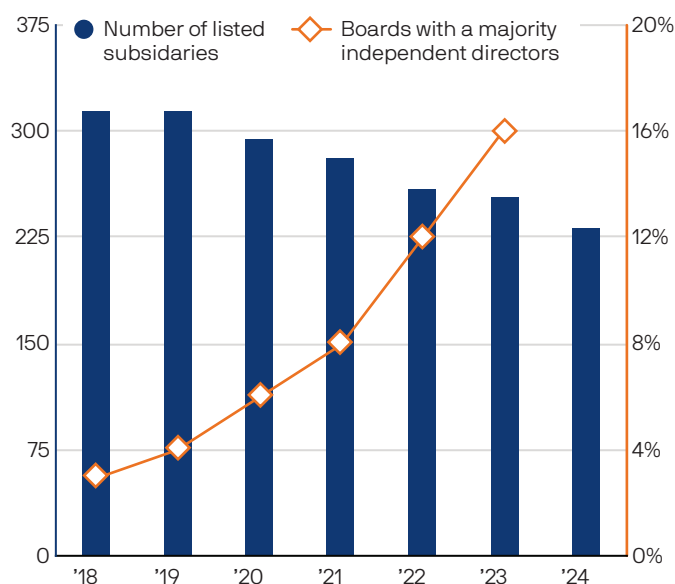
Japanese corporations were long seen as highly conservative and shareholder-unfriendly. Insiders dominated boards, excessive cash holdings were not distributed through dividends or share buybacks, large numbers of inefficient subsidiaries operated under corporate umbrellas and boards discouraged investor activism to unlock value by changing management.

That perception—and, gradually, the reality—began to shift with the advent of “Abenomics.” Launched by Prime Minister Shinto Abe in 2014, Abenomics featured a series of broad-based reforms to strengthen corporate governance, increase transparency and enhance shareholder value.

The reforms have delivered meaningful change. Boards have become more independent, return of capital to shareholders has accelerated, cross-shareholdings have declined and activist investors have increased their presence in the market. This is creating a positive feedback loop in which Japanese equity market fundamentals improve, investor awareness increases and fresh capital flows into the market (**Exhibit 28A** and **Exhibit 28B**).

Japanese corporate governance has improved since 2016

EXHIBIT 28A: LISTED SUBSIDIARIES AND PERCENTAGE OF COMPANY BOARDS WITH MAJORITY INDEPENDENT DIRECTORS



Source: Goldman Sachs, Janus Henderson, Tokyo Stock Exchange, J.P. Morgan Research, J.P. Morgan Asset Management; data as of December 31, 2024.

EXHIBIT 28B: ANNOUNCED SHARE BUYBACKS AND ACTIVIST INVESTMENTS (YEN TRILLIONS)



Source: Goldman Sachs, Janus Henderson, Tokyo Stock Exchange, J.P. Morgan Research, J.P. Morgan Asset Management; data as of December 31, 2024.

Still, a final piece of the puzzle is not yet in place. Japan's retail investors have remained risk averse. Despite decades of low interest rates, retail allocations are heavy on cash and light on equity relative to the U.S.

Policymakers hope to change that pattern, encouraging Japanese households to move personal savings into long-term investments, including equities (**Exhibit 29**). The Nippon Individual Savings Account (NISA), originally launched in 2014 and updated in 2024, is a tax-advantaged investment account inspired by the UK's Individual Savings Account (ISA) and the U.S. 401(k). Given the challenges posed by the looming retirements of an aging population, any improvement in retail investors' returns would be welcome.

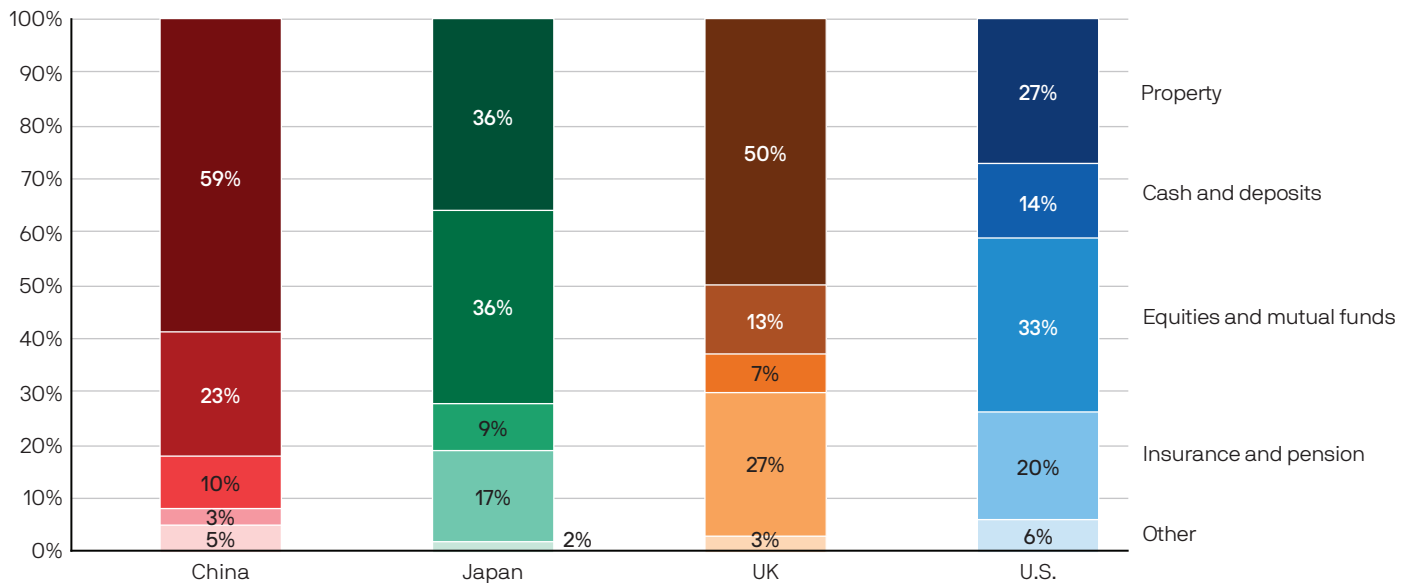
Certainly, Japan's current macro backdrop offers the potential for solid investment returns. We see signs that improving growth and stable inflation will support

higher rates, accelerating capital repatriation and strengthening the yen. This may lead to higher returns for both foreign and domestic investors. This virtuous cycle could lead to some rebalancing of global asset allocations in the direction of Japanese markets—particularly if investors believe the relative benefits of the U.S. are fading. Given the modest capitalization of Japanese markets compared with the U.S., even a small shift in capital flows could have an outsized impact on asset prices.

We see signs that improving growth and stable inflation will support higher rates, accelerating capital repatriation and strengthening the yen.

Japan has room to equitize private wealth

EXHIBIT 29: HOUSEHOLD WEALTH BY ASSET TYPE



Source: CEIC Data, China Trust Association, China Wealth, Goldman Sachs Global Investment Research, Halifax, Japan Cabinet Office, National Institution for Finance & Development, Wind Information, J.P. Morgan Asset Management; data as of December 31, 2022.

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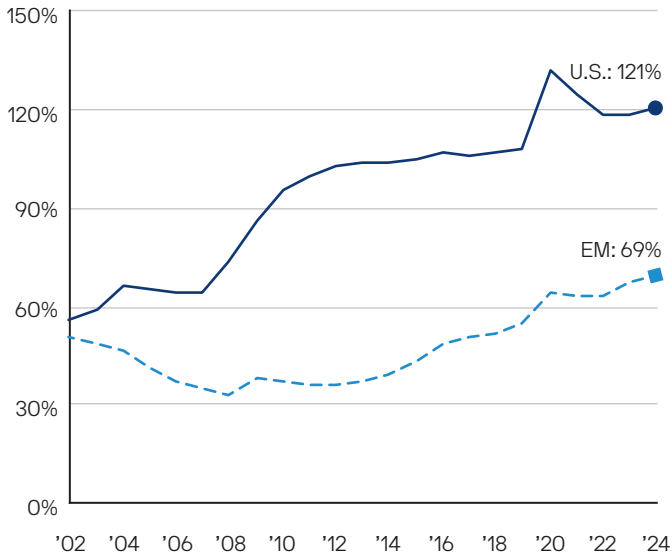
China and the broader emerging markets

Growing scale and market depth

The broader emerging markets can offer advantages to asset allocators, including unique return drivers, favorable demographics, and diversification across geographies and business cycles. The widespread perception is that many emerging market (EM) countries are heavily indebted and subject to frequent balance of payments crises, a pattern that may have been true in the past but seems less relevant today. Against the backdrop of weakening U.S. fundamentals, EM economies offer lower debt-to-GDP ratios and more attractive real yields relative to the U.S. (**Exhibit 30A** and **Exhibits 30B**).

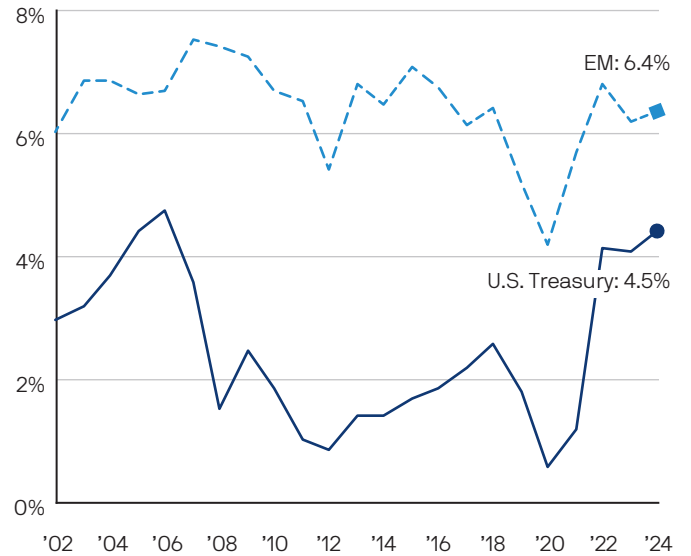
Emerging market economies exhibit stronger balance sheets

EXHIBIT 30A: DEBT-TO-GDP RATIOS



Source: Bloomberg, J.P. Morgan Asset Management; data as of December 31, 2024.

EXHIBIT 30B: YIELD-TO-WORST



Source: Bloomberg, J.P. Morgan Asset Management; data as of December 31, 2024.

Few individual EM economies have the economic scale or global integration to have a meaningful direct impact on the trajectory of the U.S. or other developed regions. China, and to a lesser extent India, are the two EM economies that could influence the direction of U.S. exceptionalism. China in particular has the scale and breadth of economic activity and market depth to serve as a partial alternative to the U.S. or other developed regions.

Exhibit 31 examines China's attributes in the same dimensions used earlier for the U.S., Europe and Japan.

How does China rank in drivers of exceptionalism?

EXHIBIT 31: CHINA STRUCTURAL FACTORS DRIVING EXCEPTIONALISM

Reserve currency status	<ul style="list-style-type: none">• The renminbi is held in many reserve portfolios but in limited size to support trade settlement.• If China increases bilateral trade with other countries, the use of the renminbi as a reserve holding could increase.
Depth of capital markets	<ul style="list-style-type: none">• Chinese capital markets have developed scale internally, but foreign participation is limited and high retail participation contributes to volatility.• Capital controls are a significant constraint and show no sign of being eliminated.• Chinese personal wealth is heavily concentrated in property markets, which presents a risk and limits personal wealth accumulation.
Labor market dynamics	<ul style="list-style-type: none">• China has an ample labor supply but is increasingly challenged to find productive labor for well-educated workers.• A demographic cliff is approaching in which the dependency ratio will climb rapidly from 44 today to 69 by 2050.
Diverse and resilient economy	<ul style="list-style-type: none">• China has a dynamic and entrepreneurial private sector, but recent policy changes have damaged investor confidence.• China maintains many large but inefficient state-owned enterprises and has an overdeveloped property sector.• Policymakers have yet to make significant progress in boosting domestic consumption (in services particularly) to add growth.
Energy independence	<ul style="list-style-type: none">• China is not yet energy independent, and it imports both coal and oil for electricity generation and transportation uses.• China is making massive investments in renewables to foster low-cost hydropower, solar and wind generation; it leads the world in battery technology.
Openness to trade	<ul style="list-style-type: none">• China seeks open markets for exports but often imposes non-tariff barriers on trade partners wishing to access its markets.• U.S. tariff policy, both direct tariffs and levies on transshipment, has the potential to reshape China's terms of trade with the world.• In addition to the U.S., the rest of the world has shown less willingness to absorb China's excess manufacturing capacity.
Rule of law/strong institutions	<ul style="list-style-type: none">• China offers many attractive benefits to firms operating in its markets, but the lack of a democratic process and minimal government transparency constrain global investment.• Geopolitical risk with respect to Taiwan and the South China Sea are deterrents to foreign investors.

Source: J.P. Morgan Asset Management; data as of July 31, 2025.

China faces a number of critical domestic challenges, including a broad lack of domestic consumption, overinvestment in the property sector and a dire demographic cliff. While any one of these could pose a serious threat to China's economic prospects, a Chinese economic downturn would be unlikely to have a disproportionate impact on any one of the major developed economies.

Of greater significance to the global status quo would be potential scenarios in which the U.S. position is threatened by Chinese actions in ways that do not impact other developed markets to the same degree. Two such possible (not necessarily probable) scenarios:

1. A trade war in which the U.S. targets China with direct tariffs and seeks to curtail third-party transshipment by extending tariffs to other countries where Chinese firms manufacture. This could further encourage China to create its own trading bloc with the "Global South," which could be a key source of final demand for its excess manufacturing capacity. The U.S. would thus be risking higher inflation, slower growth and greater supply-chain disruption to create leverage over China in trade negotiations—with no guarantee that a negotiated outcome would cover the potentially significant costs incurred.
2. China's high technology manufacturing, renewable energy and artificial intelligence sectors could become an alternative focal point for investors currently overweight highly valued U.S. technology firms. But investors remain reluctant to allocate to China without clarity from the government that past episodes of market intervention will not be repeated.

Beyond the scope of our analysis here are any geopolitical risks surrounding Taiwan and the South China Sea. While any such geopolitical event would likely create a short-term "flight to quality" that would favor U.S. Treasuries and the U.S. dollar, it is very difficult to forecast the potential longer-term impacts.

China's trade flows are increasingly diversified

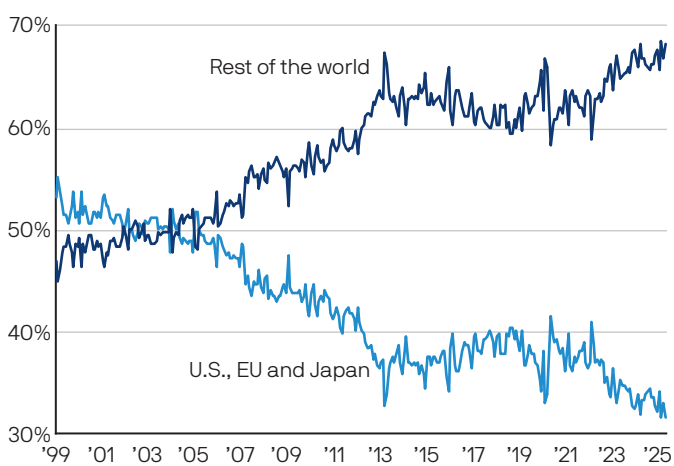
How might U.S.-China trade tensions impact the relative strengths of the world's two biggest economies?

The U.S. enjoys leverage in current trade negotiations with China because it remains a major importer of Chinese manufactured goods. Further, the bilateral trade deficit alone does not fully capture the scale of U.S. purchases of Chinese goods. That's because Chinese firms have also established manufacturing and assembly hubs in Asia and Latin America that serve the U.S. market. To maximize its influence, the U.S. would need to deploy a combination of direct tariffs and tighter controls on country-of-origin.

Such a strategy depends on China being unwilling to lose access to the U.S. market. However, the percentage of Chinese exports to all three major developed economies—the U.S., EU and Japan—has been dropping for some time and now accounts for less than a third of total exports (**Exhibit 32**). China might tolerate some loss of access to the U.S. market if exports elsewhere were rising.

The share of China's exports going to the U.S., EU and Japan is declining

EXHIBIT 32: SHARE OF CHINA'S EXPORTS TO THE U.S., EU AND JAPAN VS. THE REST OF THE WORLD



Source: Bloomberg, International Monetary Fund, J.P. Morgan Asset Management; data as of April 30, 2025.

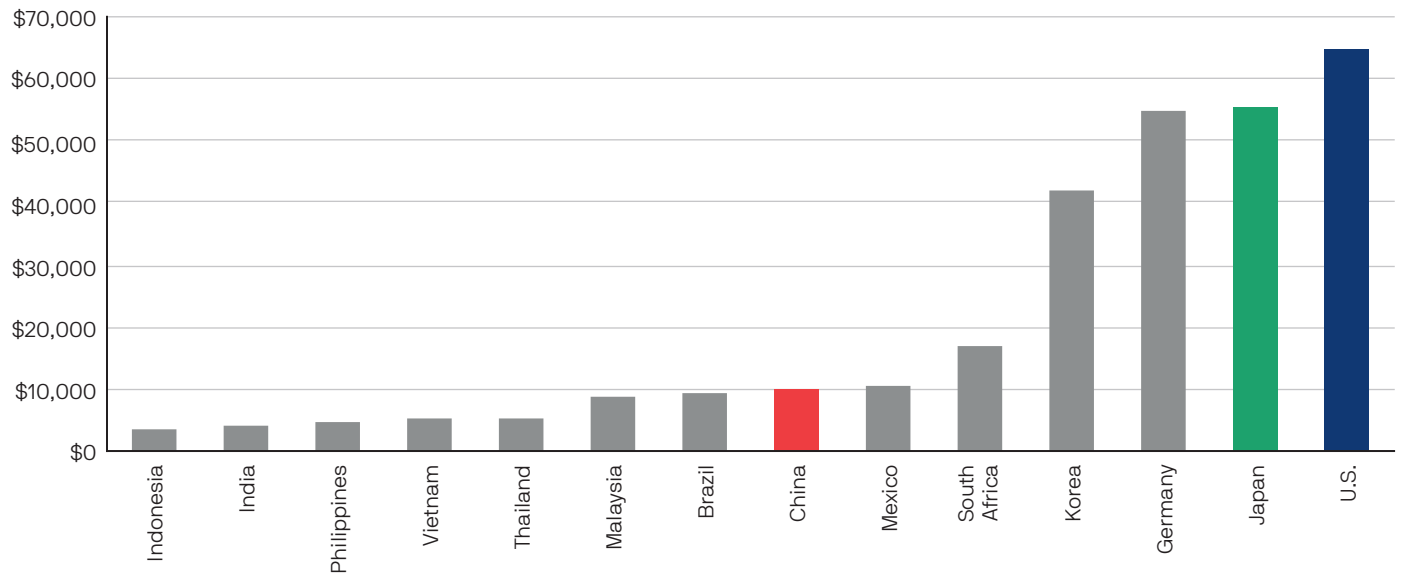
Looking more specifically at electric vehicles, only Europe is a meaningful market for China’s exports; the U.S. and Japan are effectively closed. The rest of the world presents a larger market than the three major developed economies combined.

Some Chinese exports to the rest of the world may simply be an intermediate step to the U.S. through the side door of transshipment. The U.S. can counter this practice by extending high tariffs across other

countries, but there is a cost to this approach. Broadening the range of countries and products subject to tariffs increases the near-term risk of supply chain challenges, rising prices and higher interest rates in the U.S. Replacing Chinese production with domestic production could eventually offset supply challenges, but—given high U.S. wages—it would not help keep a lid on prices (**Exhibit 33**).

Labor costs are lower in EM economies, especially vs. the U.S.

EXHIBIT 33: ANNUAL WAGE PER MANUFACTURING EMPLOYEE



Source: Kotak Institutional Equities, United Nations Industrial Development Organization, J.P. Morgan Asset Management; data as of December 31, 2022.

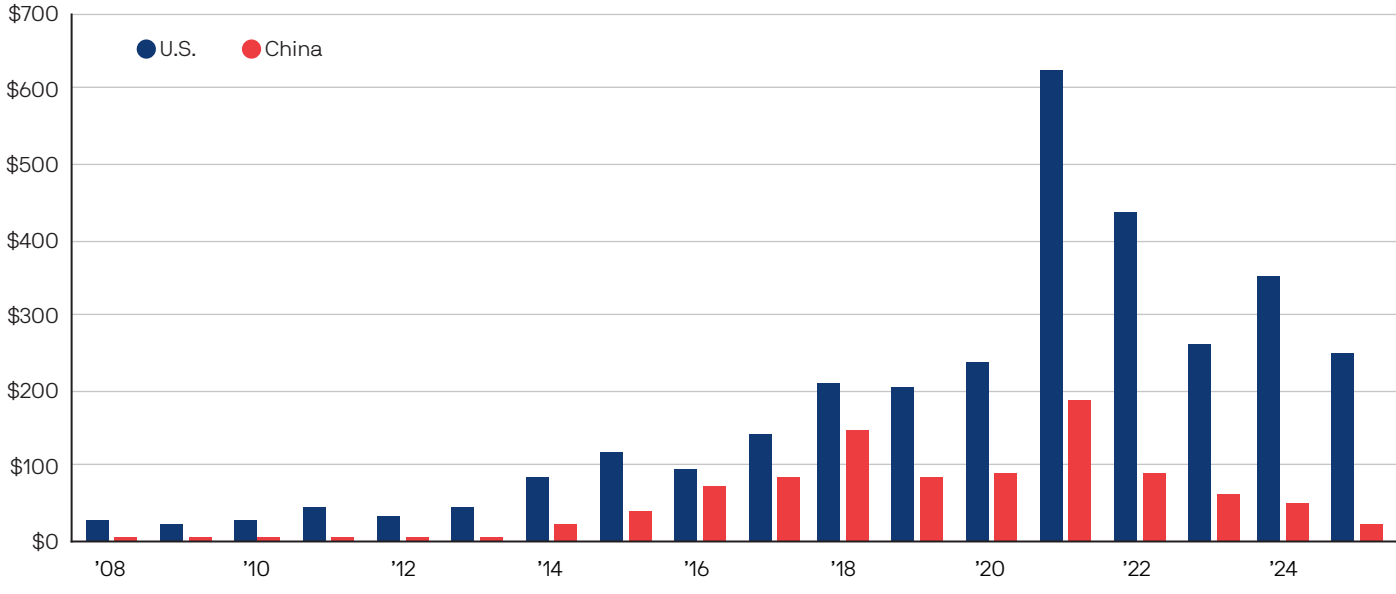
A U.S. trade policy that applies high tariffs to all products of Chinese origin carries costs in terms of broader inflationary pressures, higher rates and slower growth. If the impact on China is sufficiently negative that a mutually beneficial negotiated trade agreement can be reached, then these economic costs could be limited and ultimately worthwhile. However, the longer tariffs remain in place, the greater the chance that the U.S. would end up with little to show for the cost it incurred.

China’s technology could rival U.S. leadership in key sectors

As we have discussed, U.S. performance relative to the developed world has been supported by a large and effective venture capital (VC) ecosystem that allocates capital to young firms and spurs public equity offerings when successful firms reach maturity (Exhibit 34). Virtually all of the “Magnificent Seven” companies that dominate today’s U.S. equity market came to life in the VC ecosystem.

China continues to lag the U.S. in the venture capital space

EXHIBIT 34: U.S. VS. CHINA VENTURE CAPITAL DEAL VOLUME (USD BILLIONS)



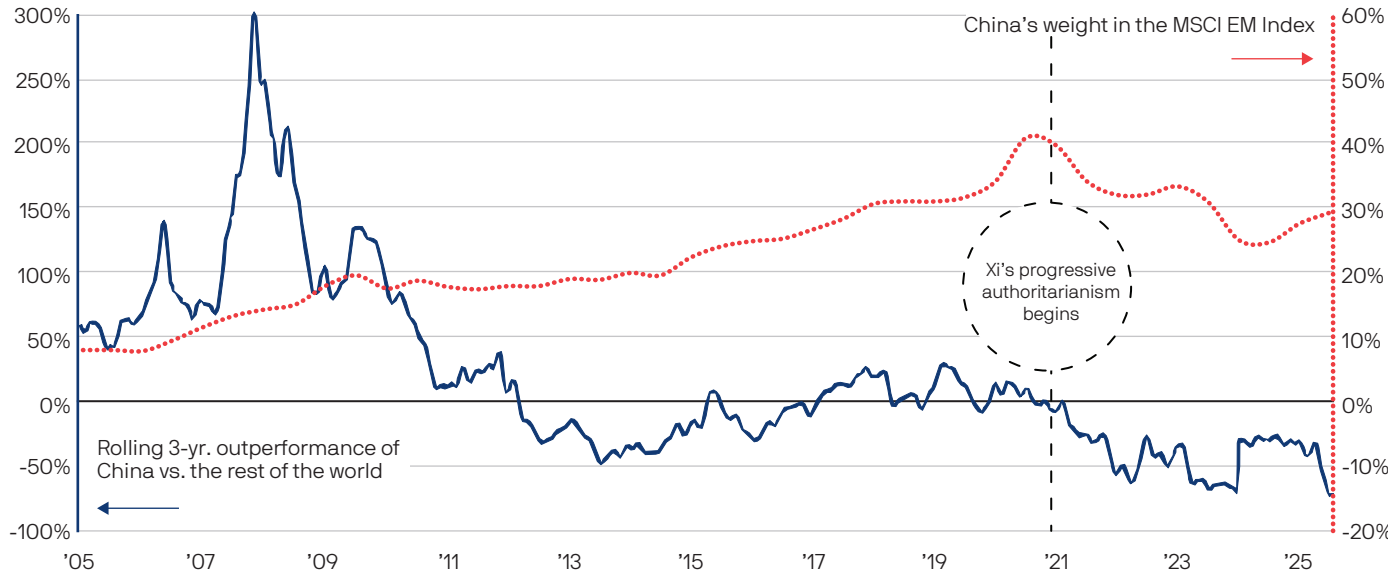
Source: Bloomberg, J.P. Morgan Asset Management; data as of July 31, 2025.

Entrepreneurial culture in the U.S. and China differ in many ways, but they share one key characteristic: a fiercely competitive domestic market that fosters highly successful and scalable businesses. Chinese companies have proved successful in sectors including solar panels, batteries, smartphones, electric vehicles and, most recently, AI. Many firms prospered despite barriers to accessing the U.S. market and key technologies. Companies such as CATL (batteries), BYD (electric vehicles), Huawei (communications) and DeepSeek (AI) have shown the ability to develop best-in-class technology at competitive prices.

Despite their technological and commercial success, leading Chinese firms have lagged as investments due to the widespread perception that they are subject to a variety of exogenous risks, including state intervention and geopolitical conflict. Risks aside, the building evidence of their global potential will make it harder for investors to remain on the sidelines, as China remains a significant component of EM benchmarks (**Exhibit 35**). Favorable resolution of these overhanging risks, with or without signs of weakness in the currently dominant U.S. technology sector, could provide a signal for portfolio rebalancing.

China has maintained a high weight in the MSCI EM Index despite weak performance

EXHIBIT 35: CHINA OUTPERFORMANCE VS. REST OF WORLD AND SHARE OF MSCI EM INDEX



Source: Bloomberg, J.P. Morgan Asset Management; data as of August 18, 2025. China's outperformance reflects a 28-day smoothing.

Conclusion

The period of exceptionalism the U.S. has experienced since the global financial crisis has produced an unprecedented run of positive performance relative to other developed financial markets. This has fed into a positive feedback loop in which capital inflows finance large deficits at low cost, keeping the overall cost of capital low and generating stronger relative growth.

Today, however, there are signs that some of the key foundations of U.S. strength have ceased to be a differentiating factor, and other developed regions are showing signs of relative strength. No other developed economy is likely to replace the U.S. as a dominant economic power anytime soon, but we may see a greater convergence across growth rates, capital flows and investment returns.

Even a modest decline in the relative attractiveness of U.S. assets could cause capital to flow elsewhere, with profound consequences given the extent of the current valuation gap between U.S. and non-U.S. markets. Passive strategies are most directly exposed to the overweight in U.S. markets. In response, investors can look to diversify portfolios globally and employ active management to pursue localized opportunities across shifting markets.

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