

Monthly Market Review

May 2024

Author



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Creeping central bank divergence

May was a good month for returns as investor optimism about the global economy supported equities, while the expectation for rate cuts from central banks led to falling bond yields. The MSCI World rose 4.0%, while the emerging market benchmark gained 0.5%. Global bonds also generated positive performance and the Bloomberg Barclays Global Agg rose by 1.3%. However, there is increasing divergence between central banks on the timing of rates cuts, and core rates of inflation are looking increasingly sticky.

The Australian Government 2024/25 Budget added to inflation concerns given the front loading of spending and the cost-of-living support for households. This comes at a time when household incomes will get a boost from income tax changes in mid-year. However, the inflationary consequences are still uncertain as it is not known whether additional income will be spent, saved or used to pay down debt.

Meanwhile, inflation in the eurozone rose in May, complicating the path for policy easing by the European Central Bank. Economic data for the region came in better than expected, as business surveys pointed towards a pick-up in economic momentum and growth expectations were revised higher.

A policy put is in play in China as further actions were taken to steady the economy, and particularly the housing market, as economic data has been slow to improve. However, tariff announcements by the U.S. against a limited number of Chinese imports did take some shine off the market rally. The CSI 300 fell 0.5% over the month.

Turning to the U.S., the return of the soft-landing narrative was in full effect as Federal Reserve (Fed) Chair Jerome Powell struck a dovish tone at the May meeting. Economic data surprised to the downside as concerns around the health of the consumer rose. However, several Fed committee members become more vocal on the need to cut interest rates this year until there is more clarity that inflation has been beaten. Market expectations shifted to pricing just one rate cut in December.

Economic data released in May tempered many of the concerns around an overheating U.S. economy and showed further signs of a rebalancing in economic momentum. The next move for policy rates across major developed market central banks is likely to be lower, even as there is greater divergence in the pace of easing. These factors are supportive for risk assets, and for investors to hunt further afield for better returns and regionally diversified exposures.

Australian economy:

- The Reserve Bank of Australia (RBA) held the cash rate at 4.35% in May, but stated their tolerance for further inflation was limited. Their updated economic projections show inflation returning to the mid-point of the target range by 2026, as growth softens, and the unemployment rate rises. However, this is the optimal outcome with little room to flex should things not go exactly according to plan. The RBA may be on an extended hold, but the bias is for more policy tightening.
- Consumer price index inflation for April was higher than expected at 3.6% year-over-year, triggering the sticky inflation call from many market commentators. The first monthly inflation print of the quarter is dominated by goods pricing. (GTM AUS page 5)
- The unemployment rate rose to 4.1% in May from 3.9% in the prior month, continuing the stream of lumpy jobs data. Broader indicators of the labour market such as vacancies, hours worked or simply employment intentions, all point toward a continued softening in the labour market and easing of wage pressures. (GTM AUS page 9)
- The Australian consumer is not happy. Consumer confidence index fell again in May to 88.2 and remains at a very low level by historical standards. Business by contrast is a little more upbeat. The business confidence index held steady, even as near-term views on business conditions weakened.
- Nationally, house prices rose by 0.8% month-over-month in May and 8.8% year-over-year. Across the capital cities, housing price appreciation month-over-month remains the strongest in Perth (2.0%) and Brisbane (1.4%), while Sydney (0.6%) and Melbourne (0.1%) lag. Construction activity remains muted, meaning the supply of housing is constrained, which should continue to support prices. (GTM AUS page 10 and 11)

Equities:

- The ASX 200 gained 0.9% in May and is up 3.2% this year. Australian small caps were flat. Reversing April's performance, Australian equities lagged international peers. The U.S. S&P 500 gained 5.0% for the month, while Europe was up 3.2% and Emerging Asia ex-Japan rose 1.5%. Only Japan was weaker than Australia with a 1.2% return in local currency terms. (GTM AUS page 32)
- Valuations across equity markets remain rich on some metrics, but equity markets have continued to rise. The expectations for supportive economic growth and lower bond yields are helping to justify the rise. (GTM AUS page 33)

- Earnings expectations are also supportive. The consensus outlook for 2024 still expects more than 10% earnings growth in the U.S. and increasing earnings in Japan and Europe. Australian earnings growth expectations continue to slide for this year. (GTM AUS page 16)
- At the sector level. Information technology (5.4%), utilities (3.4%) and financials (2.6%) had the largest gains within the ASX 200. Meanwhile, communication services (-2.6%), consumer staples (-1.0%), energy (-0.7%) and consumer discretionary (-0.6%) were laggards.

Fixed income:

- The Australian 10-year bond yield moved by 1 basis points (bps) over the month to 4.41% and has been within the 4.25-4.50% range since mid-April. U.S. 10-year Treasury yields stepped down by 19bps to 4.49%. Meanwhile, the Japanese 10-year bond yield rose by 20bps to 1.07%, its highest yield in well over a decade. (GTM AUS page 48)
- The fall in yields helped lift U.S. Treasury returns to 1.5% for the month compared to the 0.4% gain for Australian government bonds. Spreads in the credit market remain tight, with global investment grade bonds delivering a 1.9% return and besting global high yield, which rose by a smaller 1.2%. (GTM AUS page 47)

Other assets:

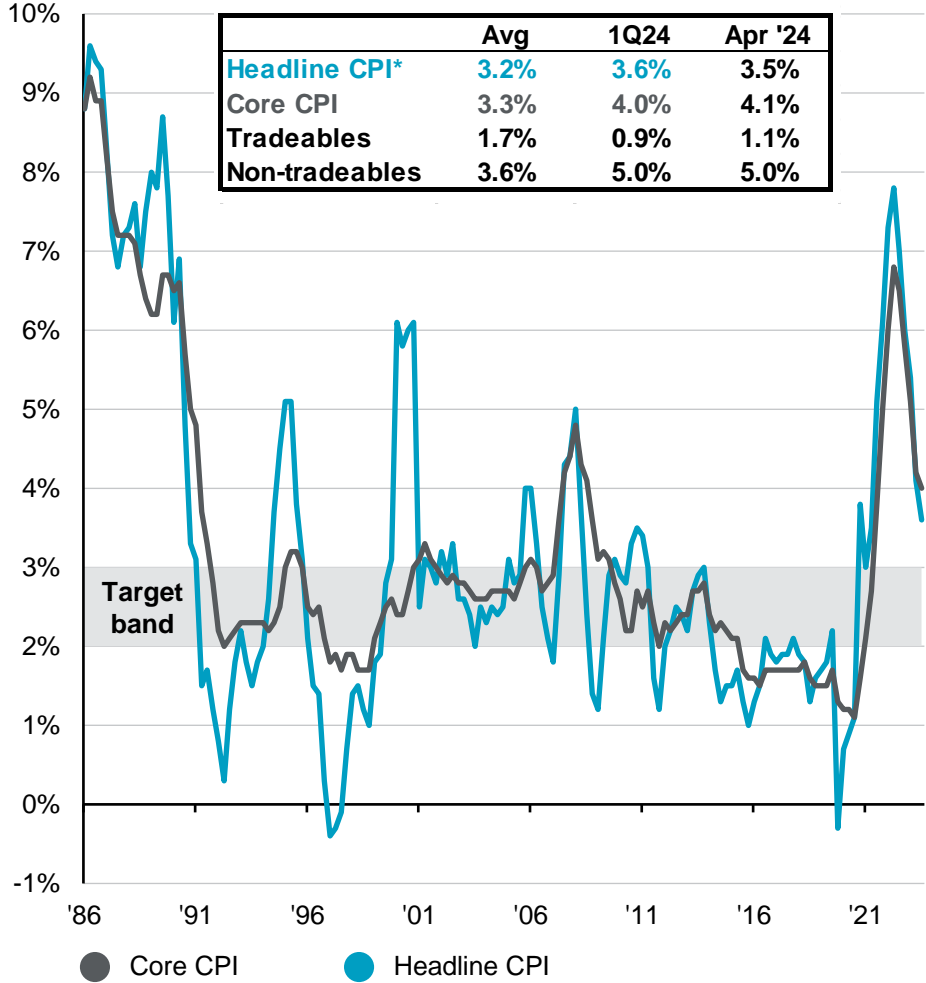
- Despite falling oil prices, the Bloomberg Commodity Index was 1.3% higher over the month. Brent crude fell 8.1% to USD 82 per barrel. The softening demand outlook and fall in prices saw the Organization of the Petroleum Exporting Countries Plus members extend production cuts that were set to expire at end of June. Natural gas prices are on the move again, and the U.S. benchmark was nearly 30% higher over the month.
- The gold bugs are in full flight as the precious metal price rose by another 1.8% in May to USD 2,348. The ability for gold to sustain these higher prices is a function of expected policy easing by central banks and as a hedge against the continued macro uncertainty and geopolitical risk. (GTM AUS page 66).
- Across other metals, the picture was similar, outside of copper. The price of copper fell 0.6% to USD 9,913 a ton, in line with general softer demand. However, aluminum (5.2%), nickel (4.5%) and zinc (2.4%) were all higher. (GTM AUS page 63)
- The U.S. dollar index was 1.5% lower over the month as the greenback lost ground against the euro (-1.5%) and Swiss franc (1.6%). The Australian dollar was 2.4% higher versus the U.S. dollar at USD 0.665. (GTM AUS page 68)



Inflation

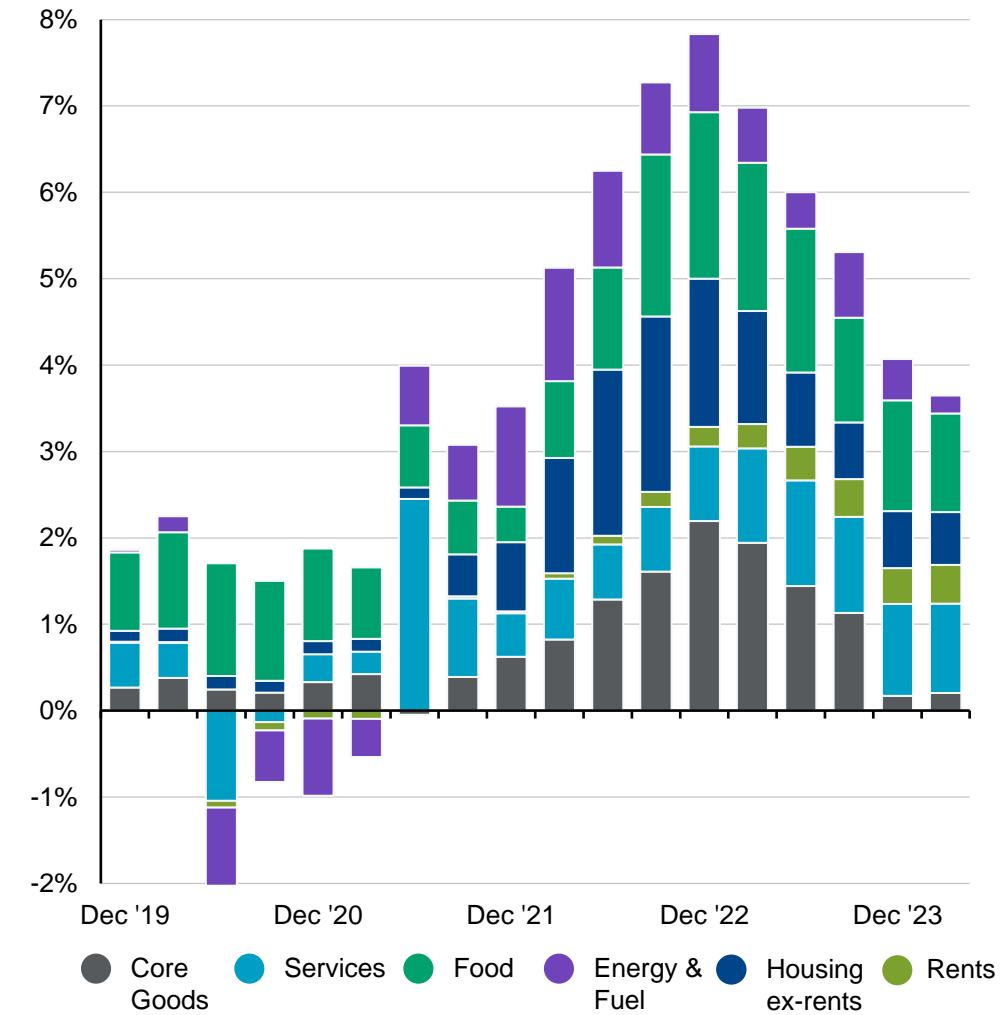
CPI and core CPI inflation

Year-over-year



Inflation components contribution

Year-over-year



Source: Australian Bureau of Statistics, FactSet, J.P. Morgan Asset Management. *CPI is the Consumer Price Index, core CPI is the trimmed mean measure of inflation. Tradeables represent approximately 35% of the CPI basket and non-tradeables 65%. Core goods CPI is goods CPI excluding volatile items. Monthly CPI series not shown on chart.
 Guide to the Markets – Australia. Data as of 31 May 2024.

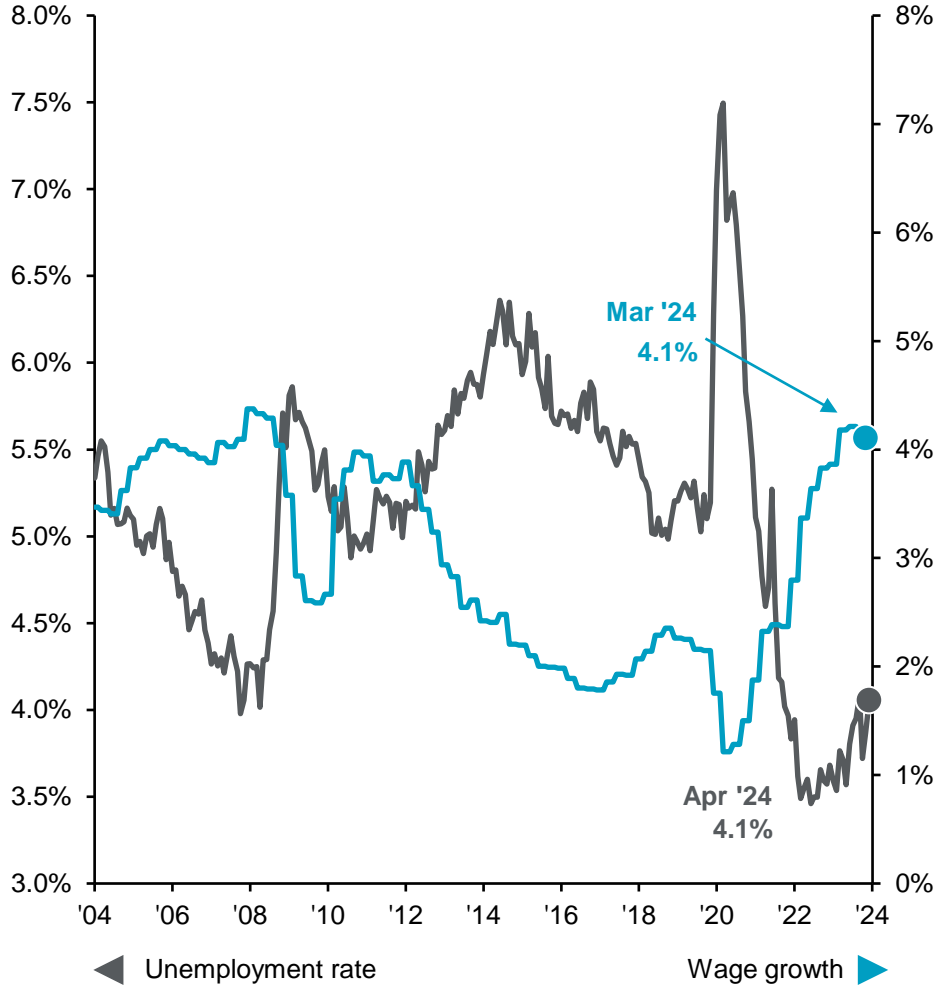


Labour market

Local economy

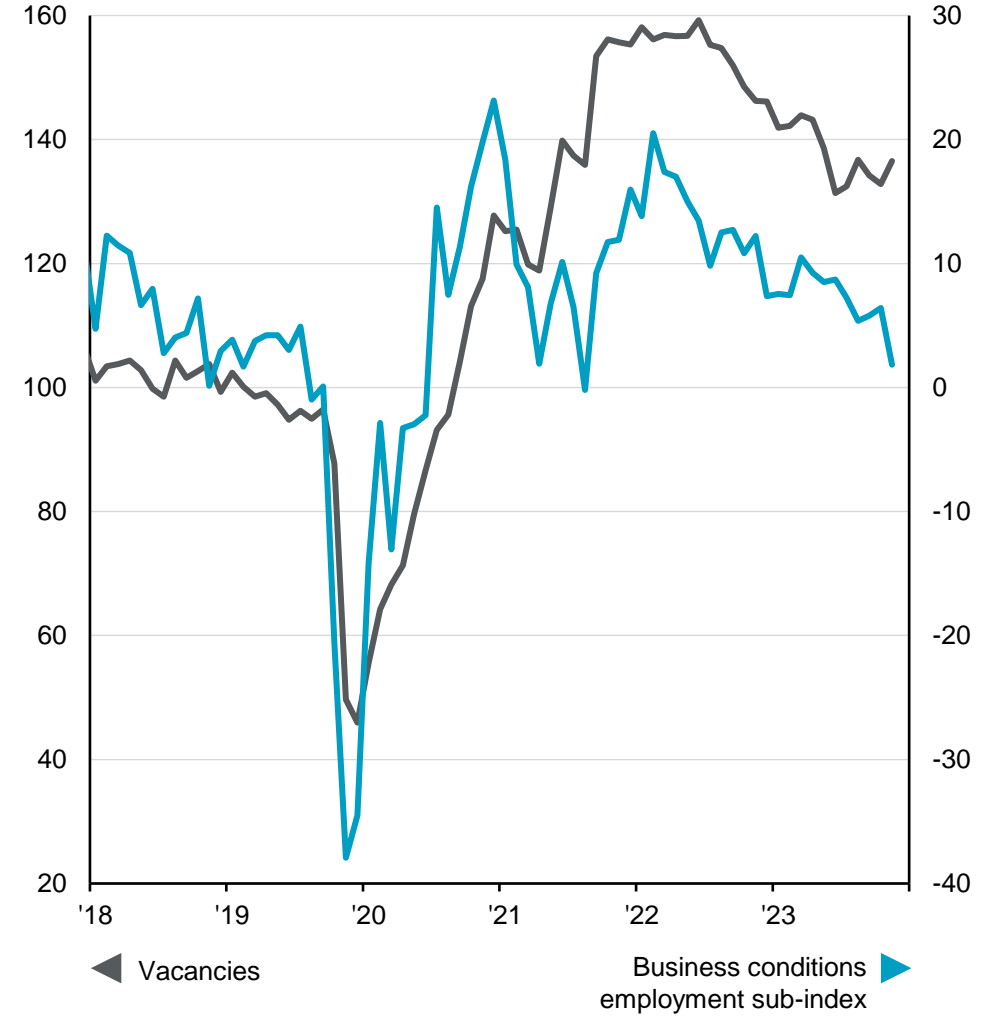
Unemployment and wage growth

Seasonally adjusted



Vacancies and employment

Index



Source: FactSet, J.P. Morgan Asset Management; (Left) Australian Bureau of Statistics; (Right) ANZ-Indeed, National Australia Bank. Guide to the Markets – Australia. Data as of 31 May 2024.



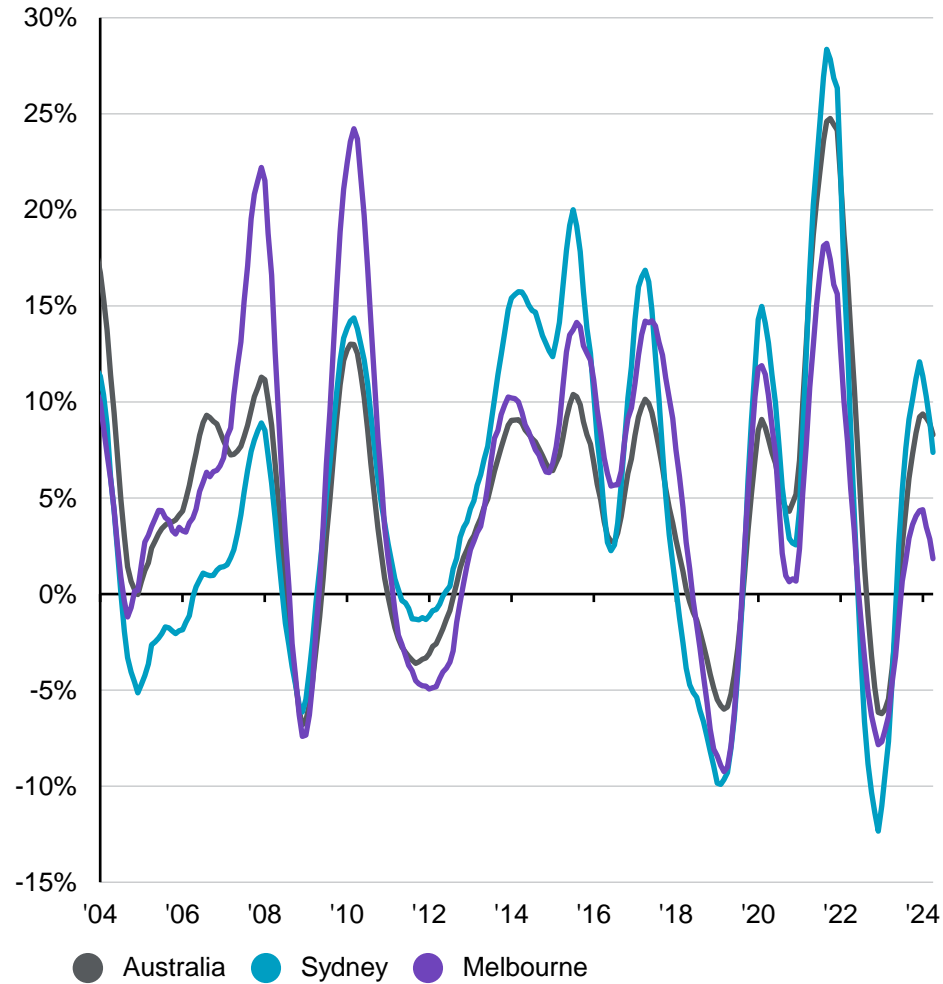
Residential real estate prices

GTM AUS 10

Local economy

House prices

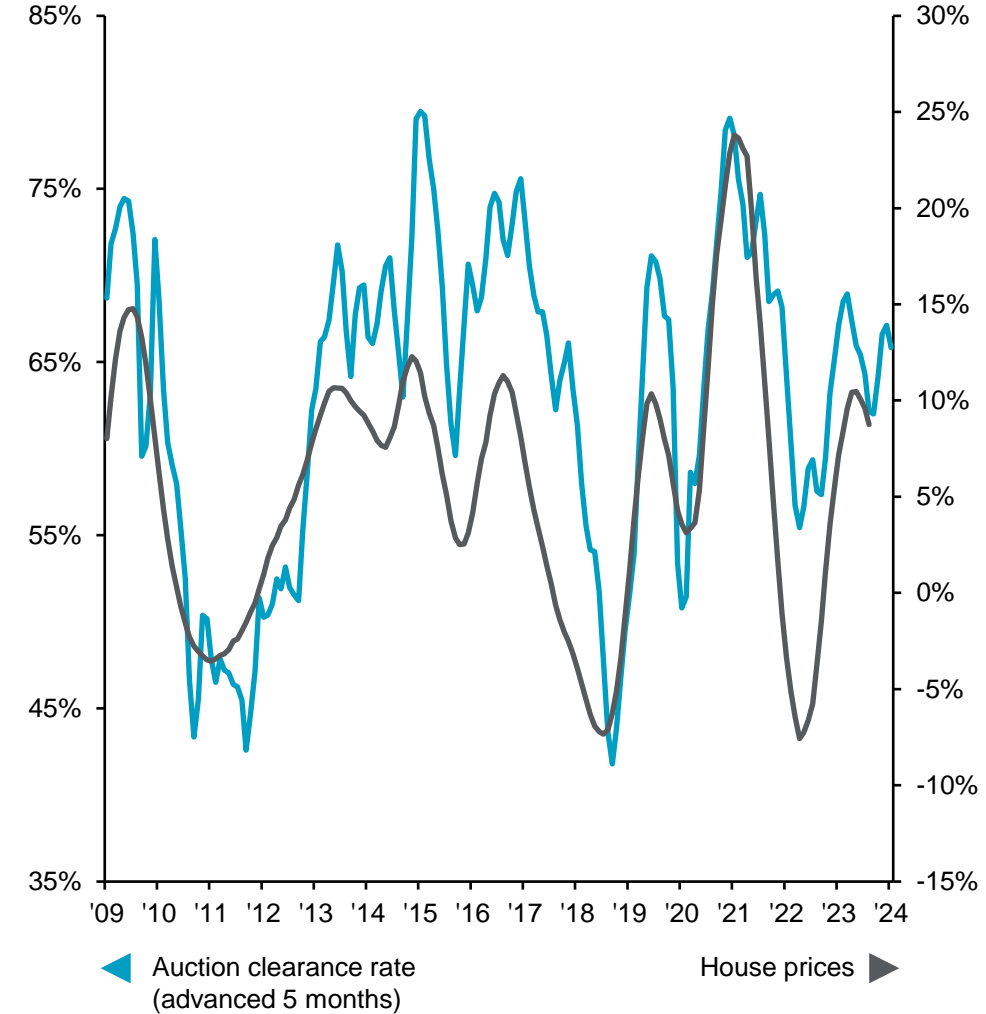
Year-on-year



Auction clearance rate and house prices

3-month moving average

Year-over-year



Source: RPD CoreLogic, J.P. Morgan Asset Management. Guide to the Markets – Australia. Data as of 31 May 2024.

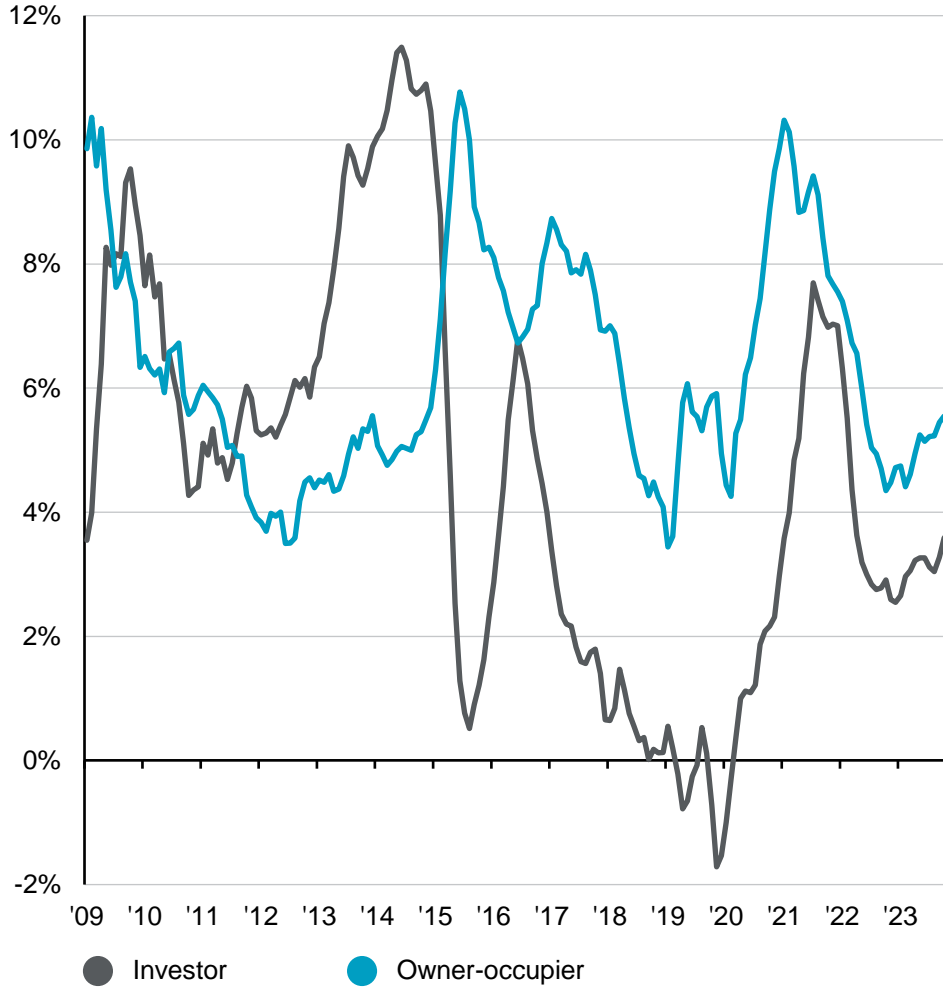


Residential real estate financing

Local economy

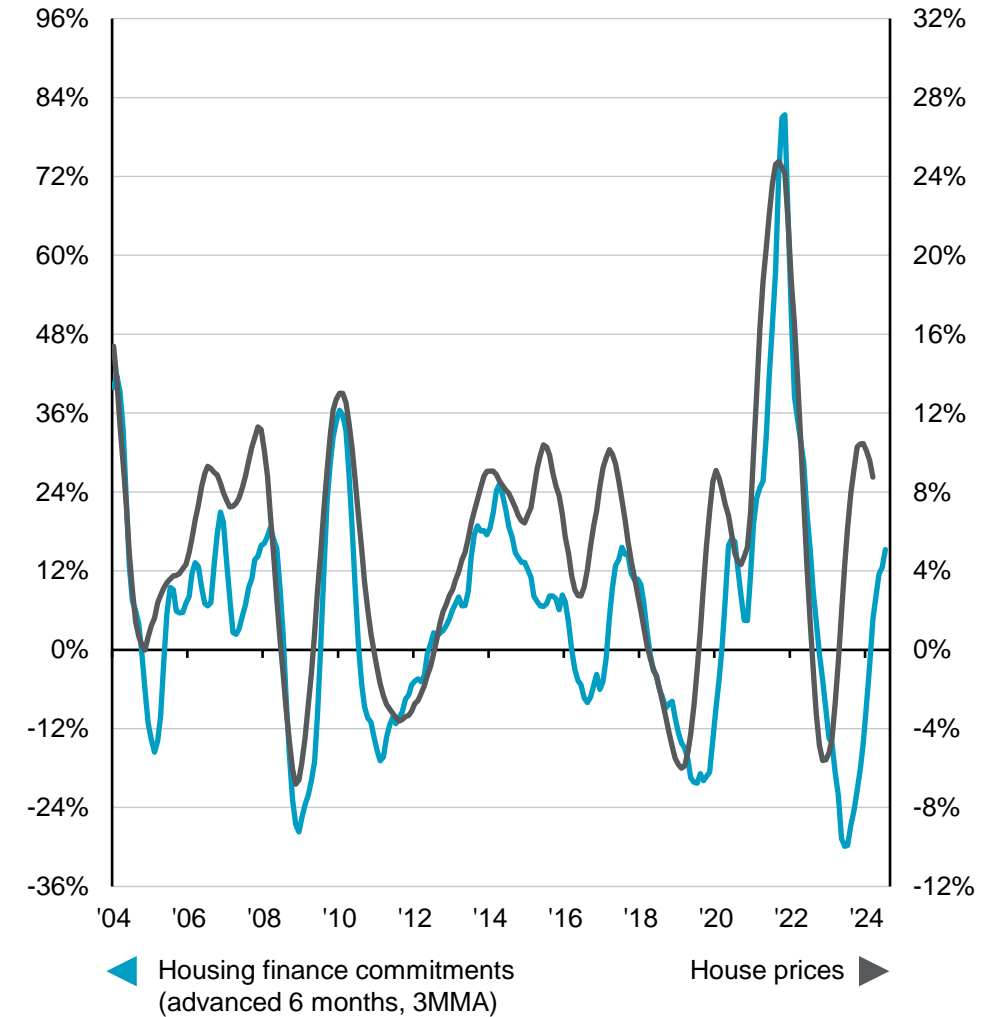
Mortgage lending

3-month annualised growth rate



Housing finance and house prices

Year-over-year



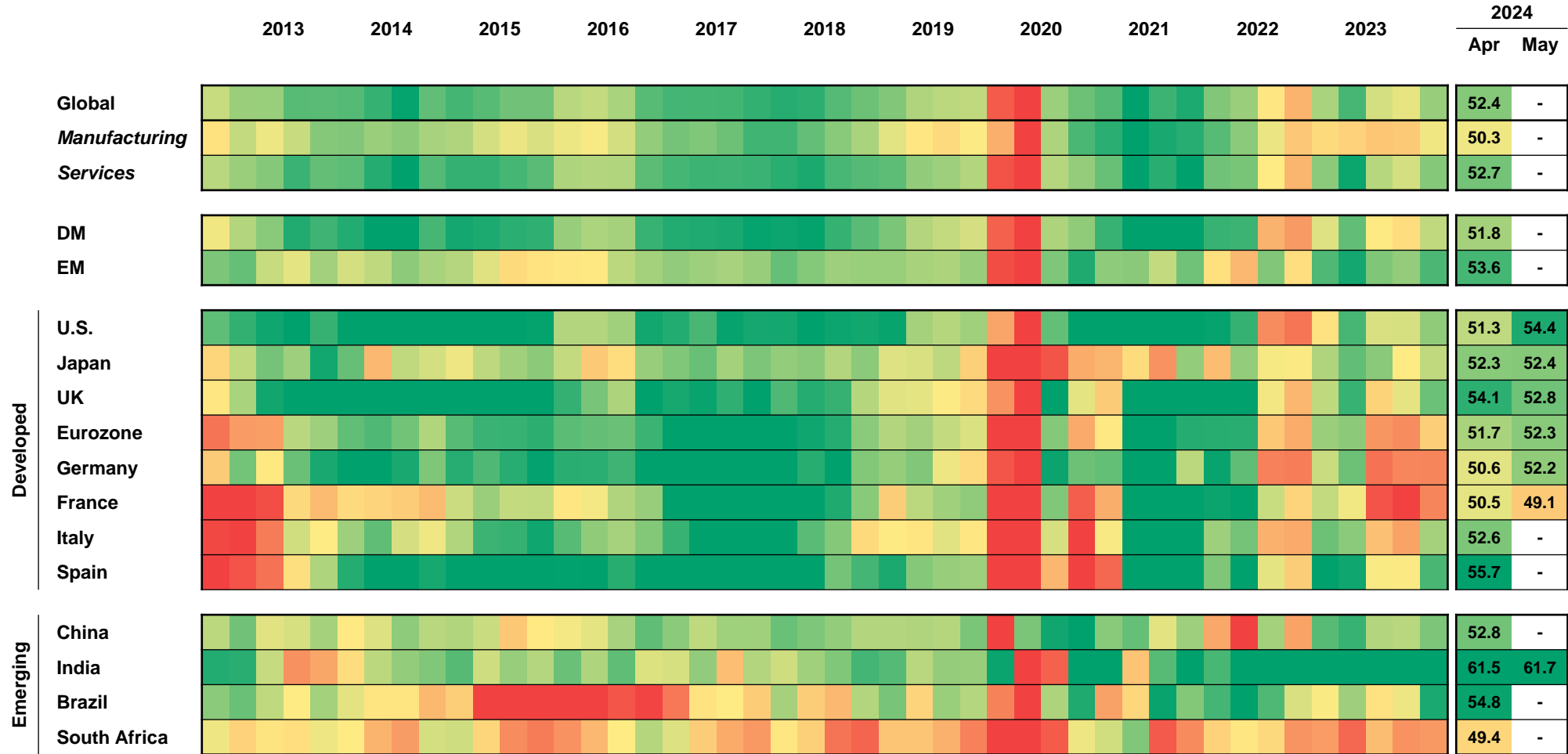
Source: Australian Bureau of Statistics, J.P. Morgan Asset Management; (Right) RPD CoreLogic.
 House price is the year-over-year change in the hedonic index for national dwelling prices. Past performance is not a reliable indicator of current and future results.
 Guide to the Markets – Australia. Data as of 31 May 2024.



Global economic momentum

Global economy

Composite Purchasing Managers' Index



Source: FactSet, Markit, J.P. Morgan Asset Management. Heatmap colours are based on PMI relative to the 50 level, which indicates acceleration or deceleration of the sector, for the time period shown. Heatmap is based on quarterly averages, with the exception of the two most recent figures, which are single month readings. DM and EM represent developed markets and emerging markets, respectively. Guide to the Markets – Australia. Data as of 31 May 2024.

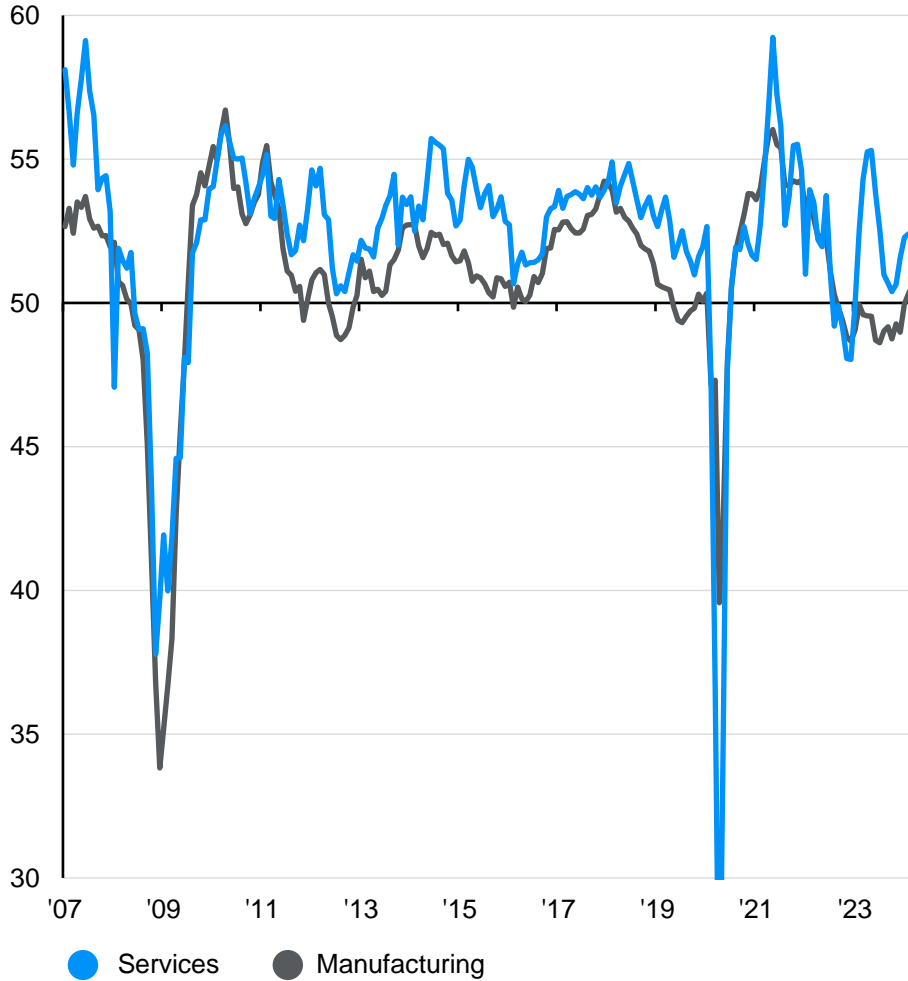


Global manufacturing

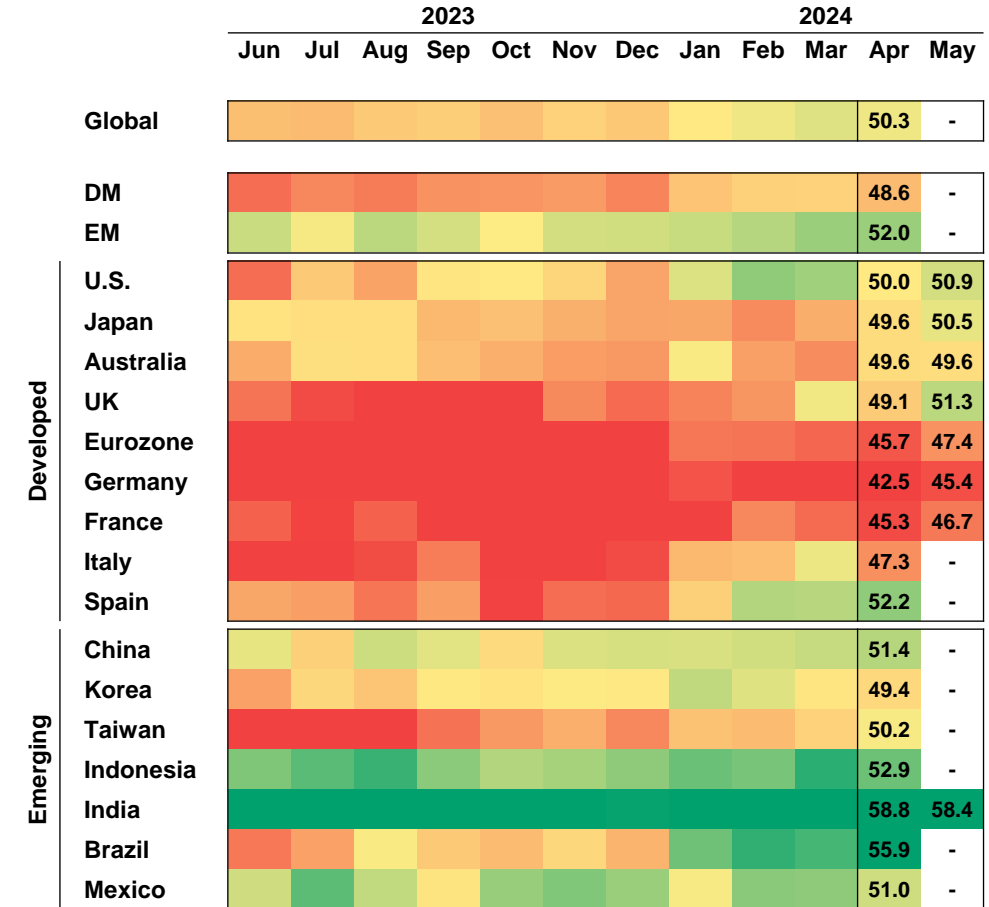
Global economy

Global PMI for manufacturing and services

Index



Global PMI for manufacturing by country



Source: FactSet, Markit, J.P. Morgan Asset Management. Heatmap colours are based on PMI relative to the 50 level, which indicates acceleration or deceleration of the sector, for the time period shown. DM and EM represent developed markets and emerging markets, respectively. *Guide to the Markets – Australia*. Data as of 31 May 2024.



Global inflation heatmap

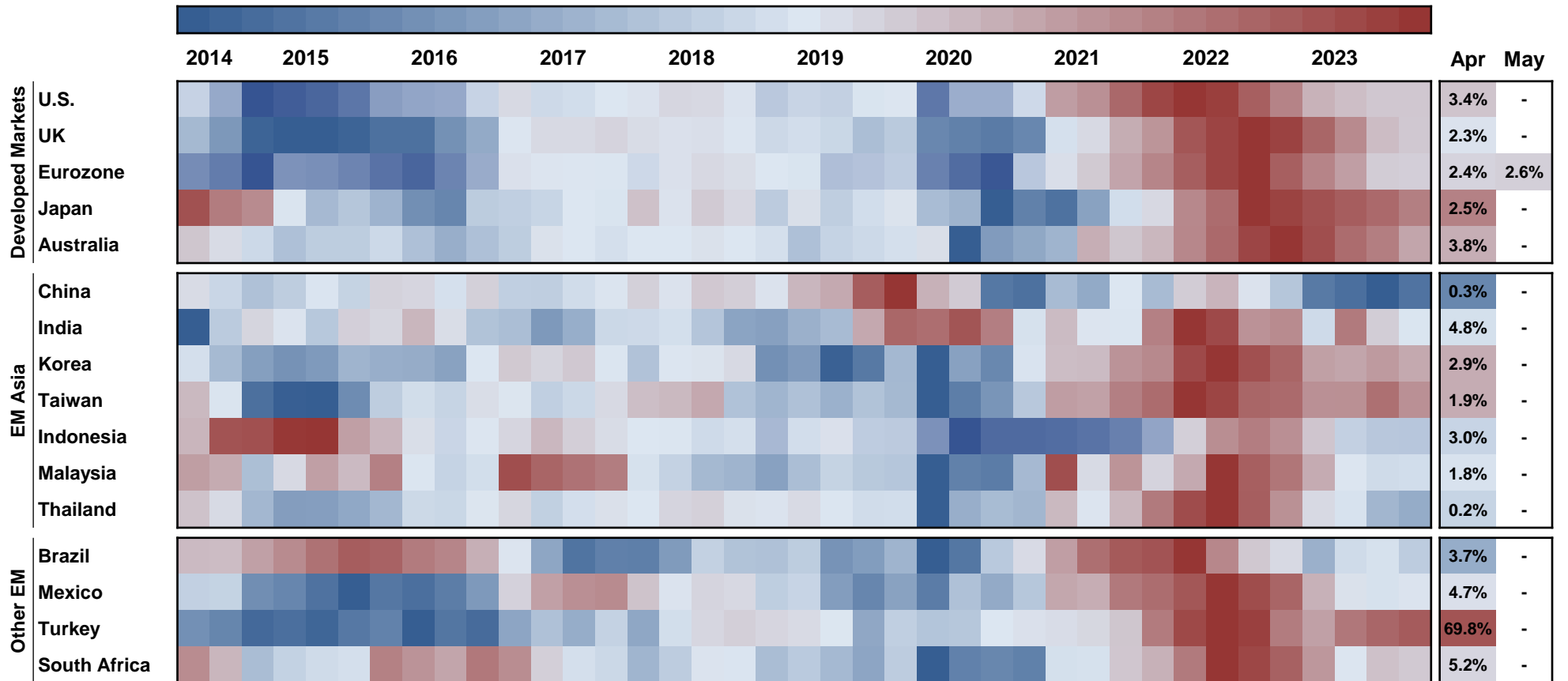
GTM AUS 20

Global economy

Headline consumer prices

Year-over-year, quarterly

Below trend ← Inflation running → Above trend



Source: ABS, Department of Statistics Malaysia, DGBAS, Eurostat, FactSet, Goskomstat of Russia, IBGE, India Ministry of Statistics & Programme Implementation, INEGI, J.P. Morgan Economic Research, Korean National Statistical Office, Ministry of Commerce Thailand, Ministry of Internal Affairs & Communications Japan, National Bureau of Statistics China, Office for National Statistics UK, Statistics Indonesia, Statistics Institute Turkey, Statistics South Africa, U.S. Department of Labor, J.P. Morgan Asset Management. Quarterly averages, except for the two most recent figures, which are single month readings, are shown. Colours are based on z-score of year-over-year inflation rate relative to each country's own 10-year history where red (blue) indicates inflation above (below) long-run trend. EM represents emerging markets. *Guide to the Markets – Australia*. Data as of 31 May 2024.



World equity market returns

GTM AUS 32

Equities

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	YTD	May '24	10-years '14 - '23	
													Ann.	Vol.
AUD	24.3%	25.6%	13.2%	31.5%	6.2%	31.7%	14.2%	36.6%	-1.1%	25.5%	14.2%	2.6%	15.1%	Small Cap
Local	13.7%	12.1%	13.2%	35.9%	-4.4%	31.5%	22.7%	28.7%	-1.1%	26.3%	11.3%	3.2%	12.0%	17.2%
	14.9%	14.0%	12.5%	27.5%	-2.3%	24.8%	9.2%	24.1%	-8.4%	19.9%	11.6%	2.5%	9.1%	U.S.
	7.7%	1.4%	12.0%	31.0%	-7.3%	24.6%	9.2%	23.3%	-8.0%	15.0%	11.3%	5.0%	8.3%	15.2%
	8.7%	10.2%	12.1%	20.0%	-2.8%	24.0%	8.1%	19.0%	-8.7%	19.3%	9.0%	0.9%	8.3%	Japan
	6.8%	10.2%	10.1%	20.0%	-2.8%	23.7%	19.5%	17.2%	-2.5%	28.3%	18.4%	0.9%	8.6%	14.7%
	7.3%	9.8%	11.8%	17.2%	-4.2%	23.4%	7.9%	17.2%	-8.8%	15.8%	8.1%	0.8%	7.9%	Asia ex JP
	5.6%	5.4%	11.8%	22.2%	-16.0%	23.4%	18.4%	17.2%	-9.5%	16.2%	8.3%	2.0%	7.9%	14.6%
	5.7%	8.4%	9.4%	16.9%	-4.6%	21.4%	4.2%	16.9%	-12.2%	12.4%	7.9%	-0.0%	7.6%	Portfolio
	10.3%	3.3%	9.8%	13.7%	-12.0%	21.4%	8.6%	16.9%	-18.1%	12.4%	8.2%	-0.0%	7.0%	14.5%
	5.6%	2.6%	6.3%	16.7%	-4.7%	19.4%	3.0%	7.3%	-13.5%	9.6%	6.2%	-0.8%	7.0%	Australia
	5.6%	2.6%	6.4%	19.1%	-9.7%	18.1%	7.4%	12.7%	-15.1%	10.3%	6.6%	1.5%	5.2%	14.1%
	3.1%	2.5%	4.0%	12.8%	-4.8%	19.1%	1.4%	3.8%	-13.9%	7.8%	4.2%	-1.1%	6.0%	EM
	5.2%	-5.3%	0.3%	21.8%	-10.0%	18.5%	1.4%	0.1%	-15.2%	7.8%	4.2%	1.2%	6.0%	13.5%
	-3.8%	-3.9%	0.7%	11.8%	-8.7%	18.7%	-3.5%	1.4%	-18.4%	5.7%	3.2%	-1.8%	5.9%	Europe
	-3.8%	-5.4%	7.9%	11.8%	-8.7%	18.2%	-1.7%	-2.8%	-18.4%	6.8%	3.2%	0.5%	5.6%	13.2%

Source: FactSet, MSCI, Standard & Poor's, TOPIX, J.P. Morgan Asset Management. Annualised return (Ann.) and volatility (Vol.) covers the period 2014 to 2022. Volatility is based on local currency returns. Small Cap: S&P ASX Small Ordinaries; Asia ex JP: MSCI AC Asia ex Japan; EM: MSCI EM Index; Europe: MSCI Europe Index; Japan: TOPIX first section; Australia: ASX 200 Index; U.S.: S&P 500 Index. Hypothetical portfolio (for illustrative purposes only and should not be taken as a recommendation): 20% U.S.; 30% Australia; 15% EM; 15% Europe; 10% Japan; 10% small cap. All indices are total returns. Past performance is not a reliable indicator of current and future results.

Guide to the Markets – Australia. Data as of 31 May 2024.

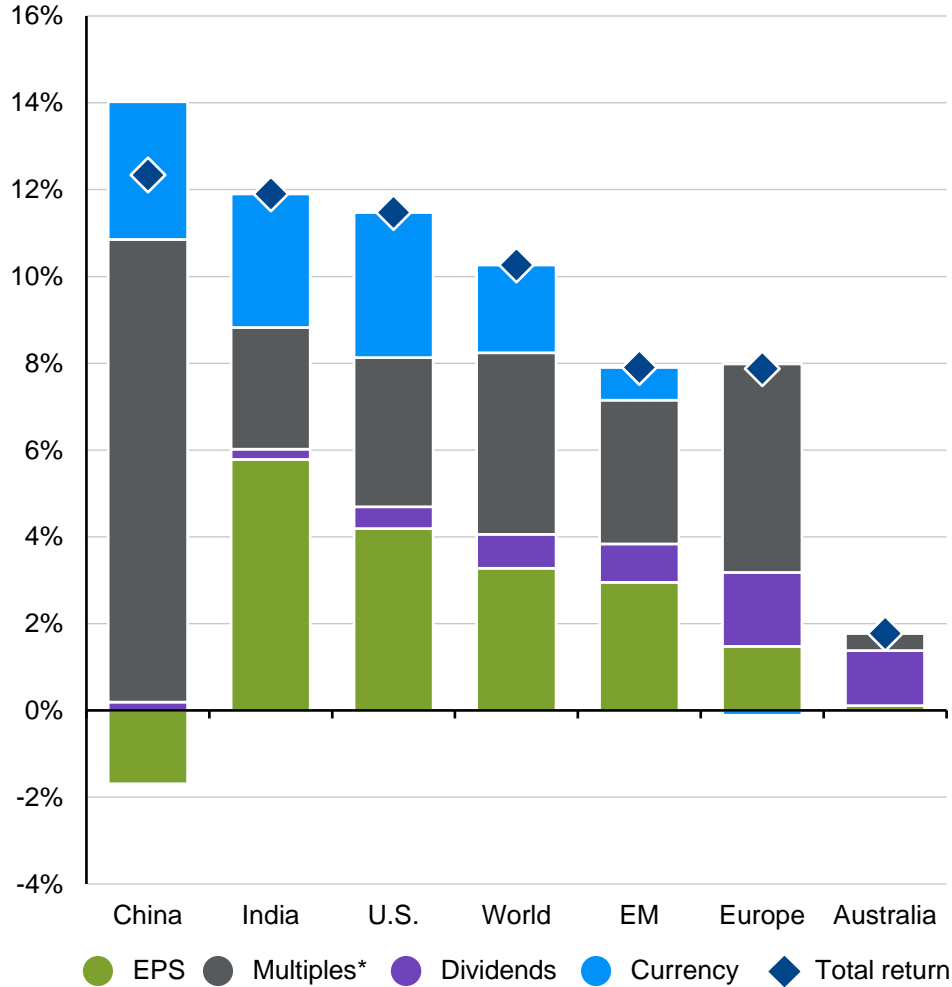


Global equities: Source of return and valuations

Equities

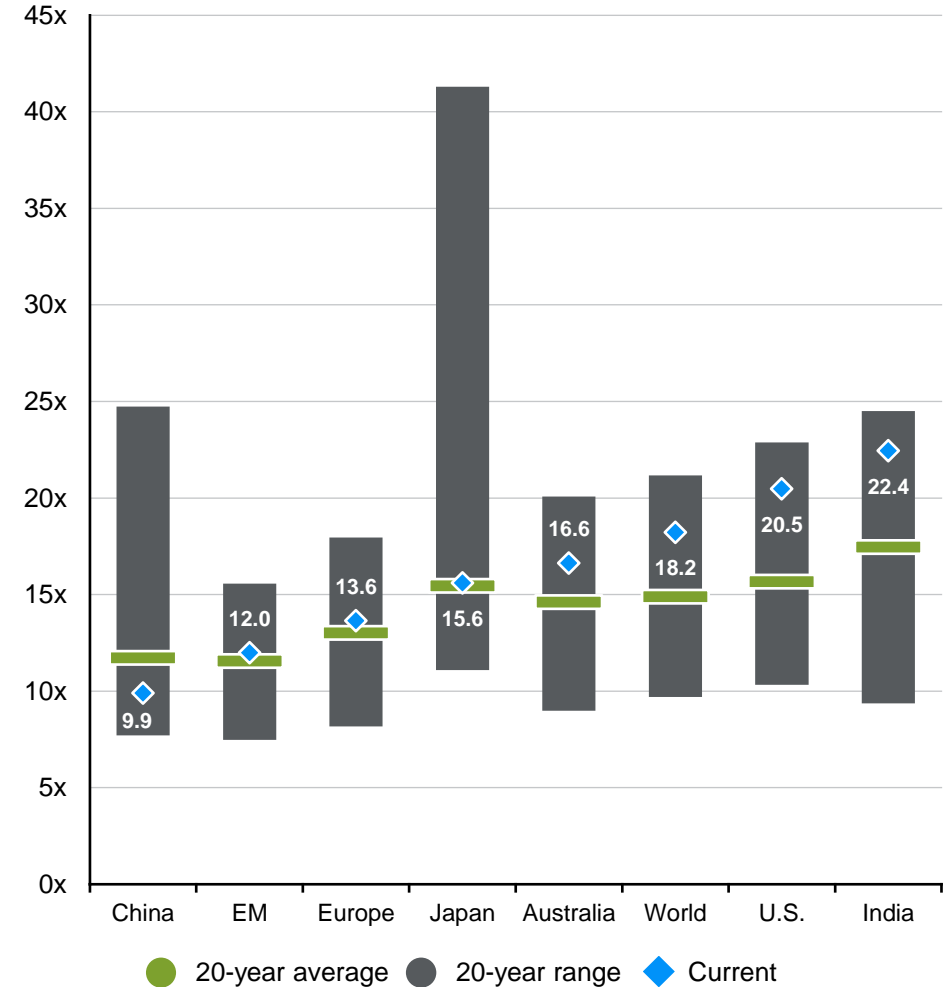
Source of return

2024 AUD



Global valuations

Current and 20-year historical price-to-earning valuations*



Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management.
 All return values are MSCI indices except the U.S. and Australia, which are the S&P 500 and ASX 200, respectively. *Multiple expansion is based on the forward P/E ratio and EPS growth outlook is based on NTMA earnings estimates. Chart is for illustrative purposes only. Past performance is not indicative of future results.
 Guide to the Markets – Australia. Data as of 31 May 2024.

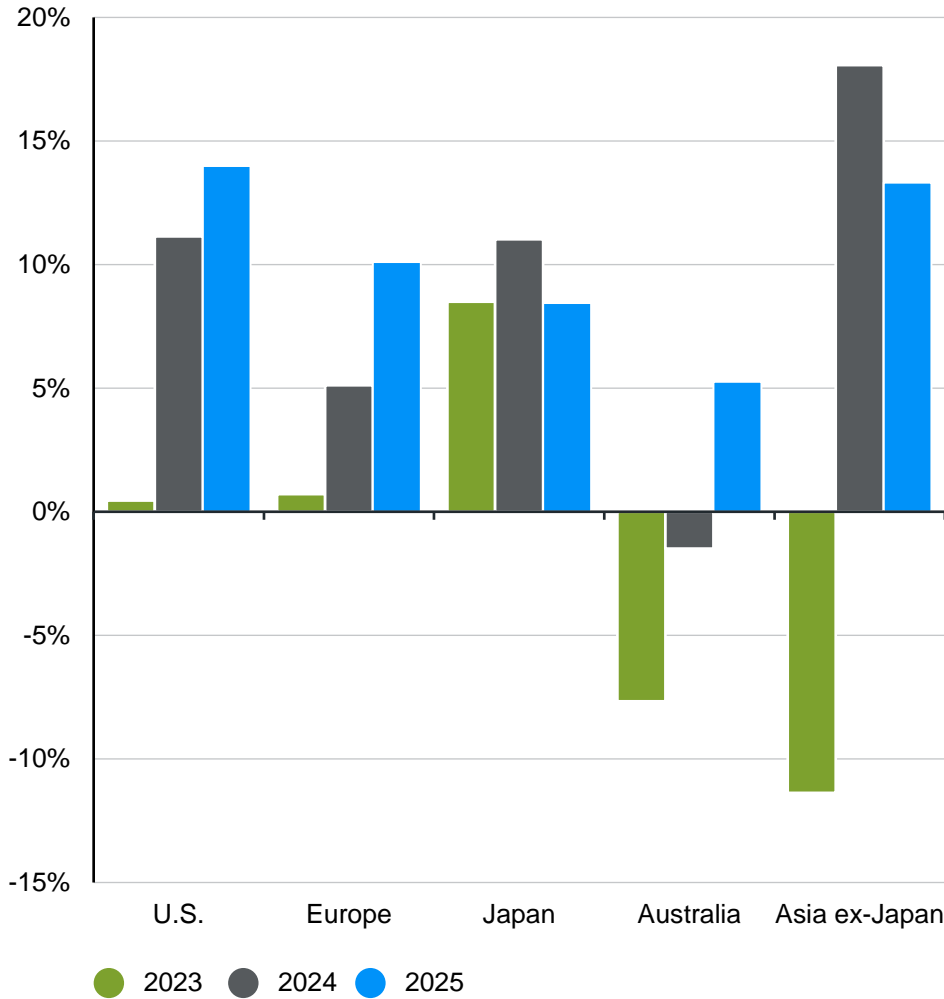


Global equities: Earnings and revisions

Equities

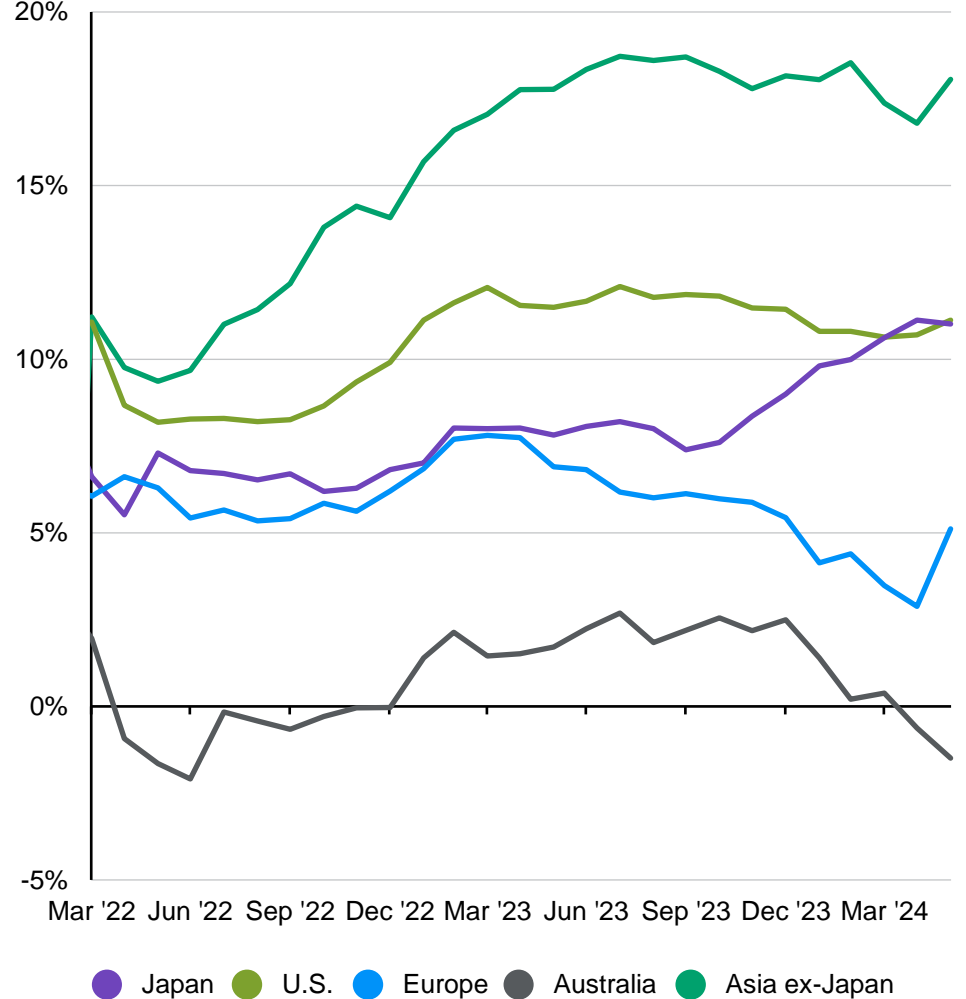
Earnings growth

Earnings per share, year-over-year



Earnings growth estimates

2024 CY, year-on-year EPS growth



Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management. Guide to the Markets – Australia. Data as of 31 May 2024.



Fixed income sector returns

Fixed income

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	YTD	May '24	Ten-yr Ann.
AUD	25.3%	16.0%	14.2%	15.3%	5.1%	12.2%	14.6%	5.3%	12.5%	-5.5%	12.7%	4.8%	0.7%	5.6%
Local	Global HY 7.1%	U.S. MBS 6.1%	U.S. MBS 1.5%	Global HY 15.9%	Aus IG 5.1%	U.S. MBS 1.0%	EM Debt 14.4%	Aus IG 5.3%	U.S. TIPS 6.0%	U.S. MBS -11.8%	Global HY 12.4%	Global HY 2.5%	Aus IG 0.7%	Global HY 3.9%
	16.4%	15.4%	13.9%	10.7%	3.5%	12.1%	13.9%	4.1%	7.6%	-6.2%	9.8%	3.8%	0.4%	4.4%
	Global IG 0.3%	EM Debt 5.5%	EM Debt 1.2%	EM Debt 10.2%	Aus Gov 3.5%	U.S. Treas. 0.9%	Global HY 14.0%	Aus Gov 4.1%	Global HY 2.9%	U.S. Treas. -12.5%	EM Debt 10.5%	EM Debt 1.2%	Aus Gov 0.4%	EM Debt 2.5%
	14.4%	14.8%	13.4%	5.6%	2.0%	9.7%	11.7%	1.1%	5.0%	-6.7%	8.9%	2.5%	-0.2%	3.3%
	U.S. MBS -1.4%	U.S. Treas. 5.1%	U.S. Treas. 0.8%	Portfolio 5.4%	Global HY 7.6%	U.S. TIPS -1.3%	Global IG 11.5%	U.S. TIPS 11.0%	U.S. MBS -1.0%	Aus IG -6.7%	Global IG 9.6%	U.S. TIPS -0.1%	Portfolio 1.1%	Global IG 1.4%
	12.9%	13.3%	10.9%	5.2%	1.2%	7.4%	9.5%	0.8%	4.5%	-7.0%	6.8%	1.5%	-0.4%	2.7%
	U.S. Treas. -2.7%	U.S. TIPS 3.6%	U.S. TIPS -1.4%	U.S. TIPS 4.7%	EM Debt 9.3%	Global HY -2.4%	Portfolio 9.2%	Portfolio 6.1%	EM Debt -1.5%	Global HY -11.8%	Aus IG 6.8%	Portfolio 0.1%	U.S. MBS 2.0%	Portfolio 2.0%
	9.9%	12.8%	8.5%	4.8%	1.0%	7.2%	8.6%	0.5%	3.7%	-10.2%	6.8%	1.3%	-0.5%	2.6%
	Portfolio 0.3%	Global IG 3.1%	Global IG -3.6%	Global IG 4.3%	Global IG 9.1%	Portfolio 0.7%	U.S. TIPS 8.4%	Global IG 10.4%	U.S. Treas. -2.3%	Aus Gov -10.2%	Portfolio 6.8%	Global IG -1.2%	Global IG 1.9%	U.S. MBS 0.8%
	8.4%	11.7%	7.8%	3.8%	0.9%	7.1%	7.8%	-1.6%	3.1%	-10.4%	4.4%	1.1%	-0.6%	2.6%
	EM Debt -6.6%	Portfolio 6.0%	Global HY -2.1%	Aus IG 3.8%	Portfolio 5.1%	Global IG -3.6%	Aus Gov 7.8%	Global HY 6.3%	Global IG -2.9%	EM Debt -16.5%	U.S. MBS 5.0%	Aus IG 1.1%	EM Debt 1.8%	U.S. Treas. 0.8%
	6.1%	10.3%	7.7%	2.5%	-4.6%	6.0%	7.1%	-1.6%	2.3%	-10.7%	4.3%	0.7%	-0.7%	2.6%
	U.S. TIPS -8.6%	Aus Gov 10.3%	Portfolio 0.5%	Aus Gov 2.5%	U.S. TIPS 3.0%	EM Debt -4.6%	Aus IG 7.1%	U.S. Treas. 8.0%	Portfolio -1.1%	Global IG -16.7%	Aus Gov 4.3%	U.S. Treas. -1.9%	U.S. TIPS 1.7%	Aus IG 2.6%
	4.3%	9.2%	3.0%	2.2%	-5.1%	5.1%	7.0%	-3.5%	-1.6%	-11.7%	3.4%	0.4%	-0.8%	1.5%
	Aus IG 4.3%	Global HY 2.5%	Aus IG 3.0%	U.S. MBS 1.7%	U.S. MBS 2.5%	Aus Gov 5.1%	U.S. Treas. 6.9%	EM Debt 5.9%	Aus IG -1.6%	Portfolio -11.1%	U.S. Treas. 4.1%	U.S. MBS -2.1%	Global HY 1.2%	Aus Gov 1.5%
	0.3%	8.1%	2.3%	1.5%	-5.3%	3.9%	6.5%	-5.4%	-3.1%	-76.2%	3.3%	-0.7%	-0.9%	-9.5%
	Aus Gov 0.3%	Aus IG 8.1%	Aus Gov 2.3%	U.S. Treas. 1.0%	U.S. Treas. 2.3%	Aus IG 3.9%	U.S. MBS 6.4%	U.S. MBS 3.9%	Aus Gov -3.1%	U.S. TIPS -11.8%	U.S. TIPS 3.9%	Aus Gov -0.7%	U.S. Treas. 1.5%	U.S. TIPS 2.1%

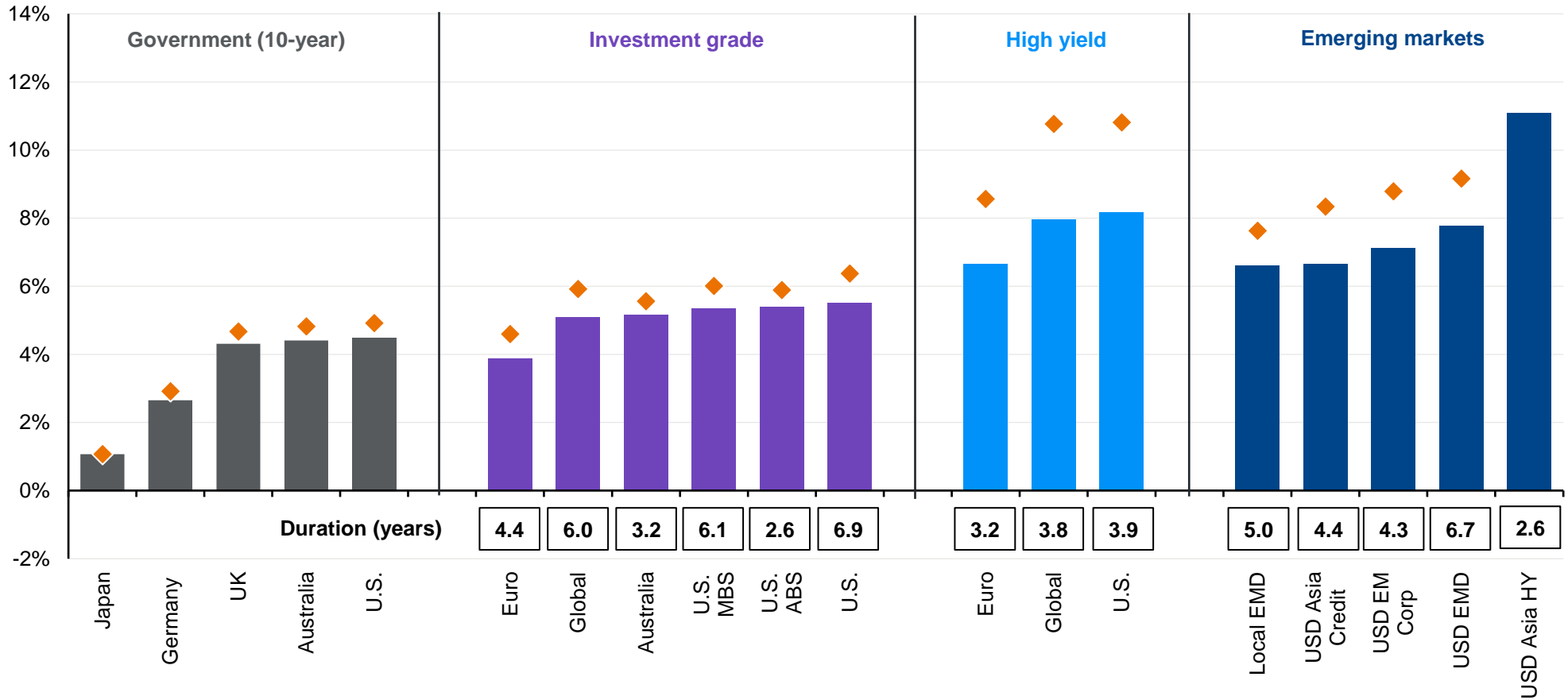
Source: Bloomberg L.P., FactSet, ICE BofA, J.P. Morgan Asset Management. Aus Gov: AusBond Treasury (0+Y); U.S. Treas.: Barclays U.S. Aggregate Government – Treasury; Global IG: Barclays Global Aggregate – Corporate – Investment Grade; Aus IG: Bloomberg AusBond Credit (0+Y); Global HY: BoA/ML Global High Yield; EM Debt: J.P. Morgan EMBI Global; U.S. TIPS: Bloomberg Barclays U.S. Treasury Inflation-Protected Securities (TIPS); U.S. MBS: Bloomberg Barclays U.S. Aggregate Securitized – MBS. Hypothetical portfolio (for illustrative purposes only and should not be taken as a recommendation): 25% Aus Gov, 15% Aus IG, 10% Global IG, 15% Global HY, 10% EM Debt, 15% U.S. Treas., 5% U.S. TIPS, 5% U.S. MBS. Past performance is not a reliable indicator of current and future results. Guide to the Markets – Australia. Data as of 31 May 2024.



Fixed income yields

Fixed income

Nominal yields



◆ Maximum yield in past 10 years

Source: Bloomberg L.P., FactSet, ICE BofA, J.P. Morgan Asset Management. Euro IG: Bloomberg Barclays Euro-Aggregate – Corporate; Global IG: Bloomberg Barclays Global Aggregate – Corporate; Aus IG: Bloomberg AusBond Credit (0+Y); U.S. IG: Bloomberg Barclays U.S. Aggregate Corporate. Euro HY: ICE BofA Euro Developed Markets Non-Financial High Yield Constrained Index; Global HY: ICE BofA Global High Yield; U.S. HY: ICE BofA U.S. High Yield Constrained Index; USD EM Corp: CEMBI Broad Diversified; Local EMD: GBI-EM Global Diversified; USD EMD EMBI Global; USD Asia Credit: JPM Asia Credit; Local Asia EMD: JPM JADE; USD Asia HY: JPM Asia HY. Positive yield does not imply positive return. Past performance is not a reliable indicator of current and future results. Max yield on USD Asia HY is 19.1% *Guide to the Markets – Australia*. Data as of 31 May 2024.



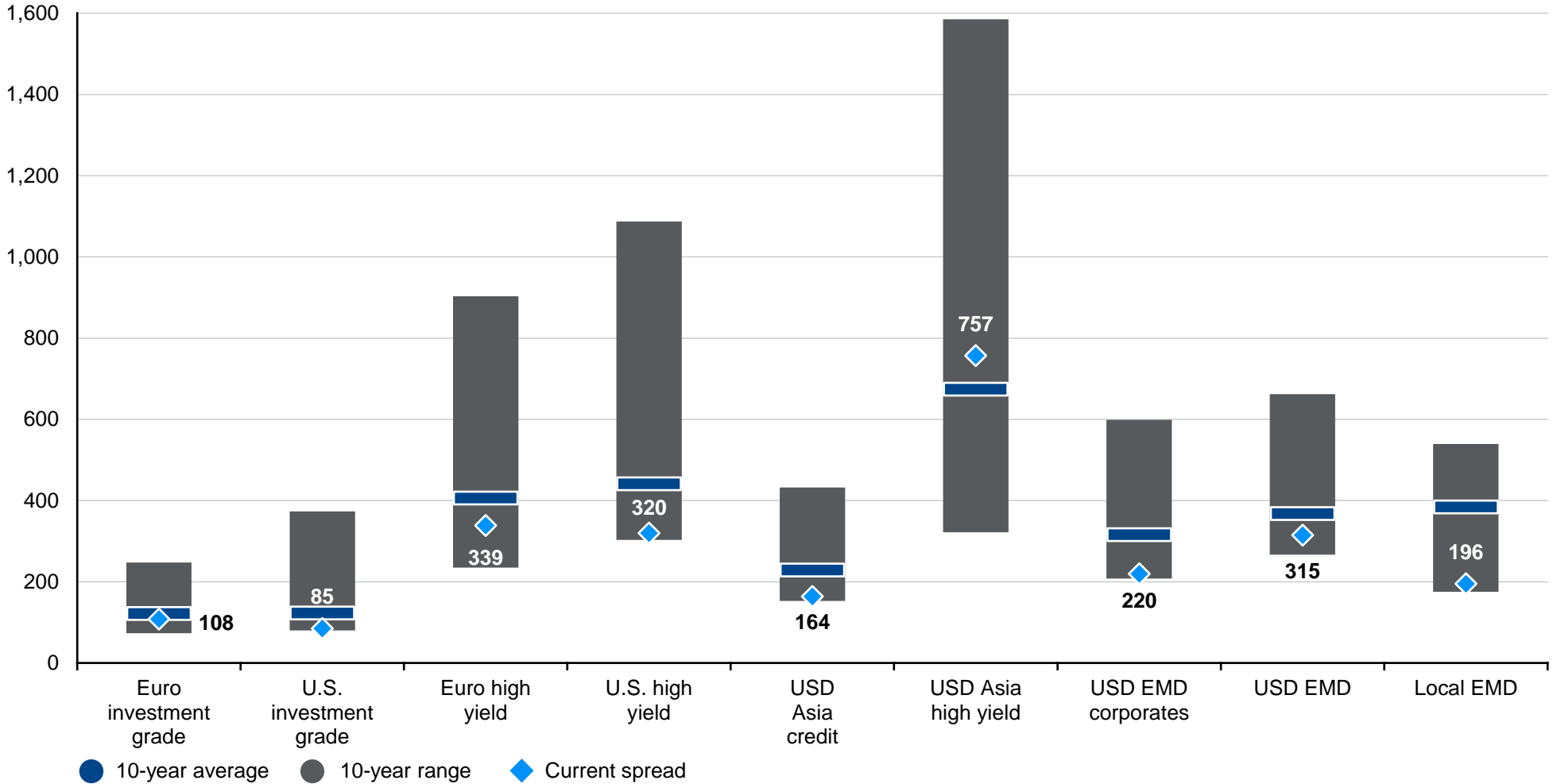
Fixed income valuations

GTM AUS 50

Fixed income

Spreads across fixed income sub-sectors

Basis points



Source: Bloomberg L.P., FactSet, ICE BofA, J.P. Morgan Securities, J.P. Morgan Asset Management. Past performance is not a reliable indicator of current and future results.
 Guide to the Markets – Australia. Data as of 31 May 2024.



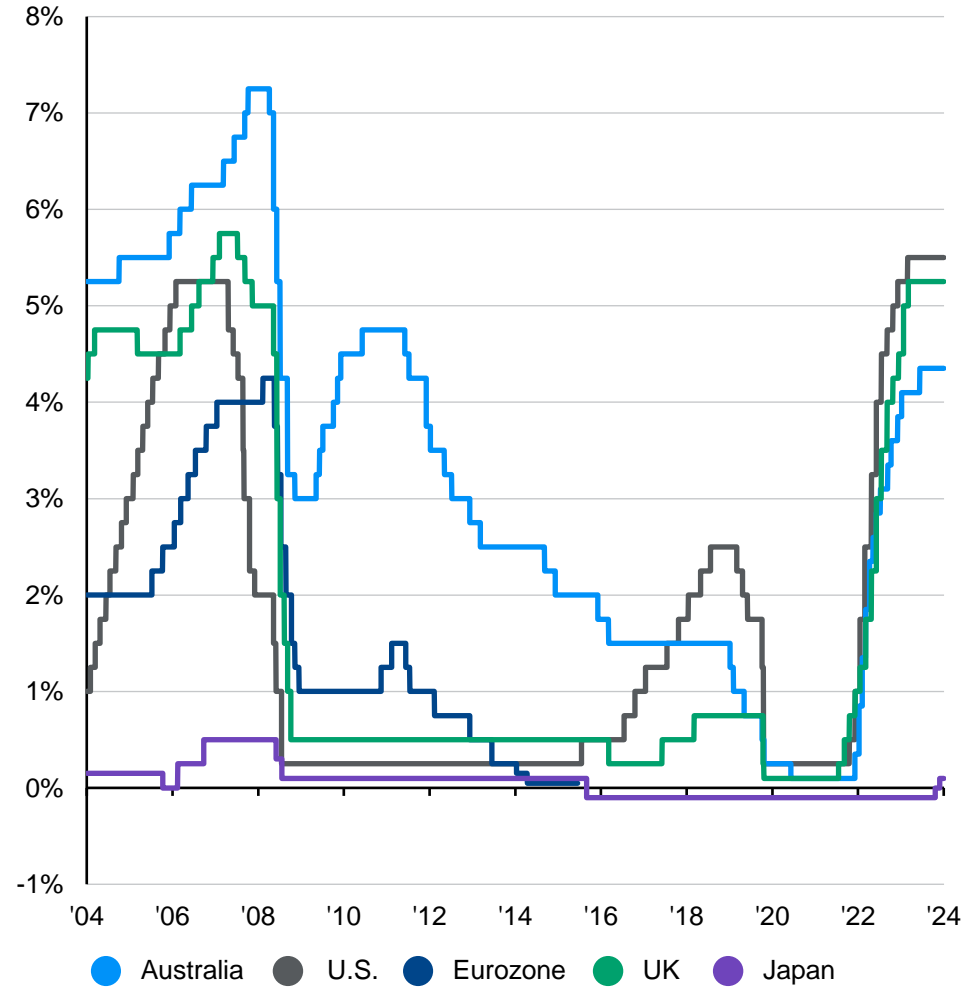
Central bank policy rates

GTM AUS 53

Fixed income

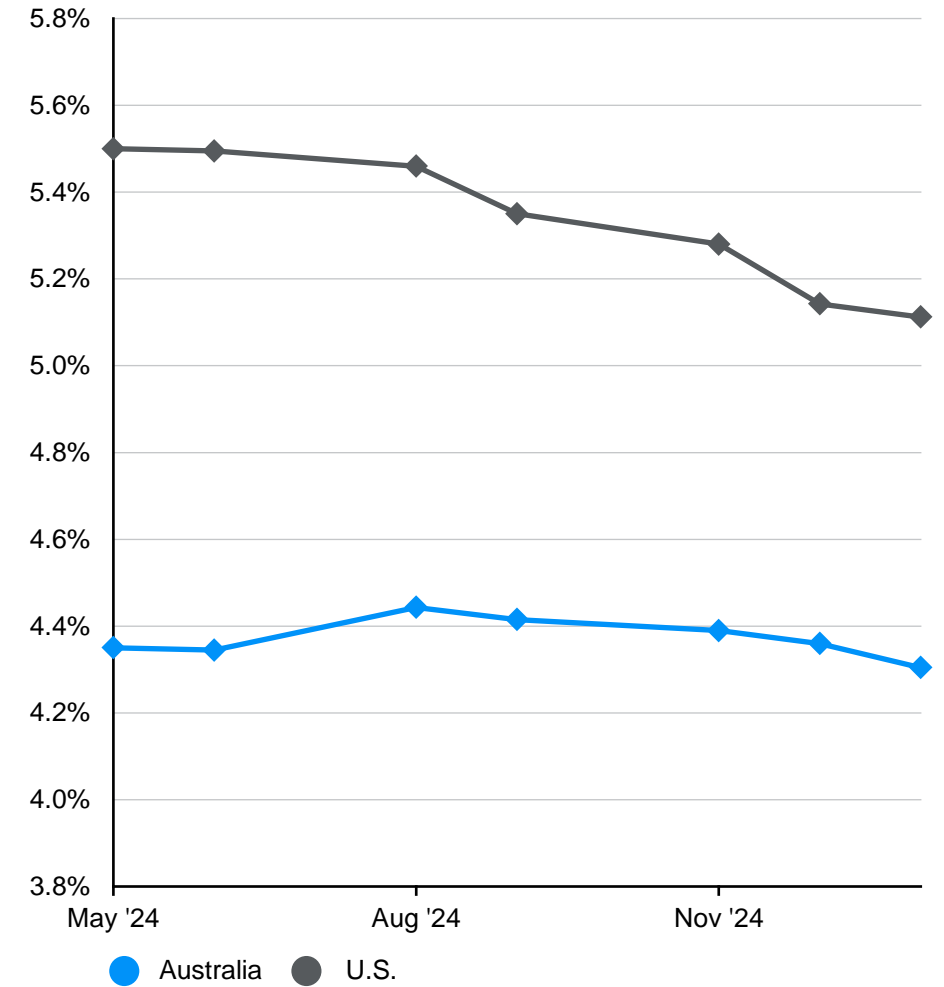
Central bank key policy rates

Target rates



Market implied policy rates

Expected policy rate at coming central bank meetings



Source: Bank of Japan, European Central Bank, FactSet, Reserve Bank of Australia, U.S. Federal Reserve, J.P. Morgan Asset Management. Past performance is not a reliable indicator of current and future results. Guide to the Markets – Australia. Data as of 31 May 2024.



Energy prices

GTM | AUS | 63

Other asset classes

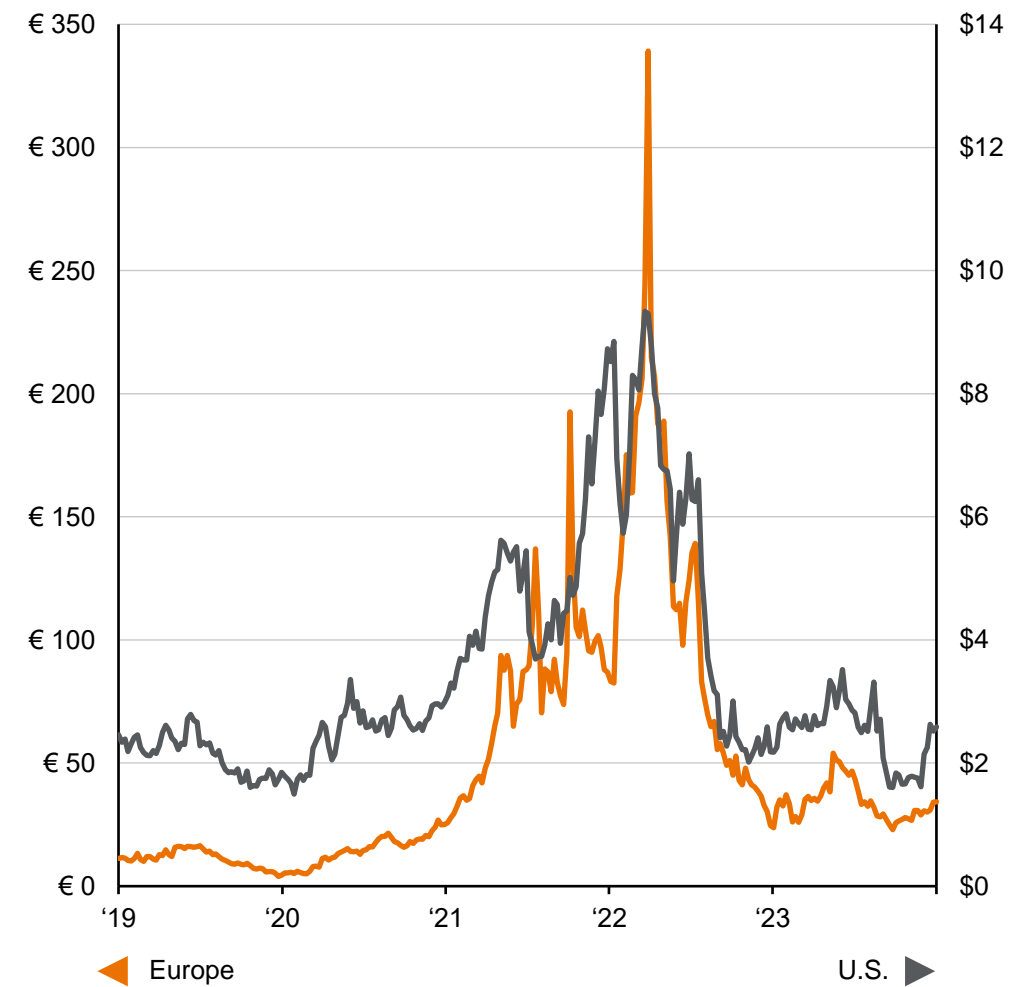
Price of oil

Brent crude, USD/barrel



Natural gas prices

EUR per MWh / USD per Mmbtu



Source: FactSet, ICE, Nymex, J.P. Morgan Asset Management. Past performance is not a reliable indicator of current and future results. Guide to the Markets – Australia. Data as of 31 May 2024.

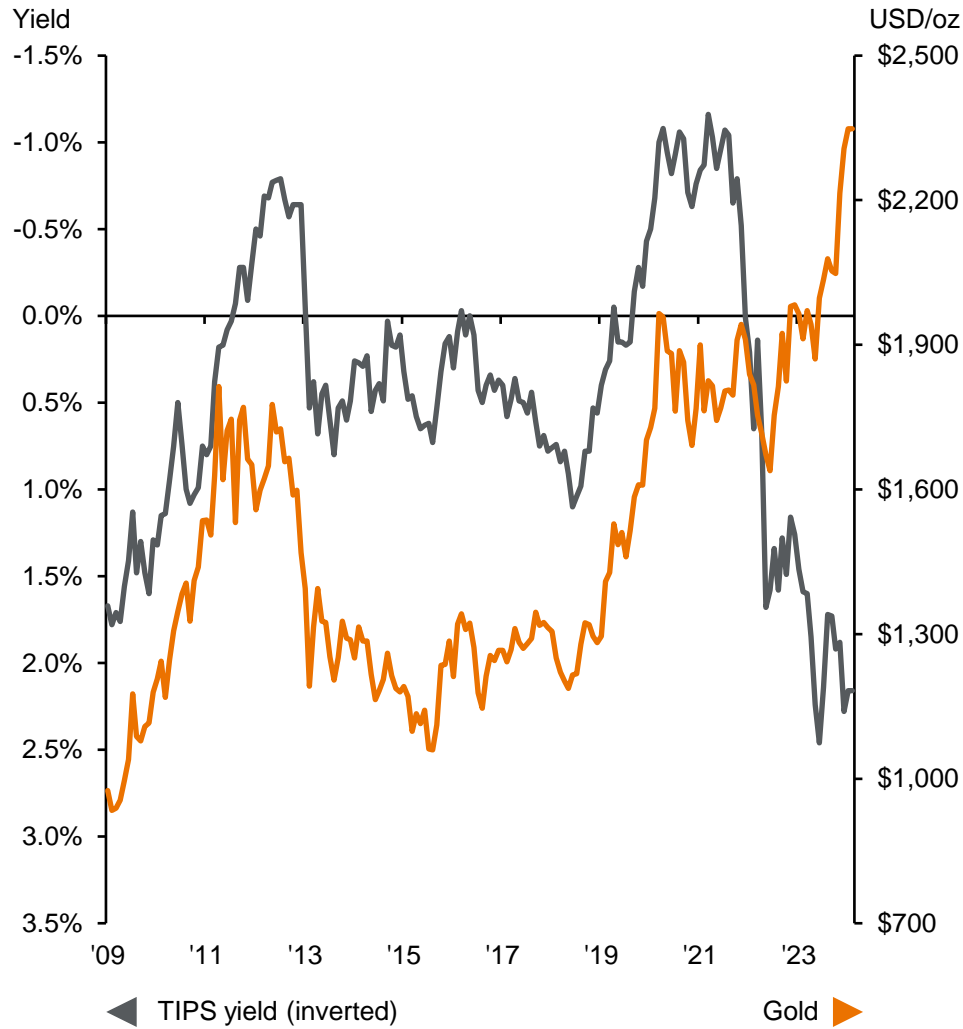


Metals

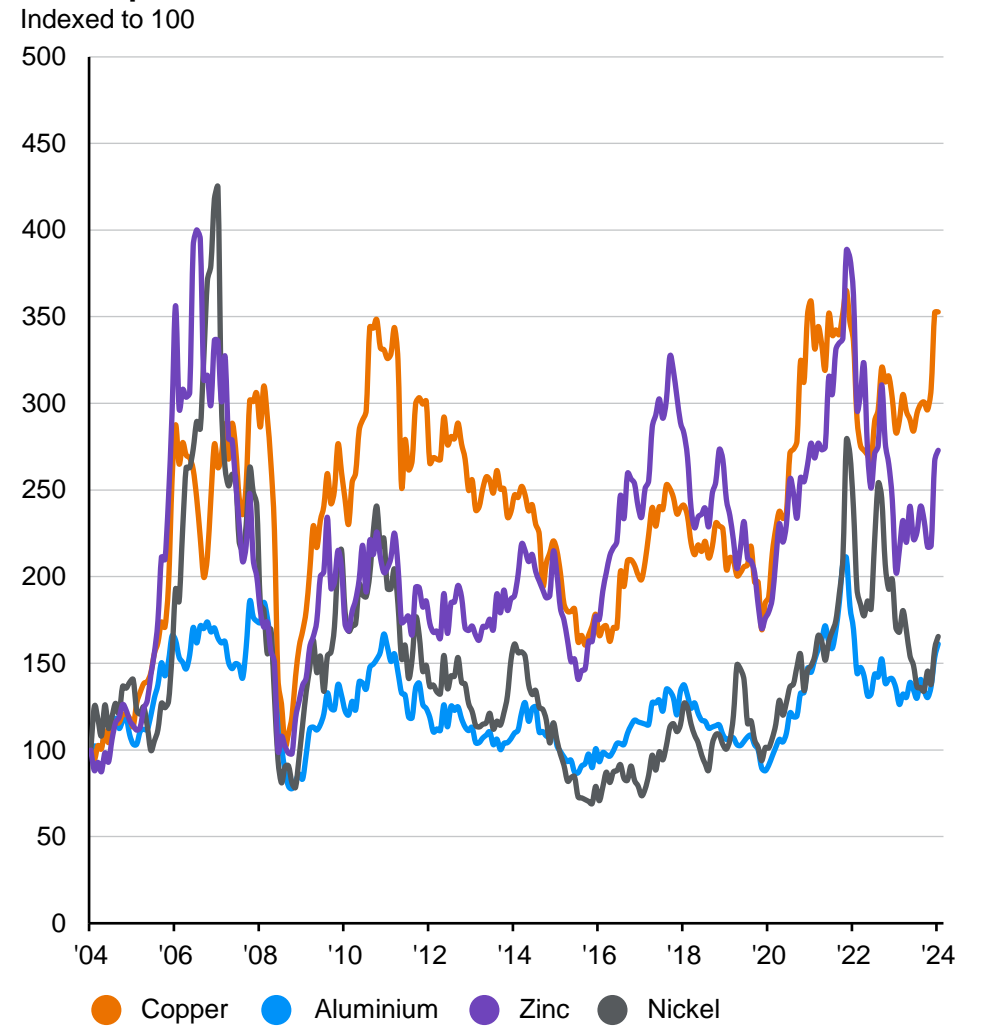
GTM AUS 66

Other asset classes

Gold and real rates



Metals prices



Source: FactSet, J.P. Morgan Asset Management; (Left) U.S. Federal Reserve; (Right) London Metals Exchange. Past performance is not a reliable indicator of current and future results.
 Guide to the Markets – Australia. Data as of 31 May 2024.

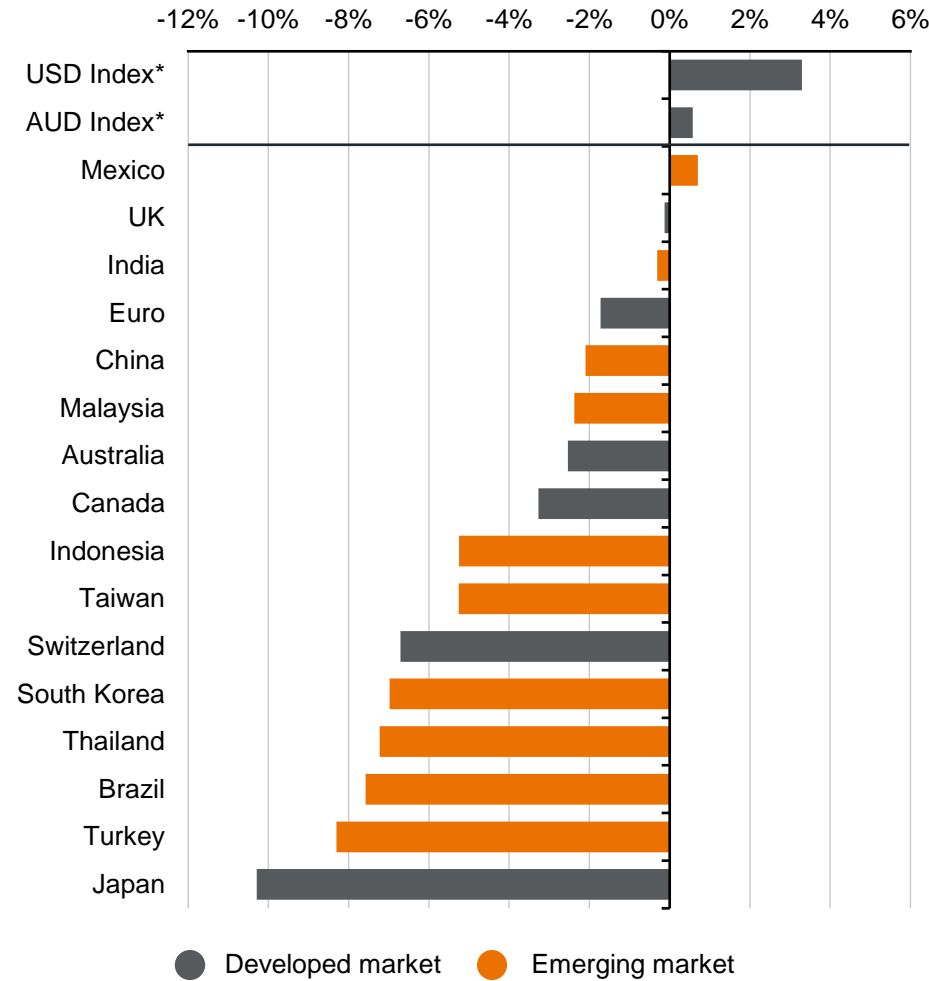


Global currencies

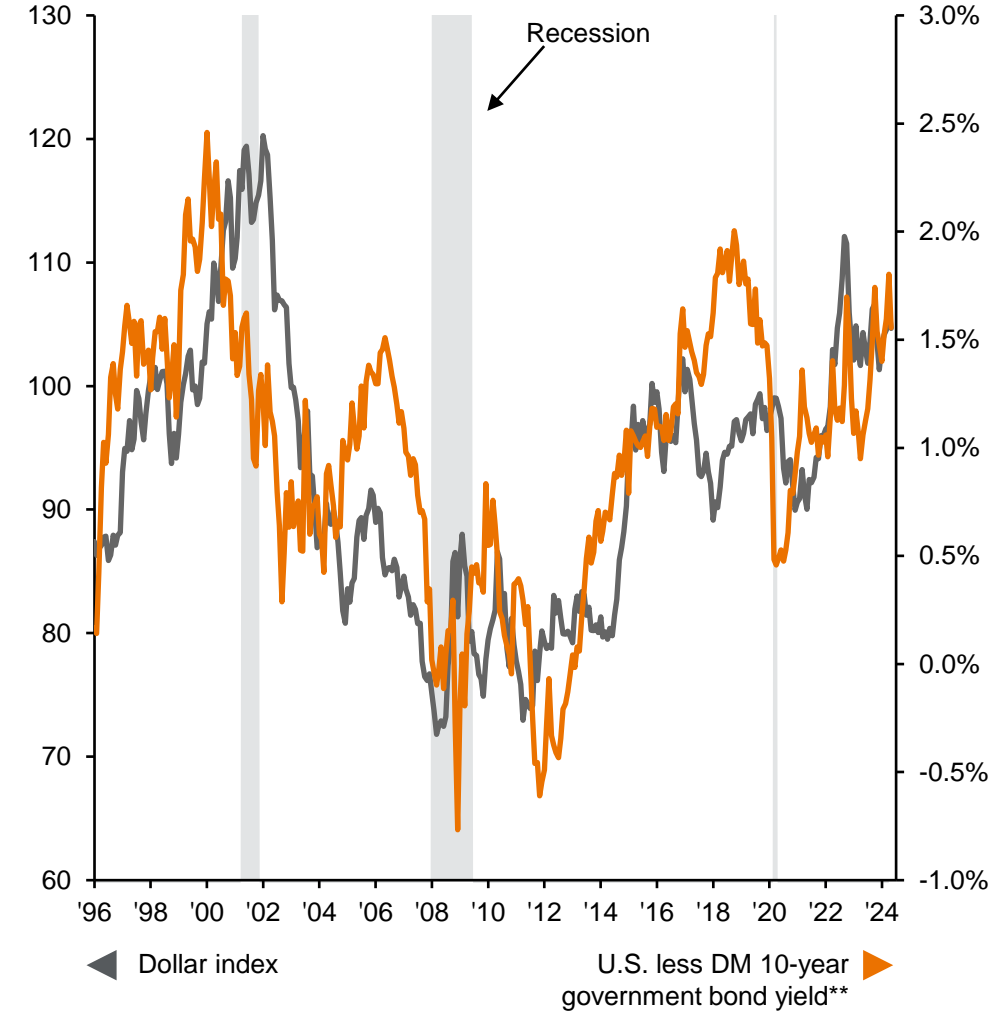
Other asset classes

Currency movements

YTD, vs. USD



U.S. dollar index and interest rate differential



Source: FactSet, J.P. Morgan Asset Management; (Left) Reserve Bank of Australia; (Right) OECD.

*USD and AUD Index shows performance vs. a basket of trading partners. **DM is developed markets and the yield is a GDP-weighted average of the 10-year government bond yields of Australia, Canada, France, Germany, Italy, Japan, Switzerland and the UK. Past performance is not a reliable indicator of current and future results.

Guide to the Markets – Australia. Data as of 31 May 2024.



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Unless otherwise stated, all data are as of 31 May 2024 or most recently available.

Material ID: 0903c02a82674e7f