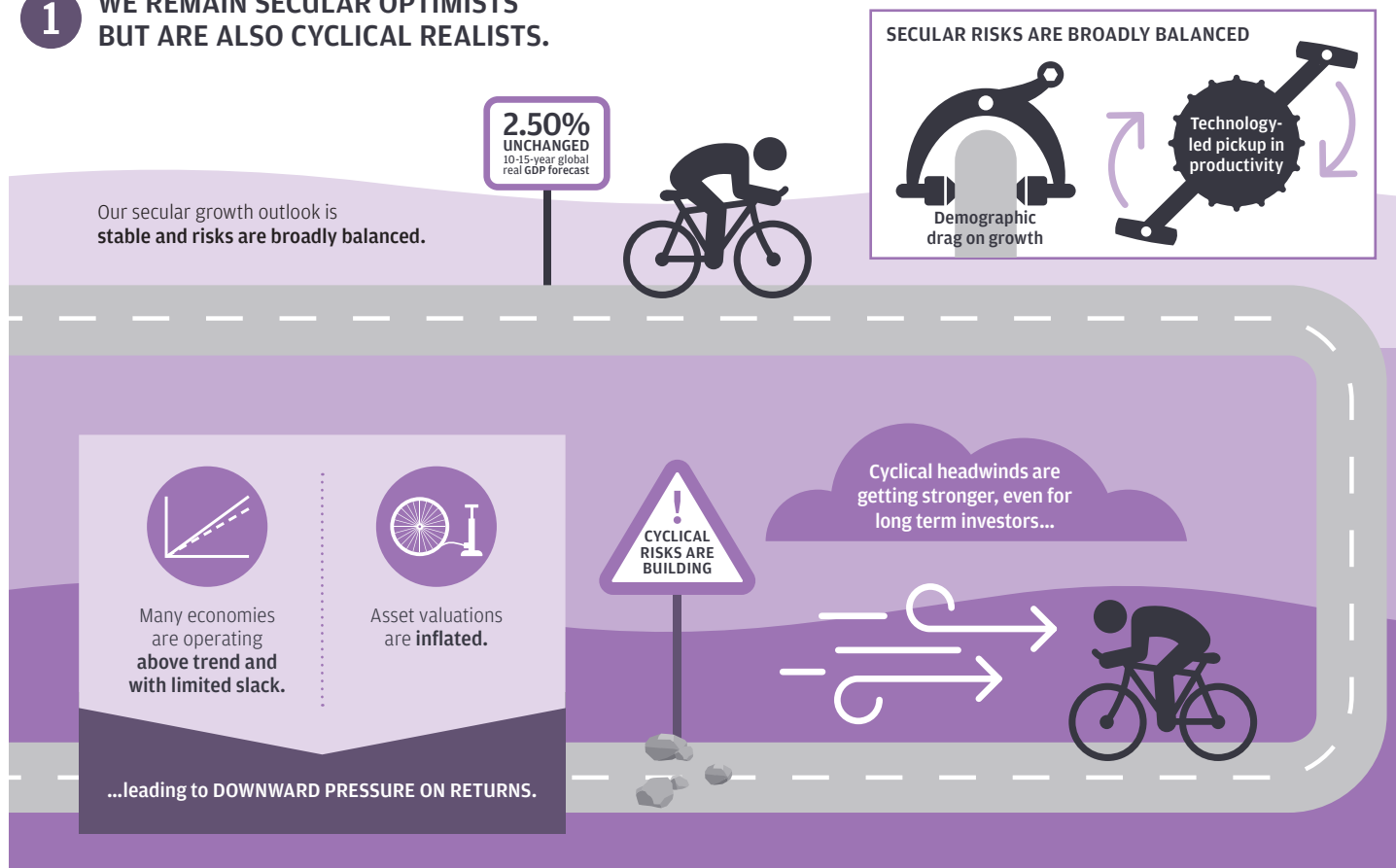


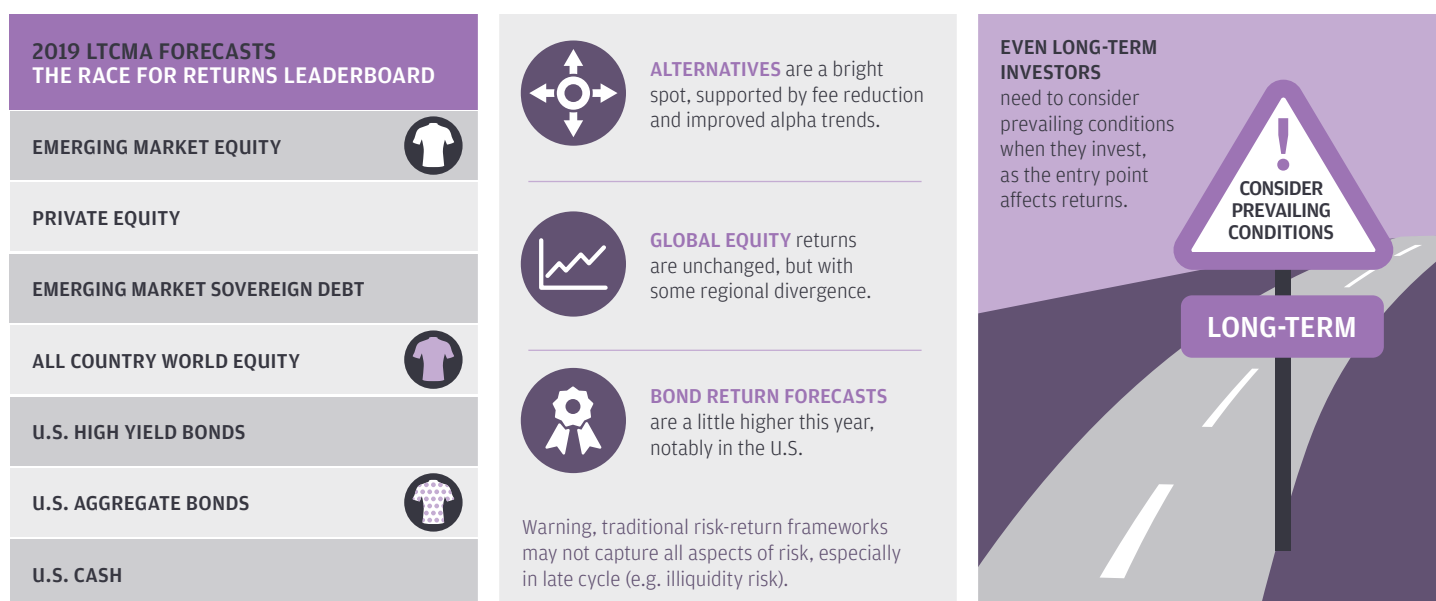
PORTFOLIO INSIGHTS

2019 LONG-TERM CAPITAL MARKET ASSUMPTIONS: AN OVERVIEW

1 WE REMAIN SECULAR OPTIMISTS BUT ARE ALSO CYCLICAL REALISTS.



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



3 PORTFOLIOS MAY BE PROFOUNDLY AFFECTED

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

5.25%

5.50%

DRIVEN BY HIGHER
BOND RETURNS

PORTFOLIOS ALLOCATIONS ARE
REFLECTING LATE-CYCLE DYNAMICS

2019
SHARPE RATIO
U.S. STOCKS =
0.24

2019
SHARPE RATIO
U.S. GOVERNMENT
BONDS =
0.42

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



END OF
CURRENT
CYCLE

RETURN TO
EQUILIBRIUM

GLOBAL MARKETS

POLICY NORMALIZATION

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

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

MARKET CYCLE

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

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

TRADITIONAL
INVESTMENT
APPROACH

DISCONTINUITY
IN THE MARKET
- NEW TOOLS REQUIRED?

Average return
expectations
and normalized
risk-return profiles

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

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



Focus on active
investment around
SECULAR THEMES
such as technology.



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



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

Including:

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

PORTFOLIO INSIGHTS

NEXT STEPS

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

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