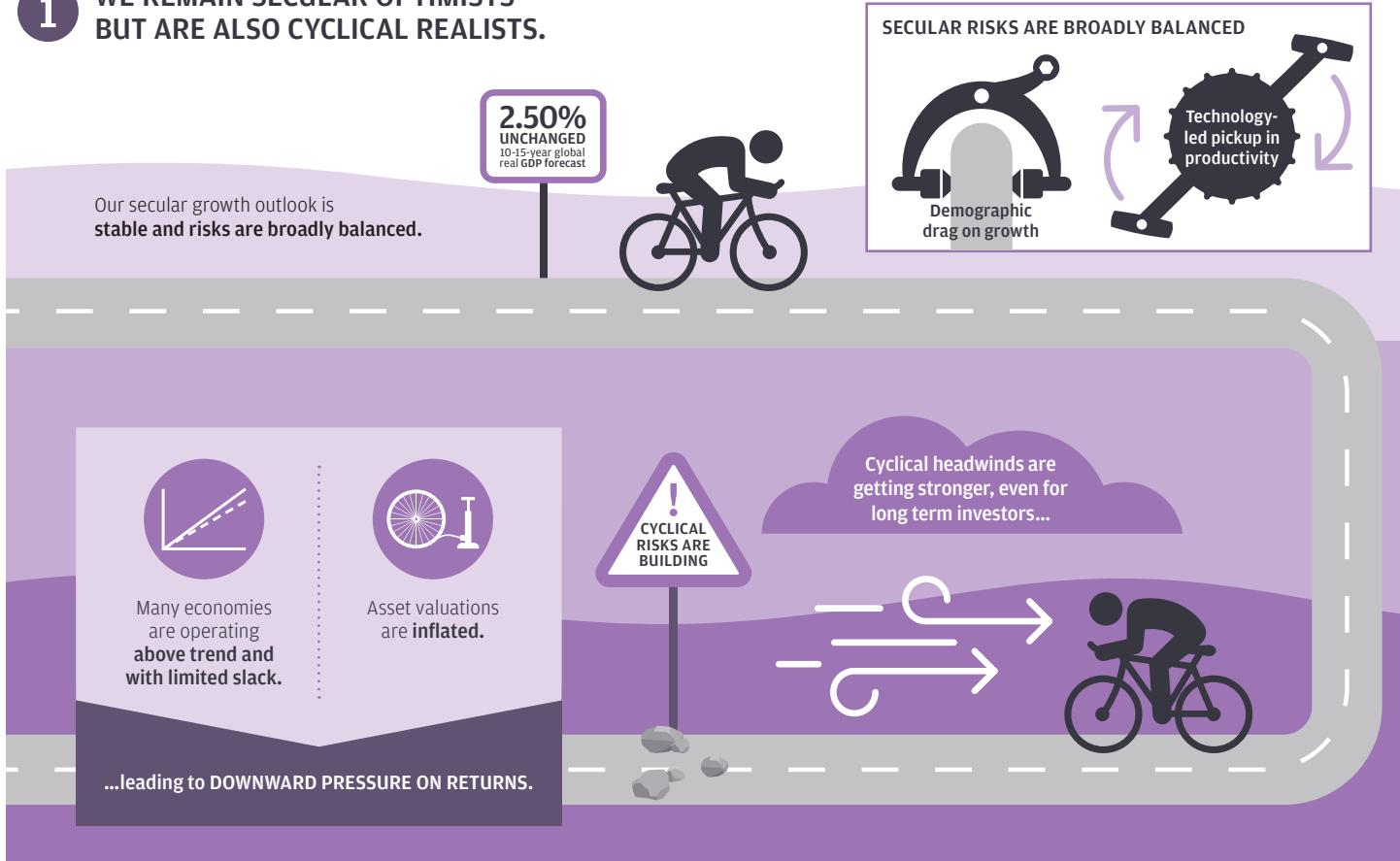


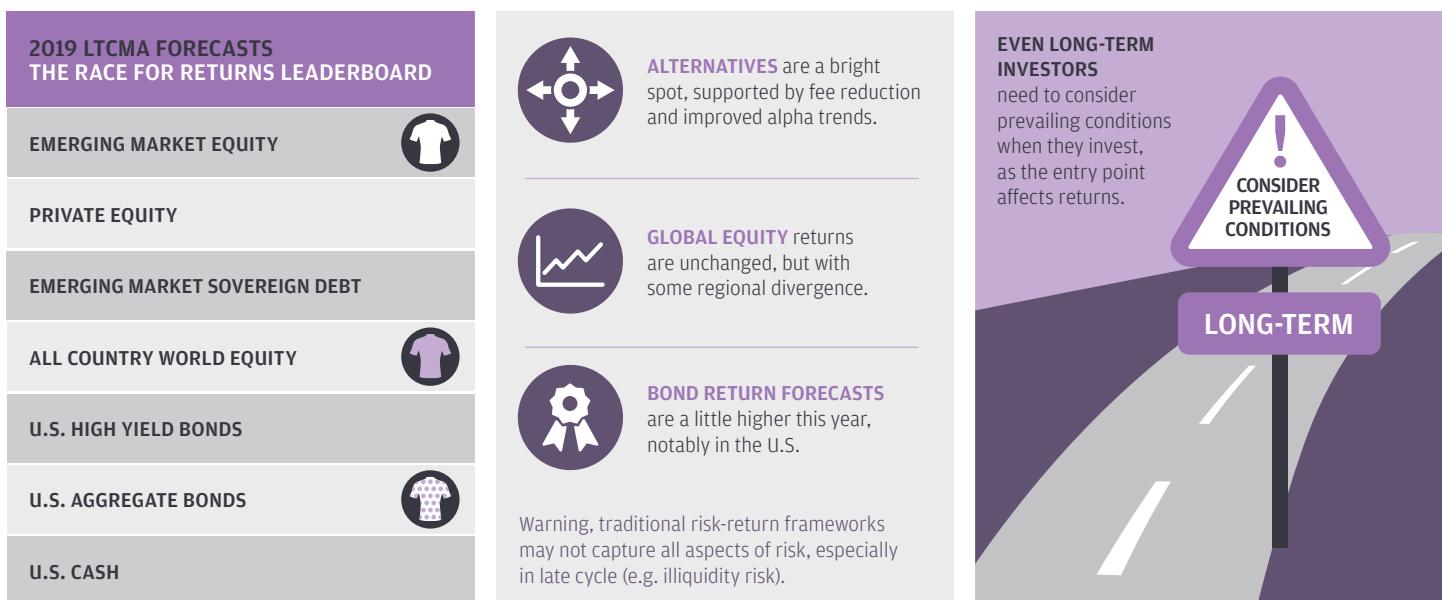
PORTFOLIO INSIGHTS

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

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

END OF CURRENT CYCLE

RETURN TO EQUILIBRIUM

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

Average return expectations and normalized risk-return profiles

DISCONTINUITY IN THE MARKET - NEW TOOLS REQUIRED?

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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