Market Outlook | 2027

2027: A year to stay BID



The 2027 investment outlook calls for investors to stay **BID: Broaden, Income and Diversification**.

- **Broaden** allocation within asset classes such as equities by sector and region, fixed income by credit quality and duration.
- **Income** generation opportunities are improving and play a bigger role in return contribution.
- **Diversify** portfolio allocation by making full use of asset classes available.

Resilient global growth, expanding corporate earnings and continued artificial intelligence (AI) investment support equities and corporate credit. However, persistent inflation, elevated borrowing costs and fiscal constraints argue for stronger portfolio resilience. Following equities' substantial outperformance in 2026, risk-adjusted returns across asset classes could converge.

Economic expansion remains uneven. U.S. technology spending supports Asian semiconductor exporters and infrastructure suppliers, but China's domestic recovery faces challenges. Inflation could keep the Federal Reserve's (Fed's) hawkish and limit rapid interest rate cuts.

Equity allocations should **broaden** across regions, sectors and the AI value chain. Opportunities include U.S. industrials and materials, European capital goods, Japanese exporters and governance improvements and selected Chinese technology companies. Within AI, investors should distinguish adoption from monetization, prioritizing competitive advantages, visible cash generation and sound financing. Holdings across equities, bonds, private credit and infrastructure may share exposure to the same technology spending cycle.

High-quality bonds provide **income** and potential protection against slowing growth, while cash carries reinvestment risk. Nevertheless, inflation and sovereign funding pressures can pose as temporary headwinds. Duration and credit selection therefore require careful balance.

Alternatives can complement traditional assets and provide additional tool to **diversify**. Private equity increasingly depends on operational improvement, while private credit requires rigorous borrower assessment. Infrastructure and hedge funds may provide differentiated returns, subject to manager quality, costs, valuations and liquidity constraints.

Ultimately, portfolios should prepare for surprises such as energy shocks, an AI investment slowdown or sovereign debt stress rather than just rely on a single scenario. The priority is balanced growth participation, stable income, and diversified economic exposures through active management.

In our **2027 Market Outlook**, we discuss below key market questions and what these mean for investors.

1. Can the U.S. economy stay constructive to risk assets?
2. Can the global economy keep up with the U.S.?
3. How does inflation shape Asian economies, households & businesses?
4. Can global central banks stay hawkish?
5. Could we see sovereign debt stress in 2027?
6. Will tighter financial conditions stall U.S. growth?
7. Can AI earn enough to justify the spending boom?
8. What are different ways to invest in AI?
9. Where to broaden out in equity allocation?
10. Why invest in fixed income when cash rates are high?
11. How can alternatives contribute to building a balanced portfolio?
12. Are there solutions to extreme market stress events?
13. What will be the trend in global currencies and gold?
14. What does the 2027 portfolio playbook look like?

1. Can the U.S. economy stay constructive to risk assets?

In brief

- Growth likely moderates but stays positive as the fading in fiscal tailwinds is offset by steady AI-related capital spending.
- The durability of the AI investment cycle could be the marginal drive of 2027 growth in the face of tighter financial conditions.
- Inflation should ease slightly next year, but could remain volatile on structural factors such as global fragmentation and supply chain security.
- Risk asset backdrop will likely remain constructive as corporate profits should remain firm, bolstered by AI-related sector performance.

The U.S. economy can remain constructive for risk assets even as GDP growth moderates, on account of the fading of consumption-led fiscal tailwinds even as productivity and investment trends persist. In that context, the key pillar for markets next year is less about falling rates or valuation multiple expansion and more about whether earnings can grow through productivity gains and margin durability. The focus for investors is whether the projected growth slowdown could impair corporate profits. Our base case is that margins can stay healthy as firms lean on pricing power where available and increasingly use AI adoption and automation to lift efficiency, supporting a soft-landing environment rather than a recession-led slowdown.

2027: Growth likely to moderate as fiscal tailwinds fade

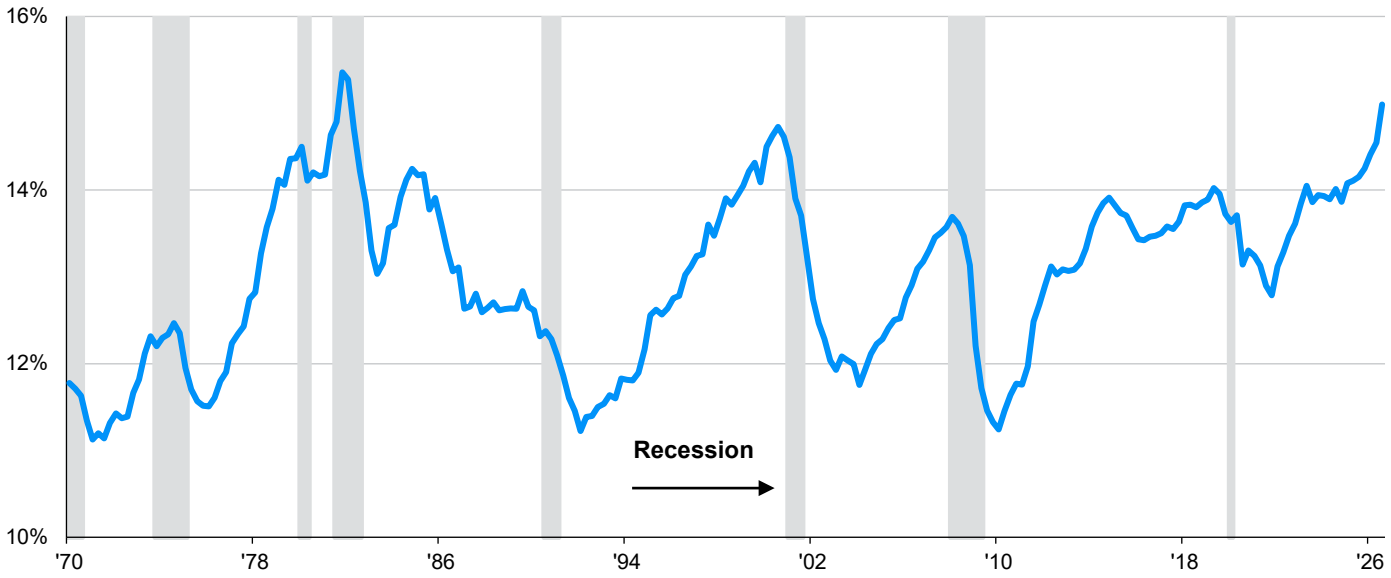
This year, the underlying growth momentum was held strong with temporary fiscal support from tax refunds, but this could fade into next year. The U.S. consumption outlook is shaped by income and wealth concentration. Higher-income households account for a disproportionate share of total consumption, financial assets and discretionary spending. This can keep aggregate spending resilient even if lower-income households face pressure from tighter budgets or higher borrowing costs. As a result, consumption growth is likely to cool from the post-pandemic pace, but it is more likely to slow than collapse, especially if services, travel and wealth-linked consumption remain supportive. The key barometer for investors to watch is the labor market, which remains the critical transmission mechanism in that insofar as employment holds up reasonably well, the downshift in consumption should be consistent with moderation and not a sharp contraction in growth.

The implication for the U.S. growth outlook is that absent the fiscal tailwinds this year, growth could moderate even as AI-led capital expenditure is projected to rise next year. This translates to growth likely slowing to a trend-like pace of 2% in 2027.

Prospects of AI-led capex strong despite tightening financial conditions

The durability of the AI investment cycle may be a key determinant of U.S. growth in 2027. This represents a shift away from this year's fiscal tailwinds, stemming from income tax rebates, which have supported private consumption. Non-residential business fixed investment as a share of GDP was at its strongest level in over two decades in 3Q26, underscoring the fact that capital allocation toward AI-related equipment and materials has supported, and will likely continue to support, economic growth (**Exhibit 1**).

Exhibit 1: AI-related capital spending hits a high relative to the economy
Nonresidential business fixed investment share of nominal GDP, quarterly



Source: BEA, FactSet, J.P. Morgan Asset Management. Data reflect most recently available as of 02/11/26.

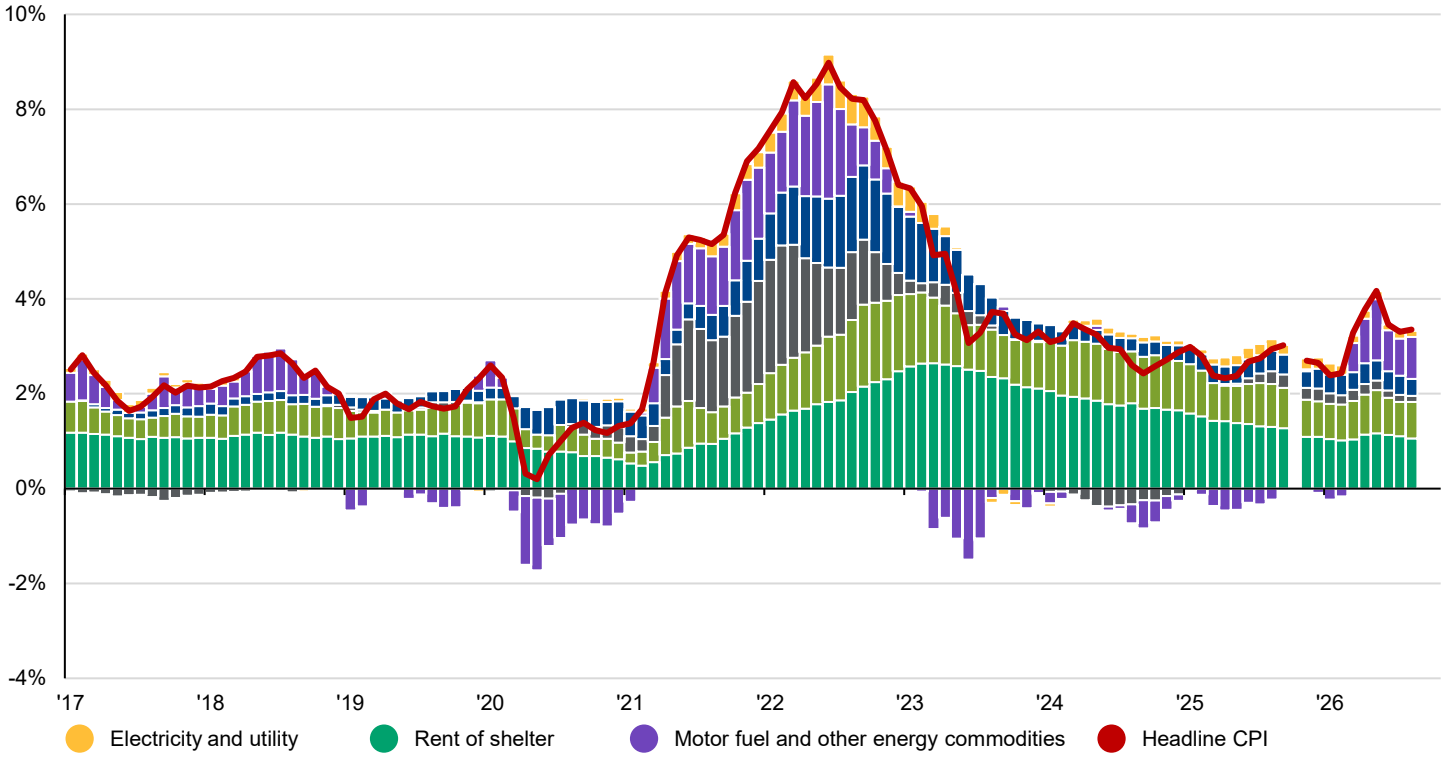
J.P.Morgan
ASSET MANAGEMENT

While tighter financial conditions and higher rates typically constrain capex, AI could be different, as firms increasingly view the strategic risk of falling behind on productivity, automation and competitive positioning as greater than the cost of funding. AI-led capex can therefore help underpin productivity, and investment-led expansion even in a higher-rate environment. For risk assets, the implication is important: earnings support would be driven by increased productivity and resilient margins, not by a broad re-rating from easier policy.

Inflation pressures to fade but remain volatile

Inflation is likely to improve but remain more volatile, reflecting category-specific moves and uneven supply-side normalization. Shelter remains one of the largest contributors to inflation, yet it is also positioned to become a meaningful source of disinflation in 2027 as housing supply improves and cooler market rent growth continues to feed through into official measures with a lag (**Exhibit 2**). Energy is another key supply-side price driver that can add volatility even if the broader trend is toward easing inflation pressures next year. Overall, a gradual, choppy improvement in inflation would reinforce the soft-landing profile through supporting real income dynamics and reducing the risk that inflation re-acceleration forces a sharper growth slowdown, which could lead to a repricing of the Fed's policy path and keep the macro backdrop broadly constructive for risk assets.

Exhibit 2: Inflation is expected to cool in 2027
Contributors to headline CPI inflation
Year-over-year change, non-seasonally adjusted



Source: BLS, FactSet, J.P. Morgan Asset Management. U.S. October 2025 CPI data unavailable due to the U.S. government shutdown.
Guide to the Markets – Asia. Data reflect most recently available as of 09/11/26.

2. Can the global economy keep up with the U.S.?

In brief

- Global growth looks resilient into 2027, but it is unusually concentrated in U.S.-led AI capex and a narrow set of tech-linked exporters.
- APAC is benefiting from the AI hardware and semiconductor upcycle, but export strength is conditional and exposed to external shocks.
- China and Japan are improving but uneven; the key 2027 test is whether growth broadens beyond U.S. tech spending into stronger domestic consumption and non-tech investment.

The global economy has proven more resilient than expected, but the recovery is far from even. Many regions are still growing, but the strongest momentum is coming from a relatively small set of drivers, namely, the U.S. economy, AI-related investment, semiconductors, data centers and the related segments of Asia's export sector. Global growth has not disappeared, but it is being powered by a narrower base than in a typical broad-based recovery.

Some U.S. exceptionalism remains

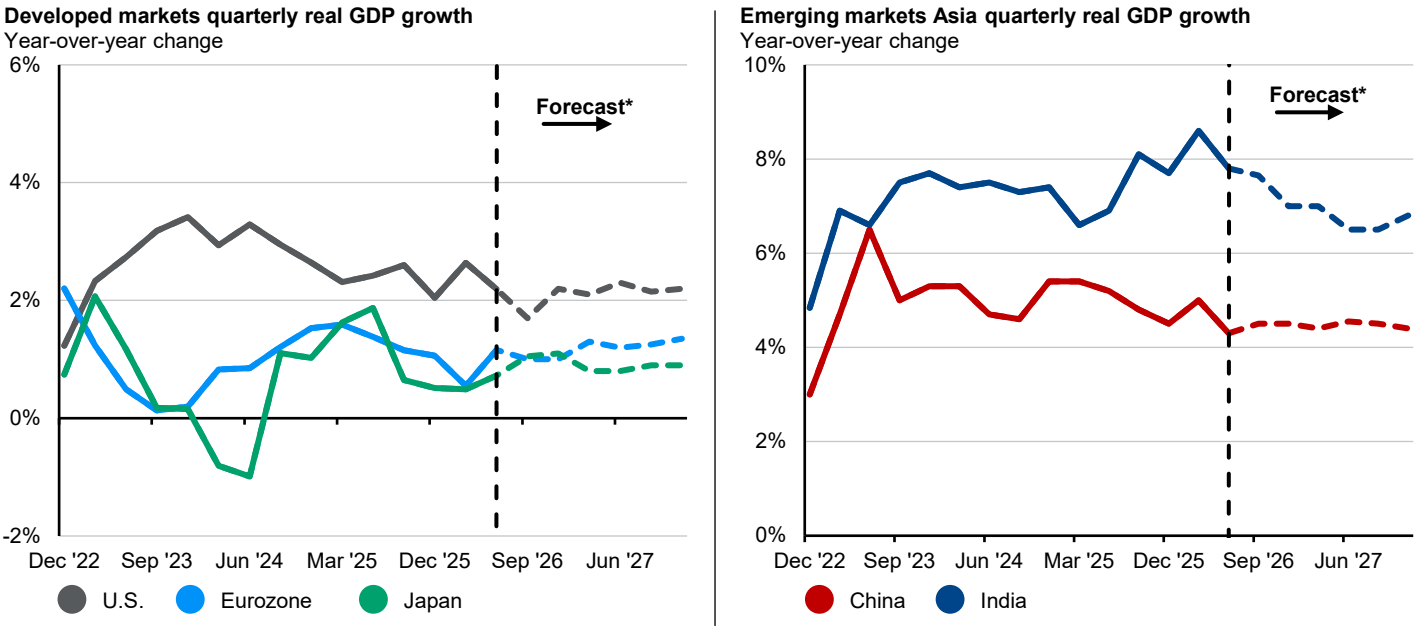
Some degree of U.S. exceptionalism is likely to remain a key feature of the outlook. However, the story is less about the U.S. simply outgrowing every other major economy and more about the U.S. setting the pace for global investment. Large American technology companies are driving demand for chips, servers, power infrastructure and other equipment needed for the AI buildout. As a result, even when domestic demand looks strong in markets such as Taiwan, Korea or Japan, part of that strength is still linked to spending decisions made by U.S. companies. The U.S. is leading through demand, capital spending and financing, while parts of Asia are benefiting through manufacturing, exports and supply-chain activity.

Growth isn't seen as weak, but it is very narrowly driven

The important point is that the global economy is exposed to a small set of drivers, such as tech capex. A narrow expansion can last, but it is also more vulnerable if one of the main pillars starts to wobble. At present, global momentum relies heavily on U.S. AI investment, a small group of Asian technology exporters and China's manufacturing supply chain, rather than strong household demand across many regions. That leaves the outlook exposed to risks including a prolonged energy shock, tighter financial conditions, higher bond yields, fiscal pressure, renewed inflation and geopolitical disruption.

Higher energy prices would be especially challenging for energy-importing Asian economies such as India, Japan, South Korea, Taiwan, Thailand and the Philippines, where fuel and electricity costs can weigh on consumers, lift inflation and pressure trade balances. Higher yields could also hurt housing and business investment, while large fiscal deficits may leave governments with less room to support growth.

Exhibit 3: Global growth expected to remain resilient, but focused on a small set of themes



Source: FactSet, J.P. Morgan Asset Management. *Real GDP growth forecasts are based on consensus estimates from FactSet. *Guide to the Markets – Asia.* Data reflect most recently available as of 30/09/26.

Asia-Pacific captures both the upside and the vulnerability of this environment. Export growth remains strong, particularly in North Asia. Taiwan, Korea and Japan are benefiting from demand for semiconductors, memory chips, servers, networking equipment, autos and AI-related infrastructure. Some Southeast Asian economies are also gaining as companies diversify supply chains and expand electronics assembly outside China.

However, the durability of APAC's export strength should not be taken for granted. Much of the current boom is tied to electronics and AI-related hardware. That is different from a traditional export upturn, which would usually support a wider range of industries, generate more jobs and feed more clearly into household spending. AI-related sectors are important, but they do not always produce the same broad boost to employment and consumer demand as more labor-intensive industries.

China's recovery remains uneven. Headline growth has been supported by advanced manufacturing and exports, but this does not yet point to a full domestic rebound. The economy still looks "K-shaped": high-tech manufacturing, electronics, automation, AI infrastructure and selected export industries are expanding, while property, traditional manufacturing, private investment and discretionary consumption remain under pressure.

The key issue for China is that strong exports do not automatically translate into domestic demand. Consumers are still cautious, property remains a drag and private-sector confidence has not fully recovered. In a year of leadership transition, we do not expect a major stimulus package. Policy support is more likely to be selective, focused on stabilizing weaker areas while continuing to back strategic industries. Therefore, China may keep growing, but the recovery is likely to remain steady rather than V-shaped.

Japan is also moving in the right direction. Growth has been positive, corporate confidence remains reasonably firm and exports are benefiting from AI-related demand. Inflation also appears more persistent, which is notable after decades of deflation. This points to a gradual normalization of Japan's economy.

Still, households remain the main constraint. Consumers are sensitive to higher food and energy prices, and wages need to rise faster than inflation for longer before domestic demand can strengthen durably. Japan's inflation is therefore a sign of normalization, but not yet proof of a powerful consumer-led expansion. The Bank of Japan faces a delicate balancing act: If it tightens policy too quickly, it could weaken the household demand needed to sustain growth.

Whether the world keeps up with the U.S. depends on broadening out beyond AI

Overall, the global economy can keep pace with the U.S., but only if growth becomes broader. The key test for 2027 is whether the current investment cycle spreads into stronger household income, consumption and non-technology business investment. If it does, global growth could become more balanced and durable. If not, the world will remain heavily reliant on fiscal support, U.S. technology spending and AI-related capital expenditure, leaving markets exposed to an AI slowdown, higher energy prices, tighter financial conditions or renewed trade disruption.

3. How does inflation shape Asian economies, households & businesses?

In brief

- **Central banks and bond yields**: Inflation shapes policy decisions and expectations for short- and long-term interest rates.
- **Household consumption**: When prices rise faster than incomes, purchasing power can fall, influencing what households buy and where they spend.
- **Government finances and voter sentiment**: Higher food, energy and living costs can prompt government support, affecting public finances and shaping voters' views.
- **Business profitability**: Companies that manage rising costs, sustain demand and maintain pricing power are better placed to protect margins.

Why inflation matters

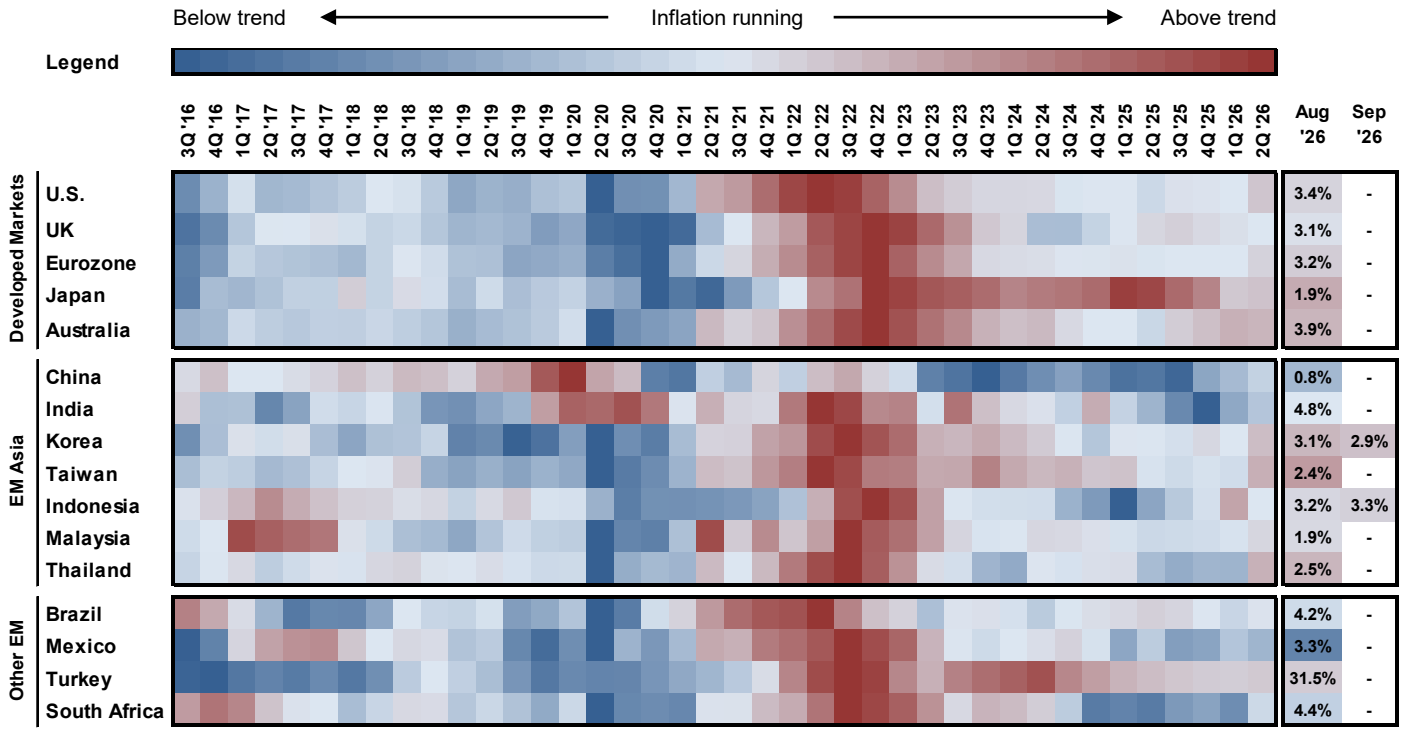
Inflation is more than a rise in prices. It influences borrowing costs, household budgets, government spending and corporate profits. For Asian investors, these forces connect global bond yields and currencies with local demand and equity valuations.

Central banks and bond yields

Inflation shapes expectations for central bank policy, bond yields and major currencies. Asian central banks must also weigh domestic inflation, growth and exchange rate dynamics. They typically look beyond one-off food or energy shocks to assess whether inflation is spreading through wages, services and expectations. Their different responses to the same global backdrop illustrate this distinction.

Philippines raised rates as food-price and inflation risks worsened; India also moved toward tighter policy, raising its repo rate as food, energy and weather-related risks pushed inflation higher and began to broaden beyond a one-off supply shock. Indonesia held its benchmark rate after earlier tightening while prioritizing currency stability. Thailand held rates at 1% to support an economic recovery that remains below potential, viewing recent inflation pressures as temporary and supply-driven. Korea paused after two hikes but retained a hawkish stance. Japan held its policy rate at 1.25% in October after raising it in September, while signaling that further increases remain possible.

Exhibit 4: Global inflation should ease in 2027
Headline consumer prices
Year-over-year change



Source: Department of Statistics Malaysia, DGBAS, Eurostat, FactSet, IBGE, India Ministry of Statistics & Programme Implementation, INEGI, J.P. Morgan Economic Research, Korean National Statistical Office, Melbourne Institute, Ministry of Commerce Thailand, Ministry of Internal Affairs & Communications Japan, National Bureau of Statistics of China, Office for National Statistics UK, Statistics Indonesia, Statistics Institute Turkey, Statistics South Africa, U.S. Department of Labor, J.P. Morgan Asset Management. Seasonally adjusted quarterly averages, with the exception of the two most recent figures, which are seasonally adjusted single month readings, are shown. Colors are based on z-score of year-over-year inflation rate relative to each market's own 10-year history where red (blue) indicates inflation above (below) long-run trend. EM represents emerging markets. *Guide to the Markets – Asia*. Data reflects most recently available as of 30/09/26.

The key distinction is whether inflation remains an imported or supply-side shock, as in Thailand, or spreads through wages, services and domestic demand, as Japan is increasingly experiencing.

These decisions feed into bond markets. Persistent inflation can lead investors to expect tighter policy, pushing short-term yields higher. Long-term yields also reflect expected inflation, fiscal deficits, government-bond supply and the term premium. Higher yields raise borrowing costs and can reduce the value investors assign to future corporate profits. Taken together, global policy expectations set the external backdrop, while domestic inflation, exchange-rate movements and local policy determine how strongly each Asian economy feels the effects.

Households and purchasing power

For households, inflation can feel like a pay cut when wages fail to keep pace with prices. The impact is uneven: Lower-income households spend a greater share of their budgets on essentials such as food, fuel, rent and electricity, leaving less room to absorb further increases.

Higher-income households are often better cushioned by savings and financial assets, and may continue spending on travel, restaurants and premium products. Lower-income consumers are more likely to trade down, delay purchases or switch from eating out to cheaper groceries. This creates a K-shaped consumption pattern: Affluent demand may remain relatively resilient even as mass-market spending weakens.

Even when energy and import prices stabilize, earlier increases in producer costs can continue reaching consumers for months or years, keeping pressure on household budgets and corporate margins. Consumers under pressure may switch to cheaper brands, buy smaller quantities or move from restaurant meals to home cooking. This can support value retailers and essential-goods providers, while weighing on restaurants, travel, electronics and other discretionary businesses as households postpone purchases or choose lower-cost options.

Government finances and political stability

The same pressure creates a difficult choice for governments. They can let households absorb higher food and energy costs, risking public discontent, or provide relief through subsidies, tax cuts and transfers. Across Asia, fuel subsidies, tax cuts and price controls have softened the immediate shock for households and businesses, but they shift some of the cost to government budgets and can delay the pass-through of higher global energy prices. By keeping some costs lower in the near term, these measures may also support spending. However, when stronger spending sustains demand, inflation may become harder to ease.

Meanwhile, the cost of providing support can become harder to manage when interest rates are high. Higher interest rates add another strain by increasing governments' refinancing costs, particularly where public debt is already high. At the same time, efforts to reduce deficits can conflict with voters' expectations for help with the cost of living. Recent protests in France illustrates how fiscal credibility and political uncertainty can become market concerns, as investors weigh household support against deficit control. This is also why inflation can shape voter sentiment. People experience it through everyday costs—food, fuel, housing and borrowing—not through headline economic growth. Confidence and political support may still weaken even when nominal wages or corporate profits are rising.

Profitability and earnings

For companies, inflation can initially lift nominal revenue, but higher sales do not necessarily translate into higher profits. The test is whether a business can raise prices enough to offset higher wages, energy, materials, freight and financing costs without losing customers.

That balance depends on demand, pricing power and productivity. AI-related companies have been an important source of earnings momentum in the U.S., while Asian firms across the technology supply chain have benefited from AI-driven demand. Strong demand can support sales and pricing, but investment, talent and computing costs may rise before productivity gains materialize. Over time, AI-driven efficiencies could improve margins, but they could also intensify competition and limit pricing power.

More broadly, businesses that can pass on costs, improve productivity and control spending may protect or grow margins. Those with limited pricing power may be squeezed by rising costs just as inflation erodes customers' purchasing power. Ultimately, inflation does not affect every company in the same way: profitability depends on how well a business sustains demand and manages costs as prices change.

4. Can global central banks stay hawkish?

In brief

- After the rate hikes in 2026, an extended Fed pause appears increasingly likely in 2027. Persistent supply-side inflation could limit the scope for easing, while moderating wage pressures and resilient growth supported by less rate-sensitive sectors could reduce the urgency for further tightening.
- Central banks are expected to keep their policy options open. Renewed inflationary pressures could warrant further tightening, while deteriorating growth could prompt recession-driven rate cuts. Conversely, easing energy prices could allow central banks to resume monetary easing without a substantial deterioration in economic growth.
- Even an extended pause could prove supportive for financial markets, as current market expectations remain more hawkish than the Fed's projections. Nevertheless, divergent growth and inflation outcomes reinforce the importance of portfolio diversification.

Global central banks have turned hawkish this year (**Exhibit 5**). The Fed, from expecting one rate cut at start of year, has since pivoted to two rate hikes by the year-end, as the Middle East conflict threatens higher energy-led inflationary pressures. Other major central banks have also followed in parallel toward a more restrictive policy stance to pre-empt inflation risks.

While the direction of monetary policy has been relatively clear in 2026, the outlook for 2027 is considerably less certain. The balance between persistent supply-side inflation, moderating wage growth and resilient economic expansion could complicate central banks' assessment of the inflation and growth outlook, forcing central bankers to be agile against income data. Against this backdrop, investors will need to be ready for a broad range of potential outcomes.

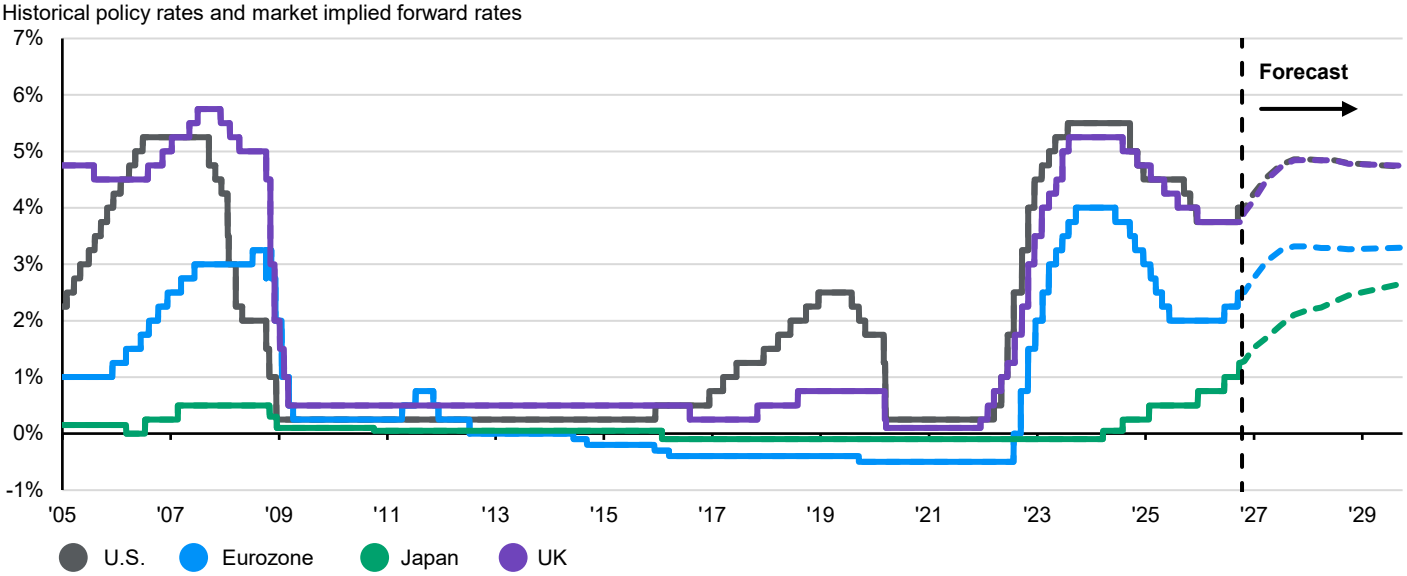
Striking a balance

Absent further economic shocks, inflation could remain sticky. Much of 2026's inflationary pressure has been from energy, as higher crude oil prices and refinery margins lifted gasoline and diesel prices. A prolonged stalemate in the Middle East conflict could keep energy prices elevated in the near term. However, as higher base effects take hold, energy's contribution to headline inflation could fade toward mid-2027.

Instead, inflationary pressures could emerge from the delayed transmission of higher input costs. While businesses have initially absorbed part of the energy shock through narrower profit margins, efforts to normalize margins could cause price increases to broaden beyond energy to other consumer goods. But much like last year's tariff shock, businesses have been adopting gradual price adjustments rather than abrupt increases, especially for price-sensitive items, thereby prolonging the transmission of inflation pressures.

At the same time, demand-side inflationary pressures appear more contained. Despite a relatively low unemployment rate in the U.S., hiring momentum and wage growth have continued to moderate, with a divergence in the historical relationship between labor market tightness and wage pressures. Softer income growth could constrain household purchasing power, further delaying businesses' ability to pass higher costs through to consumers.

Exhibit 5: Markets have priced in ample rate hikes by G4 central banks
Key policy rates and market expectations*
Historical policy rates and market implied forward rates



Source: Bank of England, Bank of Japan, Bloomberg, European Central Bank, FactSet, U.S. Federal Reserve, J.P. Morgan Asset Management. *Expectations are based on forward swap rates. Past performance and forecasts are not reliable indicators of current and future results.
Guide to the Markets – Asia. Data reflect most recently available as of 30/09/26.

Despite moderating household demand, aggregate economic growth could remain supported by corporate investment, especially those tied to AI-related spending, re-industrialization and other structural demand. These could sustain economic activity even as higher borrowing costs weigh on housing and other rate-sensitive sectors.

Taken together, persistent supply-side inflation could limit the scope for easing, while moderating wage growth and increasingly uneven economic activity could reduce the urgency for further tightening. An extended pause throughout 2027 therefore appears increasingly likely if this macro backdrop continues.

The tipping balance

Renewed global disruptions and supply-side shocks, however, could shift this balance and lead to materially different policy outcomes.

Whether triggered by further geopolitical escalation, prolonged energy supply disruptions or a stronger-than-expected pass-through of higher input costs, these could fuel a re-acceleration in inflation. Should price pressures become increasingly broad-based, central banks may need to tighten policy beyond current market expectations, particularly if inflation expectations begin to rise.

Conversely, a supply-side shock that severely undermines domestic demand could lead to a sharper deterioration in economic activity. If weaker hiring develops into rising unemployment, household consumption and corporate investment could soften more substantially, potentially tipping economies into recession. This could prompt central banks into renewed easing, with sharp rate cuts to support activity and stabilize confidence.

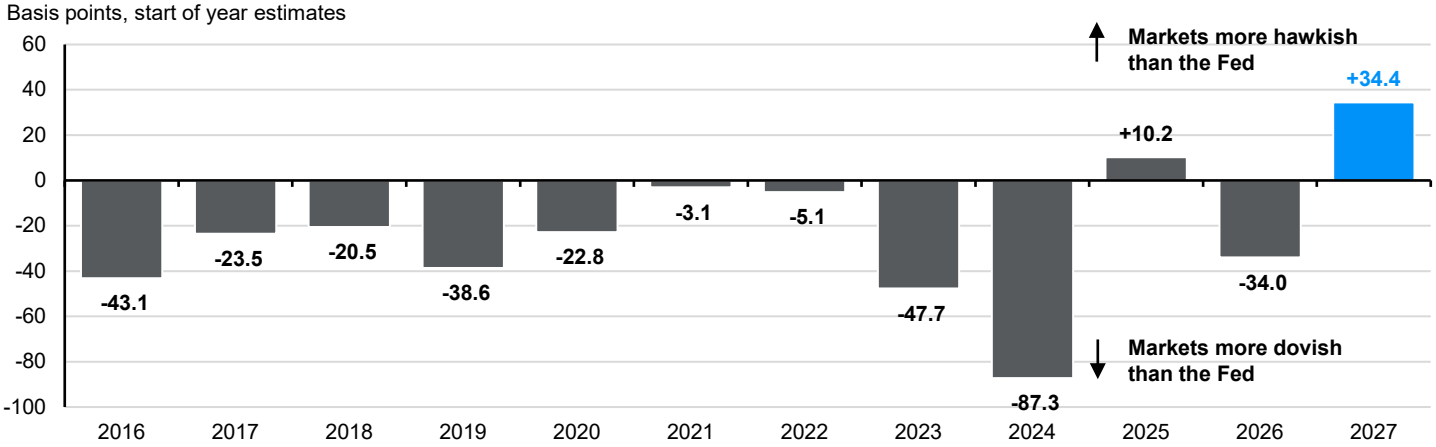
A more desirable outcome could also emerge if geopolitical tensions ease and energy prices retreat sharply. Lower crude oil prices would reduce direct inflationary pressures while easing businesses' production and transportation costs, limiting the need for further price increases. With wage growth remaining subdued and providing further disinflationary pressure, this could lead to a realignment toward central banks' inflation targets. This could create a goldilocks scenario of moderating inflation, steady economic growth and a resumption of monetary easing, supporting both business and household activity.

Potential market implications of a pause

Across these scenarios, the implications for financial markets would vary considerably. Further monetary tightening could weigh on both equities and bonds, while recession-driven easing could support government bonds at the expense of equity performance. A more favorable combination of easing inflation and monetary policy, meanwhile, could provide support for both asset classes.

On balance, an extended Fed pause remains the most likely case for 2027, as persistent supply-side inflation alongside resilient but uneven growth could limit the scope for easing and the urgency for further tightening. This would also align with the Fed's projection of no rate changes in 2027. And with markets pricing the largest hawkish divergence from the Fed's projection in over a decade (**Exhibit 6**), even an extended pause that aligns with the Fed's outlook could therefore provide some relief for equities and bonds, as markets adjust to a less restrictive policy path than currently anticipated. Nevertheless, with the direction of monetary policy still subject to considerable uncertainty, maintaining a diversified portfolio could help investors navigate the different growth and inflation outcomes ahead.

Exhibit 6: OIS market likely to be too hawkish
Market pricing relative to FOMC projections
Basis points, start of year estimates



Source: Bloomberg, Federal Reserve, J.P. Morgan Asset Management. 2027 is based latest expectation. Market expectations are based on overnight index swap rates. Federal Reserve projections shown are the median estimates of Federal Open Market Committee (FOMC) participants. Forecasts are not a reliable indicator of future performance. Forecasts, projections and other forward looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections and other forward statements, actual events, results or performance may differ materially from those reflected or contemplated. Past performance is not a reliable indicator of current and future results. Data reflect most recently available as of 30/10/26.

5. Could we see sovereign debt stress in 2027?

In brief

- Sovereign debt sustainability remains in focus in 2027 amid elevated debt burdens, higher borrowing costs and fiscal spending commitments.
- Persistent fiscal deficits and political constraints in the U.S. could limit efforts at fiscal consolidation, keeping bond yields elevated.
- Europe faces increasingly divergent fiscal challenges, with political fragmentation and spending priorities testing fiscal flexibility
- Japan's monetary policy normalization could add to debt-serving pressures, highlighting the importance of stronger growth and fiscal credibility in managing elevated debt levels.

For much of the past decade, low interest rates allowed governments to accumulate debt without a proportionate increase in borrowing costs. That environment has since changed. Global public debt rose from 82% of GDP in 2019 to 94% in 2025 and is projected by the IMF to reach 100% by 2029. With borrowing costs remaining elevated and fiscal deficits providing difficult to narrow, sovereign debt sustainability is becoming an increasingly important consideration for investors. As we enter 2027, the question is whether governments can balance growing spending commitments with the need to maintain fiscal credibility.

Higher borrowing costs are testing fiscal resilience

Higher interest rates gradually translate into greater debt servicing costs as existing government debt matures and is refinanced at prevailing yields. Rising interest payments consume a larger share of government revenues, reducing fiscal space for public services, infrastructure and other priorities. Additional borrowing to finance these commitments could further reinforce upward pressure on debt levels and borrowing costs.

However, the transmission of higher rates into fiscal balances is neither immediate nor uniform. Markets with longer debt maturities, stronger revenue bases and greater domestic demand for government bonds are generally better positioned to absorb higher financing costs. Nonetheless, with aging populations, defense commitments and investment needs adding to spending pressures, fiscal sustainability is likely to remain a focus in 2027.

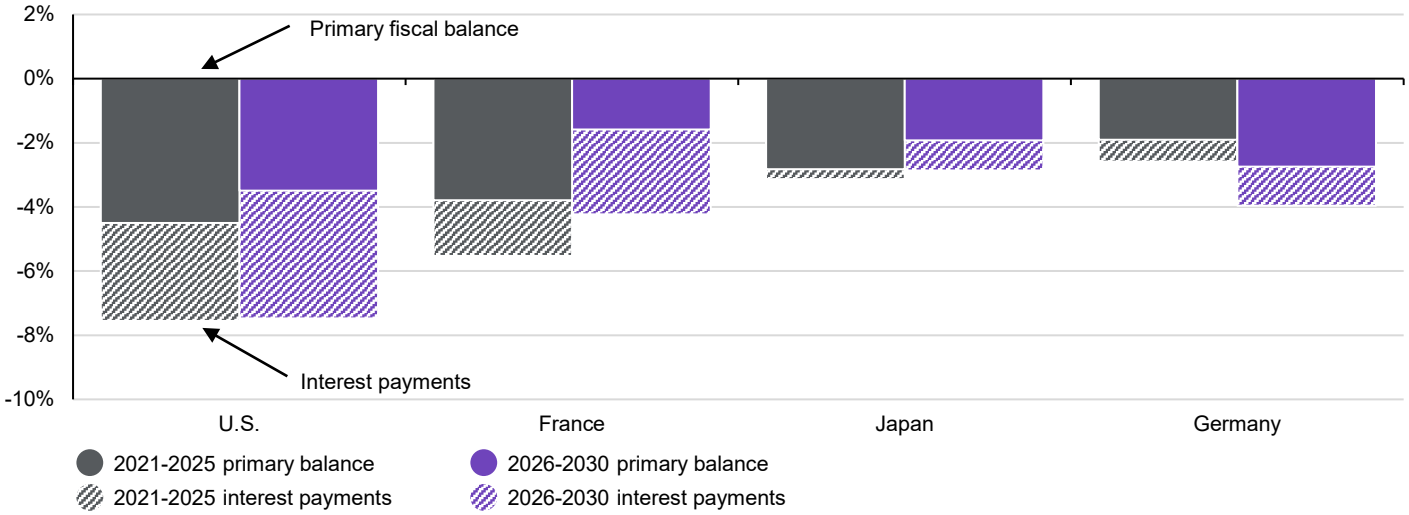
U.S.: Persistent deficits meet political constraints

In the U.S., the fiscal outlook remains challenging. According to the Congressional Budget Office (CBO), the fiscal deficit is projected to equal and exceed 5.6% of GDP each year and trend upward toward 6.7% of GDP by 2036. Meanwhile, net interest payments are expected to rise to 4.6% of GDP by 2036, illustrating the growing burden of servicing government debt, from 3.3% in FY2026.

The political landscape adds another dimension. Following the 2026 midterm elections, a divided government could constrain major new spending initiatives or tax reforms, potentially limiting additional fiscal stimulus. However, political gridlock could also make it harder to address existing structural deficits, particularly given the sensitivity of entitlement spending and taxation.

While the U.S. continues to benefit from the dollar's reserve currency status and deep capital markets, persistent deficit and substantial Treasury issuance could keep term premiums elevated.

Exhibit 7: Interest expense is now a sizeable part of deficits
Government fiscal deficit breakdown*
Share of GDP, period averages, IMF forecasts



Source: FactSet, IMF, J.P. Morgan Asset Management. *Primary fiscal balance calculated by the IMF as (total revenues – non-interest expenditures). Interest payments, cyclical and other factors or adjustments calculated as the difference between the structural fiscal balance and primary fiscal balance. Data reflect most recently available as of 30/09/26.

Europe: Diverging fiscal positions and political pressures

Across Europe, fiscal challenges are becoming increasingly differentiated. France remains a source of concern, with government debt rising from approximately 98% of GDP in 2019 to 116% in 2025, while its fiscal deficit remained elevated at 5.1% of GDP in 2025. Political fragmentation further complicates efforts at fiscal consolidation, particularly as existing taxation is relatively high and spending reductions face resistance from voters.

Elsewhere in Europe, several economies enter 2027 from relatively stronger fiscal positions. Germany, for example, had government debt approximately 63% of GDP in 2025, substantially below France's level. However, even markets with greater fiscal headroom face growing spending demands for defense, energy security, infrastructure and the green transition. These investments could support productivity and economic resilience over time but also require financing today.

Higher government bond yields offer more attractive income but also greater sovereign risk. Fiscal deterioration and political uncertainty could increase capital-loss risks in weaker economies, while sovereign stress in France or elsewhere could prompt safe-haven flows toward U.S. Treasuries. However, with the U.S. facing its own fiscal challenges, such flows will depend on investors' confidence in the relative safety and liquidity of government bond markets.

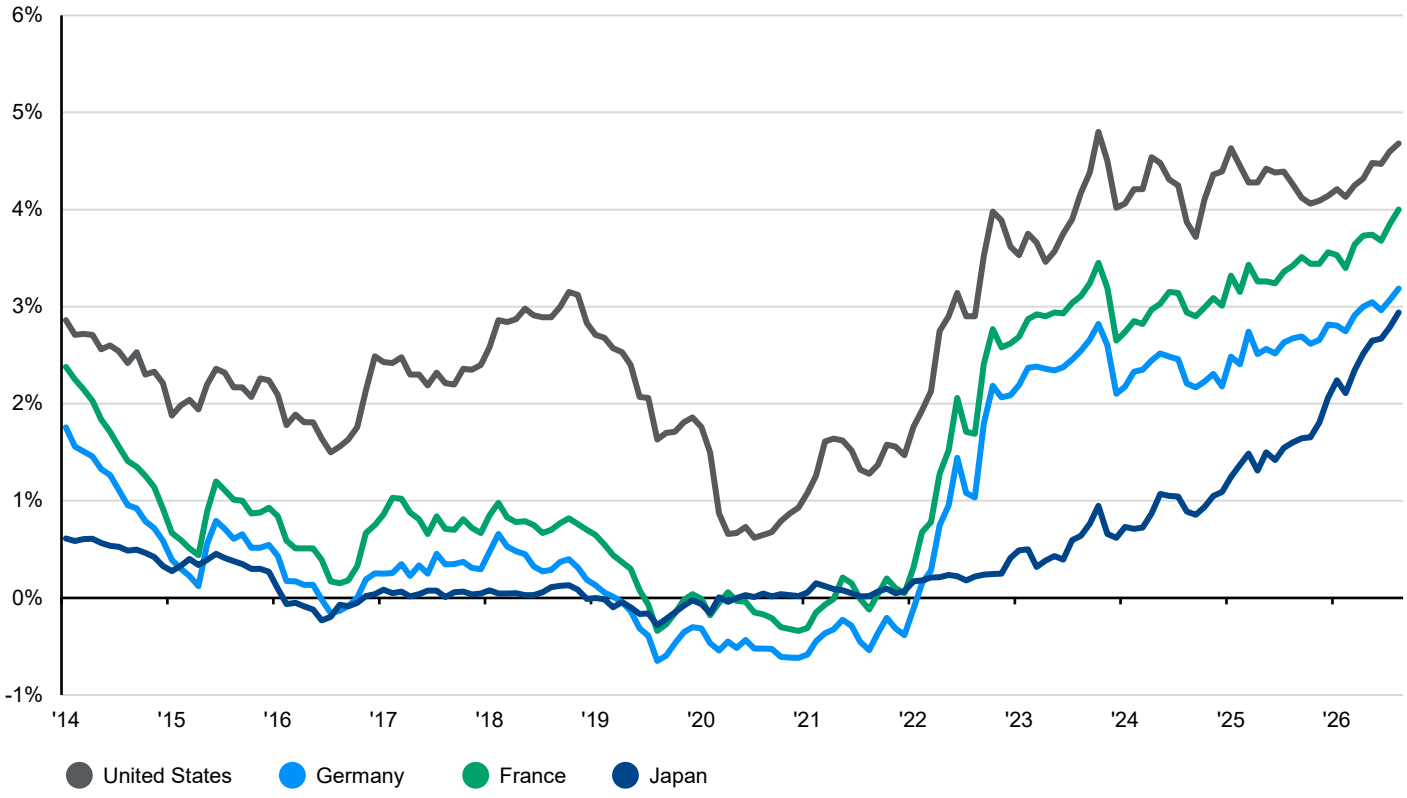
Japan: High debt meets monetary policy normalization

Japan presents a different set of challenges. Despite having one of the highest public debt ratios among developed markets, Japan has historically benefited from exceptionally low borrowing costs, a predominantly domestic investor base and relatively long debt maturities. As interest rates rise, the cost of refinancing government debt is likely to increase, placing additional pressure on fiscal balances. Meanwhile, the government's ambitions to revitalize economic growth through investment and demographics and national security spending could complicate fiscal consolidation.

Importantly, Japan's gross government debt has been declining relative to GDP, from approximately 228% in 2022 to a projected 200% in 2027, according to the IMF. This highlights the importance of nominal growth and inflation in shaping debt dynamics. Nonetheless, higher Japan government bond yields continue to have broader investment implications for domestic asset allocation and global bond markets.

Looking ahead, sovereign debt stress in 2027 is more likely to manifest through episodes of bond market volatility, elevated term premiums and greater differentiation in sovereign risk than through a synchronized debt crisis across developed markets. Markets that demonstrate credible fiscal frameworks, resilient growth and sustainable debt dynamics may be better positioned to maintain investor confidence. In a world where government borrowing can no longer be financed at exceptionally low rates, fiscal sustainability could become an increasingly important driver of sovereign bond performance.

Exhibit 8: Higher bond yields are reflecting multiple concerns
10-year government bond yields



Source: CEIC, OECD, J.P. Morgan Asset Management.
Data reflect most recently available as of 29/10/26.

6. Will tighter financial conditions stall U.S. growth?

In brief

- U.S. financial conditions are starting to tighten but not yet threatening growth.
- Lower leverage cushions households and corporates from higher rates.
- AI investment remains a key economic support, though the rise in financing cost poses a risk.

Financial conditions are the vital link between markets and the real economy, capturing both the cost and availability of capital for households and businesses. In its narrowest sense, financial conditions reflect the cost of capital, but broader indices also encompass policy rates, bond yields, credit spreads, currency movements and the direction of the equity market.

Why do financial conditions matter? When they tighten, businesses and households are more likely to delay investment or spending, which can weigh on economic activity.

Turning point in financial conditions

Heading into the final quarter of 2026, financial conditions in the U.S. have begun to tighten. The question for 2027 is whether this tightening will become a genuine threat to growth or simply a manageable headwind.

Standard indices show that financial conditions remain loose by historical standards, but the tide is turning. Short-term interest rates have risen as markets reversed their expectations of Fed rate cuts to hikes. Longer-dated bond yields have climbed in tandem, with the 10-year U.S. Treasury yield up 114 basis points (bps) since the start of the year. Investment-grade credit spreads remain relatively tight, but the gap between the highest- and lowest-rated bonds is widening, and the CCC-rated spreads in the high yield market have widened by 480 bps to their widest since 2019.

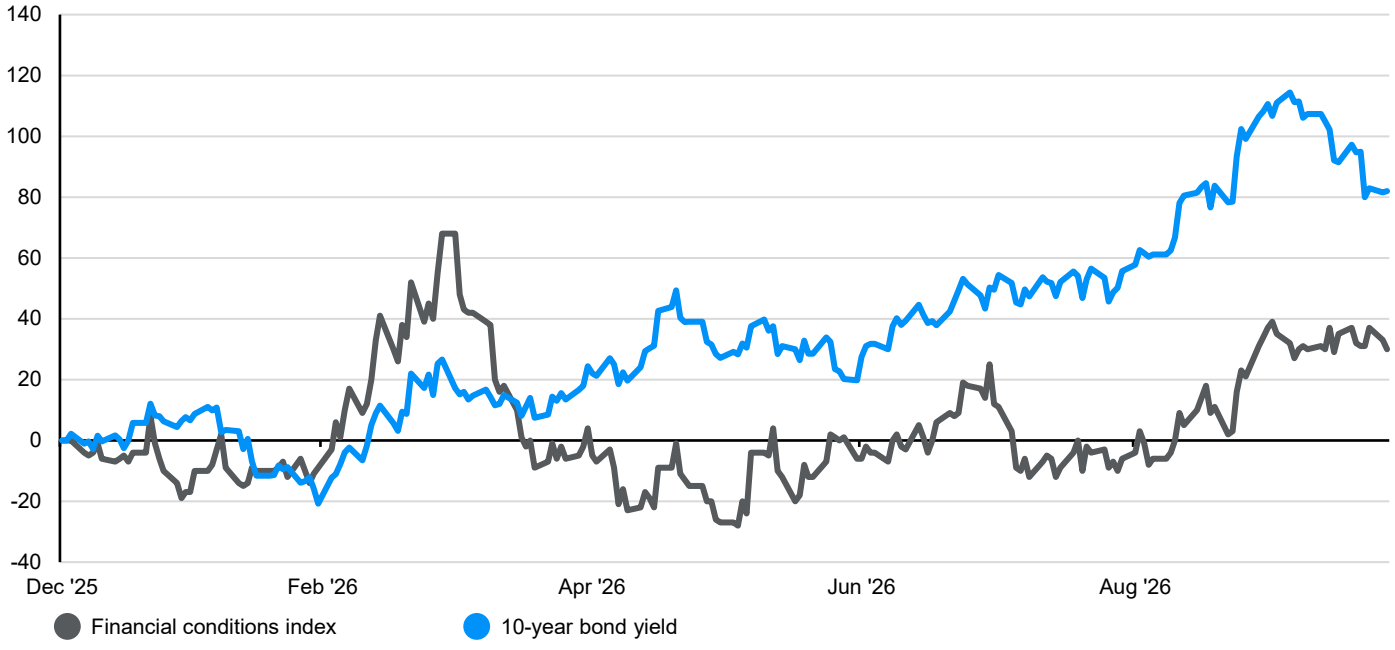
Policy rates are likely to stay elevated as central banks focus on containing inflation. Meanwhile, long-term bond yields have reset materially higher, as investors demand more compensation for fiscal deficits, heavy bond supply and inflation uncertainty. This suggests that financial conditions and the financing of debt are unlikely to materially improve in 2027.

The changing leverage landscape

Tighter financial conditions are unlikely to derail the economy, largely because leverage has shifted from the private to the public sector. Household credit has fallen as a share of the economy from 98% in 2008 to 67% today, and corporate credit at 73% of GDP has steadily declined since its 2021 peak of 87%. Much of this debt was fixed when rates were much lower, slowing the pass-through of higher yields to the broader economy.

This matters because the transmission mechanism from higher interest rates is weaker when borrowers are less leveraged or have locked in financing at lower rates. This helps explain why one of the most aggressive tightening cycles in decades has only produced a slowdown in highly rate-sensitive sectors, rather than an economy-wide contraction. The housing market is the clearest illustration.

Exhibit 9: Financial conditions have started to tighten
Bps change in 10-year bond yield and GS FCI



Source: Bloomberg, FactSet, Goldman Sachs, J.P. Morgan Asset Management. Data reflect most recently available as of 29/10/26.

The 30-year, fixed-rate mortgage reached 7.32% in October, roughly 110 bps higher since the start of the year. Housing activity is slowing, as there is little incentive to sell and move if it means locking in a higher mortgage rate. Higher rates has already weighed on demand, while supply is simultaneously being impacted by higher construction costs. The drag from residential investment is likely to carry into 2027, but with residential construction accounting for just 3.6% of nominal GDP in the second quarter, it is unlikely to tip the economy into recession on its own.

It should be noted that a weaker housing market can weigh on consumer spending, particularly for housing goods and through the wealth effect, while higher rates also act to dampen credit-financed demand for larger items like cars.

Competitive investment and the AI tailwind

A second support comes from AI investment. Capital expenditure by the largest technology companies is expected to reach USD 1.1trillion in 2027, and provided a powerful tailwind to growth in 2026. This spending is driven by competitive strategy rather than borrowing costs. The AI hyperscalers have been very profitable and have strong balance sheets, making the AI boom potentially more resilient than a traditional debt-funded investment cycle to a rise in the cost of capital.

The downside risk for 2027 is not that higher rates or tighter financial conditions will immediately create a recession, but that the hurdle rate will eventually become high enough to change investment decisions. Projects with distant or uncertain cash flows become progressively harder to justify as the cost of debt and equity rises.

The vulnerability is not evenly distributed. Large, cash-generative hyperscalers may be better placed than neocloud operators or data center developers that rely more on external financing. While the funding mix is changing, net issuance of investment-grade bonds by the technology sector reached USD 242billion through the end of October, nearly double the net issuance for the whole of 2025 for this sector.

As more AI investment is financed in credit markets, it naturally becomes more exposed to the cost of capital. If yields keep climbing while returns on AI spending remain unproven, the sector carrying growth could slow, removing the main offset to weaker housing.

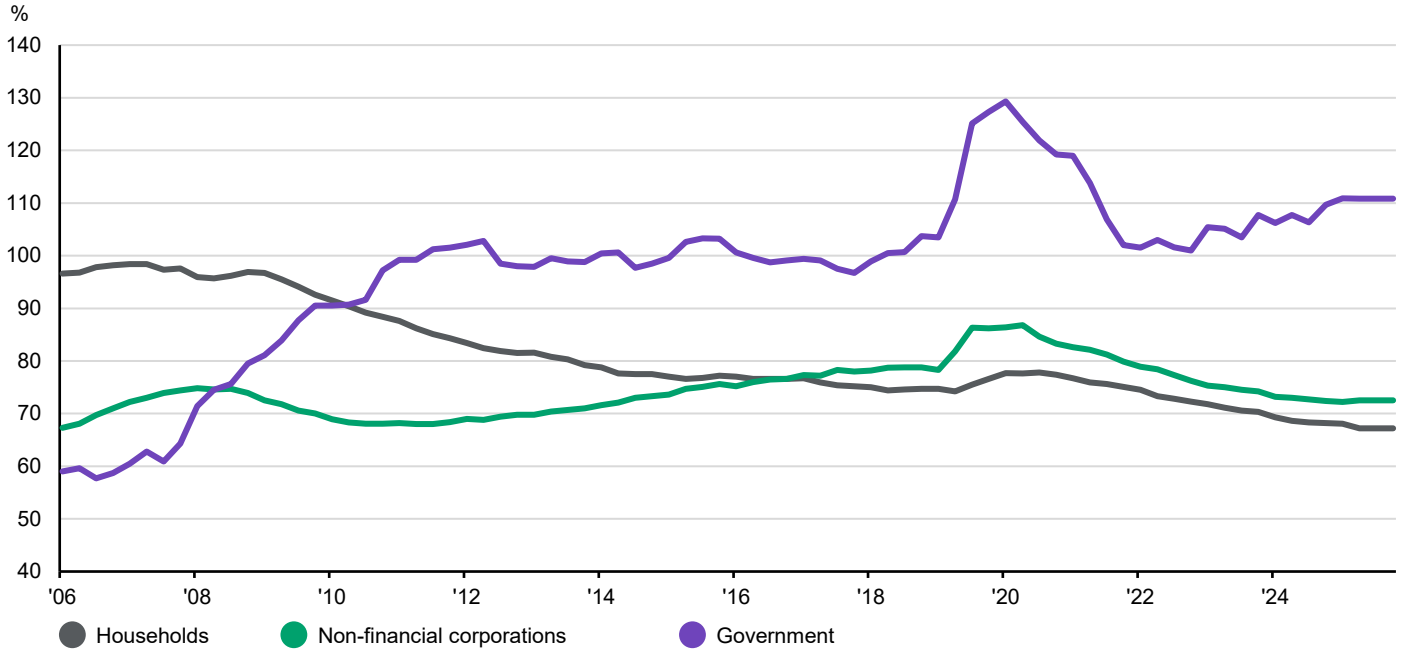
Discipline not destruction

Financial conditions could tighten without breaking the economy because private sector balance sheets remain relatively resilient. But the longer rates stay higher, the more the burden shifts from existing borrowers to new investment decisions.

A non-monetary credit event (e.g. further spikes in term premium on supply concerns or disappointment on AI returns that hit equities and debt simultaneously) could trigger tighter financials conditions, especially if the Fed is constrained in its response in an environment where it is focused on containing inflation. However, leverage is a crucial factor in deciding the outcome.

Credit markets are already becoming more discerning, rewarding issuers with stronger balance sheets. Meanwhile, in equities, companies with better free cash flow may be better placed than leveraged firms facing refinancing risks.

Exhibit 10: Household and non-financial leverage has declined as government position worsens
Debt as % of nominal GDP



Source: Bank for International Settlements, FactSet, J.P. Morgan Asset Management. Data reflect most recently available as of 30/09/26.

7. Can AI earn enough to justify the spending boom?

In brief

- Businesses are already using AI as 2027 begins, but whether the huge spending on it will pay off is still being tested.
- Spending on chips and data centers is growing faster than the evidence that customers can make enough money from AI to cover its costs.
- As companies rely more on outside funding, investment returns will depend more on customer contracts, assets that back loans and the ability to replace loans when they come due.
- Active management can help to uncover those companies that turn AI use into lasting profits after direct costs and cash left after running and investing in the business, before payments come due.

AI enters 2027 with stronger business demand, while yet facing a tougher test: Can it earn enough to cover its costs? Companies are paying for AI tools, using software that carries out tasks and buying computing power. Company filings as of Oct 26, 2026 revealed that recent IPO filings of a leading AI model developer have shown a solid number of customers generating at least USD 100,000 in the past 12 months. They suggest AI is moving beyond trials into daily work, including coding and customer service. Demand is real. The question is whether extra sales and time savings can justify the huge spending. As companies use more bonds, leases and project loans rather than their own cash, investors need to ask when AI will bring in cash and who carries the risk until then.

Using AI, building capacity and earning money take different amounts of time

First, customers start paying for AI. This shows up in employee subscriptions and sales of AI tools and software that carries out tasks.

Second, companies build the equipment and facilities AI needs. This is happening quickly. As of Nov 6, 2026, Bloomberg consensus showed the spending by the largest cloud companies at USD 1.1trillion in 2027 and USD 1.3trillion in 2028. This supports demand for chips, data centers, electricity and cooling.

Third, that spending must pay off. Customers and computing providers need enough cash from AI to cover running costs, depreciation costs, borrowing costs and future equipment replacement. More AI use and more construction do not automatically mean the investment will pay off.

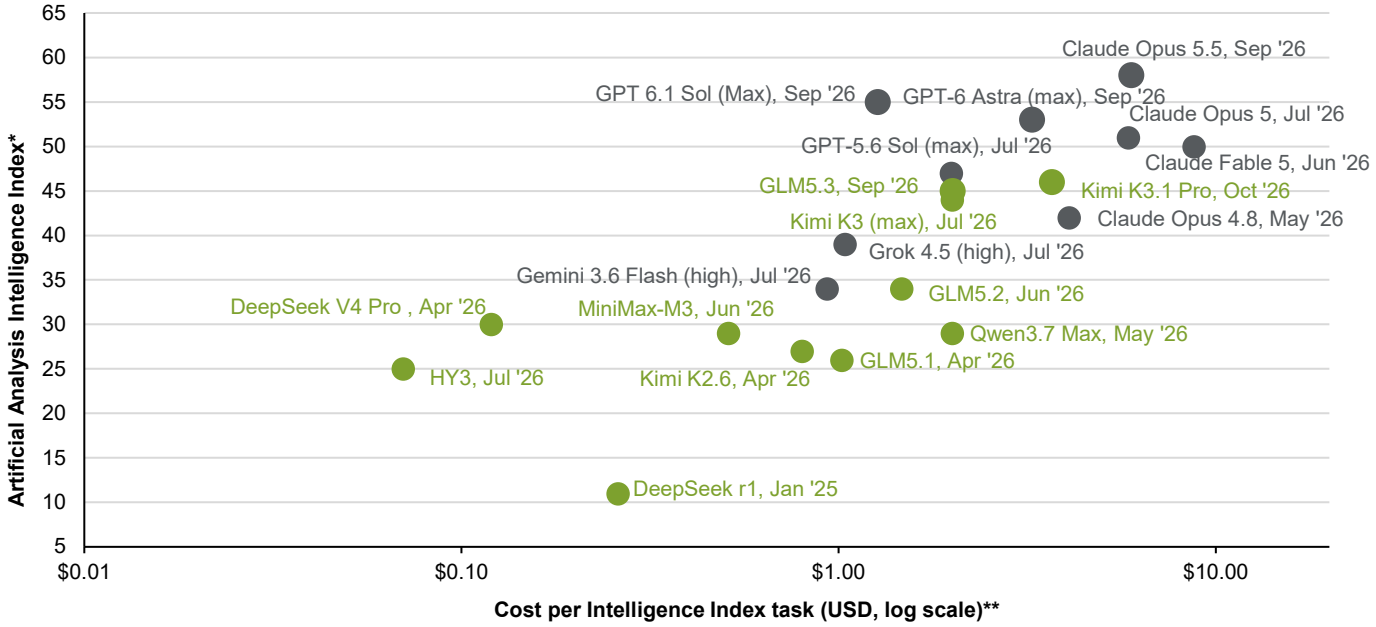
AI needs to do useful work, not just get used

As AI becomes part of daily work, counting how often it is used tells us less about its value. A cheap AI tool may need several attempts and many checks by people. A more expensive tool may prove more cost competitive, if it gets important work right. The better measure is the value of a task completed successfully, compared with its full cost (**Exhibit 11, next page**).

Company results should show whether AI is paying off. AI developers need steady sales and cash from customers using their tools. Software companies need customers to renew and pay enough to cover AI running costs and support. Customers need time savings, faster sales growth or lasting increases in the share of sales kept as profit. Charging based on use or results, rather than the number of users, follows the same idea: The price of AI should reflect the value it delivers.

Competition will make this harder. Businesses can use expensive AI tools for difficult work and cheaper ones for routine tasks. Total AI use may grow without every developer being able to keep prices high. Companies with trusted tools and strong customer relationships might benefit more, if they can keep delivery costs low.

Exhibit 11: U.S. and China AI models are competing on both competence and price
Major U.S. and China AI model performance and cost
Cost per intelligence index task

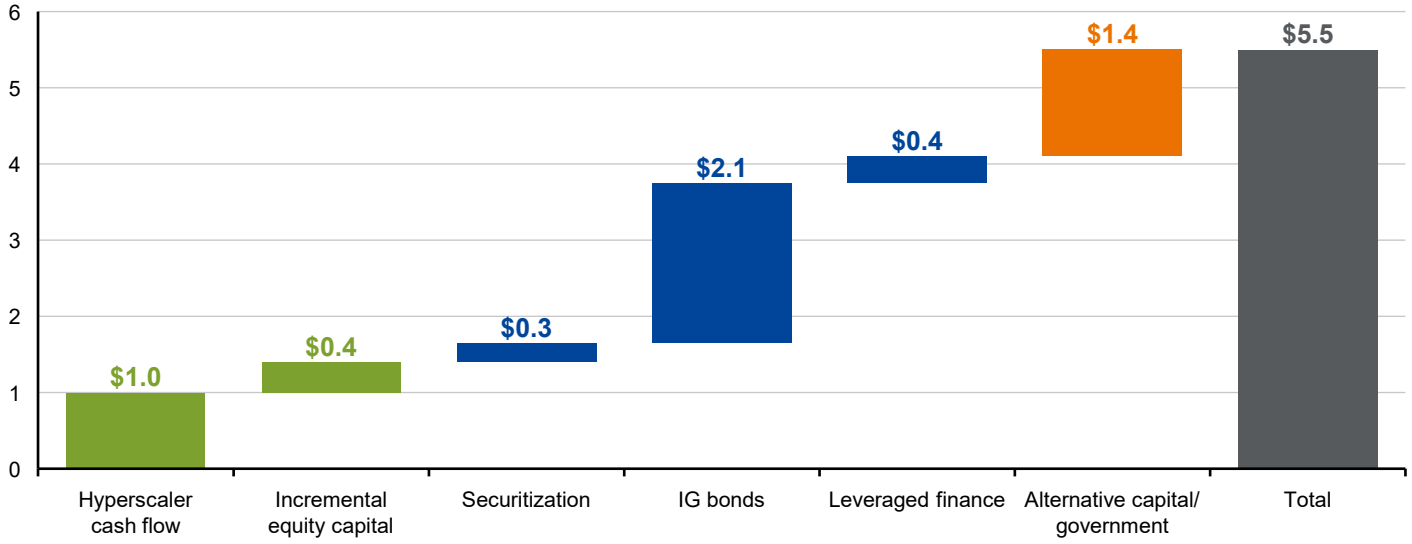


Source: J.P. Morgan Asset Management; Artificial Analysis. *The Artificial Analysis Intelligence Index is a primarily text-based, English-language composite benchmark that aggregates ten independently conducted evaluations to compare language models across mathematics, science, coding, reasoning, knowledge and programming capabilities. **Cost per task represents the weighted-average cost (USD) to complete one Artificial Analysis Intelligence Index task. This is calculated by multiplying input, cached, and output token prices by tokens consumed across the workload, weighted by the same per-benchmark weights the Intelligence Index uses, then dividing by task count. Price is either the provider's first-party API rate or the median across all providers. Caching costs differ by provider. Because cost reflects actual token usage, models that produce longer answers or more reasoning tokens will have a higher cost per task, even at identical per-token prices. The companies/securities above are shown for illustrative purposes only. Their inclusion should not be interpreted as a recommendation to buy or sell. J.P. Morgan Asset Management may or may not hold positions on behalf of its clients in any or all of the aforementioned securities. Past performance is not a reliable indicator of current and future results. *Guide to the Markets – Asia*. Data reflect most recently available as of 30/10/26.

More borrowing reduces the margin of error for companies—and investors

Companies increasingly need outside borrowing to pay for AI facilities. J.P. Morgan Global Research estimated potential AI-related borrowing of USD 4.1trillion over five years[1]. About USD 2.1trillion would come from investment grade bonds , USD 0.4trillion from lending to higher-debt companies (leveraged finance), USD 0.3trillion from loans packaged into securities (securitization) and USD 1.4trillion from other funding sources (**Exhibit 12**). AI-related borrowing in public markets alone was expected to reach USD 350billion in 2026.

Exhibit 12: Diversified funding sources for AI build out
Projected funding sources for the AI buildout*
USD trillions, 2026-2030 cumulative



Source: J.P. Morgan Global Research, J.P. Morgan Asset Management. *Funding forecasts come from the 2026 "AI Capex 2.0: If You Build It, They Will Finance It - Updated Growth & Capital Markets Forecasts" research report published by J.P. Morgan Global Research. Leveraged finance includes funding from leveraged loans and high yield bonds. Alternative capital includes private credit, real estate funds, infrastructure funds, REITs and government funding. Figures may not sum to total due to rounding. The companies/securities above are shown for illustrative purposes only. Their inclusion should not be interpreted as a recommendation to buy or sell. J.P. Morgan Asset Management may or may not hold positions on behalf of its clients in any or all of the aforementioned securities. Past performance is not a reliable indicator of current and future results. *Guide to the Markets – Asia*. Data reflect most recently available as of 30/09/26.

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ASSET MANAGEMENT

Different ways of funding AI change who bears a loss, but do not remove the risk. A cash-rich technology company can wait longer for returns. A computing provider with more debt may need its facilities to stay busy, customers to pay on time and new loans to replace old ones. Bond prices already show this difference. J.P. Morgan Global Research estimated that the extra yield investors demanded on the J.P. Morgan USD HY AI Liquid Basket[2] rose by 147 bps to 478 bps in one month in October. Most of the rise came from one computing provider. The yield on its senior unsecured debt rose to around 15%.

Loans tied to individual projects can help pay for data centers, but operators may have to pay construction costs long before receiving cash from customers. The value of orders alone is not enough: Investors also need to know when customers will pay, what protects lenders and when loans must be repaid.

What this means for investors

AI still has long-term potential, but not every company will benefit equally. For shares, look for repeat customers, profits after direct costs and cash left after business spending. Separate companies that can fund themselves from those needing new loans. For bonds and private investments, check customers' ability to pay, contract length, loan terms and assets backing the debt. Also consider what equipment would be worth if facilities were not fully used.

AI may eventually earn enough to justify the spending, but growing use alone is not enough. Stronger businesses and projects may be better positioned to turn demand into cash before their payments come due.

[1]Data reflect most recently available as of 21/10/2026.
[2]J.P. Morgan USD High Yield AI Liquid Basket Index monitors the credit performance, specifically the G-Spread (in basis points, of a highly concentrated basket of U.S. high-yield corporate bonds tied directly to the artificial intelligence ecosystem. Data reflect most recently available as of 21/10/2026.

8. What are the different ways to invest in AI?

In brief

- AI exposure now runs from concentrated public equities to defensive core assets. Understanding where each asset class sits on that spectrum matters more than choosing a single route in.
- We believe AI risk is spread unevenly across asset classes: highest in U.S. public equity and venture/growth; intermediate in private equity, private credit and value-add infrastructure; and lowest in core bonds and core real estate.
- Debt markets are becoming a major funding source for the buildout, creating opportunity but also opacity, particularly in off-balance-sheet structures.
- Because AI is increasingly a common risk factor, correlations across equities, credit and alternatives may rise. The mix of assets matters as much as the AI exposure within each.

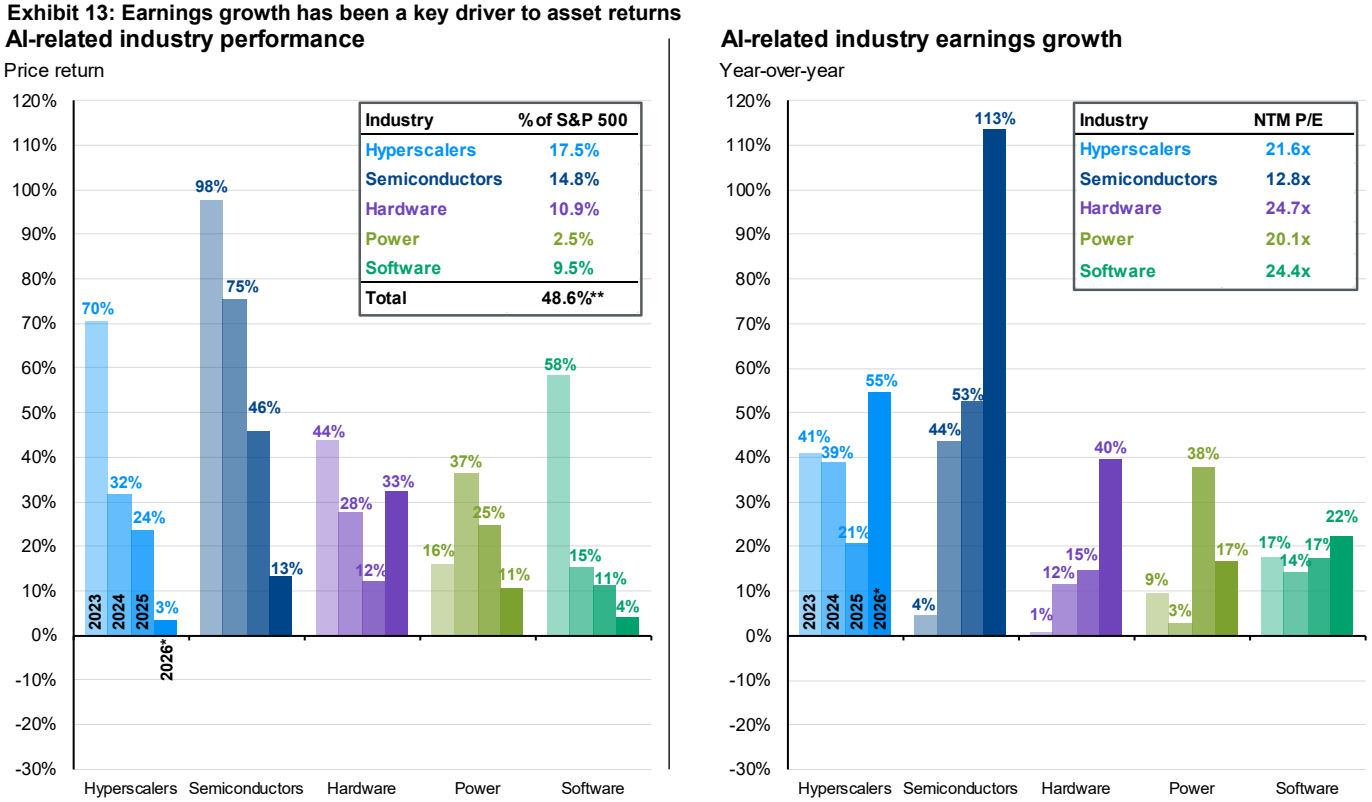
The AI boom is no longer a single-sector story. Public and private capital are flowing into model developers, chipmakers, data centers and power suppliers behind the buildout, and J.P. Morgan Global Research projected capex of roughly USD 5.5trillion through 2030 will require every part of the capital markets to participate[3]. For allocators, this means AI exposure already sits inside most portfolios, to differing degrees. The question is where each asset class falls on the spectrum, and how to balance them.

Public equities: Liquid access, but priced for success

U.S. large caps present a liquid route to AI exposure. The drawback is concentration: As of Nov 6, 2026, AI-related industries (hyperscalers, semiconductors, hardware, power and software) make up roughly 48% of the S&P 500. Forward P/E multiples range from about 21x for hyperscalers to 24x for hardware, and hyperscaler buybacks have been falling as free cash flow comes under pressure from capex. (**Exhibit 13**)

With AI returns characterized by momentum and positive correlation so far, dispersion should rise as fundamentals take over. Potential competitive advantages sit at manufacturing chokepoints, while memory remains cyclical. Power equipment and utilities have also been broadening the winners' list. On the other side, fundamentally strong companies unfairly labeled "AI losers" may offer value, which is where active selection can help. International and value equities offer low AI intensity and potential long-term benefit from cheaper AI, at the cost of limited participation in near-term upside.

Exhibit 13: Earnings growth has been a key driver to asset returns



Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management. *2026 price return is year-to-date, and earnings growth reflects 2026 consensus estimates as provided by FactSet. Hyperscalers is a market-weighted composite of AMZN (Sector = Con. Disc, Industry = Broadline Retail), GOOGL/GOOG (Comm. Svcs., Interactive Media & Scvs.), META (Comm. Svcs., Interactive Media & Scvs.), MSFT (Info. Tech., Software) and ORCL (Info. Tech., Software). The remaining categories are based on GICS Industries. Semis = Semiconductors & Semiconductor Equipment (Info. Tech.); Hardware = market-weighted composite of Communications Equipment (Info. Tech.), Electronic Equipment Instruments & Components (Info. Tech.) and Technology Hardware Storage & Peripherals (Info. Tech.); Power = market-weighted composite of Electrical Equipment (Industrials) and Electric Utilities (Utilities); Software = Software (Info. Tech.). Hyperscalers that fall in category industries are included in both the hyperscaler and that additional category. **Total percentage in the S&P 500 does not double count hyperscalers that fall in additional categories. Past performance is no guarantee of future results. *Guide to the Markets – U.S.* Data reflect most recently available as of 09/11/2026.

Corporate credit: The buildout is increasingly debt-funded

Hyperscaler bond issuance is estimated to rise from USD 17billion in 2024 to around USD 280billion in 2026. The technology issuers would represent about 13% of the U.S. investment-grade index, and could overtake banks as its largest subsector by 2027.[4] Demand remains healthy, but investors are more selective.

Beyond index-eligible bonds, data center financing is expanding through private placements, high yield, term loans and chip-collateralized debt, with commitments for chip financing already over nine times 2025 levels.[4] These often sit in bankruptcy-remote vehicles and are not standardized. Contingent obligations, such as residual value guarantees from a stronger credit to a weaker one, may not appear on balance sheets until something goes wrong. Investment-grade utility debt offers a lower-volatility alternative for data center exposure.

Private markets: Broader access, wider dispersion

Private markets present a broad set of entry points to AI, with risk that varies widely by strategy. Venture and growth equity sit at the most concentrated end: AI represented 89% of U.S. venture deal value in 1Q26[4], and with startups staying private longer, significant value may accrue before IPO, though valuations are elevated and diversification is reduced.

Private equity and private credit sit mid-spectrum, with AI exposure that varies by manager; private credit finances multiple parts of the buildout at attractive yields but can be concentrated in sectors facing disruption, so transparency on underlying holdings is essential.

In infrastructure, regulated and long-term contracted power is a potentially attractive source of AI-related exposure, while closed-end funds holding data centers and merchant power carry greater obsolescence risk, and "core" labels can mislead.

Real estate is similar, as roughly 70% of a data center's cost sits in technology that can age quickly, which makes dedicated exposure better suited to closed-end, value-add vehicles.[4]

Investment implications

A sensible framework is to size AI exposure across the entire allocation rather than asset class by asset class. Public equity can provide the liquid core, tilted toward chokepoints, power and utilities rather than passive concentration. Credit exposure may be accessed through specialist managers or utility debt. Private markets can add differentiated exposure as a portfolio diversifier, but only with clear understanding of underlying holdings.

More broadly, investors should look beyond the headline appeal of AI and build portfolios that can withstand more than one outcome, maintaining a defensive allocation and staying disciplined on valuation and position sizing as the cycle evolves. A balanced, actively managed approach could help investors manage concentration risk.

[3]Data reflect most recently available as of 17/06/2026.
[4]Strategic Investment Advisory Group, AI-conscious asset allocation: Portfolio construction in a capital investment boom, J.P. Morgan Asset Management. Data as of 27/08/2026.

9. Where to broaden out in equity allocation?

In brief

- Earnings growth should remain supportive of equity returns, even as the pace of expansion moderates from exceptional levels, provided valuations remain broadly stable.
- Opportunities to broaden equity allocation are emerging across sectors and regions, with business investment, fiscal spending and domestic demand providing additional earnings drivers beyond technology and energy, although the expansion is likely to remain selective.
- Diversification and option overlay strategies could help reinforce portfolio resilience, allowing investors to maintain equity exposure while generating additional income and cushioning potential market volatility.

Global equity markets have remained resilient this year. Despite rising interest rates and bond yields, geopolitical uncertainty and energy supply shocks, and growing scrutiny over the sustainability of AI-related capex, the MSCI World Index has still delivered high single-digit returns year-to-date through these volatilities as of Nov 6, 2026.

The sources of these returns, however, have been uneven. Although FactSet consensus expects 2026 earnings to increase by 27% as of Nov 1, 2026, the contribution from stronger profits has been partly offset by a compression in forward multiples. Earnings strength has also remained concentrated, with technology and energy accounting for around 60% of the increase, as supported by AI-related demand and elevated refining margins. As this earnings strength comes under greater scrutiny, sustained equity performance will depend on the underlying earnings outlook and changes in valuations, alongside the scope for growth to broaden beyond the current sector leaders.

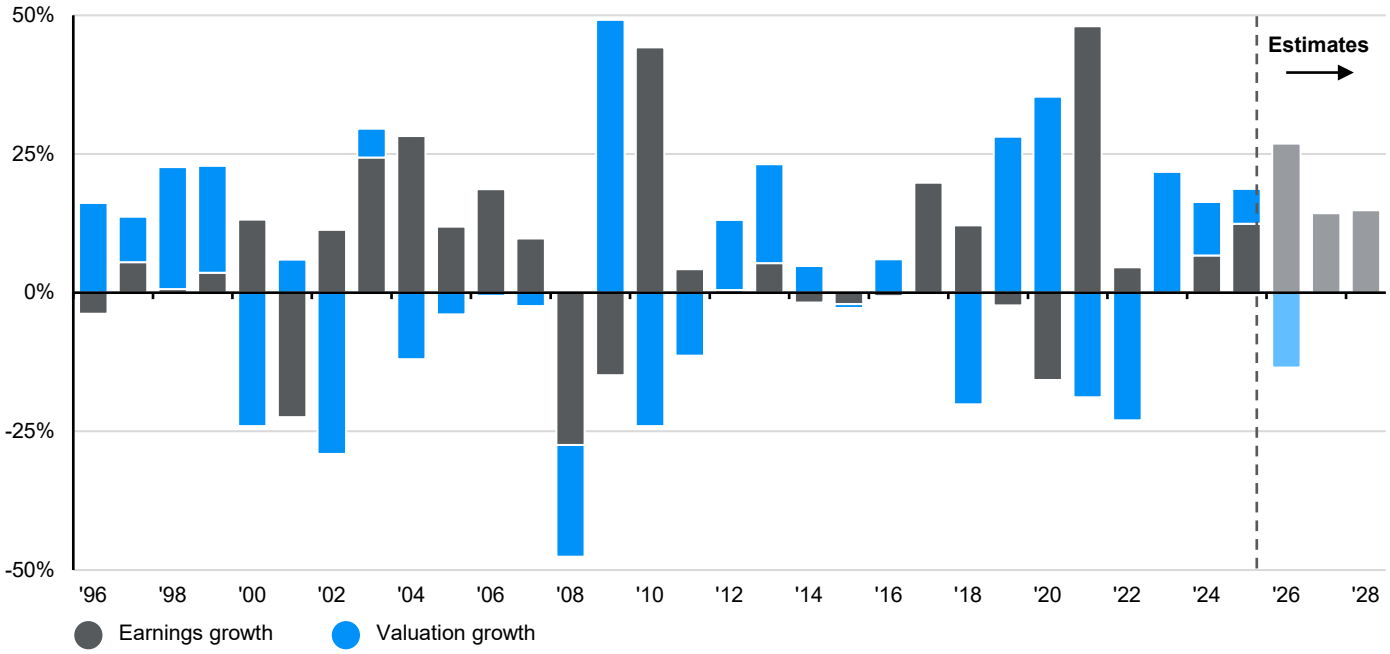
Earnings easing, not ceasing

If history is any guide, earnings growth has exceeded 25% in only three of the past 30 years, with equities subsequently delivering negative returns in two of those instances (**Exhibit 14**). At first glance, exceptionally strong earnings growth may therefore appear to be an unfavorable signal for future performance. However, the key differentiator lies in whether earnings growth continues to grow at a more moderate pace or stagnate, alongside the valuation changes that follow.

In both 2010 and 2021, the earnings surge followed the global financial crisis and pandemic disruptions, respectively. The improvement largely reflected a normalization of profits from a previous low base, rather than an above-trend business activity in an expansionary cycle, with equity earnings largely stagnate in the following years.

The experience in 2004 was different. Earnings increased by 28% before growth moderated to 12% in 2005, as the global economy continued through a broad-based expansion supported by business investment and household consumption. And even though the Fed began raising interest rates in mid-2004 and forward valuations were broadly range-bound, robust business margins and renewed economic activity meant corporate profits continued to grow and equity returns remained supported.

Exhibit 14: Slower earnings growth historically has coincided with weaker market returns
Global equity return composition
MSCI World index, USD



Source: FactSet, MSCI, J.P. Morgan Asset Management. Data reflect most recently available as of 30/10/26.

While no two cycles are the same, the current earnings backdrop shares similarities with this experience, with growth in 2026 largely a reflection of demand-led strength, rather than a normalization recovery. And with FactSet consensus expecting a further 14% increase in 2027 as of Nov 1, 2026, this suggests that earnings could remain supportive even as the growth rate decelerates, posing a strong case for equity returns, should valuations similarly stay range bound ahead.

Fresh fuels for firmer fundamentals

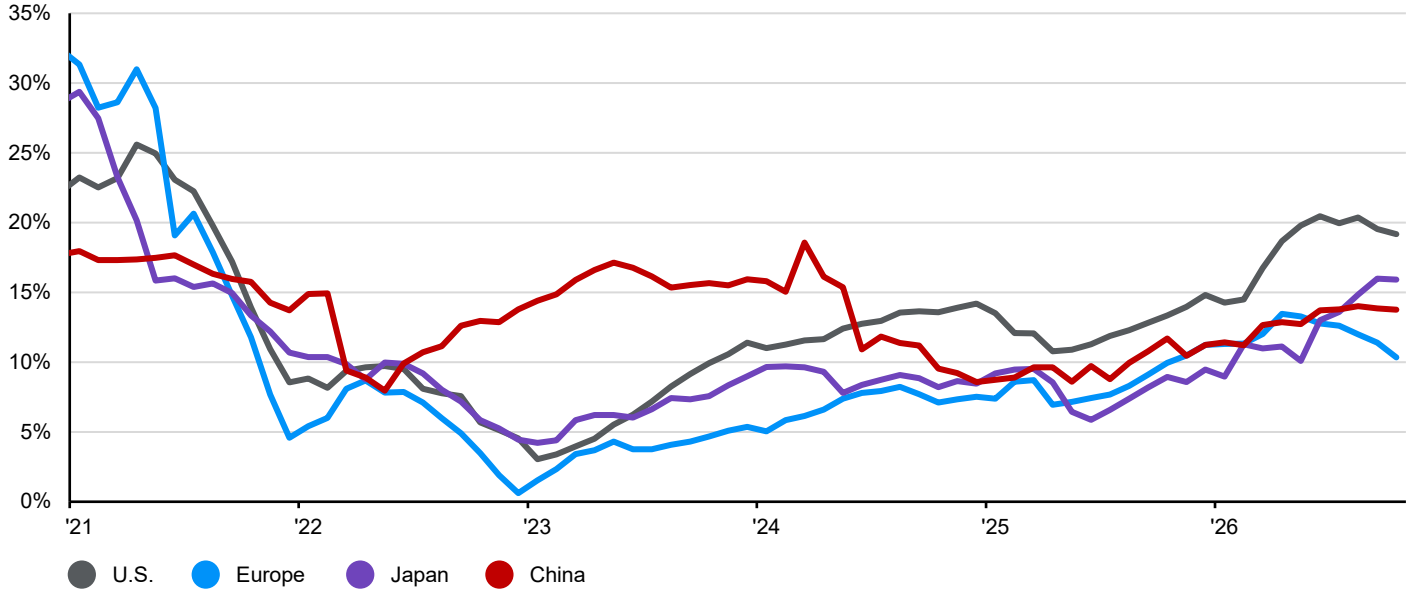
While continued earnings growth could support further equity gains, the sources of this growth are likely to differ across sectors and regions. Beyond the current technology and energy leaders, business investment, fiscal spending and domestic demand could provide additional earnings drivers, creating opportunities to broaden equity allocation (**Exhibit 15**).

- In the U.S., while technology is expected to remain the strongest earnings driver in 2027, energy is set to moderate from a high base. That said, beyond these sectors, the physical construction of data center, energy infrastructure, manufacturing re-shoring, and higher defense spending could all support cyclical sectors such as industrials and materials, although growth on domestic-orientated consumer sectors could remain under pressure.
- For Europe, fiscal policy is becoming a more important earnings driver. As governments increase spending on infrastructure, energy security and defense, this should support industrials and capital goods. That said, with selected markets constrained by fiscal and political uncertainty, the improvement could remain uneven across the region. As such, the outlook could remain mostly internationally driven, as over 50% of MSCI Europe's revenue comes from outside the region per FactSet as of Nov 9, 2026, with any improvement in global business sentiment and economic activity a support for cyclical earnings.
- Japan similarly benefits from the AI upcycle and global re-industrialization, while structural reflation and rising nominal consumption provide additional domestic support. An expansionary fiscal stance, including the government's consumption tax cuts, could help sustain household spending and consumer-sector earnings. Alongside improving corporate governance and shareholder returns, these developments suggest a broader range of drivers for Japanese equity performance.
- As for China, the divergence between robust AI demand and modest domestic consumption could persist. Accelerating AI infrastructure buildouts and continued AI progress should support technology-related earnings. Although consumer-focused sectors could continue to face muted demand, the ongoing anti-involution campaign could ease domestic pricing pressures and support a recovery in margins. As such, earnings opportunities could also broaden through both technology-led revenue growth and a normalization in profitability margins, even absence a meaningful domestic demand recovery.

Growth with guardrails

While earnings growth could be moderating, the current backdrop still provides a constructive case for diversified equity portfolios. That said, geopolitical uncertainty and idiosyncratic shocks could still remain potential headwinds. Alongside broader sector and regional exposure, investors could consider option overlay strategies as an additional source of income, reinforcing portfolio resilience and cushioning unprecedented market volatilities.

Exhibit 15: Broader earnings growth across regions offer opportunity to diversify allocation by region
12-month forward earnings growth
Earnings per share, year-over-year change, consensus estimates



Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management. U.S., Europe, Japan, and China equity indices used are the S&P 500, MSCI Europe, MSCI Japan, and MSCI China, respectively. Past performance is not a reliable indicator of current and future results. Data reflect most recently available as of 30/10/26.

10. Why invest in fixed income when cash rates are high?

In brief

- Cash may seem attractive given higher rates, but fixed income can lock in income, manage recession risk and diversify in ways cash cannot.
- Predicting an economic downturn is tricky; central banks cutting rates can mean cash investors face reinvestment risk as yields reset lower.
- In a growth shock, high-quality bonds can potentially rally as rates fall, helping offset risk-asset drawdowns, while cash generally does not provide the same capital appreciation from falling yields.

For many investors, cash has become more appealing. After years of low rates, it is understandable that investors are asking: Why take any risk in fixed income when cash finally pays? The answer is that cash is not a complete portfolio solution. Fixed income can help investors lock in income, manage reinvestment risk, prepare for recession risk and diversify portfolios in a way cash cannot.

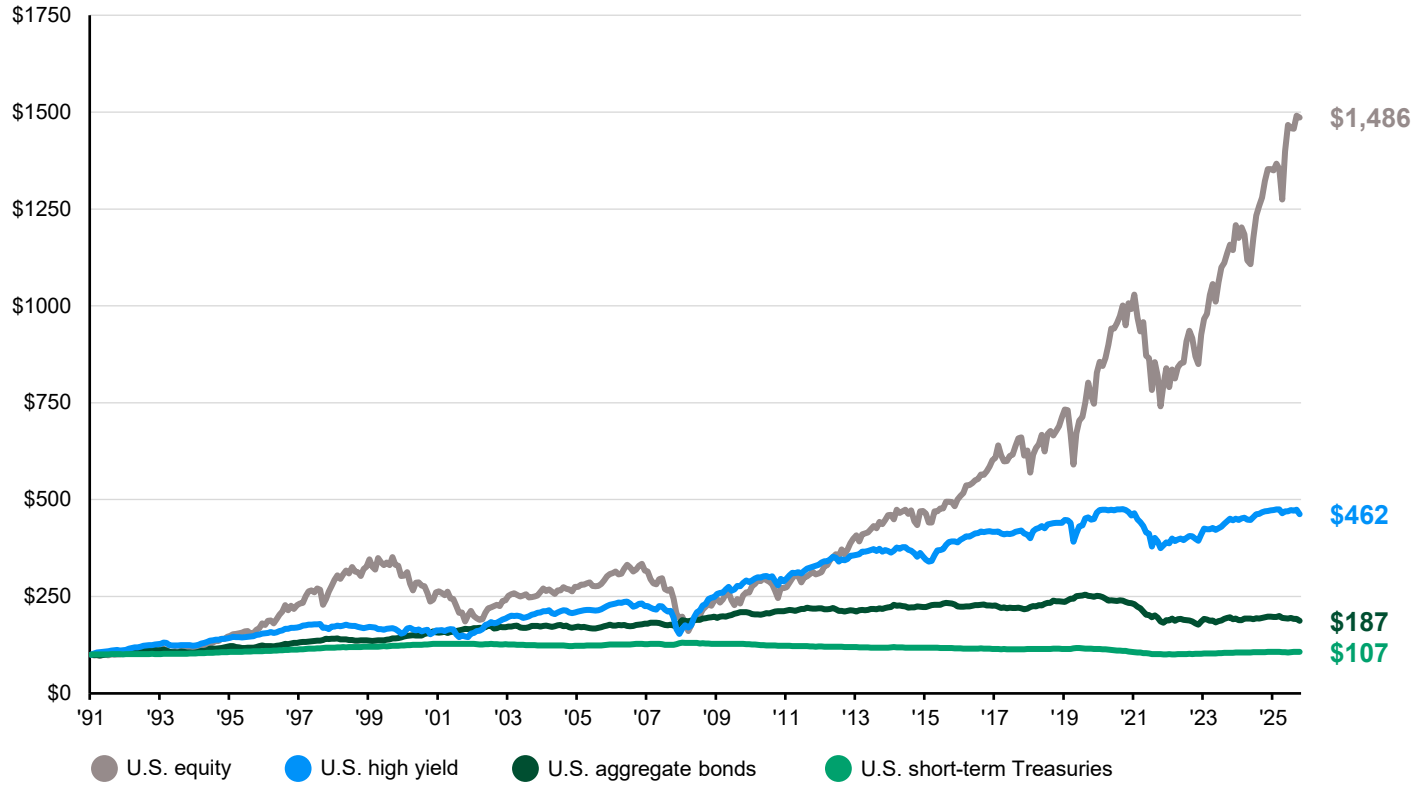
High cash rates may not last

The strongest argument for moving some money from cash into fixed income is reinvestment risk. Cash yields are attractive today because central banks have raised policy rates aggressively to fight inflation. But if the economic situation turns sour, central banks may need to cut rates. In that scenario, the yield available on cash could fall quickly.

This matters because many cash-like assets are short term by design. A term deposit or savings product may offer an attractive rate for a few months, but when it matures, the investor may be forced to reinvest at a lower yield. Fixed income can help reduce that uncertainty by allowing investors to lock in today's yields for longer, creating more predictable income over time.

This is especially important in a global environment where government debt and fiscal deficits are elevated. High debt levels can limit governments' ability to respond aggressively with fiscal stimulus during downturns. If fiscal policy has less room to support the economy, central banks may need to do more of the heavy lifting through monetary policy. That could mean deeper or faster rate cuts when growth weakens, increasing the risk that cash yields decline just when investors want income stability most.

Exhibit 16: Cash might see episodes of outperformance relative to bonds, but these episodes rarely last
Growth of a USD 100 investment
Based on inflation-adjusted monthly returns from 31/12/91



Source: Bloomberg, FactSet, J.P. Morgan Asset Management. U.S. equity is based on S&P 500 Total Return Index; U.S. high yield is based on Bloomberg U.S. Corporate High Yield Total Return Index; U.S. aggregate bonds is based on Bloomberg U.S. Aggregate Index; U.S. short-term Treasuries is based on Bloomberg Short-term Treasury Total Return Index. Past performance is not a reliable indicator of current and future results.
Guide to the Markets – Asia. Data reflect most recently available as of 30/09/26.

Bonds can help manage risk

Cash deposits may help preserve nominal capital, but it doesn't usually provide meaningful upside when the economic outlook deteriorates. Bonds can. In a recession or growth shock, central banks typically cut rates to support activity. When yields fall, bond prices generally rise, which can create capital appreciation for fixed income investors.

That is an important distinction for portfolios. Cash generally does not provide the same price appreciation during a downturn, but high-quality bonds can potentially offset weakness elsewhere. This is why investors hold a mix of risk-on and risk-off assets. Even if the stock–bond relationship isn't as reliably negative as it once was, fixed income can still play a valuable role in cushioning portfolios during weaker growth environments.

Some cash is needed for liquidity in case of emergencies or day-to-day needs. That said, there are money market instruments that can deliver liquidity but higher yield levels by investing in ultra-short duration corporate bonds.

Starting yields matter

One of the most important drivers of long-term bond returns is the starting yield. After a period of aggressive rate increases, yields across many fixed income markets are more attractive than they were for much of the past decade. That creates a more favorable entry point for investors seeking income and portfolio balance.

For investors, the question is not simply whether cash yields are high today. It is whether those yields can be sustained, and whether cash alone can meet future income, risk management and diversification needs. Fixed income can help lock in yields for a set period, rather than leaving the investor fully exposed to whatever cash rates are available at each rollover date.

Diversification remains a core reason to own fixed income

Cash reduces volatility, but it does not diversify a portfolio in the same way bonds can. Fixed income can help balance equity exposure, provide income, support liability matching and broaden the toolkit available to investors.

For investors, this is particularly relevant because portfolios often need to do several jobs at once: preserve capital, generate income, fund future spending and participate in long-term growth. Cash can help with the first two over short horizons, but fixed income can contribute across a broader range of objectives.

High cash rates seem appealing for now, but it is not a substitute for fixed income. In a world of elevated government debt, limited fiscal flexibility and potential economic slowdown, central banks may need to cut rates more aggressively when downturns occur. That creates reinvestment risk for cash holders. Fixed income offers the ability to lock in yields, manage recession risk, diversify portfolios and potentially benefit from capital appreciation if rates fall. For retail investors, the case for bonds is not that cash is bad, it is that cash alone may not be enough.

11. How can alternatives contribute to building a balanced portfolio?

In brief

- Inflation, higher yields and a concentrated AI theme are challenging traditional diversification drivers.
- Alternatives like private equity, private credit, real assets and hedge funds may boost returns while improving portfolio resilience, but require steady risk management.
- Active selection in assets and managers will be needed for a holistic approach to asset allocation.

The traditional diversification benefits between equities and bonds have been eroded further by market forces this year, while rising AI-related concentration risk has added to the challenge of portfolio construction. Rather than treating public and private investments as silos, today's portfolios must consider how risk and return drivers interact across the entire investment mix. Alternative assets offer a toolkit for diversification, return enhancement and resilience, but require careful navigation of the risks and opportunities.

Value creation in private equity

Higher capital costs raise the bar for private equity activity, meaning the days of returns driven by leverage or multiple expansion are fading. The spotlight is now on managers that can deliver operational improvements and earnings growth.

There are challenges. A backlog of over 32,000 private equity-owned companies globally highlights the difficulty of recycling capital into new deals and to investors. A pick up in IPO exit activity helped this year, but was concentrated in very large deals and sectors.

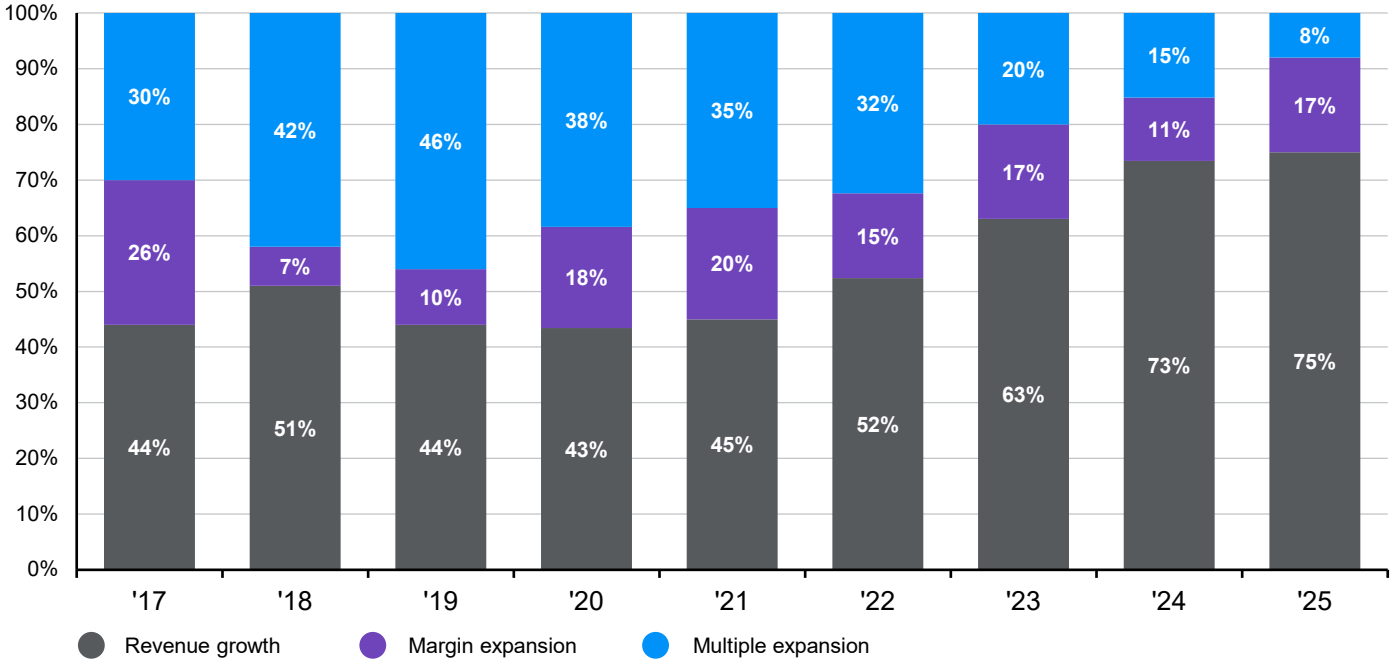
The small and middle market is especially fertile ground for supporting earnings and operational efficiencies, as established businesses embrace new capital, commercial expansion and technology adoption to boost productivity. Smaller businesses have greater flexibility in exits, with options ranging from sales to strategic acquirers to secondary transactions.

Resilience in private credit

Despite a steady drumbeat of warnings about an impending credit downcycle, the gating of selected funds, and concerns over a "SaaSpocolypse," private credit has remained relatively resilient. As of June this year, the private credit market has returned 7.7% on a trailing 12-month basis, as compared to a 10-year annualized return of 9.4%.

Higher benchmark rates have boosted income on floating-rate loans (private credit yields 9.4%), but they have also increased the debt-service burden for borrowers. Signs of stress have emerged in pockets of the market and are more visible among smaller and leveraged borrowers, including through payment-in-kind (PIK) interest, loan amendments and maturity extensions, while in aggregate, fundamentals remain relatively robust.

Exhibit 17: Revenue growth plays a bigger role in delivering value to investors
Global private equity value creation drivers
By exit year of investment



Source: Gain.pro, J.P. Morgan Global Research, J.P. Morgan Asset Management. Percentages may not sum to 100 due to rounding. *Guide to Alternatives*. Data reflect most recently available as of 31/10/2026.

The share of loans with PIK arrangements was down marginally from last year at 11.1%, and default rates remain low when including or excluding distressed exchanges. This highlights the flexibility in private lending where lenders and borrowers work together to avoid defaults.

The rise in redemption requests and gating of some funds in 2026 underscores the importance of liquidity management and investor education, rather than signaling a failing asset class. However, not all private credit is created equal. The flexibility of private lending remains attractive, but it must be matched by discipline and a keen eye for borrower quality.

Power, permits and ports in real assets

Data centers have become the poster child for the AI infrastructure boom, but their growth is increasingly at the mercy of regulatory changes and permitting hurdles. This creates a real risk that capacity could be capped just as demand surges. In the U.S., there is 87.5 gigawatts of data center capacity that is operational or under construction, but another 208 gigawatts that is planned.

This scarcity opens up opportunities for those providing the power, utilities and grid upgrades that underpin digital infrastructure. Investors who can tap into the modernization of energy systems (electricity generation, transmission and storage) may benefit from the wave of capital flowing into these essential services.

The transport sector is proving again how vital it is to the global economy. Disruptions in shipping routes, such as the Strait of Hormuz and the el-Bab Mandeb Strait, have led to ships carrying cargo over longer distances to avoid conflict zones. Transport offers a source of diversification that is not dependent on the AI capex cycle.

Dispersion benefits hedge funds

The swings in interest rates, currencies, commodities and equity markets this year have created fertile ground for hedge funds that benefit from market dislocation and dispersion. The shift of investor focus to AI leaders created valuation dispersion within equity markets, leaving the non-AI related sectors overlooked and perhaps undervalued.

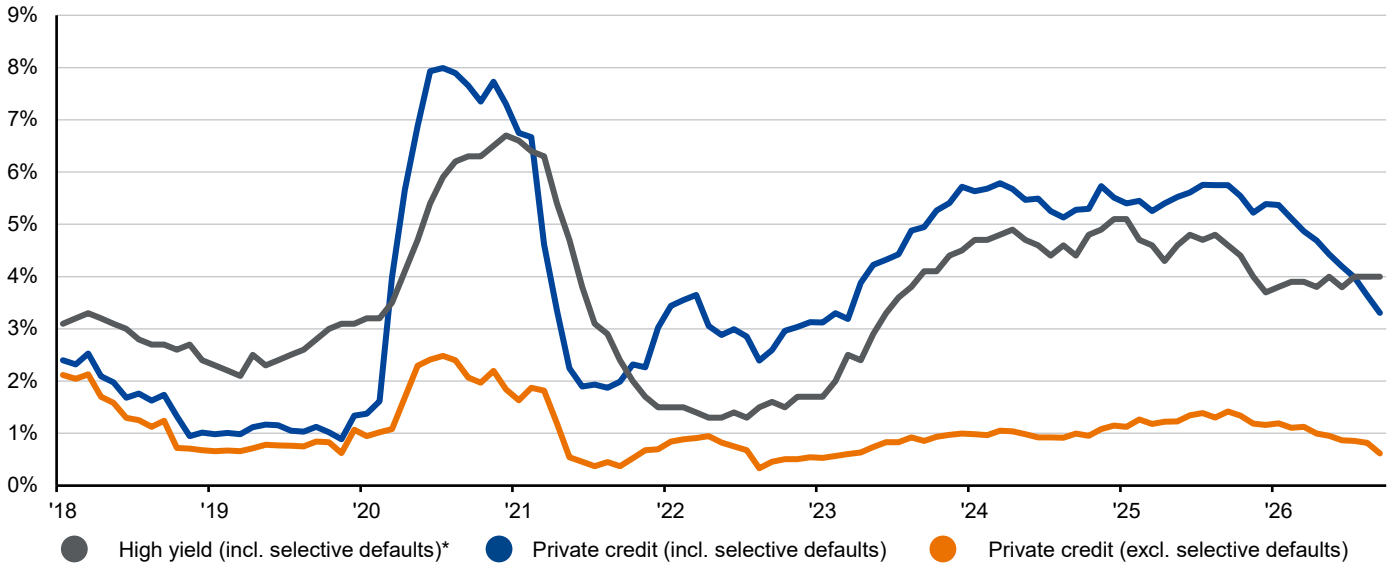
Meanwhile, higher cash rates create a higher base for returns for many hedge funds, given their use of cash-like collateral holdings. Manager selection and costs remain front of mind, as the gap between winners and losers can be wide.

Holistic approach to portfolios

The benefit of alternatives is their ability to bring differentiated sources of risk and return to a portfolio. By understanding how exposures to economic growth, interest rates, inflation, technological disruption and liquidity interact, investors may use alternatives to enhance returns, build resilience and construct portfolios that are better equipped in 2027.

The year ahead promises both challenge and opportunity for those who embrace a holistic, integrated approach to portfolio construction.

Exhibit 18: Private credit default remains low at this point
Public and private credit default rates
Monthly



Source: J.P. Morgan Credit Research, KBRA, Lincoln International, S&P Global Ratings, J.P. Morgan Asset Management. Data are from S&P Global Ratings' "*Private Credit and Middle Market CLO Quarterly*" report. Default rates are calculated from S&P Global Ratings' credit estimates, which are confidential, point-in-time indications of the likely credit rating of an otherwise unrated entity or instrument. Selective defaults include distressed exchanges and certain liability management exercises, such as payment-in-kind conversions, amend-and-extend transactions and below-par exchanges. *High yield credit refers to rated issuers at BB+ or below. *Guide to Alternatives.* Data reflect most recently available as of 31/10/2026.

12. Are there solutions to extreme market stress events?

In brief

- A sustained energy price surge could weaken growth and revive inflation, complicating policy responses; portfolio resilience requires balancing inflation protection with liquidity.
- An abrupt halt in AI investment could pressure valuations and widen credit spreads, highlighting concentration risks and the need to assess exposure beyond technology companies.
- A sovereign debt crisis could spread across bonds, banks, equities and currencies; international diversification and adequate liquidity can reduce, but not eliminate, losses.

Hope for the best, prepare for the worst. It is worth considering some of the market stress scenarios and what can be done to hedge against them. This requires some creativity, rather than precise forecasting. Here we consider three potential shocks for 2027: a sustained surge in energy prices, an abrupt halt in AI investment and a sovereign debt crisis. These are scenarios, not predictions. Each illustrates how an unlikely disruption could affect growth, policy and markets, and why portfolio resilience matters more than betting on a single outcome.

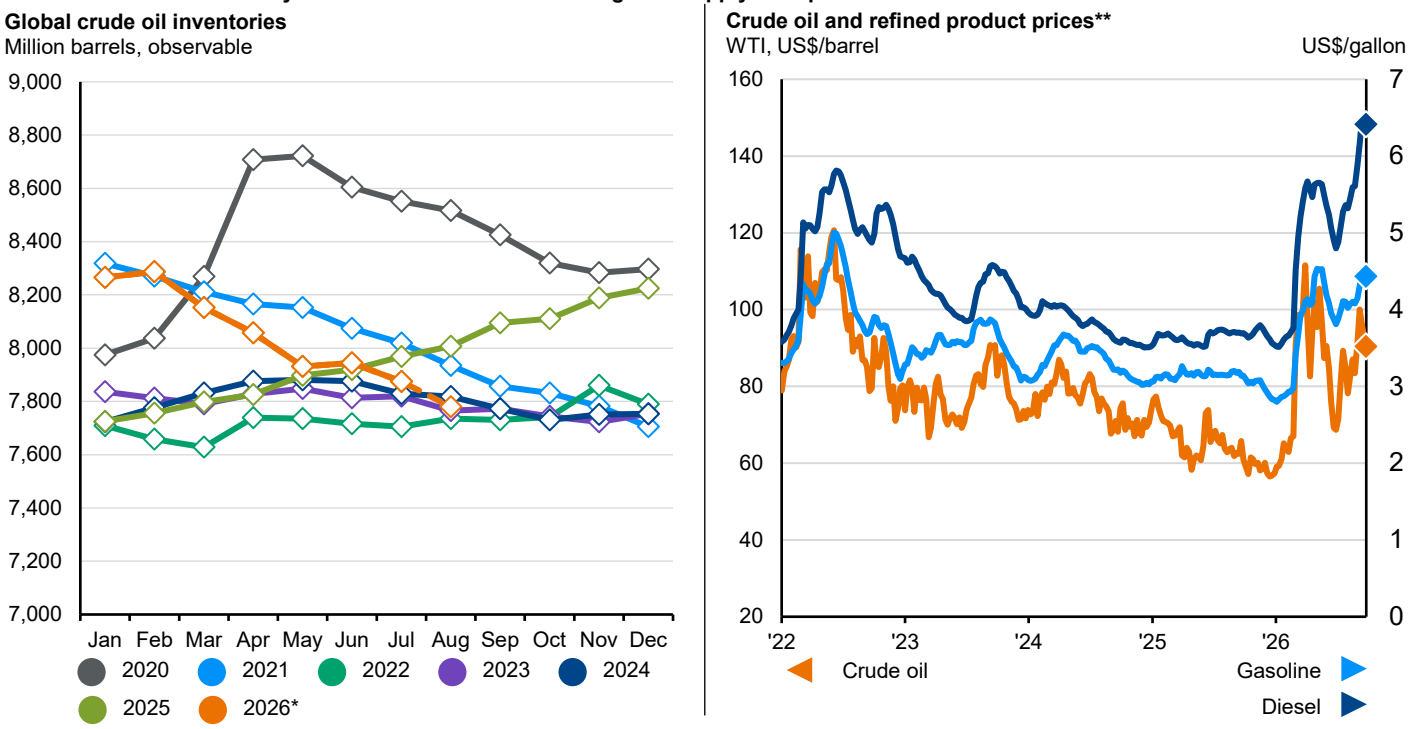
A sharp surge in energy prices

A prolonged disruption to global energy supplies could extend beyond a blockade of the Strait of Hormuz. Military conflict or natural disasters could damage oil and gas facilities, refineries or transport infrastructure, sharply lifting energy prices. Given the level of global oil inventory is already running low (**Exhibit 19**), there is limited buffer against new disruptions. The consequences of this surge in energy prices would go beyond inflation: Shortages could interrupt food production, manufacturing and logistics, weakening activity across economies dependent on imported energy.

The result could be a renewed stagflation shock, combining higher inflation with weaker growth or recession. Governments might provide fiscal support to households and businesses, while central banks would face conflicting pressures. Inflation could initially favor tighter policy, but deteriorating consumption and investment could eventually prompt a shift toward supporting growth. Uncertainty over that response could increase bond-market volatility and encourage investors to retreat into cash.

Cash alone, however, would not necessarily preserve purchasing power. Commodities and inflation-linked bonds could offer some protection, although neither is a reliable hedge in every environment. Defensive equities and income-generating alternative assets, including infrastructure and transportation, may broaden diversification. Their resilience would depend on valuations, financing costs and exposure to the disruption itself. The objective is to balance inflation protection with liquidity, rather than assume that any single asset will neutralize the shock.

Exhibit 19: Low oil inventory leaves limited room to buffer against supply disruptions



Source: American Automobile Association, Bloomberg, Commodity Research Bureau, FactSet, IEA, J.P. Morgan Asset Management calculations. WTI refers to West Texas Intermediate. *Dotted line refers to preliminary data. **Refined products refers to regular grade gasoline prices and diesel prices.
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An abrupt halt in AI investment

The AI capital expenditure cycle is unlikely to advance smoothly. Investment could slow as borrowing costs rise or user demand disappoints. A more severe interruption would require a larger shock: Recession could undermine revenues and financing, while a major security breach could trigger restrictions on public adoption. Such measures might abruptly delay deployment and spending, with consequences extending beyond technology companies to their suppliers and lenders.

The market impact would depend on the breadth and duration of the disruption. Lower expectations for revenue and earnings growth could compress valuations in public and private markets. Credit spreads could widen as lenders reassess cash flows, debt burdens and refinancing risks. Businesses whose investment plans rely heavily on continued AI expansion would be particularly exposed. A brief pause would have different implications from a lasting reassessment of commercial demand.

Government bond yields could fall if weaker technology investment materially slows the economy, although inflation and fiscal conditions would still influence the outcome. Diversification beyond AI-sensitive companies could reduce concentration risk. Other sectors and markets, including parts of Europe, India and emerging markets, might prove relatively resilient where earnings are less dependent on the AI cycle. That resilience should not be assumed: Software, construction and industrial businesses may also have substantial exposure to technology spending.

A sovereign debt crisis

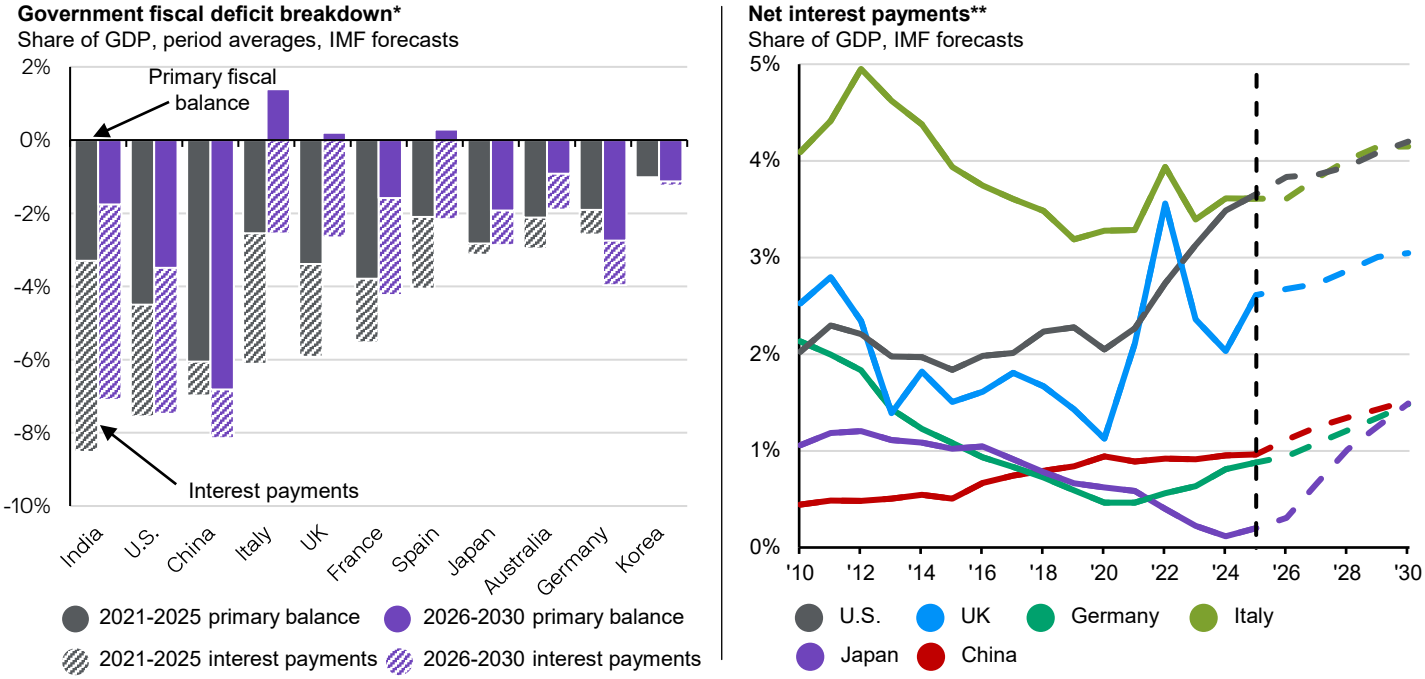
A sovereign debt crisis typically combines underlying fiscal vulnerability with a catalyst that undermines confidence. Aging populations can raise pension and health care spending while constraining tax revenues. Higher borrowing costs add pressure (**Exhibit 20**), especially when governments are unwilling or unable to increase taxes or restrain expenditures. Large deficits and debt burdens can therefore leave public finances increasingly sensitive to a change in investor sentiment.

A policy error or an unfunded spending program could provide the trigger. Investors might demand higher yields, accelerating debt-service costs and intensifying doubts about fiscal sustainability. The resulting stress could spread from government bonds to banks, corporate credit, equities and the currency.

Central banks would face a difficult balancing act. Liquidity support could help restore market functioning because government bonds underpin domestic financial systems. But lasting stability would also depend on a credible fiscal response. Austerity could weaken growth and create scope for rate cuts; persistent inflation or currency depreciation could limit that flexibility. Monetary intervention alone would not necessarily resolve concerns about solvency or restore confidence.

If the U.S. was not the source of stress, U.S. government bonds and the dollar could attract safe-haven demand. Gold might also benefit, though its performance would depend on interest rates and market conditions. Domestic equities could suffer alongside sovereign debt. International diversification can reduce exposure to a single jurisdiction, but cannot eliminate losses. Across all three scenarios, resilience depends on diversified risks, adequate liquidity and realistic expectations about hedges.

Exhibit 20: Rising interest rates are putting more pressure on governments' fiscal balance



Source: FactSet, IMF, J.P. Morgan Asset Management. *Primary fiscal balance calculated by the IMF as (total revenues – non-interest expenditures). Interest payments, cyclical and other factors or adjustments calculated as the difference between the structural fiscal balance and primary fiscal balance. **Net interest payments are based on IMF World Economic Outlook forecasts. *Guide to the Markets – Asia.* Data reflect most recently available as of 30/09/26.

13. What will be the trend in global currencies and gold?

In brief

- The dollar benefits from resilient growth and rate differentials, though mounting federal debt and persistent current account deficit pose long-term risks.
- Despite tactical pullbacks, currency debasement and central bank accumulation reinforce gold's long-term strategic value.
- Rising Japanese Government Bond (JGB) yields challenge JPY carry trades, prompting gradual rotation into the Swiss franc and Chinese yuan as funding currencies.

USD outlook supported by macro fundamentals

The U.S. dollar faces competing forces. In the near term, elevated U.S. interest rates, resilient economic activity and geopolitical uncertainty may sustain demand for the greenback. Over the longer term, however, U.S. fiscal sustainability and its persistent current account deficit remain potential headwinds.

We maintain a structurally constructive view on the U.S. dollar in 2027. U.S. real GDP grew at an annualized 3.4% in 3Q26, supported by strong AI capex and robust domestic consumption. AI investment is likely to remain a key growth driver and attract capital inflows in 2027. Meanwhile, sticky inflation limits the Fed's room for aggressive monetary easing, preserving wide interest rate differentials in favor of the dollar.

Over the longer term, accumulating federal debt could weigh on the currency. U.S. federal debt held by the public surpassed USD 31trillion in 2Q26, while elevated yields have sharply increased debt-servicing costs. The Congressional Budget Office (CBO) projects net interest outlays to rise from 3.3% of GDP in FY2026 to 4.6% by FY2036 under its February 2026 baseline forecast. Although rising debt does not imply immediate currency depreciation, concerns over fiscal sustainability and potential threats to Fed independence could undermine investor confidence.

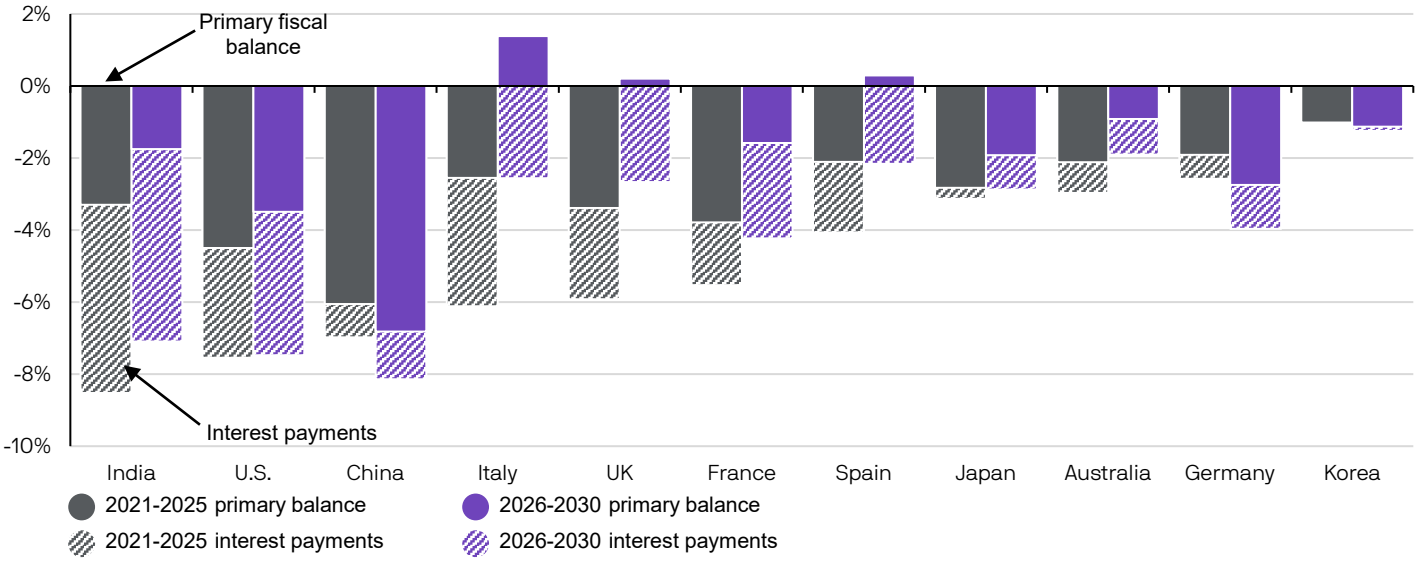
The U.S. monthly current account deficit also remains near record levels, despite elevated tariffs on major trading partners, reflecting strong domestic demand. Capital inflows currently finance this deficit, but it could become a source of dollar weakness if AI-driven investment flows fade.

Gold needs high rate headwinds to fade

After reaching an all-time high earlier in 2026, gold faced tactical headwinds and declined by more than 20%. As a non-yielding asset, gold becomes less attractive when elevated U.S. real yields increase its opportunity cost. Attractive Treasury yields and high-yielding currencies have therefore diverted tactical investment flows away from gold ETFs, limiting near-term upside.

Nevertheless, gold's long-term fundamentals remain intact, as currency debasement concerns continue to provide structural support. Sovereign debt across major economies continues to expand rapidly (**Exhibit 21**) amid rising social welfare obligations, pro-growth spending and government investment in AI infrastructure. Although the dollar may appreciate against other currencies in 2027, the purchasing power of major fiat currencies remains exposed to systemic debt pressures.

Exhibit 21: Rising fiscal deficits prompt debasement trade
Government fiscal deficit breakdown*
Share of GDP, period averages, IMF forecasts



Source: FactSet, IMF, J.P. Morgan Asset Management. *Primary fiscal balance calculated by the IMF as (total revenues – non-interest expenditures). Interest payments, cyclical and other factors or adjustments calculated as the difference between the structural fiscal balance and primary fiscal balance.
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Amid elevated geopolitical risks, central banks' appetite for gold is poised to persist. Following the U.S.-Iran conflict earlier this year, several central banks sold gold to strengthen liquidity. However, as risk premia normalize and growth stabilizes, central banks face an ongoing structural need to add gold reserves in line with the growth of their broader balance sheets and foreign exchange reserves, establishing a consistent base for demand.

Between January and September 2026, the People's Bank of China (PBoC) accumulated 82.1 tons of gold, exhibiting price-sensitive behavior: curtailing purchases on price rallies and accelerating inflows during pullbacks. Considering that gold constitutes a markedly smaller share of the PBoC's total balance sheet relative to both the European Central Bank and the Fed, China's sovereign gold accumulation program maintains ample runway for the long haul.

Following a substantial technical correction in gold and an anticipated downshift in the Fed's tightening trajectory in 2027, we expect these secular tailwinds to reassert themselves, steering gold back onto an upward trajectory.

However, investors should be mindful that gold has historically been a high-volatility asset, with volatility exceeding that of the MSCI World Index (**Exhibit 22**), making it ill-suited for leveraged trading or speculative bets. Conversely, incorporating gold into a traditional equity-and-bond portfolio allows investors to leverage its negative correlation with conventional asset classes to control aggregate portfolio volatility and enhance long-term average returns. As such, gold serves as an indispensable building block in strategic, long-term portfolio allocations.

Carry trade currency: Potential rotation from JPY to CHF and CNY[5]

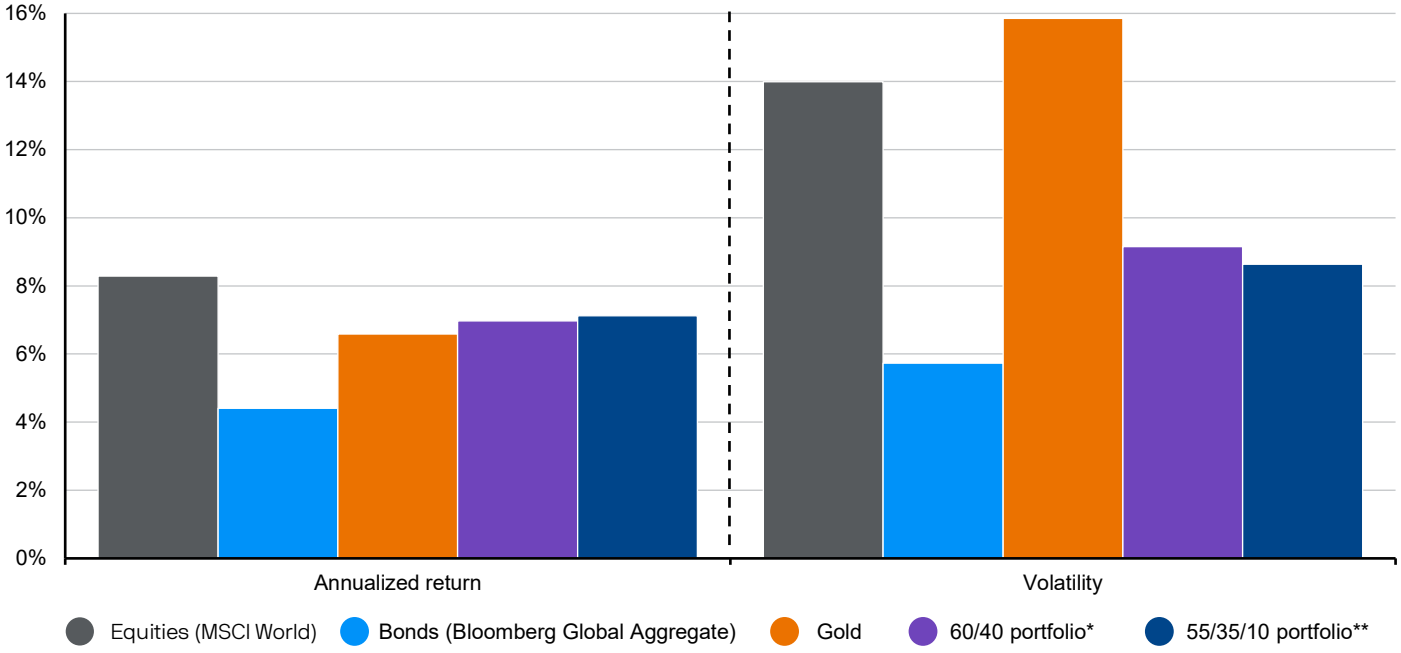
The JPY has historically been a major funding currency for carry trades due to Japan's low interest rates. As 10-year JGB yields surpassed a 30-year high of 2.8% and the Bank of Japan reiterates its tightening stance, JPY-based carry trades face growing vulnerability.

The next phase may involve a change in funding currency preferences. The Swiss franc (CHF) is a plausible alternative given Switzerland's zero policy rate, although its safe-haven characteristics can complicate the trade during market stress.

The CNY is a more conditional candidate. Persistent deflation pressure in China means interest rates are likely to stay for an extended period of time, enhancing its appeal to be a carry trade funding currency. China's trade surplus, expanding international settlement and efforts to promote CNY use could gradually increase its role in cross-border financing. However, capital controls, exchange-rate management and capital mobility restrictions mean the CNY lacks the freely accessible funding market of the JPY or CHF.

Large banks qualified for cross-border business may begin expanding CNY/CNH[5]-denominated overseas funding, though progress is likely to remain gradual given that Chinese regulators continue to prioritize risk control.

Exhibit 22: Gold is a volatile asset
Gold and 60/40 portfolio performance
1989 – present, based on monthly data



Source: Bloomberg, FactSet, MSCI, World Gold Council, J.P. Morgan Asset Management. Equities is MSCI World, bonds is Bloomberg Barclays Global Aggregate. *A "60/40 portfolio" refers to an allocation of 60% to equities and 40% to bonds. **A "55/35/10 portfolio" refers to an allocation of 55% to equities, 35% to bonds and 10% to gold. Past performance is not a reliable indicator of current and future results. Guide to the Markets – Asia. Data reflect most recently available as of 30/09/26.

[5]CNY refers to onshore Chinese yuan. CNH refers to offshore Chinese yuan.

14. What does the 2027 portfolio playbook look like?

In brief

- We describe 2027 as a year for investors to stay BID (Broaden, Income generation, Diversify).
- The macroeconomic environment still supports risk assets, such as equities and corporate credits, but it is time to boost portfolio resilience.
- Broaden equities across regions and the AI value chain, prioritizing cash generation and sound financing while assessing concentration across the whole portfolio.
- Find income opportunities in high-quality bonds, as well as selected alternatives as complementary sources of resilience, recognizing their inflation, credit, volatility and liquidity risks.
- Diversify portfolio by making a full use of asset classes.

The investment outlook for 2027 could see a convergence in asset performance. Global growth remains resilient, corporate earnings continue to expand and AI investment supports activity across technology and industrial supply chains. These are supportive factors for risk assets, such as equities and corporate credits.

Yet these strengths rest on a narrow foundation. Persistent inflation, elevated borrowing costs and fiscal constraints leave markets vulnerable to disappointment. Asset allocation should therefore combine diversified growth exposure with consistent income. There are plenty of choices for investors to generate returns from differentiated sources, rather than depend on a single theme or monetary policy outcome. 2026 was a year for equities outperforming fixed income by a wide margin (**Exhibit 23**). 2027 is likely to see some convergence.

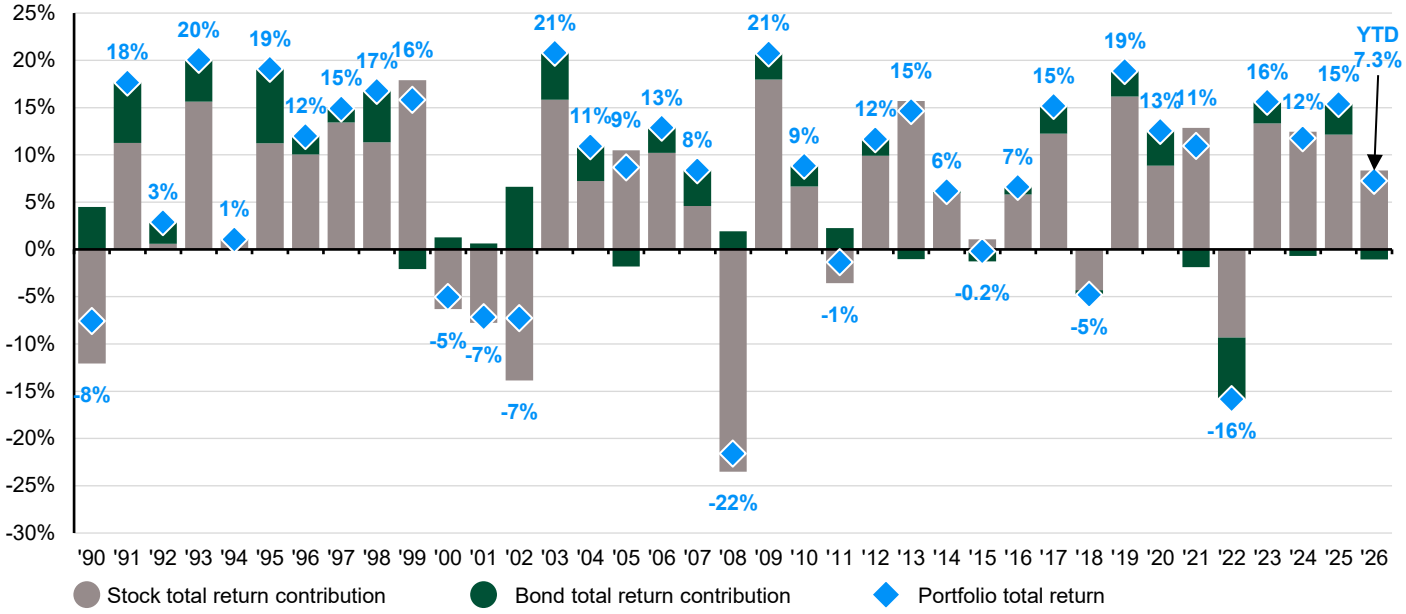
A resilient but uneven expansion

U.S. technology spending remains an important engine of global demand, benefiting Asian semiconductor exporters and infrastructure suppliers. However, strong investment does not automatically translate into broad household prosperity. China's domestic recovery remains uneven, while Japanese consumption needs sustained real wage gains. Inflation also complicates policy: An extended Fed pause is plausible, but the room for rapid rate cuts is limited. 2027 could be a better year for those with savings and assets than those with debt.

A clear distinction between adoption and monetization

Equities retain a constructive earnings backdrop, although returns will depend on profits meeting expectations and valuations remaining supported. Moderating earnings growth need not end the rally. The stronger allocation case is to broaden exposure across sectors and regions, rather than extrapolate exceptional gains from technology and energy. U.S. industrials and materials may benefit from infrastructure and manufacturing investment; Europe offers capital goods opportunities, subject to fiscal uncertainty; Japan combines export strength with governance improvements; China offers selective technology and margin recovery opportunities.

Exhibit 23: Fixed income has made little contribution to overall portfolios in 2026; this should improve in 2027
Annual return contribution in a 60/40 stock-bond portfolio



Source: Bloomberg, FactSet, MSCI, J.P. Morgan Asset Management. Returns are calendar year. Portfolio returns reflect allocations of 60% in the MSCI AC World Index and 40% in the Bloomberg Aggregate Bond Index. Returns are total returns. Past performance is not a reliable indicator of current and future results.
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Within AI, investors should make a clear distinction between adoption and monetization. Semiconductors, electrical equipment, power, cooling and cybersecurity offer different routes into the investment cycle. Priority should go to durable competitive advantages, visible cash generation and sound financing. Large orders or announced capacity are insufficient when construction costs arrive before revenues. Exposure through equities, corporate bonds, private credit and infrastructure should be assessed together. Seemingly independent asset classes could be linked by the same technology spending cycle.

Use bonds for income and balance

Cash looks attractive, but there are hidden risks, such as reinvestment risk and the inability to defend against recession risk. If growth deteriorates and central banks cut rates, cash rates can reset lower precisely when investors seek stability. High-quality fixed income can lock in yields and potentially appreciate during a growth shock. However, persistent inflation and sovereign funding pressures can push yields higher, weakening diversification when equities also fall. Duration should therefore balance income and recession protection against inflation sensitivity and concerns over fiscal sustainability. Credit selection needs particular care where borrowers face heavy debt servicing or refinancing requirements.

Private market and public market working in tandem

Alternatives can complement, rather than simply replace, traditional diversification. Private equity opportunities increasingly depend on operational improvement and earnings growth, not leverage or multiple expansion. Private credit offers income, but managers need a bond selection process to identify weaker borrowers exposed to higher floating rates. Infrastructure linked to electricity generation, grids and transportation may provide differentiated cash flows. Even if AI demand weakens, fundamental public demand for power and transport infrastructure provides a backstop. Hedge funds can exploit dispersion across markets. Across these allocations, manager selection, costs, valuations and realistic liquidity assumptions remain essential.

Treat currencies and gold strategically

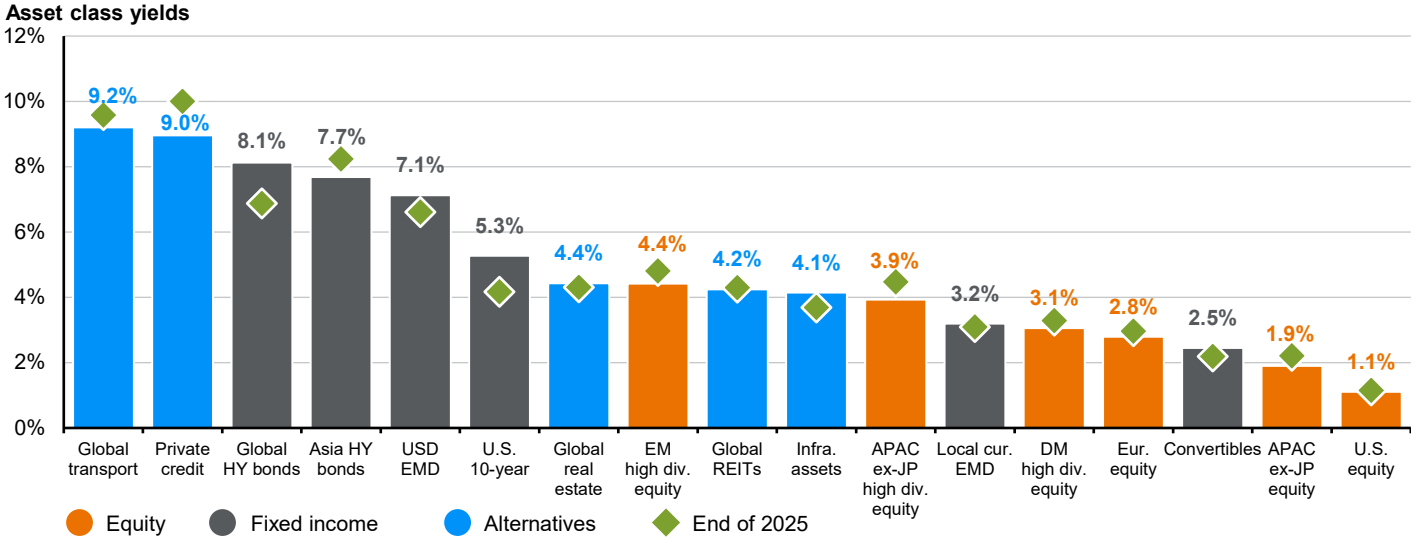
The dollar faces competing horizons. Resilient U.S. growth and interest rate differentials may support it in 2027, while federal debt and current account deficits create longer-term vulnerabilities. Currency exposures should not rely on inevitable dollar weakness.

Gold offers a different strategic role, supported by fiscal concerns and central bank demand, but high real yields can weigh on prices. Its volatility and lack of income argue for a measured diversifying allocation, not leverage or an assumption that it always offsets equity losses. Gold can provide hedge against some risks, but not all.

Prepare for shocks, not precise predictions

A sustained energy surge, abrupt AI investment slowdown or sovereign debt crisis would challenge portfolios in different ways. Bonds may cushion a growth shock but struggle with inflation or domestic fiscal stress. Real assets may diversify risks. The central principle for 2027 is therefore balanced participation: Retain exposure to earnings growth, secure income where appropriate, diversify underlying economic drivers and preserve sufficient liquidity. Resilience comes from understanding how holdings interact under stress, not merely increasing the number of asset classes owned.

Exhibit 24: Yields have risen, especially in fixed income, and contribute to total returns
Asset class yields



Source: BAML, Bloomberg, FactSet, Federal Reserve, FTSE, KBRA DLD, MSCI, NCREIF, Wells Fargo, J.P. Morgan Asset Management.
Global transport: Levered yields for transport assets calculated as the difference between charter rates (rental income), operating expenses, debt amortization and interest expenses, as a percentage of equity value, and are based on a historical 15-year average. Yields for each of the sub-vessel types are calculated and respective weightings are applied to arrive at the current levered yields for Global Transportation. Asset classes are based on MSCI Global Property Fund Index (Global real estate), KBRA DLD Index (Private credit), FTSE NAREIT Global REITs (Global REITs), MSCI Global Infrastructure Asset Index (Infra. assets), Bloomberg U.S Convertibles Composite (Convertibles), Bloomberg Global High Yield Index (Global HY bonds), J.P. Morgan Government Bond Index EM Global (GBI-EM) (Local currency EMD), J.P. Morgan Emerging Market Bond Index Global (EMBIG) (USD EMD), J.P. Morgan Asia Credit Index Non-investment Grade (Asia HY bonds), MSCI Asia Pacific ex-Japan equities (APAC ex-JP equity), MSCI Asia Pacific ex-Japan High Dividend Yield Index (APAC ex-JP high div. equity), Emerging Markets High Dividend Yield Index (EM high div. equity), MSCI World High Dividend Yield Index (DM high div. equity), MSCI Europe (Eur. equity), MSCI USA (U.S. equity). Alternative yields are lagged by two quarters. Past performance is not a reliable indicator of current and future results. To explore more on alternatives, please refer to Guide to Alternatives.
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Unless otherwise stated, all data are as of November 16, 2026, or the most recent date available.

Cash refers to U.S. short-term Treasuries. Investments involve risks and are not similar or comparable to deposits. Not all investment ideas referenced are suitable for all investors. Provided for information only and not to be construed as investment advice.

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