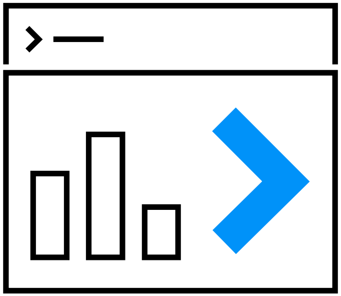

Principles for successful long-term investing

Using Market Insights to achieve better client outcomes

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The key to successful investing isn't predicting the future, it's learning from the past and understanding the present. In "Principles for successful long-term investing", we present seven time-tested strategies for guiding portfolios through today's challenging markets and towards tomorrow's goals.

You will find slides from our *Guide to the Markets*, along with commentary providing additional perspective and action steps.

Principles for successful long-term investing

1. Plan on living a long time
2. Cash is rarely king
3. Start early and reinvest income
4. Returns and risks generally go hand in hand
5. Volatility is normal
6. Timing the market is difficult
7. Diversification works

1 Plan on living a long time

We are living longer

Thanks to advances in medicine and healthier lifestyles, people are living longer lives. This chart shows the probability of reaching the age of 80 or 90 for someone who is 65 today. A 65-year-old couple might be surprised to learn that there is around a 50% chance that at least one of them will live another 25 years, reaching the age of 90. Your money may need to last longer than you think.

Life expectancy

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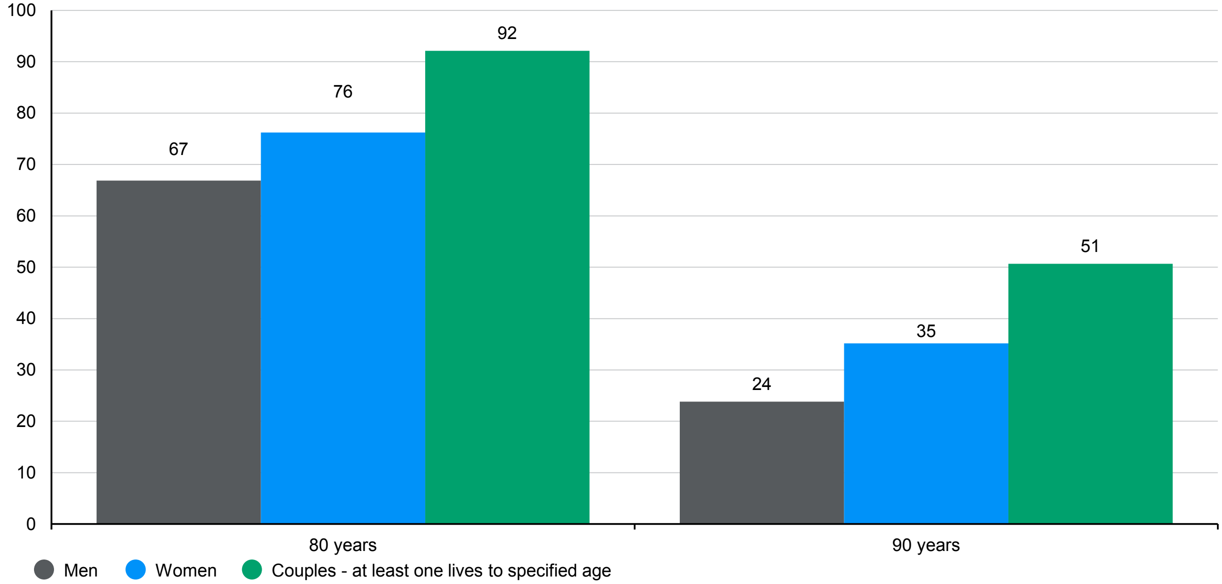
Probability of reaching ages 80 and 90
% probability, persons aged 65, by gender and combined couple



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Source: ONS 2018-2020 Life Tables, J.P. Morgan Asset Management. *Guide to the Markets - UK.* Data as of 31 December 2023.

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2 Cash is rarely king (part 1)

LEFT: Cash pays less

Investors often think of cash as a safe haven in volatile times, or even as a source of income. An era of ultra-low interest rates depressed the return available on cash to near zero, leaving cash savings vulnerable to erosion by inflation over time. Even with increased interest rates, inflation continues to erode returns on cash. Investors should be sure an allocation to cash does not undermine their long-term investment objectives.

RIGHT: Inflation eats away at your purchasing power

A risk-averse saver who decides to hide their cash under the mattress will find that inflation reduces the real value of that cash over time. If money is not invested, the purchasing power – or amount of goods that money can buy – will decrease by more than half over a 40-year time horizon if inflation is 2% per year.

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Cash investments

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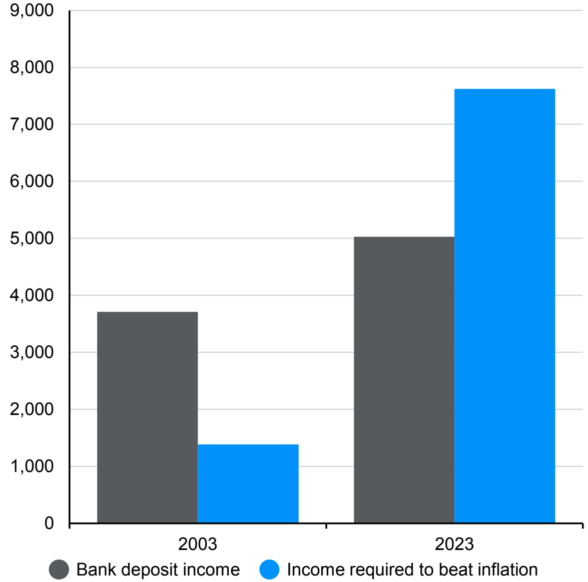
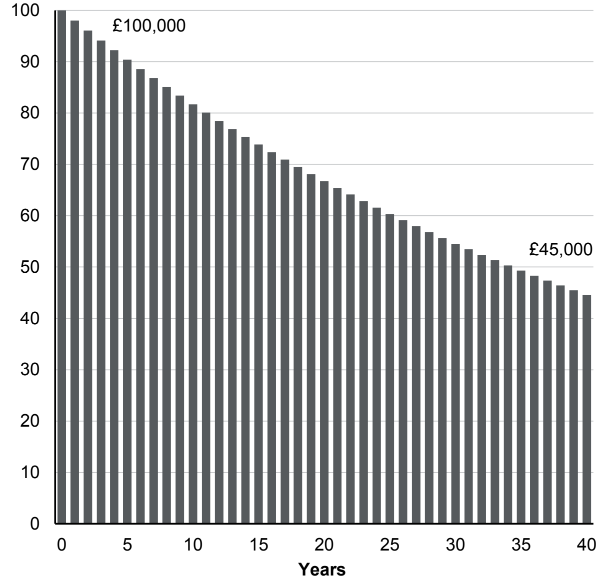
Income generated by £100,000 in a three-month bank deposit

GBP



Effect of 2% inflation on purchasing power of £100,000

GBP, thousands



Source: (Left) LSEG Datastream, ONS, J.P. Morgan Asset Management. Data shown are averages over the course of the calendar year. (Right) J.P. Morgan Asset Management. For illustrative purposes only, assumes no return on cash and an inflation rate of 2%. Past performance is not a reliable indicator of current and future results. *Guide to the Markets - UK.* Data as of 31 December 2023.

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2 Cash is rarely king (part 2)

Cash underperforms over the long term

Cash left on the sidelines earns very little over the long run. Savers who have parked their cash in the bank have missed out on the impressive performance that would have come with investing over the long term. If you decide to invest, bear in mind that equities have typically outperformed bonds over a long time horizon, although there can be bumps along the road.

Long-term asset returns

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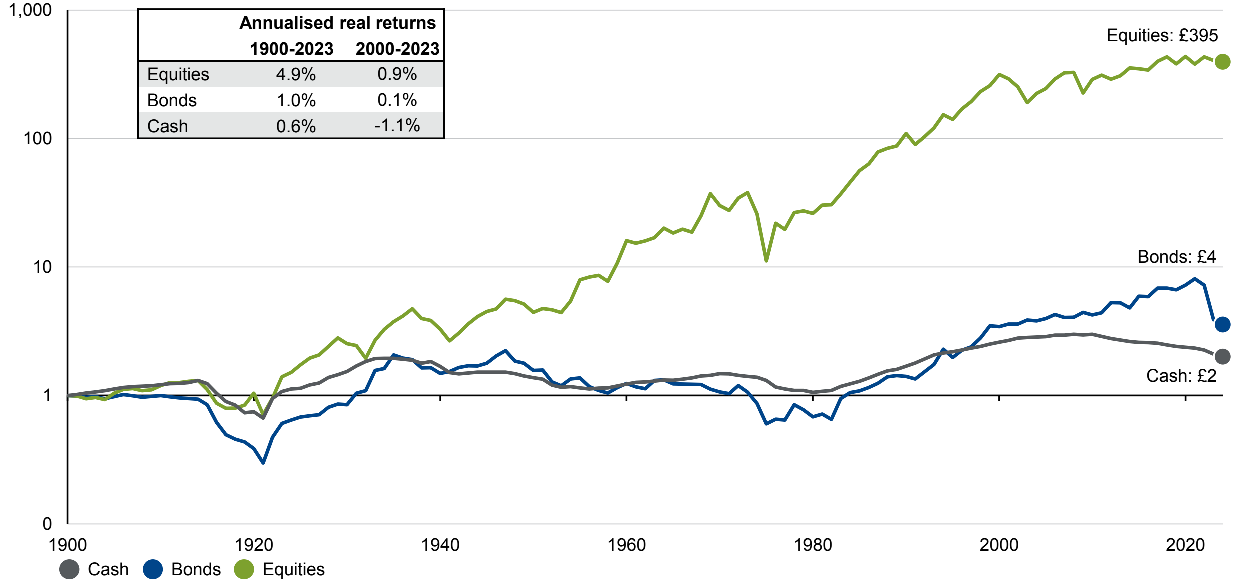
Investing principles

Total return of £1 in real terms

GBP, log scale for total returns



	Annualised real returns	
	1900-2023	2000-2023
Equities	4.9%	0.9%
Bonds	1.0%	0.1%
Cash	0.6%	-1.1%

Source: Bloomberg, Bloomberg Barclays, Dimson, FactSet, FTSE, J.P. Morgan, Marsh and Staunton ABN AMRO/LBS Global Investment Returns calculated from the Yearbook 2008, J.P. Morgan Asset Management. Equities: FTSE 100; Bonds: J.P. Morgan GBP Government Bond Index; Cash: three-month GBP LIBOR (prior to 2008 cash is short-dated Treasury bills). Past performance is not a reliable indicator of current and future results. *Guide to the Markets - UK.*
Data as of 31 December 2023.

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3 Start early and reinvest income

LEFT: Compounding works miracles

Compounding is what happens when you earn returns not only on your initial investment, but also on any accumulated gains from prior years. Its power is so great that even missing out on a few years of saving and growth can make an enormous difference to your eventual returns. Starting to save at the age of 25 and investing £5,000 per year in an investment that grows at 5% a year would leave you with nearly £300,000 more by the age of 65 than if you started at 35, even though overall you would only have invested an extra £50,000.

RIGHT: Reinvest income from investments if you don’t need it

You can make even better use of the magic of compounding if you reinvest the income from your investments to boost your portfolio value further. The difference between reinvesting - and not reinvesting - the income from your investments over the long term can be enormous.

The effect of compounding

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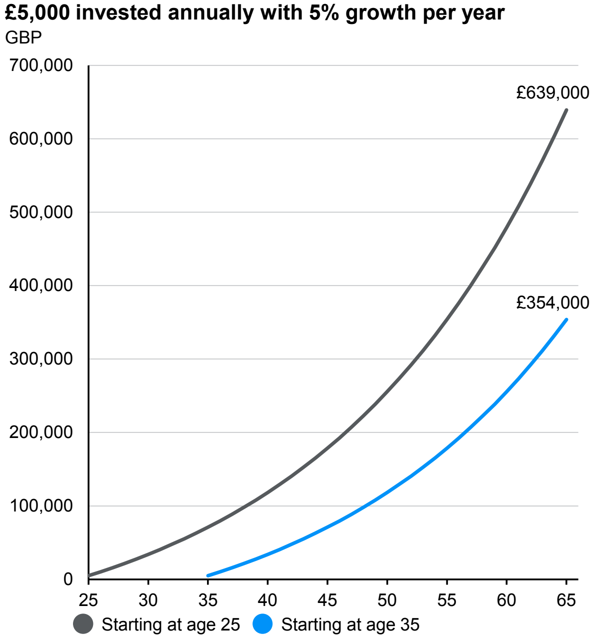

Source: (Left) J.P. Morgan Asset Management. For illustrative purposes only. Assumes all income reinvested. Actual investments may incur higher or lower growth rates and charges. (Right) Bloomberg, FTSE, J.P. Morgan Asset Management. Based on FTSE All-Share Index and assumes no charges. Past performance is not a reliable indicator of current and future results. *Guide to the Markets - UK.* Data as of 31 December 2023.

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4 Returns and risks generally go hand in hand

Investing involves trade-offs

The strongest-performing assets since the early 2000s have also been the assets whose prices have been most volatile. If you want to target a higher level of return, you have to be willing, and able, to tolerate larger swings in asset prices along the way. The opposite is also true. As the chart shows, lower-risk assets also tend to generate lower returns over the long term. If you are not willing to take on more risk, or your circumstances won't allow it, you'll need to be realistic about the returns you are likely to achieve.

Asset class risk-return trade-off

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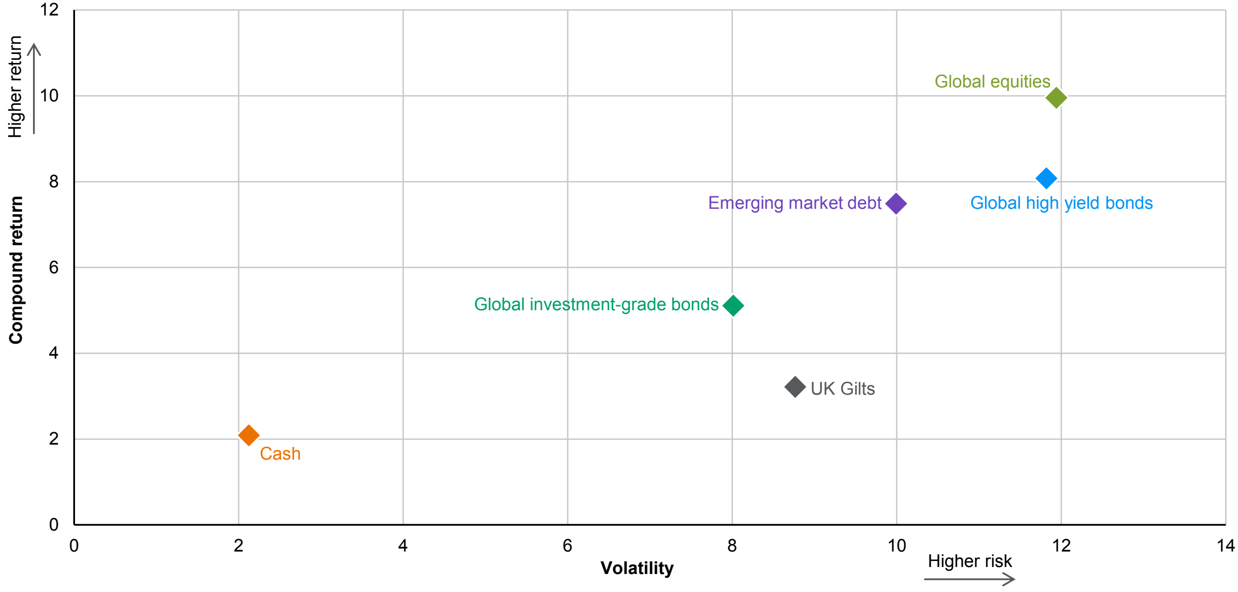
Historic risk vs. return for selected asset classes

%, annualised return 2004 – 2023 in GBP



Source: Bloomberg Barclays, LSEG Datastream, MSCI, J.P. Morgan Asset Management. Volatility is the standard deviation of annual returns since 2004. Cash: J.P. Morgan Cash United Kingdom (3M); UK Gilts: Bloomberg Barclays Sterling Gilts; Global investment-grade bonds: Bloomberg Barclays Global Aggregate – Corporate; Emerging market debt: J.P. Morgan EMBI Global Diversified; Global high yield bonds: ICE BofA Global High Yield; Global equities: MSCI All-Country World Index (includes developed and emerging markets). Past performance is not a reliable indicator of current and future results. *Guide to the Markets - UK.* Data as of 31 December 2023.

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5 Volatility is normal (part 1)

There may be bumps along the road

Every year has its rough patches, and last year was certainly no different. The red dots on this chart represent the maximum intra-year equity decline in every calendar year, or the difference between the highest and lowest point reached by the market in those 12 months. It is hard to predict these pullbacks, but double-digit declines in markets are a fact of life in most years; investors should expect them.

Volatility in financial markets is normal and investors should be prepared upfront for the ups and downs of investing, rather than reacting emotionally when the going gets tough. The grey bars represent the calendar-year market price returns. They show that, despite the pullbacks every year, the equity market has recovered to deliver positive returns in most calendar years.

The lesson is, don't panic: more often than not a stock market pullback is an opportunity, not a reason to sell.

Annual returns and intra-year declines

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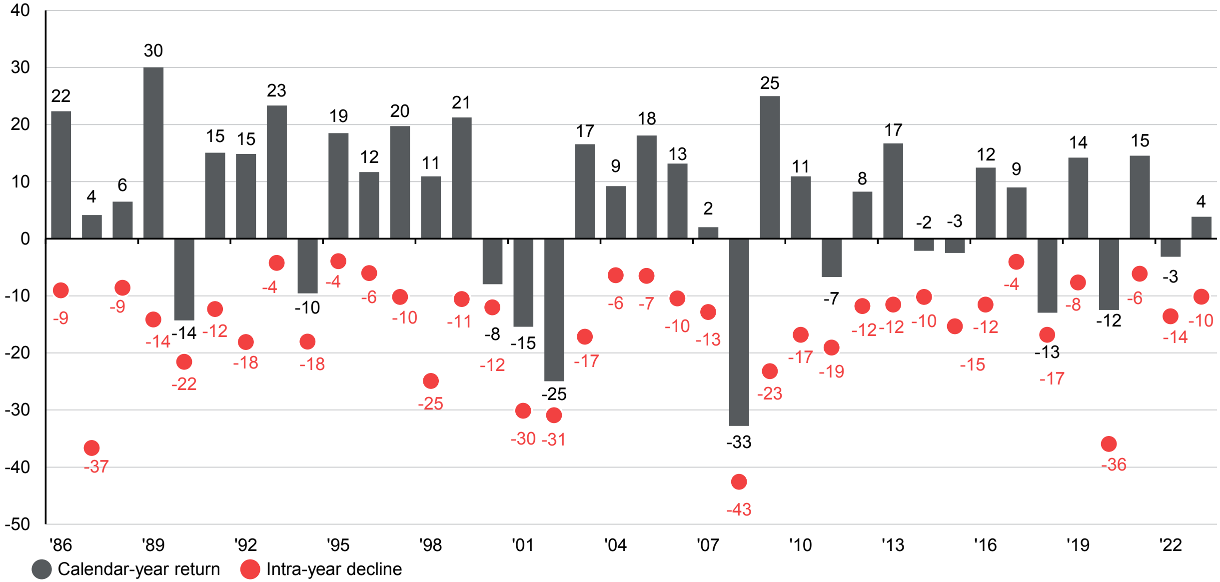
FTSE All-Share intra-year declines vs. calendar-year returns

%; despite average intra-year drops of 15.3% (median 12.2%), annual returns are positive in 26 of 38 years



Source: FTSE, LSEG Datastream, J.P. Morgan Asset Management. Returns shown are price returns in GBP. Intra-year decline refers to the largest market fall from peak to trough within the calendar year. Returns shown are calendar years from 1986 to 2023. Past performance is not a reliable indicator of current and future results. *Guide to the Markets - UK*. Data as of 31 December 2023.

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5 Volatility is normal (part 2)

Good things come to those who wait

While markets can always have a bad day, week, month or even a bad year, history suggests investors are much less likely to suffer losses over longer periods. It's important to keep a long-term perspective.

This chart illustrates this concept. Investors should not necessarily expect the same rates of return in the future as we have seen in the past. But a diversified blend of stocks and bonds has not suffered a negative return over any 10-year rolling period historically, despite the great swings in annual returns we have seen since 1950.

US asset returns by holding period

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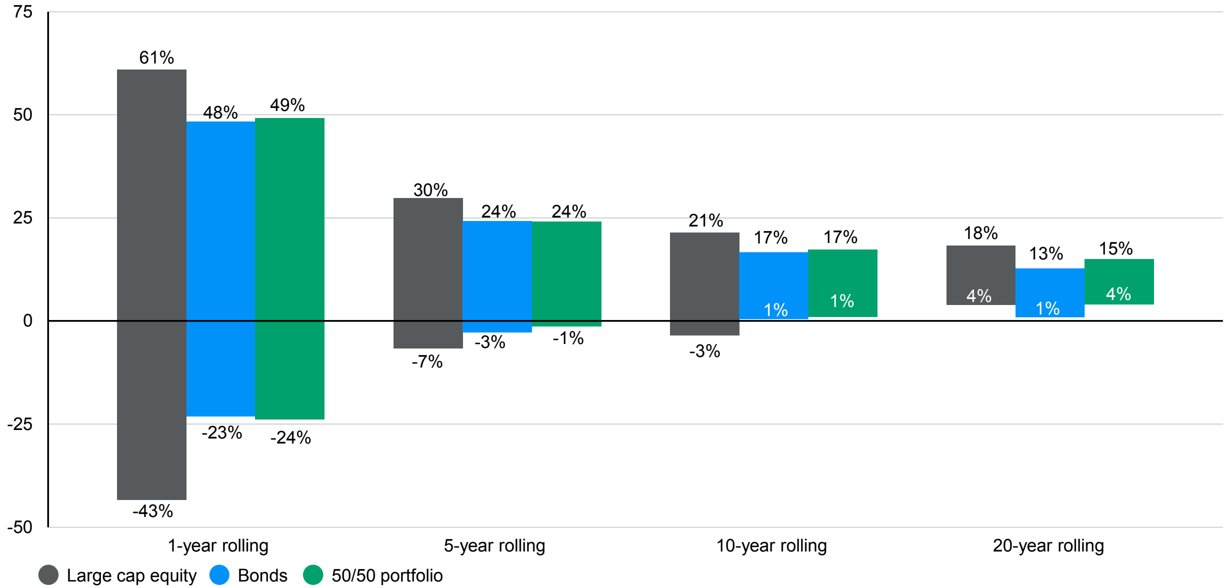
Range of equity and bond total returns

%, annualised total returns, 1950-present



Source: Bloomberg Barclays, LSEG Datastream, S&P Global, Strategas/Ibbotson, J.P. Morgan Asset Management. Large cap equity represents the S&P 500 Composite and Bonds represents the Strategas/Ibbotson US Government Bond Index, the US Long-term Corporate Bond Index until 2000 and the Bloomberg Barclays US Agg. Corporate – Investment Grade Index from 2000 onwards. Returns shown are per annum and are calculated based on monthly returns from 1950 to latest available and include dividends. Past performance is not a reliable indicator of current and future results. *Guide to the Markets - UK.*
Data as of 31 December 2023.

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6 Timing the market is difficult (part 1)

Patience is a virtue

Selling after the market has experienced a large fall is normally the wrong strategy. However, resisting the urge to panic following a market decline can be difficult. People tend to sell after equities have already fallen. As the chart shows, large outflows often occur when stock prices are already close to a trough, meaning investors who sell lock in their losses and miss out on the potential recovery.

S&P 500 and fund flows

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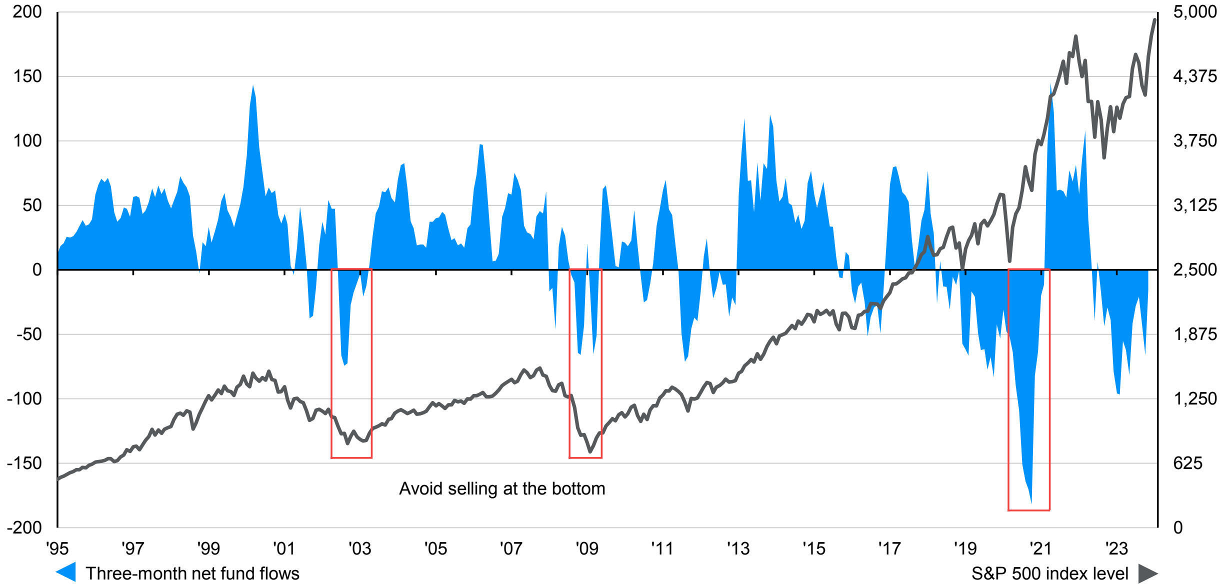
US mutual fund and ETF flows and S&P 500

USD billions, three-month net flows (LHS); index level (RHS)



Source: Investment Company Institute, LSEG Datastream, S&P Global, J.P. Morgan Asset Management. Fund flows are US long-term equity fund flows with ETF flows included from 2006 onwards. Past performance is not a reliable indicator of current and future results. *Guide to the Markets - UK.*
Data as of 31 December 2023.

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6 Timing the market is difficult (part 2)

Keep your head when all about you are losing theirs

Last year was a better year for markets, after a much more challenging 2022 when US stocks were down 25% at their lows. While it can be tempting to sell after drawdowns of such magnitude, history suggests that 12 months after a 25% drawdown, returns have often been positive. Selling as the market troughs is a common mistake made by investors that limits your ability to capture the upside that can follow a market downturn.

25% drawdowns and subsequent returns

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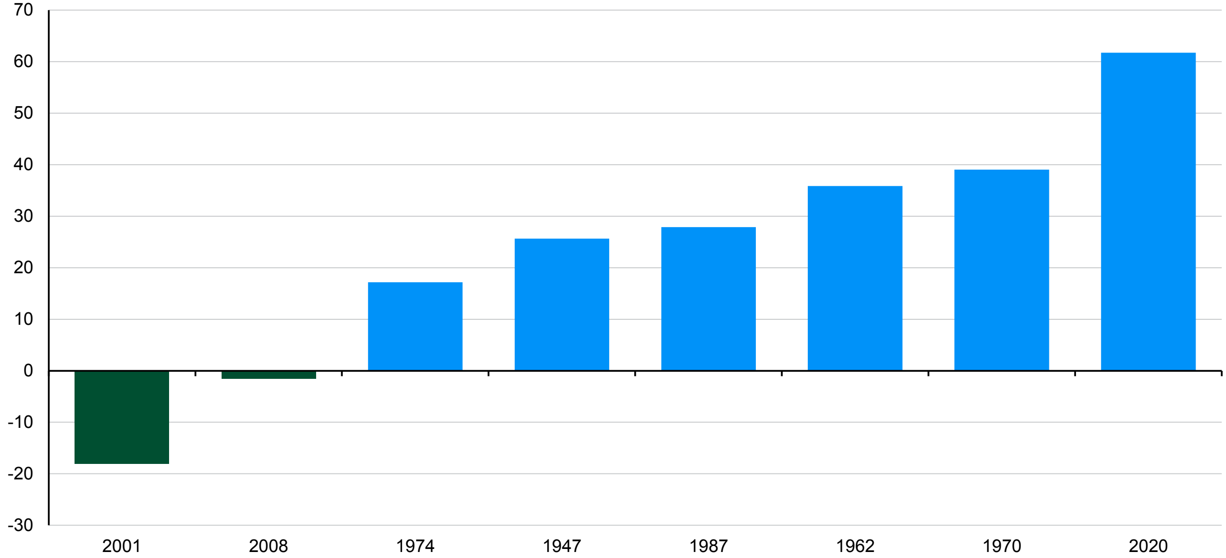
Subsequent 12-month returns after 25% drawdowns

%, S&P 500 total return in USD



Investing principles

Source: Bloomberg, S&P Global, J.P. Morgan Asset Management. Past performance is not a reliable indicator of current and future results.
Guide to the Markets - UK. Data as of 31 December 2023.

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7 Diversification works

Don’t put all your eggs in one basket

The past 10 years have been a volatile and tumultuous ride for investors, with natural disasters, geopolitical conflicts and most recently a global pandemic.

Yet despite these difficulties, the worst-performing asset classes of those shown here have been cash and commodities. Meanwhile, a well-diversified portfolio, including stocks, bonds and some other asset classes, has returned around 7% per year over this time period. While the risk of loss is still an unavoidable part of investing, the diversified portfolio has also provided a much smoother ride for investors than investing in equities alone, as shown by its position in the chart’s volatility column.

Asset class returns (GBP)

2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	10-year ann. return	Vol.
REITs 35.1%	REITs 8.2%	HY bonds 36.9%	EM equities 25.8%	Govt bonds 5.8%	DM equities 23.4%	EM equities 15.0%	REITs 41.2%	Cmdty 30.7%	DM equities 17.4%	DM equities 12.1%	Cmdty 19.0%
EMD 14.1%	EMD 7.0%	Cmdty 33.3%	DM equities 12.4%	HY bonds 2.7%	REITs 23.1%	DM equities 12.9%	Cmdty 28.3%	Hedge funds 7.6%	HY bonds 7.0%	REITs 10.5%	REITs 18.3%
DM equities 12.1%	DM equities 5.5%	EM equities 33.1%	Portfolio 5.6%	IG bonds 2.4%	EM equities 14.3%	Portfolio 7.1%	DM equities 23.5%	Cash 0.0%	Portfolio 6.3%	Portfolio 7.1%	EM equities 14.3%
IG bonds 9.6%	Govt bonds 2.3%	EMD 31.4%	EMD 0.7%	REITs 1.9%	Portfolio 12.6%	IG bonds 7.0%	Portfolio 9.7%	HY bonds -2.3%	REITs 5.2%	HY bonds 6.4%	DM equities 11.0%
Portfolio 8.8%	IG bonds 2.0%	REITs 30.4%	HY bonds 0.6%	EMD 1.7%	EMD 10.6%	Govt bonds 6.1%	Hedge funds 4.6%	Portfolio -4.4%	EMD 4.8%	EMD 6.0%	HY bonds 10.5%
HY bonds 6.1%	Hedge funds 1.9%	DM equities 29.0%	Cash 0.4%	Cash 0.9%	HY bonds 9.3%	HY bonds 4.7%	HY bonds 2.3%	IG bonds -6.2%	EM equities 4.0%	EM equities 5.8%	EMD 10.1%
Hedge funds 5.6%	HY bonds 1.4%	Portfolio 27.0%	REITs -0.2%	Portfolio -0.5%	IG bonds 7.2%	Hedge funds 3.5%	Cash 0.1%	Govt bonds -7.1%	Cash 3.4%	IG bonds 4.5%	Portfolio 8.1%
Govt bonds 5.4%	Portfolio 1.2%	IG bonds 24.4%	IG bonds -0.4%	Hedge funds -0.9%	Hedge funds 4.4%	EMD 2.0%	EMD -0.9%	DM equities -7.4%	IG bonds 3.4%	Hedge funds 4.1%	IG bonds 7.9%
EM equities 4.3%	Cash 0.7%	Hedge funds 22.3%	Govt bonds -2.0%	DM equities -2.5%	Cmdty 3.5%	Cash 0.6%	EM equities -1.3%	EMD -7.4%	Govt bonds -1.7%	Govt bonds 2.3%	Govt bonds 7.6%
Cash 0.6%	EM equities -9.7%	Govt bonds 21.3%	Hedge funds -3.2%	Cmdty -5.7%	Govt bonds 1.5%	Cmdty -6.1%	IG bonds -2.0%	EM equities -9.6%	Hedge funds -2.7%	Cmdty 1.5%	Hedge funds 6.9%
Cmdty -11.8%	Cmdty -20.3%	Cash 0.7%	Cmdty -7.1%	EM equities -8.9%	Cash 1.0%	REITs -8.8%	Govt bonds -5.7%	REITs -15.7%	Cmdty -13.1%	Cash 0.8%	Cash 0.9%

Source: Bloomberg Barclays, FTSE, J.P. Morgan Economic Research, LSEG Datastream, MSCI, J.P. Morgan Asset Management. Annualised return and volatility covers the period from 2014 to 2023. Vol. is the standard deviation of annual returns. Govt bonds: Bloomberg Barclays Global Aggregate Government Treasuries; HY bonds: ICE BofA Global High Yield; EMD: J.P. Morgan EMBI Global Diversified; IG bonds: Bloomberg Barclays Global Aggregate – Corporates; Cmdty: Bloomberg Commodity; REITs: FTSE NAREIT All REITS; DM equities: MSCI World; EM equities: MSCI EM; Hedge funds: HFRI Global Hedge Fund Index; Cash: J.P. Morgan Cash United Kingdom (3M). Hypothetical portfolio (for illustrative purposes only and should not be taken as a recommendation): 30% DM equities; 10% EM equities; 15% IG bonds; 12.5% government bonds; 7.5% HY bonds; 5% EMD; 5% commodities; 5% cash; 5% REITs and 5% hedge funds. All returns are total return, in GBP, and are unhedged. Past performance is not a reliable indicator of current and future results. *Guide to the Markets - UK.* Data as of 31 December 2023.

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Next Steps

For more information about the Market Insights programme, including access to the entire *Guide to the Markets*, speak to your J.P. Morgan Asset Management representative.

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