Why Ultra Short Duration, and why now?

After a period of easy monetary policy, elevated inflation has dominated market sentiment in recent times, which has led to a sharp tightening in global monetary policy. At the time of writing, the European Central Bank (ECB) Deposit Rate stands at 3.25%, with the central bank having raised rates by 375bps since July 2022. Nonetheless, with Eurozone core inflation still well above the ECB's 2% target, further rate hikes are expected, creating an environment for short-dated yields to remain attractive for some time.

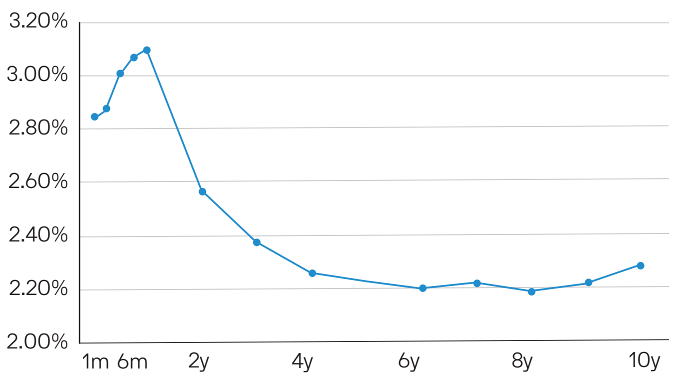
Core inflation is expected to remain stubbornly high over the medium term, pointing to structurally higher policy rates. Meanwhile, given concerns around the longer-term economic outlook, broader fixed income yields have fallen. The chart below illustrates the German sovereign curve.

J.P. Morgan EUR Ultra-Short Income UCITS ETF*

Hitting the sweet spot between liquidity and short duration

EUR Ultra-short Income ETF* can help **cash investors** earn incremental returns on their strategic balances, while also providing **fixed income investors** with the opportunity to reduce interest rate and credit risk while currently maintaining a highly competitive yield.

Exhibit 1: German Sovereign Curve



Source: J.P. Morgan Asset Management, Bloomberg as at 10 May 2023.

What is JEST*?

J.P. Morgan EUR Ultra-Short Income (JEST*) is an **actively managed ETF**, run by JPMAM's Global Liquidity platform. The product blends money market instruments and investment grade corporate bonds, carrying a maximum portfolio duration of 1 year.

The product leverages upon the **best practices of JPMAM's USD 939bn liquidity platform;** with an investment philosophy tailored to deliver l**ow volatile returns in excess of cash.** Over the investment cycle, JEST* aims to deliver returns of 40-60 basis points (bps) in excess of its benchmark (3 month German treasury bills).

Cost warning: Annual TER of 8bps (taking into account a 10bps fee waiver in place until 30/11/23).

How can clients use JEST* as part of their asset allocation?

We observe clients using these ETFs for a number of reasons, namely clients with stable cash positions that are looking to obtain low volatility returns above money market rates, or alternatively traditional fixed income clients looking to utilize this product as an efficient way to obtain attractive returns with limited duration exposure whilst minimizing volatility.

The chart below highlights how JEST* can be a compelling solution for a range of clients in the current market environment. As at 4 May 2023, JEST* has a gross yield to maturity of 3.38%, with this expected to rise as the ECB continues to tighten monetary policy.

Meanwhile, given the inversion in European sovereign curves, **JEST* offers an attractive yield when compared to traditional parts of the fixed income world, with significantly less duration risk.** This makes JEST* an attractive core complement to any traditional multi asset or fixed income portfolio.

Why J.P. Morgan Asset Management Global Liquidity?

Our ultra-short duration solutions are run as part of JPMAM's Global Liquidity platform, manages over USD 939bn in assets and has successfully managed solutions through several stressed market environments.

The investment process leverages upon the best practices of the platform, with a strong focus on diversification and credit research; given the instability that we are seeing in markets, this is more important than ever to delivering consistent, low volatile returns over time.

The strategy is actively managed; relative to competitor solutions we have a higher credit quality, with limited BBB exposure. Our ability to actively adjust our credit and duration positions should allow us to maximise risk-adjusted returns over an economic cycle.

Exhibit 2: JEST* Yield Comparison

Source: J.P. Morgan Asset Management, Bloomberg as at 10 May 2023. Yield is not guaranteed and may change over time. **Euro Short-Term Rate.

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