

JREE*: The Macro Case

JP Morgan ETFs (Ireland) ICAV

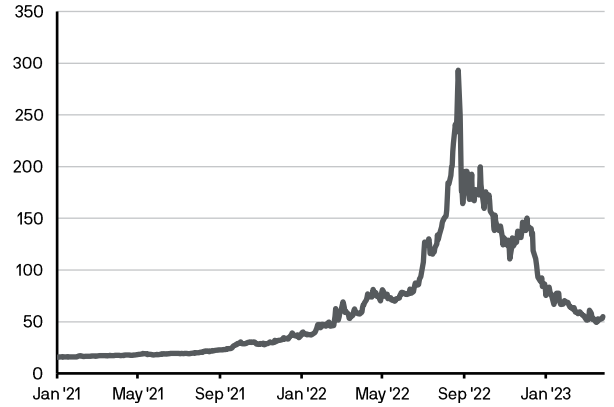
Europe Research Enhanced Index Equity (ESG) UCITS ETF*

A better than expected gas situation means risks of a deep recession have receded

Entering winter 2022, the economic outlook for Europe was concerning with gas rationing a major worry. Today, however, a combination of unusually warm winter weather, curtailed demand and substantial US LNG imports have propelled gas inventories to near seasonal all-time highs. This has not only helped Europe avoid a recession this past winter – the risk of rationing and a deep, painful downturn next winter is also much lower. Growth risks, while certainly reduced, do remain – gas prices have fallen but are still likely to pressure corporate earnings, and higher interest rates will weigh on demand. Lending conditions, already tightening, are likely to do so further. Nonetheless, the outlook now looks far less troubling than many would have predicted just a few months ago.

Source: Bloomberg, TTF, J.P. Morgan Asset Management. Chart shows December 2023 TTF natural gas futures contract. Past performance is not a reliable indicator of current and future results. Data as of 31 March 2023.

Exhibit 1: Winter 2023 Europe natural gas future Price, EUR/MWh

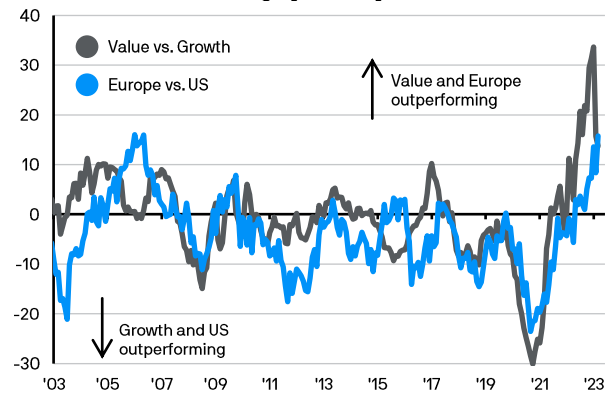


Medium-term prospects are also brighter

In the low inflation, low interest rate world of the past decade, Growth stocks outperformed, with investors willing to bid up multiples for stocks whose earnings potential looked strong. This favoured Growth- and tech-heavy US indices at the expense of more value-titled European benchmarks. Looking forward, market-based indicators of future interest rates and inflation suggest that investors do not expect a repeat of the sluggish macro environment of the last decade. A higher inflation and interest rate world should support a rotation toward Value stocks, and thus benefit the style exposure of European equity indices. A premature shift to austerity after the global financial crisis also contributed to European underperformance. However, fiscal policy is now more supportive, in large part thanks to the EUR 2trn Recovery Fund and with increased investment in energy security and renewable generation ahead.

Source: MSCI, Refinitiv Datastream, J.P. Morgan Asset Management. Returns are in local currency. Past performance is not a reliable indicator of current and future results. Data as of 31 March 2023.

Exhibit 2: Europe vs. US and Value vs. Growth Stock markets, % change year on year

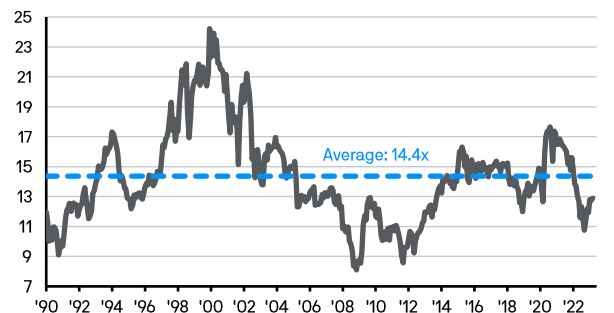


Valuations are below long-term averages

European equity valuations have bounced from their Q1 lows but remain below long-term averages. This contrasts with US markets (and developed markets more broadly), where valuations remain at or above their averages since 1990. As such, European stocks continue to trade at an above-average discount versus the US. MSCI Europe also offers a dividend yield nearly twice that of the S&P 500. Earnings downgrades present a risk, but valuations suggest that some degree of bad news is still priced. European markets also derive around a fifth of revenues from Asia Pacific, meaning a countercyclical Chinese recovery could help offset weaker domestic demand through 2023.

Source: IBES, MSCI, Refinitiv Datastream, J.P. Morgan Asset Management. Forward P/E ratio is price to 12-month forward IBES earnings. Past performance is not a reliable indicator of current and future results. Data as of 31 March 2023.

Exhibit 3: MSCI Europe forward P/E ratio x, multiple



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