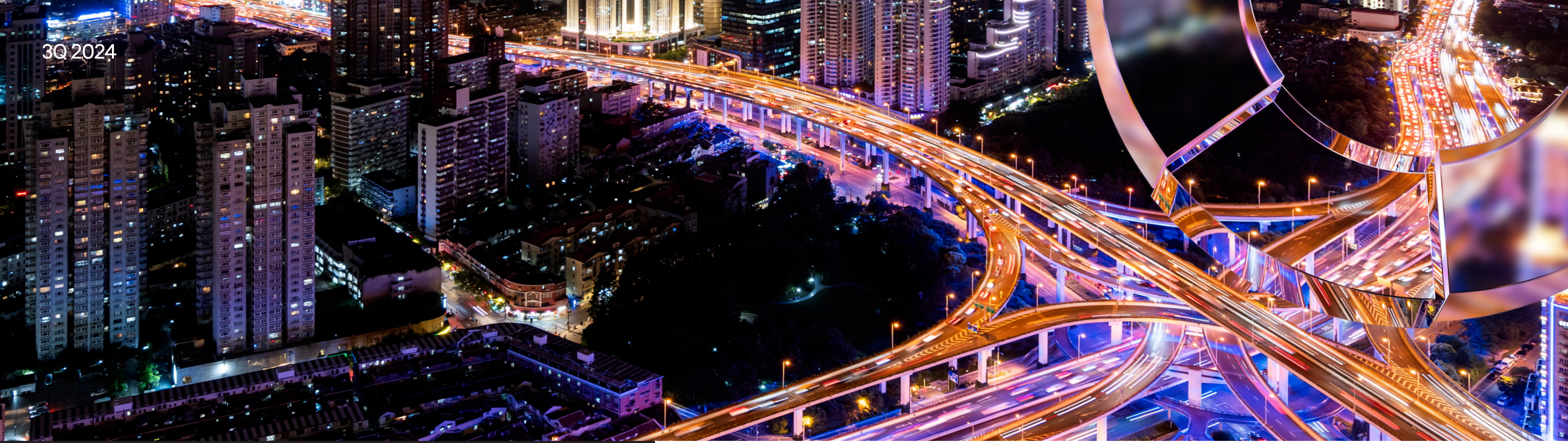


Contents

Global Equity Monitor

This monitor uses five charts from the *Guide to the Markets* to analyse the state of the global equity market and assess where opportunities, and risks, may lie.

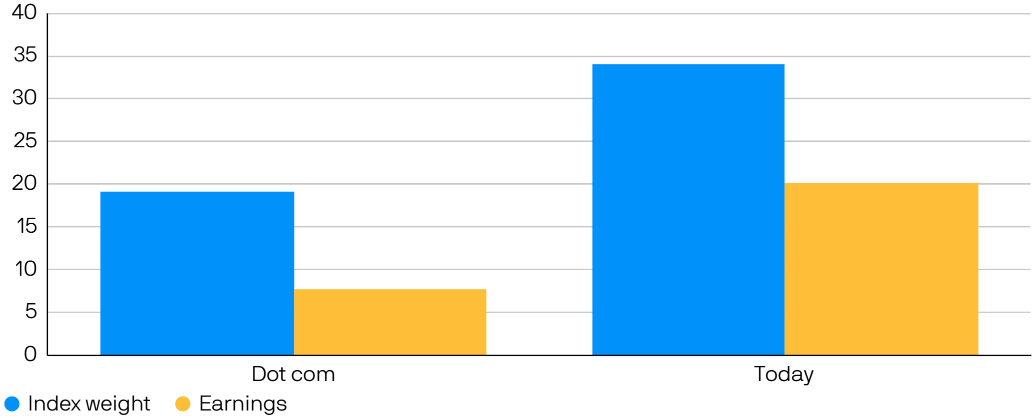
The MSCI World index of developed market equities has returned nearly 15% since the start of 2024. However, these returns remain largely driven by a handful of US stocks exposed to the theme of artificial intelligence. We believe a focus on recent winners risks missing out on gains elsewhere. By casting a wider net, investors can take advantage of historically wide levels of valuation dispersion, while also tapping into attractive sources of income to boost portfolio returns.

J.P.Morgan ASSET MANAGEMENT

1 – US megacaps have dominated markets

Contribution of largest seven 'tech' stocks to S&P 500

% contribution to S&P 500 market cap and trailing earnings



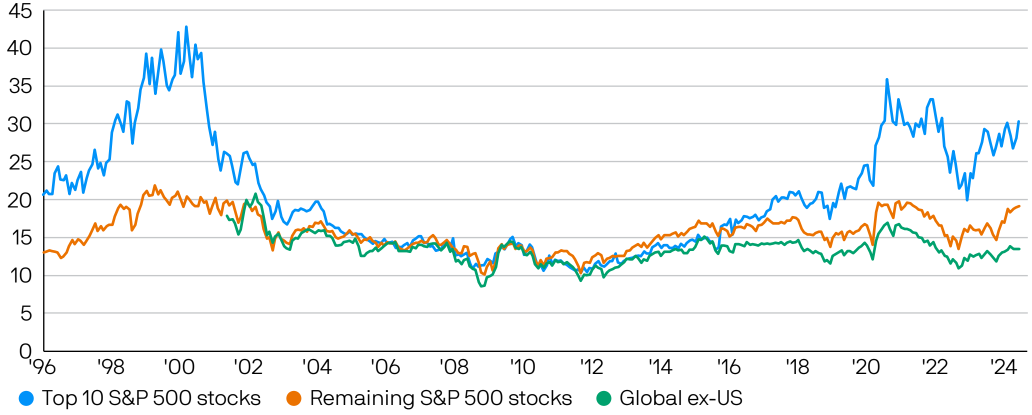
The US megacaps continued to dominate global equity markets over the second quarter. The Magnificent Seven set of stocks alone have contributed over 80% of S&P 500 returns since the start of 2023. It is important to note that today's market set-up is not the same as in the dotcom bubble – these megacap stocks have demonstrated their ability to generate strong earnings. However, given their strong performance, earnings expectations continue to rise, with consensus analyst forecasts now expecting earnings-per-share (EPS) growth for the Magnificent Seven stocks to reach 30% year on year, over 2024. As the bar to beat earnings forecasts ratchets higher, investors must ensure they are selective within the Magnificent Seven, by focusing on those stocks with continued earnings momentum – as well as taking care not to miss out on compelling opportunities elsewhere in equity markets.

Source: IBES, LSEG Datastream, S&P Global, J.P. Morgan Asset Management. Dot com represents the largest seven tech or tech-related firms in the S&P 500 by market cap, as of the dot com bubble peak in March 2000. We then show the same metrics for the 'Today' bars for the current largest seven tech or tech-related firms by market cap. Past performance is not a reliable indicator of current and future results. Data as of 30 June 2024.

2 – Valuation dispersion is high

Forward P/E ratios

x, multiple



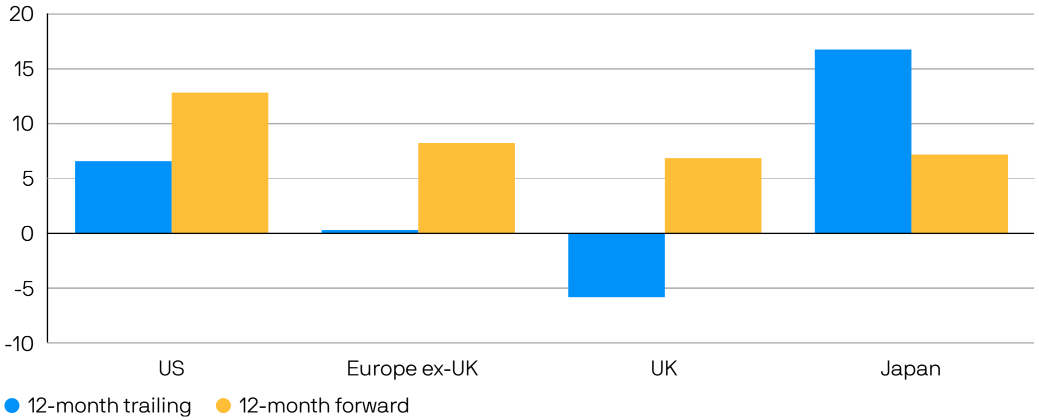
As the US megacaps have continued to outperform, their valuations have risen. The largest 10 stocks in the S&P 500 now trade on a multiple of 30x forward earnings, versus 19x for the rest of the S&P 500 index and 13x for the MSCI World ex-US index. European stocks now sit on a 36% valuation discount to the US market. This discount does not just represent differing sector composition, as every European sector now trades at an above-average discount to its US counterpart. And globally, while some sectors trade in line with, or below, their long-run average valuations (for example, communication services, financials and energy) others look more expensive compared to their own history (for example, tech and industrials). This regional and sector valuation dispersion likely reflects varying economic and industry backdrops over recent quarters. However, we see some of these factors shifting in the near term, suggesting a potential broadening of performance could be on the cards.

Source: FactSet, LSEG Datastream, MSCI, S&P Global, J.P. Morgan Asset Management. The top 10 S&P 500 stocks are the 10 largest S&P 500 index constituents at the start of each month. Past performance is not a reliable indicator of current and future results. Data as of 30 June 2024.

3 – Earnings growth is expected to broaden out

Regional earnings growth

% change year on year



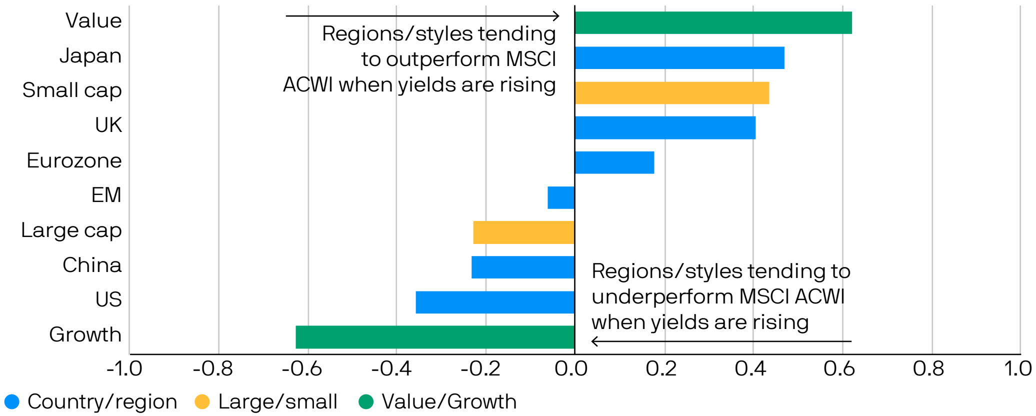
While recent equity performance has been dominated by a handful of stocks, analysts expect earnings growth to broaden out by region over the coming quarters, which should support a more even distribution of equity gains. This expectation reflects a broadening out of economic performance. For example, after a period of growth weakness, Europe looks to be at an earlier stage in the economic cycle than the US, with a rebound in real wage growth supporting consumer spending as inflation recedes. At the same time, anticipated interest rate cuts over the next 12 months should be particularly supportive for eurozone corporates, which are more dependent on bank lending. In Japan, the medium-term nominal growth picture is significantly improved, which should reinforce earnings growth. While yen appreciation remains a risk for export-oriented companies' earnings, tighter monetary policy would reflect sustained nominal growth, and could support more domestically oriented Japanese stocks.

Source: IBES, LSEG Datastream, MSCI, S&P Global, J.P. Morgan Asset Management. US: S&P 500; Europe ex-UK: MSCI Europe ex-UK; UK: FTSE All-Share; Japan: MSCI Japan. 12-month forward earnings data is as published by IBES. Past performance is not a reliable indicator of current and future results. Data as of 30 June 2024.

4 – 'Higher for longer' could shift the composition of equity returns

Correlation of regions and styles to US 10y Treasury yield

10y correlation of rel. performance with US 10y Treasury yield

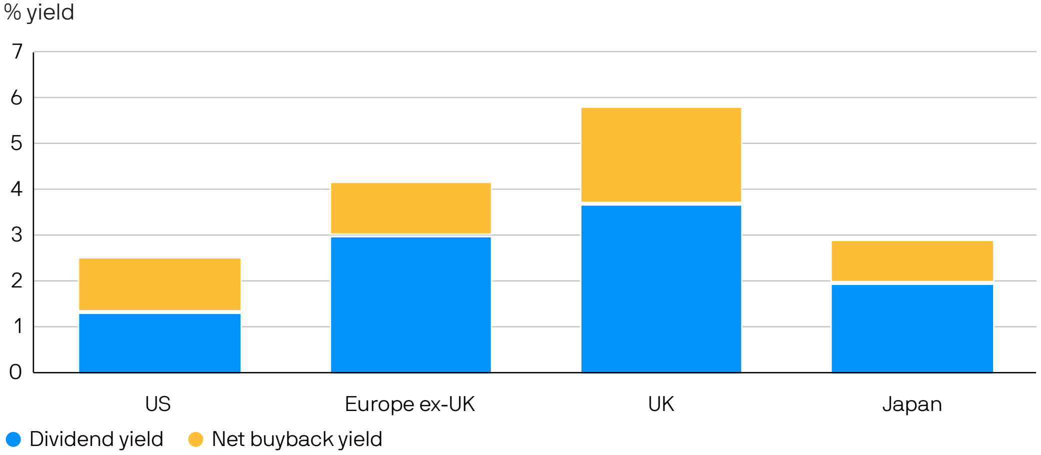


While western central banks are expected to reduce their policy rates over the next 12 months, rates are forecast to settle at levels much higher than seen in the 2010s. This outcome could lead to a shift in the composition of equity returns from the growth-dominated gains of the last decade. For example, financials' earnings should benefit from a combination of higher interest rates, and current economic and labour market resilience. If interest rates stay higher due to stronger levels of nominal growth, cyclical sectors should also fare better. Alongside higher average rates, inflation volatility may remain elevated in coming years, thanks to a combination of factors including climate change (impacting commodity prices), the energy transition and trade tensions. The result – a less reliably negative stock-bond correlation – makes the case for a less interest-rate sensitive portfolio. For example, when inflation spiked in 2022, the commodity-heavy UK equity market was one of the few markets to deliver positive total returns.

Source: LSEG Datastream, MSCI, J.P. Morgan Asset Management. Correlation is calculated between the six-month change in US 10-year Treasury yields and the six-month relative performance of each region and style to MSCI All-Country World Index. All indices used are MSCI. Value, Growth and size indices used are for the MSCI All-Country World universe. Past performance is not a reliable indicator of current and future results. Data as of 30 June 2024.

5 – Income is on offer globally

Buyback and dividend yields



Dividend payout ratios remain low globally, suggesting today's dividend levels can be sustained across regions. At the same time, buyback yields are elevated. Traditionally, US firms tended to return cash to shareholders via buybacks, whereas European firms offered dividends. Dividend yields today still reflect this trend, with European stocks offering 3%-4% yields on average. However, European firms are now also buying back their stock, as are corporates in other regions – meaning attractive levels of income are on offer to global equity investors. Income in equity portfolios can make total returns more resilient to price volatility, which is a useful characteristic in periods of elevated uncertainty. With elections a continued source of volatility over the second half of the year, investors may benefit from global exposure and an income buffer to help diversify their equity portfolios.

Source: Bloomberg, FTSE, LSEG Datastream, MSCI, S&P Global, Tokyo Stock Exchange, J.P. Morgan Asset Management. US: S&P 500; Europe ex-UK: MSCI Europe ex-UK; UK: FTSE 100; Japan: TOPIX. Chart shows yields for the last quarter in which buyback data is fully available. Net buyback yield adjusts for share issuance. Past performance is not a reliable indicator of current and future results. Data as of 30 June 2024.

Conclusion

Despite recent concentration in equity returns, we believe investors can find attractive opportunities more widely across global equity markets. Valuation dispersion is high, yet earnings growth is forecast to broaden out. 'Higher for longer' interest rates may also shift the composition of equity returns. Finally, global income-paying stocks can help make portfolios more resilient.

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