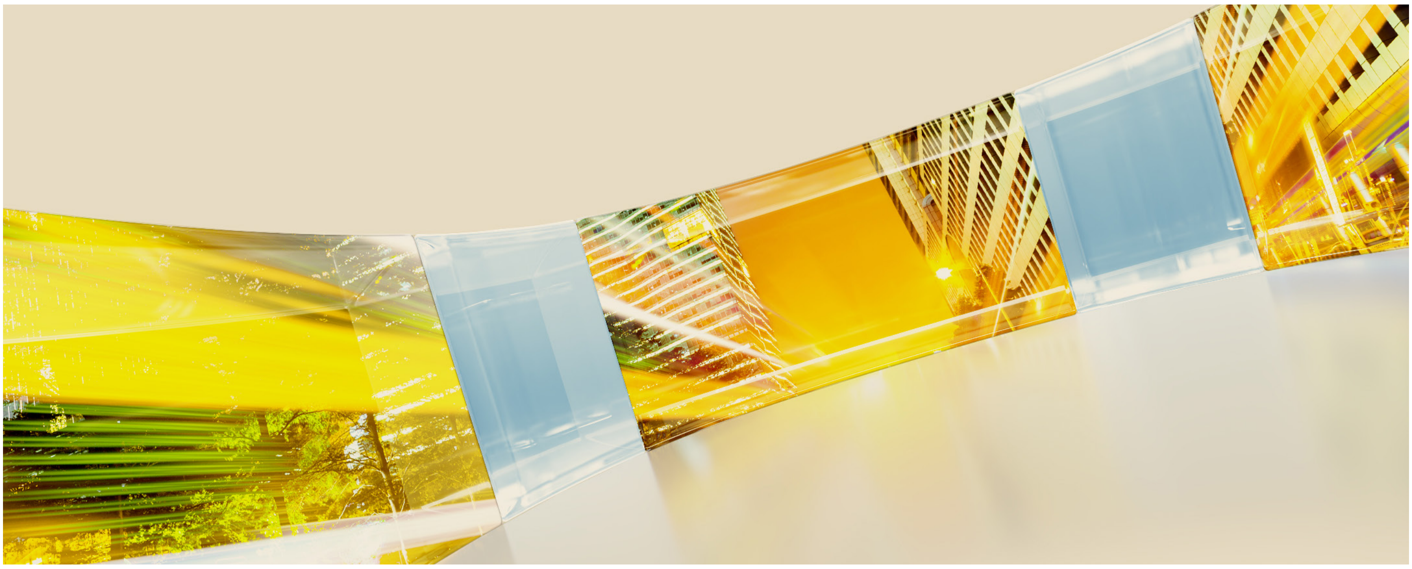
A confluence of cycles

How fixed income investors can strengthen their core with flexible bond strategies



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In brief

- Fixed income investors face an increasingly complex investment landscape as unique, once in a lifetime monetary, credit and fiscal cycles converge amid elevated geopolitical uncertainty and dynamic bond–equity correlations.
- The outlook for interest rates is uncertain, given contrasting expectations for the near-term and long-term effects of artificial intelligence (AI) on inflation, labour markets and the broader economy. ‘Fresh thinking’ at the US Federal Reserve under the leadership of newly appointed chair Kevin Warsh injects additional uncertainty, structurally increasing the potential for volatility across rates markets and curves.
- In credit markets, a fast-moving AI capex supercycle is driving record public and private debt issuance, accelerating dispersion into AI ‘winners and losers’, for each stage of the AI roll-out, and increasing the need for rigorous bottom-up credit analysis.
- A major fiscal shift is also underway, with governments running widening deficits even while growth remains resilient, potentially increasing curve volatility and dispersion across sovereigns, sectors and maturities as investors digest the extra supply.
- Fixed income investors can strengthen their core portfolio exposure by allocating to strategies that are managed without traditional benchmarks, providing nimbler and more flexible ways to capture opportunities and manage risks effectively.

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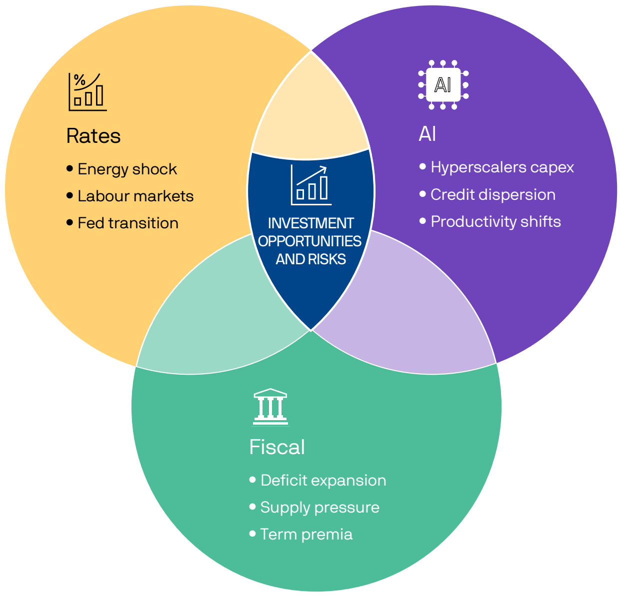
Fixed income investing in a confluence of cycles

Global markets are being shaped by a shifting outlook for interest rates, rapid AI adoption and fiscal expansion. This confluence of cycles is taking place against an increasingly complex geopolitical backdrop and dynamic bond-equity correlations. Together, these forces are creating a fast-changing investment environment with a wider-than-usual range of potential outcomes.

Exhibit 1: Interest rate, AI and fiscal cycles are colliding



Source: J.P. Morgan Asset Management.

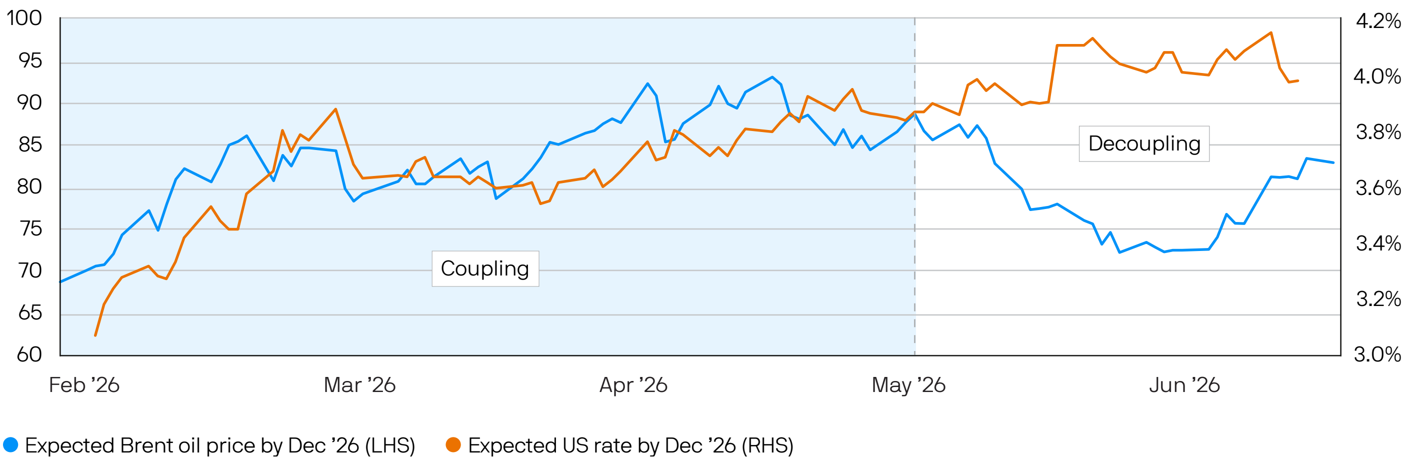
Policy rate cycle: Getting ready for paradigm shifts

The global economy has seen a step-function rise in political and geopolitical uncertainty. The onset of the Iran conflict pushed Brent above $126 per barrel on an intraday basis triggering a rapid hawkish repricing in central bank expectations away from the cuts that had been the base case. While energy prices subsequently fell from these initial highs, energy remains volatile, keeping central banks vigilant and rate markets highly sensitive to geopolitical developments. These geopolitical gyrations have also had ramifications for portfolio diversification, shifting bond-equity correlations and, at times, reducing the effectiveness of duration as a hedge for growth sensitive assets.

At the same time, newly appointed US Federal Reserve (Fed) chair Kevin Warsh is embracing 'fresh thinking' at the US central bank with the greatest impact on global financial conditions. Markets continue to be challenged in determining the Fed's reaction function, with initial perceptions of hawkishness abruptly shifting to dovishness following July's Federal Open Market Committee meeting, prompting the yield curve to twist-steepen. The post-meeting press conference appeared to leave more questions than answers, compounded by the deliberate absence of forward guidance. Warsh reiterated that "inflation remains elevated relative to the Committee's 2% goal," even as policy rates sit at levels widely viewed as restrictive relative to estimates of neutral.

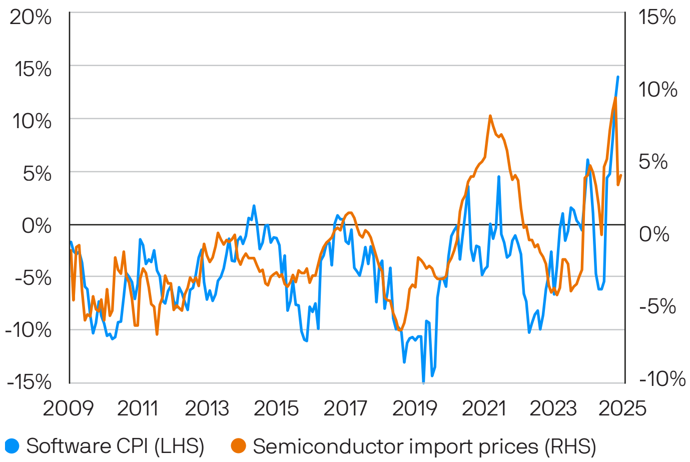
We expect those neutral rate assumptions to be tested as AI adoption reshapes productivity, labour-markets and inflation dynamics. Combined with Warsh's preference for less explicit forward guidance and a more opaque communication style, these factors could structurally raise volatility.

Exhibit 2: Short-dated bond prices exhibit a dynamic beta to oil prices during the Iran conflict



Source: Bloomberg. End of Day prices. Data as of 20 July 2026. Expected US rate is the three-month Secured Overnight Financing Rate futures.

Exhibit 3: AI is already starting to present in broad macro data, creating additional complexity for central banks



Source: Bloomberg; United States Bureau of Labor Statistics; United States Department of the Treasury; Bank of Korea. Data as of 31 May 2026. CPI: Consumer Price Index.

AI and credit cycle: Superscale, supercycle

The AI cycle is moving fast and has the hallmarks of a once-in-a-lifetime supercycle, impacting markets and the real economy in multiple ways. AI has expanded markedly beyond equity markets and is now raising questions about how the real economy raises, borrows and spends the huge amounts of money that is needed to build the physical infrastructure that AI requires.

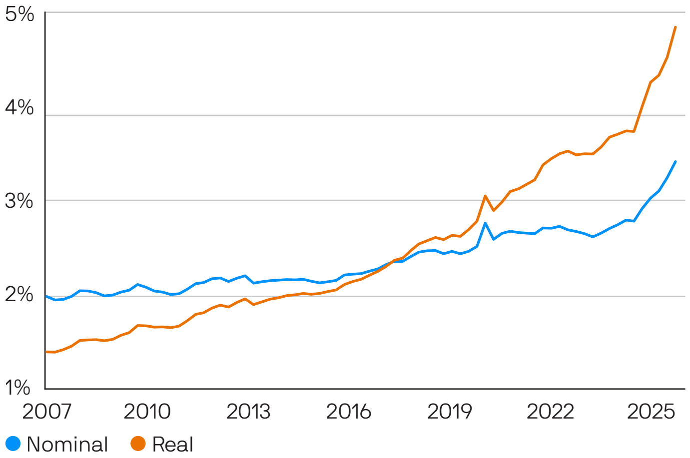
This rising capex need is driving a surge in bond supply and reshaping the credit cycle, as record issuance across public and private debt markets helps finance the investment wave. With some borrowing occurring outside traditional corporate debt markets, headline balance sheets are less informative, which means bottom-up credit analysis is essential to assess risks and identify opportunities across issuers and structures.

Capex as a share of GDP associated with the AI build-out is set to reach levels that are historically meaningful, with capex from the S&P 500 companies exceeding 6% of GDP in 2027. For fixed income investors, it will be critical to understand where capex will flow at different stages of the AI story, and which companies will be able to convert capex into earnings, rapidly leading to the emergence of 'winners and losers'. Software is a recent example of how quickly markets can start to separate perceived beneficiaries of AI from those seen to be at risk, reinforcing dispersion in fundamentals, ratings paths and credit spreads.

Investors should also weigh China's fast-emerging capabilities, underscored most recently by Moonshot AI's Kimi K3 narrowing the performance gap with leading US models, which could erode US technology dominance and pressure US AI leaders' ability to monetise AI at scale after heavy capex investment.

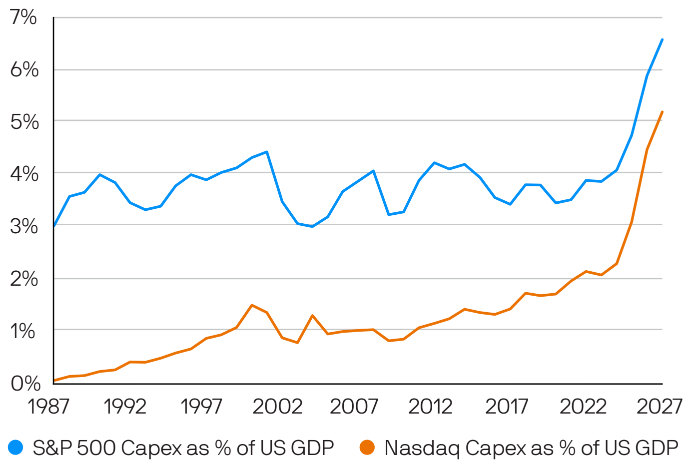
Also, from a broader macro perspective, AI could increase near-term inflation by driving demand for scarce resources such as microchips, data centres, energy, skilled labour and construction capacity. However, over longer time frames, broader AI adoption could lift productivity and reduce costs. Much will depend on the labour-market adjustment, adoption breadth and whether higher returns on capital lift the neutral level for rates, setting the market up for additional inflection points in the inflation outlook in ways that are difficult to predict today.

Exhibit 4: Tech's growing share of GDP boosted by AI



Source: United States Bureau of Labor Statistics; Bloomberg; United States Bureau of Economic Analysis. Data as of 31 May 2026.

Exhibit 5: Capital allocated towards the AI build-out is immense



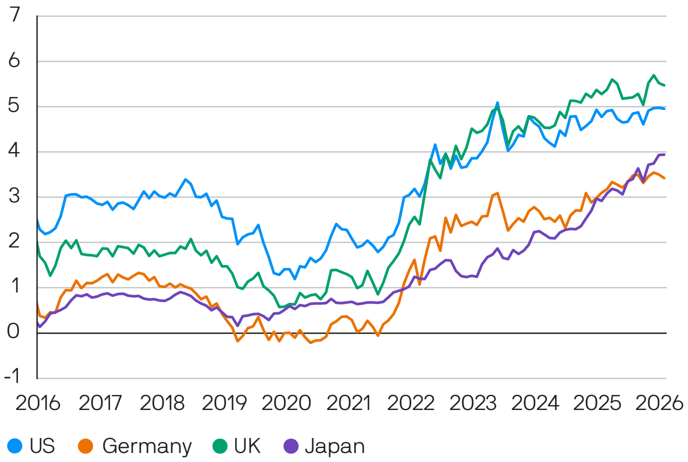
Source: Bloomberg; J.P. Morgan Asset Management; United States Bureau of Economic Analysis; United States Bureau of Labor Statistics; J.P. Morgan Commercial & Investment Bank. Data as of 31 May 2026. Capex: Capital Expenditures.

Fiscal cycle: Competing for capital

The fiscal cycle has shifted meaningfully, with deficits now unusually wide outside of a traditional recessionary backdrop as governments across the US, eurozone and Japan run larger borrowing programmes to fund energy security, border defence, technology and other strategic commitments. As public borrowing rises alongside increasing demand for private capital, governments are increasingly competing with the private sector's expanding investment needs.

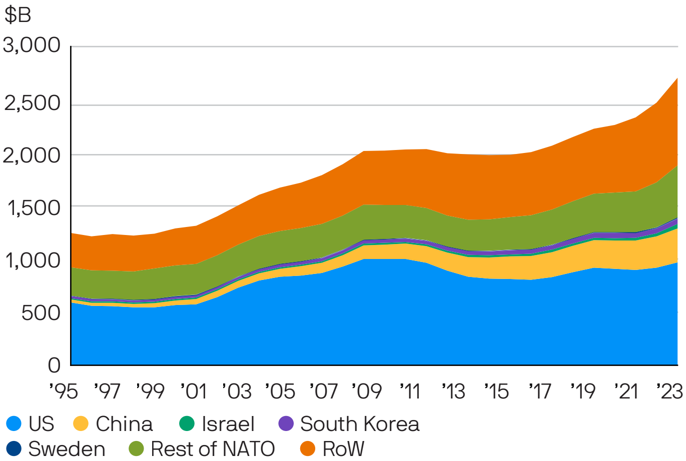
At the same time, central banks are no longer the reliable, price-insensitive buyers they were during the quantitative easing era. Lenders should be able to demand higher term premia, and greater compensation for duration and liquidity risk, particularly as perceptions of fiscal credibility evolve. The result is likely to be more attractive yields for bond owners, as well as more frequent bouts of volatility across interest rate markets and wider dispersion across sovereigns, credit sectors and maturities.

Exhibit 6: Rising 30-year yields partly reflect increased government bond supply expectations



Source: Bloomberg; data as of 30 June 2026.

Exhibit 7: Defence spending has been rising and is set to continue amid a volatile geopolitical backdrop



Source: SIPRI (2024).

How flexible fixed income strategies can work at the core of your portfolio

In this complex and fast-moving environment, it's essential to position fixed income portfolios for potential inflection points that may give rise to new sets of investment opportunities and risks. Investors need to be able to act with speed and flexibility to capture returns, generate income and manage risks more effectively. We believe adding allocations to nimble and flexible fixed income strategies, managed without static traditional benchmarks, can help investors meet this challenge.

Flexible fixed income strategies can be designed to seek income, maximise total return across the corporate credit spectrum (including investment grade and high yield) or more broadly across the fixed income universe, including off-benchmark sectors and securities.

By harnessing true diversification, in combination with flexibility and speed, these solutions can offer several advantages over traditional benchmarked fixed income strategies, particularly in this confluence of cycles. Exhibit 8 highlights some of the potential advantages of a representative flexible fixed income solution seeking total returns, investing across the entire fixed income universe.

Exhibit 8: Flexible fixed income characteristics

Four potential advantages vs. traditional Aggregate bond indices	
1. Higher returns: *Outperforms 94% of the time*	**2. Controlled volatility**: *Within 100bps pa of Global Aggregate index volatility 2/3 of the time*
3. More income: *Over 260bps higher yield*	**4. Lower drawdown**: *29% lower drawdown*
Aggregate bond-like exposure	
Average investment grade rated 70% of the time	
Duration 3-6 years 78% of the time	

Source: J.P. Morgan Asset Management, Bloomberg. As of 30 June 2026. Representative flexible fixed income solution is the JPM Global Bond Opportunities A (acc) – USD (ISIN: LU0867954264), selected as it has the longest available track record since inception on 22 February 2013. Metrics are based on monthly data since inception and are calculated gross of fees. Returns, maximum drawdown, average credit quality, duration and yield to maturity (YTM) are measured since inception. The aggregate bond index is represented by the Bloomberg Global Aggregate Total Return Index USD Hedged (Bloomberg ticker: LEGATRUH). 1. Using three-year rolling returns, annualised; 2. Using three-year rolling volatility, annualised; 3. Yield-to-maturity, calculated using monthly data; 4. Maximum drawdown, calculated using monthly returns. **Past performance and forecasts are not a reliable indicator of current and future results.**

Flexible fixed income solutions can be tightly risk managed, with emphasis placed on the stability and consistency of returns and volatility through the cycle. Such solutions tend to favour investment grade exposures through time. For example, the featured representative flexible fixed income solution has maintained an average investment grade rating for 70% of the time since its inception in 2013. However, they retain the flexibility to add more significant lower-rated exposure selectively at times when lower-rated securities may offer a superior source of risk-adjusted return or income potential.

The representative flexible fixed income strategy has presented an average investment grade rating for 70% of the time since its inception in February 2013 and has delivered a bond-like duration profile of 3-6 years 78% of the time, over the same period.

Building in the flexibility and speed to access fixed income opportunities when they arise

Today's dynamic fixed income backdrop presents opportunities and risks across the global fixed income spectrum as the rates, capex and fiscal cycles unfold.

In rates markets, the fast-moving Middle East backdrop has created tactical duration opportunities as oil-driven repricing has elevated rate volatility. These opportunities have been most evident in the front end of developed market curves thus far, where policy expectations have tended to become overly hawkish on the potential for inflation shocks relative to downside growth risks in more severe scenarios. Meanwhile prudent central bank action across select emerging markets has created opportunities to earn attractive real rates.

In credit, flexible fixed income portfolios can access the full breadth of AI-related issuance, including off-benchmark sectors and instruments, which can offer superior risk-adjusted return potential. Currently, attractive investment opportunities can be found in select utility hybrids and off-benchmark bonds linked to data centre construction. Crucially, unconstrained portfolios can also rotate exposure dynamically as the cycle unfolds and risk and opportunities evolve.

Finally, as markets are impacted by fiscal developments, flexible approaches are able to manage duration risk and volatility more freely across the whole portfolio, taking into account changing bond-equity correlations or adopting best idea curve positioning, without being beholden to, or constrained by, the static duration structure of benchmarks.

Overall, the current environment strongly argues for fixed income allocations that include flexible strategies, which are able to adjust duration, curve positioning and credit sector exposure dynamically without benchmark constraints, as the confluence of cycles evolves. These solutions can come in many shapes and sizes, seeking income, or returns, but all benefit from the flexibility to seek diversification and express best ideas more freely. Ultimately, we believe these solutions will enable fixed income investors to strengthen their core and get ahead of the cycle, wherever it may lead.

Performance of the Global Bond Opportunities Fund (%)

	2021	2022	2023	2024	2025
JPM A (acc) USD share class	0.76	-6.77	5.96	3.24	8.01
Bloomberg Multiverse Index (Hedged to USD)	-1.25	-11.17	7.36	3.64	5.08
Excess return (geometric)	2.04	4.95	-1.31	-0.39	2.78

Past performance and forecasts are not a reliable indicator of current and future results.
Source: J.P. Morgan Asset Management. Share class performance is shown based on the NAV (net asset value) of the above share class with income (gross of shareholder tax) reinvested including actual ongoing charges excluding any entry and exit fees. Performance over one year is annualised.

Investment objective and main risks

Investment objective

To achieve a return in excess of the benchmark by investing opportunistically in an unconstrained portfolio of debt securities and currencies, using derivatives where appropriate.

Main risks

The Sub-Fund is subject to **Investment risks** and **Other associated risks** from the techniques and securities it uses to seek to achieve its objective.

The table on the right explains how these risks relate to each other and the **Outcomes to the Shareholder** that could affect an investment in the Sub-Fund.

Investors should also read **risk descriptions** in the Prospectus for a full description of each risk.

Summary risk indicator

Lower risk **Higher risk**

1	2	3	4	5	6	7

The risk indicator assumes you keep the product for 5 year(s). The risk of the product may be significantly higher if held for less than the recommended holding period. In the UK, please refer to the synthetic risk and reward indicator in the latest available key investor information document.

Investment risks
Risks from the Sub-Fund's techniques and securities

Techniques
Concentration
Derivatives
Hedging
Short position

Securities
China
Contingent convertible bonds
Convertible securities
Debt securities
- Below investment grade debt
- Government debt
- Investment grade debt
- Unrated debt

Emerging markets
Equities
MBS/ABS

Other associated risks
Further risks the Sub-Fund is exposed to from its use of the techniques and securities above

Credit
Currency
Interest rate
Liquidity
Market

Outcomes to the shareholder
Potential impact of the risks above

Loss
Shareholders could lose some or all of their money

Volatility
Shares of the Sub-Fund will fluctuate in value.

Failure to meet the Sub-Fund's objective.

Benchmark uses and resemblance

The Fund is actively managed. The Benchmark is a Performance Comparator however the Fund will be managed without reference to its Benchmark. The Benchmark has been chosen as it reflects the main investment universe for the Fund.

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