

Global Asset Allocation Views

Insights and implications from the Multi-Asset Solutions Strategy Summit

Authors

John Bilton

Head of Global Multi-Asset Strategy,
Multi-Asset Solutions

Jeff Geller

Co-CIO, Americas,
Multi-Asset Solutions

Gary Herbert

Co-CIO, Americas,
Multi-Asset Solutions

Jed Laskowitz

CIO and Global Head of Asset
Management Solutions

David Lebovitz

Global Strategist,
Multi-Asset Solutions

Yaz Romahi

Chief Investment Officer,
Quantitative Solutions

Katy Thorneycroft

Head of Multi-Asset Solutions
International & CIO

In brief

- We expect moderate economic growth, declining inflation, and looser central bank policy this year.
- Our pro-risk stance in portfolios is expressed through overweights to equities and credit.
- We are neutral on duration due to potential range-bound trading.
- We underweight cash due to expectations for easier policy, which creates reinvestment risk.
- Equity markets present opportunities for alpha in sector/region selection.
- We favor U.S. cyclical sectors, Japan, and emerging markets (excluding China).
- Within fixed income, we prefer shorter-dated U.S. high yield, non-agency mortgages, and securitized credit.
- We have a positive outlook for risk assets overall, although there is the potential for a short-term consolidation in stocks.

The end of last year saw the Federal Reserve (Fed) finally pivot towards an easier policy stance – signaling that rate cuts were in the cards for 2024 – a view that was reinforced at the March meeting. As it has become clear that policy rates have likely peaked for this cycle, risk assets have performed well, with equities moving to all-time-highs and credit spreads approaching their cycle tights.

We anticipate U.S. real GDP growth of around 2% for 2024 – a touch above trend and in line with the current pace. Inflation is set to cool gradually, with headline CPI reaching the low 2s by year-end. This should in turn prompt the Fed to deliver two or three rate cuts this year, likely starting at the June meeting. Globally, we expect activity in Europe to pick up from a low base, offsetting the slight drag from moderating U.S. growth.

This environment supports a pro-risk stance. In our multi-asset portfolios, we overweight credit and equity. Meanwhile we are neutral duration as bonds will likely trade in a range, but the promise of rate cuts probably caps the risk of bond yields moving sharply higher.

With interest rates set to decline this year we underweight cash, managing the negative carry of this position through targeted trades in credit and FX. Differences in policy timing and growth rates across the globe also create meaningful relative value opportunities, as well as greater potential to capture security selection alpha via our end managers.

We acknowledge one key risk to this benign base case: inflation becomes “sticky” at current levels, or worse still, reaccelerates. This would give the Fed and other central banks reason to delay rate cuts, or in the very worst-case return to a more hawkish policy setting. While recent U.S. inflation prints surprised to the upside, we believe that the most important drivers of inflation, notably shelter, are trending lower. Nevertheless, we continue to closely watch labor markets for any signs of a pick-up in wage inflation which has, so far, remained muted.

As investors have repriced economic risk from looming recession to soft landing, the S&P 500 has rallied more than 1,000 points since October. While the business cycle probably has some way to run, the economy is not in early cycle. As a result, we expect more modest earnings growth and valuation expansion, but remain constructive on stocks over the intermediate term.

In the shorter run, it may be the case that technical momentum and excessive optimism over the pace of rate cuts could have pushed stocks a little too far, too fast. To be clear, we see ample room for positive earnings growth over the next year or two, but we also see signs that recent price momentum may fade. Thus, we slightly trim equity overweights, at the margin, with a view to using any consolidation to take risk up once again.

We continue to find attractive relative value and stock selection opportunities across equity markets and favor tilts toward high quality, cash compounding names.

The recent broadening of market leadership away from the mega-cap technology sector is encouraging for both the long-run market trend and the potential for active alpha. On a regional basis we prefer the U.S. and Japan, but we also note an improved outlook for emerging markets (EM) ex-China. While Europe offers some attractive stock selection opportunities, the region screens less well than some others.

Credit spreads have tightened in line with the rally in equity markets. But while the technical factors that drive equity markets look stretched, some of the key technical factors for credit — notably investor appetite for new supply — remain supportive. If equity markets consolidate, credit spreads may widen a little; but new issues are attracting strong demand and requiring limited concessions to investors. This suggests that credit will probably hold up well in our core economic scenario.

Returns from credit at this stage are likely to come mostly from coupon carry rather than spread tightening. The source of return may seem pedestrian, but in a portfolio context, credit can play an important role. Allocators can use credit to manage negative carry positions such as our underweight to cash. Within the credit complex, we favor shorter dated U.S. high yield, non-agency mortgages, and securitized credit.

The potential for riskless rates to fall as policy rates decline lends further support for credit and leads us to play duration from the long side. Ahead of the first Fed

Multi-Asset Solutions Key Insights & “Big Ideas”

The Key Insights and “Big Ideas” are discussed in depth at our Strategy Summit and collectively reflect the core views of the portfolio managers and research teams within Multi-Asset Solutions. They represent the common perspectives we come back to and regularly retest in all our asset allocation discussions. We use these “Big Ideas” as a way of sense-checking our portfolio tilts and ensuring they are reflected in all of our portfolios.

- Growth resilient as U.S. cools while EU, Asia improve; fading recession risk
- Broad policy rate cuts begin mid-year as inflation moderates
- Rangebound yields support a neutral stance on duration
- Fading recession risk makes credit compelling; limited scope for spread compression but carry very attractive
- Further upside for equities in intermediate term underpinned by earnings
- Prefer U.S. equity, given quality and cash generation, and Japan given rerating potential
- Key risks: Inflation or wages reaccelerate leading to hawkish policy, corporate caution, sharp tightening of credit conditions

cut we see the 10-year U.S. Treasury trading between 3.75% and 4.50%. That said, despite recent price action taking us to the top end of this range, we remain neutral on duration, as the carry penalty of 17 bps per year is offset by just a 25 bps rally in yields.

We do not anticipate a sharp dip in U.S. yields, absent a significant weakening of growth. Instead, we see more opportunity in relative value positions in government bonds, alongside more actively trading the ranges. We prefer the U.S., core and peripheral eurozone, and Australia; Canada and Japan are our favored underweights.

Policy rates of 5.5% in USD and 4% in Europe continue to encourage some investors to consider simply sitting in cash. This is far from a riskless trade. True, holding cash does avoid some elements of market risk. But at the same time a cash position carries significant reinvestment risk. We believe that given good opportunities for both beta and alpha in all the main asset classes, cash becomes a default underweight — though it is critical to manage the associated negative carry.

As policy rates begin to fall around mid-year, we also anticipate that rates volatility will decline further. Volatility in other asset markets is already in line with average levels observed during economic expansions. While we could see short-lived spikes in volatility should stocks consolidate, we believe that cross-asset volatility will remain generally subdued this year.

Together with further declines in inflation, this volatility environment also suggests that cross-asset correlations could fall modestly. Although we do not foresee a reversion to negative stock-bond correlation, any dip in correlation will further strengthen diversification opportunities for asset allocators.

In sum, an environment of moderating growth and inflation, policy rate cuts and continued low volatility supports a risk-on stance. As any investor will attest, markets can overextend at times, and in the short term we may see some evidence of this pattern in stocks. Nevertheless, we maintain high conviction that we are in an environment that is broadly supportive for risk taking, and so continue to look for opportunities to add to positions on any consolidation.

Active allocation views

These asset class views apply to a 6- to 12-month horizon. Up/down arrows indicate a positive (▲) or negative (▼) change in view since the prior quarterly Strategy Summit. These views should not be construed as a recommended portfolio. This summary of our individual asset class views indicates strength of conviction and relative preferences across a broad-based range of assets but is independent of portfolio construction considerations.

Asset class		Opportunity set		UW	N	OW	Change	Conviction		● Underweight	● Neutral	● Overweight
Main asset classes	Equities	○	○	●				Moderate	Resilient and broadening growth support earnings, multiples look high but likely boosted by easier monetary conditions			
	Duration	○	●	○	▼				Peak in yields behind us but sticky inflation is a risk; a shallow cutting cycle means yields may decline slowly; expect a tight range to hold			
	Credit	○	○	●				Moderate	Carry attractive in base case and fading recession risks; not expecting much spread tightening			
	Cash	●	○	○				High	Cash returns set to fall as cutting cycle begins; long-term USD rates likely closer to 3% than 5.5%			
Preference by asset class	Equities	U.S. large cap	○	○	●			Moderate	Resilient nominal growth helps revenues, valuations supported by Fed cutting cycle; growth exposure a benefit; watch for momentum loss			
		U.S. small cap	○	●	○				Outlook improving as recession risk fades, but favor profitable firms with low leverage, given elevated financing rates			
		Europe	○	●	○	▲			Macro data stabilizing in Europe, but valuations and margins above pre-COVID levels			
		UK	○	●	○	▼			Cheap, defensive market with a positive gearing to commodities but has lacked a catalyst			
		Japan	○	○	●			Moderate	Room to run further, given solid nominal GDP growth, corporate governance reform driving up ROE and light positioning			
		China	●	○	○	▼	Low		Domestic growth and property sector remain weak, with limited signs of policy support or a convincing turn in earnings			
		EM ex-China	○	○	●	▲	Low		Improving due to better semiconductor cycle, with earnings outlook showing signs of bottoming; has started to price this in			
	Fixed income	U.S. Treasuries	○	●	○	▼			Yield curve likely to steepen as Fed cuts; UST 10y caught in a range, and with reduced recession risk the scope for a strong bond rally is limited			
		G4 ex-U.S. sovereigns	○	●	○				Non-U.S. duration exposure could benefit if growth remains soft and CBs cut more than expected; BoJ tightening may see JGB yields retest 100bps			
		EMD hard currency	○	●	○				Spreads near 350bps back to early 2022 levels; prefer carry in developed market IG, but EMD HY can tighten if growth improves			
		EMD local FX	○	○	●	▲	Low		Yields >6% are still elevated vs. early 2021 lows; room for FX appreciation based on narrowing rate and growth differentials			
		Corporate investment grade	○	●	○				Spreads are tight and show limited room for further decline; moderate benefit relative to all-in sovereign yields			
		Corporate high yield	○	○	●			High	Limited scope for spread tightening but fundamentals supportive; low recession risk should keep defaults in check, carry looks attractive			
	Currency	USD	○	●	○	▲			Growth and rate differentials may not narrow as much as expected, preventing material decline in USD			
		EUR	○	○	●			Low	Market pricing ECB policy to ease in line with Fed, bottoming growth and upside risk could lend support to EUR			
		JPY	○	●	○	▼			Modest strengthening of JPY plausible as macro improves and BoJ continues gradual policy normalization			
		CHF	●	○	○	▼	Low		SNB leading DM central banks in the easing cycle; softer growth projections, and less intervention could lead to CHF weakness			

Source: J.P. Morgan Asset Management Multi-Asset Solutions; assessments are made using data and information up to March 2024. For illustrative purposes only.

Diversification does not guarantee investment returns and does not eliminate the risk of loss. Diversification among investment options and asset classes may help to reduce overall volatility.

Multi-Asset Solutions

J.P. Morgan Multi-Asset Solutions manages over USD 242 billion in assets and draws upon the unparalleled breadth and depth of expertise and investment capabilities of the organization. Our asset allocation research and insights are the foundation of our investment process, which is supported by a global research team of 20-plus dedicated research professionals with decades of combined experience in a diverse range of disciplines.

As of December 31, 2023.

Multi-Asset Solutions' asset allocation views are the product of a rigorous and disciplined process that integrates:

- Qualitative insights that encompass macro-thematic insights, business-cycle views and systematic and irregular market opportunities
- Quantitative analysis that considers market inefficiencies, intra- and cross-asset class models, relative value and market directional strategies
- Strategy Summits and ongoing dialogue in which research and investor teams debate, challenge and develop the firm's asset allocation views

For the purposes of MiFID II, the JPM Market Insights and Portfolio Insights programs are marketing communications and are not in scope for any MiFID II/MiFIR requirements specifically related to investment research. Furthermore, the J.P. Morgan Asset Management Market Insights and Portfolio Insights programs, as non-independent research, have not been prepared in accordance with legal requirements designed to promote the independence of investment research, nor are they subject to any prohibition on dealing ahead of the dissemination of investment research.

This document is a general communication being provided for informational purposes only. It is educational in nature and not designed to be taken as advice or a recommendation for any specific investment product, strategy, plan feature or other purpose in any jurisdiction, nor is it a commitment from J.P. Morgan Asset Management or any of its subsidiaries to participate in any of the transactions mentioned herein. Any examples used are generic, hypothetical and for illustration purposes only. This material does not contain sufficient information to support an investment decision and it should not be relied upon by you in evaluating the merits of investing in any securities or products. In addition, users should make an independent assessment of the legal, regulatory, tax, credit, and accounting implications and determine, together with their own financial professional, if any investment mentioned herein is believed to be appropriate to their personal goals. Investors should ensure that they obtain all available relevant information before making any investment. Any forecasts, figures, opinions or investment techniques and strategies set out are for information purposes only, based on certain assumptions and current market conditions and are subject to change without prior notice. All information presented herein is considered to be accurate at the time of production, but no warranty of accuracy is given and no liability in respect of any error or omission is accepted. It should be noted that investment involves risks, the value of investments and the income from them may fluctuate in accordance with market conditions and taxation agreements and investors may not get back the full amount invested. Both past performance and yields are not reliable indicators of current and future results. J.P. Morgan Asset Management is the brand for the asset management business of JPMorgan Chase & Co. and its affiliates worldwide.

To the extent permitted by applicable law, we may record telephone calls and monitor electronic communications to comply with our legal and regulatory obligations and internal policies. Personal data will be collected, stored and processed by J.P. Morgan Asset Management in accordance with our privacy policies at <https://am.jpmorgan.com/global/privacy>.

This communication is issued by the following entities: In the United States, by J.P. Morgan Investment Management Inc. or J.P. Morgan Alternative

Next steps

For more information, please contact your J.P. Morgan representative.

Asset Management, Inc., both regulated by the Securities and Exchange Commission; in Latin America, for intended recipients' use only, by local J.P. Morgan entities, as the case may be.; in Canada, for institutional clients' use only, by JPMorgan Asset Management (Canada) Inc., which is a registered Portfolio Manager and Exempt Market Dealer in all Canadian provinces and territories except the Yukon and is also registered as an Investment Fund Manager in British Columbia, Ontario, Quebec and Newfoundland and Labrador. In the United Kingdom, by JPMorgan Asset Management (UK) Limited, which is authorized and regulated by the Financial Conduct Authority; in other European jurisdictions, by JPMorgan Asset Management (Europe) S.a r.l. In Asia Pacific ("APAC"), by the following issuing entities and in the respective jurisdictions in which they are primarily regulated: JPMorgan Asset Management (Asia Pacific) Limited, or JPMorgan Funds (Asia) Limited, or JPMorgan Asset Management Real Assets (Asia) Limited, each of which is regulated by the Securities and Futures Commission of Hong Kong; JPMorgan Asset Management (Singapore) Limited (Co. Reg. No. 197601586K), which this advertisement or publication has not been reviewed by the Monetary Authority of Singapore; JPMorgan Asset Management (Taiwan) Limited; JPMorgan Asset Management (Japan) Limited, which is a member of the Investment Trusts Association, Japan, the Japan Investment Advisers Association, Type 11 Financial Instruments Firms Association and the Japan Securities Dealers Association and is regulated by the Financial Services Agency (registration number "Kanta Local Finance Bureau (Financial Instruments Firm) No. 330"); in Australia, to wholesale clients only as defined in section 761A and 761G of the Corporations Act 2001 (Commonwealth), by JPMorgan Asset Management (Australia) Limited (ABN 55143832080) (AFSL 376919). For all other markets in APAC, to intended recipients only.

JPMorgan Distribution Services, Inc., member FINRA.

For United States only: If you are a person with a disability and need additional support in viewing the material, please call us at 1-800-343-1113 for assistance.

© 2024 JPMorgan Chase & Co. All rights reserved.

PROD-0324-2650224-AM-PI-GAAV-2Q24 | 0903c02a81cef736