SECURE 2.0 view from Washington
SECURE 2.0 Act Overview

92 Different Changes in Retirement Laws. Effective dates range from 2022 to 2028

Big Changes for Catch Up Contributions

Mandatory Roth Catch Up Contributions for Employer Sponsored Plans (effective 2024)
- All catch up contributions to 401(k), 403(b) and 457(b) plans must be Roth contributions.
- Applies to all taxpayers except when prior year wages did not exceed $145,000
- Why Roth? This Roth language raises revenue to pay for the new law

Higher Catch-Up Contribution Limit for Ages 60 – 63 (effective 2025)
- New limits for individual contributions to an employer’s 401(k), 403(b), or 457(b) plan for age 60-63
- New limit is greater of $10,000 or 50% more than the 2023 limit
  - Current law is $7,500 for individuals at age 50 and older
- All IRA catch up limits are increased for inflation
SECURE 2.0 Act Overview

Notable sections in the new law

<table>
<thead>
<tr>
<th>Qualified Charitable Distribution (effective 2023)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Individuals over age 70 ½ may elect a <strong>one-time</strong> gift up to $50,000 to a charitable remainder annuity trust, charitable gift annuity or charitable remainder unitrust. This will count toward the annual RMD. Gift must come directly from the IRA before the end of the calendar year</td>
</tr>
<tr>
<td>• Expands list of charitable trust options from prior law</td>
</tr>
<tr>
<td>• Current law allowing $100,000 in annual charitable gift distributions will be indexed for inflation</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>529 Plans (effective 2024)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• 529 Assets can be rolled into a Roth IRA for the 529 account beneficiary</td>
</tr>
<tr>
<td>• Aggregate lifetime limit of $35,000</td>
</tr>
<tr>
<td>• Fund must have been in existence for 15 years</td>
</tr>
<tr>
<td>• The rollover is treated as a contribution toward the Roth IRA contribution limit</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Student Loan / Retirement Fund Matching (effective 2024)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Employer can make matching contributions under a 401(k), 403(b), 457(b) or SIMPLE IRA to match a qualified student loan payment</td>
</tr>
</tbody>
</table>
SECURE 2.0 Act Overview

Participant Distributions – Required Minimum Distributions Ages Shifts Gradually
- 70½ for those who reach age 70½ before 2020
- 72 for those who reach age 70½ after 2019 and reach age 72 before 2023,
- 73 for those who reach age 72 after 2022 and reach age 73 before 2033, and
- 75 for those who reach age 74 after 2032

RMD Penalty Relief (effective 2023)
- If RMD is not taken, excise tax penalty is reduced to 25%
- Penalty reduced to 10% if correction is made within two years of the end of the taxable year

Penalty Free Early Distributions and New Loan Programs
- $1,000 emergency withdrawal / $2,500 plan linked emergency savings (Effective 2024)
- Domestic abuse (Effective 2024)
- Terminal illness (Effective 2023)
- Payment of long-term care insurance premiums (up to $2,500) (Effective 2023)
- Qualifying disasters if principal residence is part of a federally declared disaster
  - <$22,000 withdrawal permitted
  - Borrowing permitted up to $100,000
SECURE 2.0 Act – The Challenges

The retirement sector need certainty to implement SECURE 2.0, a process which requires many months

The process is slow, including efforts from the government
• Note: SECURE 1.0 became law on December 20, 2019. Final RMD rules are still not complete

Treasury and the IRS must issue guidance to help with SECURE 2.0 implementation
• Treasury and the IRS are still accepting comments from the industry
• They will still need to time for review the comments before they can issue any documents

Only Congress can solve technical problems with some of the new provisions in the law
• “Technical fix” legislation expected to be introduced soon but chance of passage is unclear

Timing is short! Guidance in Q4 still may not allow enough time for the industry to prepare for January 1
SECURE 2.0 Act – The Challenges

Guidance is needed from Treasury and the IRS in other key areas

Charitable Distributions
- Treasury needs to provide clarifying language about how the existing laws that allow $100,000 in annual charitable gift distributions interact with the new law that allows a one-time gift up to $50,000 to a charitable remainder annuity trust, charitable gift annuity or charitable remainder unitrust
- It is unlikely that Congress intended to have the $50,000 one-time gift count against the $100,000 annual limit, but Treasury needs to clarify this point

Student Loan Payments
- Employers can now make matching contributions under a 401(k), 403(b), 457(b) plan or SIMPLE IRA plan for a qualified student loan payment
- All employees must be eligible
- Unclear if the plan must be consistent across multiple employers or business lines that share a plan
# SECURE 2.0 Act – The Challenges

Unclear if Congress has a path to pass legislation to make technical fixes to SECURE 2.0

<table>
<thead>
<tr>
<th>Catch Up Contributions – Are They Still Allowed?</th>
</tr>
</thead>
<tbody>
<tr>
<td>• “Congress did not intend to disallow catch-up contributions nor to modify how the catch-up contribution rules apply to employees who participate in plans of unrelated employers, … “Rather, Congress’s intent was to require catch-up contributions for participants whose wages from the employer sponsoring the plan exceeded $145,000 for the preceding year to be made on a Roth basis and to permit other participants to make catch-up contributions on either a pre-tax or a Roth basis.” - May 2023 Letter from Congressional Leaders to Treasury and the IRS</td>
</tr>
</tbody>
</table>

Congress deleted the language in the law. Can they pass legislation to fix this?
SECURE 2.0 Act – The Challenges

The pressure is on Treasury and IRS to delay new catch-up contribution rules

Catch Up Contributions – The New Roth Problem

Many plans will not be able to comply with the new requirement to make all catch-up contributions for workers who earned over $145,000 on a Roth basis
  • Payroll systems don’t talk to retirement plan recordkeeper systems
  • Some plans don’t offer any Roth feature and will need to update their plan documents
  • Collectively bargained plans are more difficult to amend

Unclear if a plan may require all catch-up contributions to be made on a Roth basis

Unclear if a plan may limit catch-up contributions to participants who earned less than $145,000 last year

Can Treasury guidance allow employers to recharacterize contributions at a later date?

The industry is requesting a 2-year delay from Treasury and the IRS to this section of the law
### SECURE 2.0 Act - The Chance for SECURE 3.0?

**Hope for Interim Relief?**
- Watching for IRS and Treasury notices that reasonable, good faith compliance constitutes compliance with the new SECURE 2.0 Act rules

**When will Congress Act?**
- Congress will focus on technical changes to SECURE 2.0 before focusing on the next big legislative plan
- Fixing the new catch-up contribution rules are a bipartisan priority
- An end of year appropriations omnibus package could be a legislative vehicle for technical fixes
- The 2025 expiration of the Tax Cuts & Jobs Act will open a longer-term path to change tax laws and opens a door to retirement legislation in the next session of Congress

**What legislation could be next?**
- Clarify securities laws to allow 403(b) plans to invest in Collective Investment Trusts
  - Legislation is pending in the House Financial Services Committee (note: committee jurisdiction is not the same as retirement legislation)
- New mandates to offer employer sponsored plans
  - The SECURE 2.0 makes changes in this area, but many legislative proposals go further
Market and Economic Update

Market Insights
Cyclical sectors

Residential investment as a % of GDP
Quarterly, seasonally adjusted

Business fixed investment as a % of GDP
Quarterly, seasonally adjusted

Light vehicle sales
Mil vehicles, seasonally adjusted ann. rate

Total business inventory/sales ratio
Days of sales, monthly, seasonally adjusted

Source: BEA, Census Bureau, FactSet, J.P. Morgan Asset Management. Data for light vehicle sales is quarterly apart from the latest monthly data point.

Inflation components

Contributors to headline CPI inflation
Contribution to y/y % change in CPI, non-seasonally adjusted

<table>
<thead>
<tr>
<th>Month</th>
<th>Energy</th>
<th>New and used vehicles</th>
<th>Other</th>
<th>Food at home</th>
<th>Restaurants, hotels and transp.</th>
<th>Shelter</th>
</tr>
</thead>
<tbody>
<tr>
<td>May '22</td>
<td>8.6%</td>
<td>9.1%</td>
<td>8.5%</td>
<td>8.3%</td>
<td>8.2%</td>
<td>7.7%</td>
</tr>
<tr>
<td>Jul '22</td>
<td>8.6%</td>
<td>9.1%</td>
<td>8.5%</td>
<td>8.3%</td>
<td>8.2%</td>
<td>7.1%</td>
</tr>
<tr>
<td>Sep '22</td>
<td>8.6%</td>
<td>9.1%</td>
<td>8.5%</td>
<td>8.3%</td>
<td>8.2%</td>
<td>6.5%</td>
</tr>
<tr>
<td>Nov '22</td>
<td>8.6%</td>
<td>9.1%</td>
<td>8.5%</td>
<td>8.3%</td>
<td>8.2%</td>
<td>6.4%</td>
</tr>
<tr>
<td>Jan '23</td>
<td>8.6%</td>
<td>9.1%</td>
<td>8.5%</td>
<td>8.3%</td>
<td>8.2%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Mar '23</td>
<td>8.6%</td>
<td>9.1%</td>
<td>8.5%</td>
<td>8.3%</td>
<td>8.2%</td>
<td>5.0%</td>
</tr>
<tr>
<td>May '23</td>
<td>8.6%</td>
<td>9.1%</td>
<td>8.5%</td>
<td>8.3%</td>
<td>8.2%</td>
<td>4.9%</td>
</tr>
</tbody>
</table>

Source: Bureau of Labor Statistics, FactSet, J.P. Morgan Asset Management. Contributions mirror the BLS methodology on Table 7 of the CPI report. Values may not sum to headline CPI figures due to rounding and underlying calculations.

Contributors to core services ex-shelter CPI inflation*
Contribution to y/y % change in custom CPI index, non-seasonally adj.

<table>
<thead>
<tr>
<th>Month</th>
<th>Other services</th>
<th>Education and comm. services</th>
<th>Recreation services</th>
<th>Airline fares</th>
<th>Transportation services (ex-airfares)</th>
<th>Medical services</th>
</tr>
</thead>
<tbody>
<tr>
<td>May '22</td>
<td>4.6%</td>
<td>4.0%</td>
<td>5.7%</td>
<td>6.0%</td>
<td>4.9%</td>
<td>5.9%</td>
</tr>
<tr>
<td>Jul '22</td>
<td>5.5%</td>
<td>5.3%</td>
<td>5.7%</td>
<td>6.0%</td>
<td>4.9%</td>
<td>5.9%</td>
</tr>
<tr>
<td>Sep '22</td>
<td>5.5%</td>
<td>5.3%</td>
<td>5.7%</td>
<td>6.0%</td>
<td>4.9%</td>
<td>5.9%</td>
</tr>
<tr>
<td>Nov '22</td>
<td>5.5%</td>
<td>5.3%</td>
<td>5.7%</td>
<td>6.0%</td>
<td>4.9%</td>
<td>5.9%</td>
</tr>
<tr>
<td>Jan '23</td>
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<td>5.3%</td>
<td>5.7%</td>
<td>6.0%</td>
<td>4.9%</td>
<td>5.9%</td>
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<td>Mar '23</td>
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<td>5.3%</td>
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<td>6.0%</td>
<td>4.9%</td>
<td>5.9%</td>
</tr>
<tr>
<td>May '23</td>
<td>5.5%</td>
<td>5.3%</td>
<td>5.7%</td>
<td>6.0%</td>
<td>4.9%</td>
<td>5.9%</td>
</tr>
</tbody>
</table>

*Core services ex-shelter CPI is a custom index using CPI components created by J.P. Morgan Asset Management. Left: "Shelter" includes owners’ equivalent rent and rent of primary residence; "Other" primarily reflects household furnishings, apparel, education and communication services, medical care services and other personal services. Right: "Transportation services" primarily includes leased cars and trucks, motor vehicle insurance and motor vehicle maintenance and repair. Airline fares are broken out from transportation services.

## Economic scorecard

<table>
<thead>
<tr>
<th>Growth</th>
<th>The economy grew at a 2.0% annual rate in 1Q23, a deceleration compared to 4Q22’s 6% pace. Consumption, exports and government spending all looked strong, growing at annual rates of 4.2%, 7.8% and 5.0%, respectively. However, most of the consumption gains can be attributed to a strong January. These gains were partially offset by decreases in private inventory and residential fixed investment. Notably, a sharp decline in equipment spending indicated a slowdown in business investment spending. Moving forward, the economy should continue to grow at a tempered pace but growth will be increasingly sensitive to risks.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jobs</td>
<td>The labor market has been a consistent bright spot in the economy during this cycle, but there are signs of softening. The economy has been adding jobs at a robust pace, but that trend has slowed over the past year and should continue to do so as aging demographics limit labor supply growth. Moreover, after remaining range-bound near historic lows, the unemployment rate rose 0.3% to 3.7% in May, which may reflect the early impact of cooling labor demand on employment. Looking ahead, we believe that recent increases in layoff announcements and unemployment claims portend weaker jobs reports and slower wage growth in the months to come.</td>
</tr>
<tr>
<td>Profits</td>
<td>After contracting in 2022, corporate profits started off 2023 better-than-expected, with 1Q23 S&amp;P 500 operating EPS rising 6.4% y/y and 4.3% q/q. Companies had success in defending margins, as profit margins bounced to 11.7%. In total, 70% of companies beat earnings expectations while 66% beat revenue expectations. Management commentary referenced intentions to rein in capital expenditures to further protect margins, although cuts will not be evenly distributed across sectors. Moving forward, earning expectations likely remain too high, and heightened risk of recession in the coming year should put earnings estimates under further pressure.</td>
</tr>
<tr>
<td>Inflation</td>
<td>The sustained inflation downtrend is still intact, although some core components of inflation have been slower to decline. Most recently, consumer prices rose just 0.1% m/m in May and 0.4% m/m when excluding food and energy. This translates to annual headline and core inflation rates of 4.0% and 5.3%, respectively. Moderation in energy and most core goods categories have dominated the softness, reflecting improvement in supply chains, inventory growth and softer consumer demand. That said, a temporary spike in used car prices pushed core goods inflation higher in 2Q. Core services inflation has held firm due to stickiness in shelter and transportation services. Specifically, Fed Chairman Powell has honed in on core services ex-housing PCE inflation, which remained elevated at 4.6% y/y in May. Still, we expect services prices will soon decline to reflect easing wage pressures and improving supply chains.</td>
</tr>
<tr>
<td>Rates</td>
<td>Despite signs that the labor market and inflation are easing, the Fed indicated they need further evidence that inflation is under control before changing their monetary policy stance. At its June meeting, the FOMC left rates unchanged at a range of 5.00%-5.25%, after delivering 500bps of cumulative tightening since March 2022. The Fed’s messaging was decisively hawkish and the median expectation for the terminal rate rose to 5.6%, implying two more hikes this year. Revisions to the Summary of Economic Projections reflected expectations of a more resilient economy with faster growth, lower unemployment and higher inflation. In light of the Fed’s continued hawkishness, market expectations have become more in-line with Fed guidance, with current pricing forecasting a year-end rate above 5%.</td>
</tr>
</tbody>
</table>
| Risks | - Tighter lending standards and weakness in commercial real estate could threaten economic growth.  
- An overly aggressive Fed could push the economy into recession.  
- Markets may struggle to move meaningfully higher until investors receive clarity on the pathway for inflation and the Fed. |
| Investment Opportunities | - Solid profit growth and reasonable valuations will be crucial in determining equity winners in a higher rate environment.  
- After 2022’s sell-off, fixed income now offers higher yields and diversification benefits against a market correction or economic downturn.  
- Long-term growth prospects, a falling dollar and wide valuation discounts support international equities. |

Source: Standard & Poor’s, FRB, BLS, BEA, J.P. Morgan Asset Management. Direction of thumbs up/down corresponds to the general impact on economic conditions and investor portfolios. Opinions, estimates, forecasts and statements of financial market trends that are based on current market conditions constitute our judgment and are subject to change without notice. We believe the information contained in this commentary has been obtained from sources that are reliable. This presentation is for information purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security.

Federal funds rate expectations

FOMC and market expectations for the federal funds rate

FOMC June 2023 forecasts

<table>
<thead>
<tr>
<th></th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>Long run*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in real GDP, 4Q to 4Q</td>
<td>1.0</td>
<td>1.1</td>
<td>1.8</td>
<td>1.8</td>
</tr>
<tr>
<td>Unemployment rate, 4Q</td>
<td>4.1</td>
<td>4.5</td>
<td>4.5</td>
<td>4.0</td>
</tr>
<tr>
<td>Headline PCE inflation, 4Q to 4Q</td>
<td>3.2</td>
<td>2.5</td>
<td>2.1</td>
<td>2.0</td>
</tr>
<tr>
<td>Core PCE inflation, 4Q to 4Q</td>
<td>3.9</td>
<td>2.6</td>
<td>2.2</td>
<td></td>
</tr>
</tbody>
</table>

The Fed and interest rates

Market expectations are based off of the respective Federal Funds Futures contracts for December expiry. *Long-run projections are the rates of growth, unemployment and inflation to which a policymaker expects the economy to converge over the next five to six years in absence of further shocks and under appropriate monetary policy. Forecasts are not a reliable indicator of future performance. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated.


Data are as of June 30, 2023.
## Fixed income market dynamics

**Source:** Bloomberg, FactSet, Standard & Poor’s, U.S. Treasury, J.P. Morgan Asset Management. Sectors shown above are provided by Bloomberg unless otherwise noted and are represented by – U.S. Aggregate; MBS: U.S. Aggregate Securitized - MBS; ABS: J.P. Morgan ABS Index; Corporates: U.S. Corporates; Municipals: Muni Bond; High Yield: Corporate High Yield; Leveraged Loans: J.P. Morgan Leveraged Loan Index; 10-Year TIPS: Bloomberg 10-Year TIPS On-The-Run Index; Convertibles: U.S. Convertibles Composite. Convertibles yield is as of most recent month-end and is based on U.S. portion of Bloomberg Global Convertibles Index. Yield and return information based on bellwethers for Treasury securities. Sector yields reflect yield-to-worst. Convertibles yield is based on U.S. portion of Bloomberg Global Convertibles Composite. correlations are based on 15-years of monthly returns for all sectors unless stated otherwise. Past performance is not indicative of future results. *10-Year TIPS yields and calculations are based on on-the-run real yields. 10-Year TIPS correlations are based on monthly returns since 2011 due to data availability.

### Impact of a 1% rise or fall in interest rates

Total return, assumes a parallel shift in the yield curve

<table>
<thead>
<tr>
<th>Sector</th>
<th>Yield</th>
<th>Return</th>
<th>Avg. Maturity</th>
<th>Correlation to 10-year</th>
<th>Correlation to S&amp;P 500</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Treasuries</td>
<td>6/30/2023</td>
<td>2023</td>
<td>Avg. Maturity</td>
<td>Correlation to 10-year</td>
<td>Correlation to S&amp;P 500</td>
</tr>
<tr>
<td>2-Year</td>
<td>4.87%</td>
<td>4.41%</td>
<td>0.56%</td>
<td>2 years</td>
<td>0.73</td>
</tr>
<tr>
<td>5-Year</td>
<td>4.13%</td>
<td>3.99%</td>
<td>0.66%</td>
<td>5</td>
<td>0.93</td>
</tr>
<tr>
<td>10-Year</td>
<td>3.81%</td>
<td>3.88%</td>
<td>1.78%</td>
<td>10</td>
<td>1.00</td>
</tr>
<tr>
<td>10-Year TIPS*</td>
<td>1.60%</td>
<td>1.53%</td>
<td>2.21%</td>
<td>10</td>
<td>0.78</td>
</tr>
<tr>
<td>30-Year</td>
<td>3.85%</td>
<td>3.97%</td>
<td>3.49%</td>
<td>30</td>
<td>0.93</td>
</tr>
</tbody>
</table>

### Guide to the Markets – U.S.

Data are as of June 30, 2023.

### Table: Impact of a 1% rise or fall in interest rates

#### 2Y UST
- Rise: 3.0% 6.8%
- Fall: -1.3% -0.3%

#### 5Y UST
- Rise: 8.6%
- Fall: -4.3%

#### 10Y UST
- Rise: 12.0%
- Fall: -4.3%

#### 10Y TIPS
- Rise: 11.0%
- Fall: -6.9%

#### 30Y UST
- Rise: 21.4%
- Fall: -13.7%

#### U.S. Aggregate
- Rise: 11.1%
- Fall: -1.5%

#### IG Corps
- Rise: 12.6%
- Fall: -1.7%

#### Convertibles
- Rise: 10.2%
- Fall: 6.4%

#### U.S. HY
- Rise: 12.0%
- Fall: 5.0%

#### Municipals
- Rise: 9.6%
- Fall: -2.5%

#### MBS
- Rise: 10.8%
- Fall: -1.3%

#### ABS
- Rise: 8.3%
- Fall: 2.8%

### Leveraged Loans
- Rise: 13.6%
- Fall: 8.7%

---

16
### S&P 500 valuation measures

**S&P 500 Index: Forward P/E ratio**

<table>
<thead>
<tr>
<th>Valuation measure</th>
<th>Description</th>
<th>Latest</th>
<th>25-year avg.*</th>
<th>Std. dev.</th>
<th>Over-/under-Valued</th>
</tr>
</thead>
<tbody>
<tr>
<td>P/E</td>
<td>Forward P/E</td>
<td>19.13x</td>
<td>16.79x</td>
<td>0.71</td>
<td></td>
</tr>
<tr>
<td>CAPE</td>
<td>Shiller's P/E</td>
<td>30.79x</td>
<td>27.81x</td>
<td>0.47</td>
<td></td>
</tr>
<tr>
<td>Div. Yield</td>
<td>Dividend yield</td>
<td>1.59%</td>
<td>1.98%</td>
<td>1.15</td>
<td></td>
</tr>
<tr>
<td>P/B</td>
<td>Price to book</td>
<td>3.84x</td>
<td>3.10x</td>
<td>0.91</td>
<td></td>
</tr>
<tr>
<td>P/CF</td>
<td>Price to cash flow</td>
<td>14.74x</td>
<td>11.24x</td>
<td>1.59</td>
<td></td>
</tr>
<tr>
<td>EY Spread</td>
<td>EY minus Baa yield</td>
<td>-0.54%</td>
<td>0.31%</td>
<td>0.45</td>
<td></td>
</tr>
</tbody>
</table>


Price-to-earnings is price divided by consensus analyst estimates of earnings per share for the next 12 months as provided by IBES since June 1998 and by FactSet since January 2022. Current next 12-months consensus earnings estimates are $233. Average P/E and standard deviations are calculated using 25 years of history. Shiller’s P/E uses trailing 10-years of inflation-adjusted earnings as reported by companies. Dividend yield is calculated as the next 12-months consensus dividend divided by most recent price. Price-to-book ratio is the price divided by book value per share. Price-to-cash flow is price divided by NTM cash flow. EY minus Baa yield is the forward earnings yield (consensus analyst estimates of EPS over the next 12 months divided by price) minus the Moody’s Baa seasoned corporate bond yield. Std. dev. over-/under-valued is calculated using the average and standard deviation over 25 years for each measure. *P/CF is a 20-year average due to cash flow availability.

Corporate earnings and sources of earnings growth

S&P 500 earnings per share
Index annual operating earnings, USD

S&P 500 year-over-year operating EPS growth
Annual growth broken into revenue, changes in profit margin & changes in share count

Share of EPS growth 2023* Avg. '01-'22
Margin 8.1% 4.1%
Revenue 2.4% 4.0%
Share count 0.2% 0.3%
Total EPS 10.8% 8.4%

Source: Compustat, FactSet, Standard & Poor's, J.P. Morgan Asset Management.
Historical EPS levels are based on annual operating earnings per share. *2023 earnings estimates are based on estimates from Standard & Poor’s and FactSet Market Aggregates. Percentages may not sum due to rounding. Past performance is not indicative of future returns.

S&P 500: Valuation dispersion

Valuation dispersion between the 20th and 80th percentile of S&P 500 stocks

<table>
<thead>
<tr>
<th>25-yr. average</th>
<th>Current</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median S&amp;P 500 P/Es</td>
<td>16.0x</td>
</tr>
<tr>
<td>Valuation spread</td>
<td>11.7x</td>
</tr>
</tbody>
</table>

Source: Compustat, FactSet, Standard & Poor’s, J.P. Morgan Asset Management.

Equity scenarios: Bull, bear and in-between

Return needed to reach January 2022 peak of 4,797
S&P 500 level as of 6/30/2023 is 4,450

<table>
<thead>
<tr>
<th>Time</th>
<th>Bull return</th>
<th>Implied avg. annualized total return</th>
<th>Implied cumulative total return</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-yr</td>
<td>9.4%</td>
<td>9.4%</td>
<td></td>
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<tr>
<td>2-yrs</td>
<td>5.4%</td>
<td>11.1%</td>
<td></td>
</tr>
<tr>
<td>3-yrs</td>
<td>4.1%</td>
<td>12.9%</td>
<td></td>
</tr>
<tr>
<td>4-yrs</td>
<td>3.5%</td>
<td>14.7%</td>
<td></td>
</tr>
<tr>
<td>5-yrs</td>
<td>3.1%</td>
<td>16.5%</td>
<td></td>
</tr>
</tbody>
</table>

Bull and bear markets

<table>
<thead>
<tr>
<th>Bull begin date</th>
<th>Bull return</th>
<th>Duration (months)</th>
<th>Market peak</th>
<th>Bear return</th>
<th>Duration (months)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jul 1926</td>
<td>152%</td>
<td>37</td>
<td>Sep 1929</td>
<td>-86%</td>
<td>32</td>
</tr>
<tr>
<td>Mar 1935</td>
<td>129%</td>
<td>23</td>
<td>Mar 1937</td>
<td>-60%</td>
<td>61</td>
</tr>
<tr>
<td>Apr 1942</td>
<td>158%</td>
<td>49</td>
<td>May 1946</td>
<td>-30%</td>
<td>36</td>
</tr>
<tr>
<td>Jun 1949</td>
<td>267%</td>
<td>85</td>
<td>Aug 1956</td>
<td>-22%</td>
<td>14</td>
</tr>
<tr>
<td>Oct 1960</td>
<td>39%</td>
<td>13</td>
<td>Dec 1961</td>
<td>-28%</td>
<td>6</td>
</tr>
<tr>
<td>Oct 1962</td>
<td>76%</td>
<td>39</td>
<td>Feb 1966</td>
<td>-22%</td>
<td>7</td>
</tr>
<tr>
<td>Oct 1966</td>
<td>48%</td>
<td>25</td>
<td>Nov 1968</td>
<td>-36%</td>
<td>17</td>
</tr>
<tr>
<td>May 1970</td>
<td>74%</td>
<td>31</td>
<td>Jan 1973</td>
<td>-48%</td>
<td>20</td>
</tr>
<tr>
<td>Aug 1982</td>
<td>229%</td>
<td>60</td>
<td>Aug 1987</td>
<td>-34%</td>
<td>3</td>
</tr>
<tr>
<td>Oct 1990</td>
<td>417%</td>
<td>113</td>
<td>Mar 2000</td>
<td>-49%</td>
<td>30</td>
</tr>
<tr>
<td>Oct 2002</td>
<td>101%</td>
<td>60</td>
<td>Oct 2007</td>
<td>-57%</td>
<td>17</td>
</tr>
<tr>
<td>Mar 2009</td>
<td>401%</td>
<td>131</td>
<td>Feb 2020</td>
<td>-34%</td>
<td>1</td>
</tr>
<tr>
<td>Mar 2020</td>
<td>114%</td>
<td>21</td>
<td>Jan. 2022**</td>
<td>-25%</td>
<td>9</td>
</tr>
<tr>
<td>Averages</td>
<td>162%</td>
<td>51</td>
<td>-</td>
<td>-41%</td>
<td>20</td>
</tr>
</tbody>
</table>

Source: FactSet, NBER, Robert Shiller, Standard & Poor's, J.P. Morgan Asset Management. (Left) The current peak of 4,797 was observed on 1/3/2022. (Right) *A bear market is defined as a 20% or more decline from the previous market high. The related market return is the peak to trough return over the cycle. Bear and bull returns are price returns. **The bear market beginning in January 2022 is currently ongoing, with the “bear return” and duration for this period calculated from the January 2022 market peak through the current trough in October 2022. Averages for the bear market return and duration do not include figures from the current cycle.

Cycles of U.S. equity outperformance

MSCI EAFE and MSCI USA relative performance
U.S. dollar, total return, cumulative outperformance

Source: FactSet, MSCI, J.P. Morgan Asset Management.
Regime change determined when cumulative outperformance peaks and is not reached again in the subsequent 12-month period.

# Asset Class Returns

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>25%</td>
<td>1.8%</td>
<td>32%</td>
<td>19.2%</td>
<td>79.0%</td>
<td>15%</td>
<td>5.2%</td>
<td>11.8%</td>
<td>14.6%</td>
<td>11.8%</td>
<td>14.6%</td>
<td>11.8%</td>
<td>14.6%</td>
<td>11.8%</td>
</tr>
<tr>
<td>2009</td>
<td>32.5%</td>
<td>26.9%</td>
<td>19.2%</td>
<td>15.1%</td>
<td>31.6%</td>
<td>15%</td>
<td>8.3%</td>
<td>7.3%</td>
<td>9.5%</td>
<td>7.3%</td>
<td>9.5%</td>
<td>7.3%</td>
<td>9.5%</td>
<td>7.3%</td>
</tr>
<tr>
<td>2010</td>
<td>16.8%</td>
<td>21.2%</td>
<td>17.9%</td>
<td>16.3%</td>
<td>25.0%</td>
<td>17%</td>
<td>1.6%</td>
<td>12.0%</td>
<td>12.0%</td>
<td>12.0%</td>
<td>12.0%</td>
<td>12.0%</td>
<td>12.0%</td>
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</tr>
<tr>
<td>2011</td>
<td>21.6%</td>
<td>2.1%</td>
<td>17.9%</td>
<td>15.1%</td>
<td>31.6%</td>
<td>15%</td>
<td>8.3%</td>
<td>7.3%</td>
<td>9.5%</td>
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<td>7.3%</td>
</tr>
<tr>
<td>2012</td>
<td>16.0%</td>
<td>0.1%</td>
<td>16.3%</td>
<td>16.3%</td>
<td>0.1%</td>
<td>17%</td>
<td>6.0%</td>
<td>6.0%</td>
<td>6.0%</td>
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<td>6.0%</td>
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<td>6.0%</td>
<td>6.0%</td>
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<tr>
<td>2013</td>
<td>14.9%</td>
<td>16.0%</td>
<td>14.6%</td>
<td>14.6%</td>
<td>14.6%</td>
<td>17%</td>
<td>5.2%</td>
<td>5.2%</td>
<td>5.2%</td>
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<tr>
<td>2014</td>
<td>12.2%</td>
<td>0.0%</td>
<td>12.0%</td>
<td>12.0%</td>
<td>12.0%</td>
<td>17%</td>
<td>0.0%</td>
<td>0.0%</td>
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<tr>
<td>2015</td>
<td>12.2%</td>
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<td>12.0%</td>
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<td>12.0%</td>
<td>17%</td>
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<tr>
<td>2016</td>
<td>12.2%</td>
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<td>12.0%</td>
<td>17%</td>
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<tr>
<td>2017</td>
<td>12.2%</td>
<td>0.0%</td>
<td>12.0%</td>
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<td>12.0%</td>
<td>17%</td>
<td>0.0%</td>
<td>0.0%</td>
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<td>0.0%</td>
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<td>0.0%</td>
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<tr>
<td>2018</td>
<td>12.2%</td>
<td>0.0%</td>
<td>12.0%</td>
<td>12.0%</td>
<td>12.0%</td>
<td>17%</td>
<td>0.0%</td>
<td>0.0%</td>
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<td>0.0%</td>
<td>0.0%</td>
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<td>0.0%</td>
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</tr>
<tr>
<td>2019</td>
<td>12.2%</td>
<td>0.0%</td>
<td>12.0%</td>
<td>12.0%</td>
<td>12.0%</td>
<td>17%</td>
<td>0.0%</td>
<td>0.0%</td>
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<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
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</tr>
<tr>
<td>2020</td>
<td>12.2%</td>
<td>0.0%</td>
<td>12.0%</td>
<td>12.0%</td>
<td>12.0%</td>
<td>17%</td>
<td>0.0%</td>
<td>0.0%</td>
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<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
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<tr>
<td>2021</td>
<td>12.2%</td>
<td>0.0%</td>
<td>12.0%</td>
<td>12.0%</td>
<td>12.0%</td>
<td>17%</td>
<td>0.0%</td>
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<td>0.0%</td>
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<tr>
<td>2022</td>
<td>12.2%</td>
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<td>17%</td>
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</tr>
</tbody>
</table>

Key takeaways

1. The U.S. economy is facing several structural challenges, including a large fiscal drag and a decline in home building activity. Still, extreme tightness in the labor market has helped to prevent the U.S. from slipping into a recession, and even now a recession is not inevitable. In addition, inflation is very clearly cooling. The general macro outlook is reasonably good.

2. The outlook for Fed policy is murky. Despite clear evidence of a slowing economy and cooling inflation, “Fed speak” suggests more hikes to come. While it is difficult to determine where and when the Fed is going to land, we are much closer to the end of this hiking cycle than the beginning. For bond investors, this should be a welcome sign.

3. The U.S. equity market has surged from its October 2022 lows, but the recovery has been narrow, focused on growthy and tech-related names, and driven by multiple expansion. Moreover, earnings estimates continue to look too optimistic. Overseas, however, a period of outperformance has emerged, but questions exist on how long it will last.

4. 2023 has been a bumpy ride so far, and that is an excellent reminder that sticking to a plan during volatile moments works. Looking forward, much is still unpredictable. Investors should remember that global, diversified portfolios can protect against uncertainty and take advantage of opportunities.
Thank you
All indexes are unmanaged and an individual cannot invest directly in an index. Index returns do not include fees or expenses.

**Equities:**
- The Dow Jones Industrial Average is a price-weighted average of 30 actively traded blue-chip U.S. stocks.
- The MSCI ACWI (All Country World Index) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets.
- The MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada.
- The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.
- The MSCI Europe Index is a free float-adjusted market capitalization index that is designed to measure developed market equity performance in Europe.
- The Russell 1000 Index® measures the performance of the 1,000 largest companies in the Russell 3000.
- The Russell 1000 Growth Index® measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.
- The Russell 1000 Value Index® measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.
- The Russell 2000 Index® measures the performance of the 2,000 smallest companies in the Russell 3000 Index.
- The Russell 2000 Growth Index® measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values.
- The Russell 3000 Index® measures the performance of the 3,000 largest U.S. companies based on total market capitalization.
- The Russell Midcap Index® measures the performance of the 800 smallest companies in the Russell 1000 Index.
- The Russell Midcap Growth Index® measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecasted growth values. The stocks are also members of the Russell 1000 Growth index.
- The Russell Midcap Value Index® measures the performance of those Russell Midcap companies with lower price-to-book ratios and lower forecasted growth values. The stocks are also members of the Russell 1000 Value index.
- The S&P 500 Index is widely regarded as the best single gauge of the U.S. equities market. The index includes a representative sample of 500 leading companies in leading industries of the U.S. economy. The S&P 500 Index focuses on the large-cap segment of the market; however, since it includes a significant portion of the total value of the market, it also represents the market.

**Fixed income:**
- The Bloomberg 1-3 Month U.S. Treasury Bill Index includes all publicly issued zero-coupon US Treasury Bills that have a remaining maturity of less than 3 months and more than 1 month, are rated investment grade, and have $250 million or more of outstanding face value. In addition, the securities must be denominated in U.S. dollars and must be fixed rate and non convertible.
- The Bloomberg Global High Yield Index is a multi-currency flagship measure of the global high yield debt market. The index represents the union of the US High Yield, the Pan-European High Yield, and Emerging Markets (EM) Hard Currency High Yield Indices. The high yield and emerging markets sub-components are mutually exclusive. Until January 1, 2011, the index also included CMBS high yield securities.
- The Bloomberg Municipal Index: consists of a broad selection of investment-grade general obligation and revenue bonds of maturities ranging from one year to 30 years. It is an unmanaged index representative of the tax-exempt bond market.
- The Bloomberg US Dollar Floating Rate Note (FRN) Index provides a measure of the U.S. dollar denominated floating rate note market.
- The Bloomberg US Corporate Investment Grade Index is an unmanaged index consisting of publicly issued US Corporate and specified foreign debentures and secured notes that are rated investment grade (Baa3/BBB+ or higher) by at least two ratings agencies, have at least one year to final maturity and have at least $250 million par amount outstanding. To qualify, bonds must be SEC-registered.
- The Bloomberg US High Yield Index covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (sovereign rating of Baa1/BBB+/BBB+ and below using the middle of Moody’s, S&P, and Fitch) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included.
- The Bloomberg US Mortgage Backed Securities Index is an unmanaged index that measures the performance of investment grade fixed-rate mortgage backed pass-through securities of GNMA, FNMA and FHLMC.
- The Bloomberg US TIPS Index consists of Inflation-Protection securities issued by the U.S. Treasury.
- The J.P. Morgan Emerging Market Bond Global Index (EMBI) includes U.S. dollar denominated Brady bonds, Eurobonds, traded loans and local market debt instruments issued by sovereign and quasi-sovereign entities.
- The J.P. Morgan Domestic High Yield Index is designed to mirror the investable universe of the U.S. dollar domestic high yield corporate debt market.
- The J.P. Morgan Corporate Emerging Markets Bond Index Broad Diversified (CEMBI Broad Diversified) is an expansion of the J.P. Morgan Corporate Emerging Markets Bond Index (CEMBI). The CEMBI is a market capitalization weighted index consisting of U.S. dollar denominated emerging market corporate bonds.
- The J.P. Morgan Emerging Markets Bond Index Global Diversified (EMBI Global Diversified) tracks total returns for U.S. dollar-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, Eurobonds. The index limits the exposure of some of the larger countries.
- The J.P. Morgan GBI EM Global Diversified tracks the performance of local currency debt issued by emerging market governments, whose debt is accessible by most of the international investor base.
- The U.S. Treasury Index is a component of the U.S. Government index.
Other asset classes:

The Alcatel MLP Index is a composite of the 50 most prominent energy Master Limited Partnerships (MLPs) that provides investors with an unbiased, comprehensive benchmark for the asset class.

The Bloomberg Commodity Index and related sub-indices are composed of futures contracts on physical commodities and represents two separate commodities traded on U.S. exchanges, with the exception of aluminum, nickel, and zinc.

The Cambridge Associates U.S. Global Buyout and Growth Index® is based on data compiled from 1.768 global (U.S. & ex-U.S.) buyout and growth equity funds, including fully liquidated partnerships, formed between 1986 and 2013.

TheCSI/Tremont Hedge Fund Index is compiled by Credit Suisse Tremont Index, LLC. It is an asset-weighted hedge fund index and includes only funds, as opposed to separate accounts. The Index uses the Credit Suisse/Tremont database, which tracks over 4500 funds, and consists only of funds with a minimum of US$50 million under management, a 12-month track record, and audited financial statements. It is calculated and rebalanced on a monthly basis, and shown net of all performance fees and expenses. It is the exclusive property of Credit Suisse Tremont Index, LLC.

The HFRI Monthly Indices (HFRI) are equally weighted performance indexes, utilized by numerous hedge fund managers as a benchmark for their own hedge funds. The HFRI are broken down into 4 main strategies, each with multiple sub-strategies. All single-manager HFRI index constituents are included in the HFRI Fund Weighted Composite, which accounts for over 2200 funds listed on the internal HFRI database.

The NAREIT EQUITY REIT Index is designed to provide the most comprehensive assessment of overall industry performance, and includes all tax-qualified real estate investment trusts (REITs) that are listed on the NYSE, the American Stock Exchange or the NASDAQ National Market List.

The NFI-ODCE, short for NCREIF Fund Index -Open End Diversified Core Equity, is an index of investment returns reporting on both a historical and current basis the results of 33 open-end commingled funds pursuing a core investment strategy, some of which have performance histories dating back to the 1970s. The NFI-ODCE Index is capitalization-weighted and is reported gross of fees. Measurement is time-weighted.

Definitions:

In alternative investments involves higher risks than traditional investments and is suitable only for sophisticated investors. Alternative investments involve greater risks than traditional investments and should not be deemed a complete investment program. They are not tax efficient and an investor should consult with his/her tax advisor prior to investing. Alternative investments have higher fees than traditional investments and they may also be heavily leveraged and engage in speculative investment techniques, which can magnify the potential for investment loss or gain. The value of the investment may fall as well as rise and investors may get back less than they invested.

Bonds are subject to interest rate risks. Bond prices generally fall when interest rates rise. Investments in commodities may have greater volatility than investments in traditional securities, particularly if the instruments involve leverage. The value of commodity-linked derivative instruments may be affected by changes in overall market movements, commodity index volatility, changes in interest rates, or factors affecting a particular industry or commodity, such as drought, floods, weather, livestock disease, embargoes, tariffs and international economic, political and regulatory developments. Use of leveraged commodity-linked derivatives creates an opportunity for increased return but, at the same time, creates the possibility for greater loss.

Derivatives may be riskier than other types of investments because they may be more sensitive to changes in economic or market conditions than other types of investments and could result in losses that significantly exceed the original investment. The use of derivatives may not be successful, resulting in investment losses, and the cost of such strategies may reduce investment returns.

Distressed Restructuring Strategies employ an investment process focused on corporate fixed income instruments, primarily corporate credit instruments of companies trading at significant discounts to their value at issuance or obliged (par value) at maturity as a result of either formal bankruptcy proceeding or financial market perception of near term proceedings.

Investments in emerging markets can be more volatile. The normal risks of investing in foreign countries are heightened when investing in emerging markets. In addition, the small size of securities markets and the low trading volume may lead to a lack of liquidity, which leads to increased volatility. Also, emerging markets may not provide adequate legal protection for private or foreign investment or private property.

The price of equity securities may rise, or fall because of changes in the broad market or changes in a company’s financial condition, sometimes rapidly or unpredictably. These price movements may result from factors affecting individual companies, sectors or industries, or the securities market as a whole, such as changes in economic or political conditions. Equity securities are subject to “stock market risk” meaning that stock prices in general may decline over short or extended periods of time.

Equity market neutral strategies employ sophisticated quantitative techniques of analyzing price data to ascertain information about future price movement and relationships between securities, select securities for purchase and sale. Equity Market Neutral Strategies typically maintain characteristic net equity market exposure no greater than 10% long or short.

Global macro strategies trade a broad range of strategies in which the investment process is predicated on movements in underlying economic variables and the impact these have on equity, fixed income, hard currency and commodity markets.

International investing involves a greater degree of risk and increased volatility. Changes in currency exchange rates and differences in accounting and taxation policies outside the U.S. can raise or lower returns. Some overseas markets may not be as politically and economically stable as the United States and other nations.

There is no guarantee that the use of long and short positions will succeed in limiting an investor’s exposure to domestic stock market movements, capitalization, sector swings or other risk factors. Using long and short selling strategies may have higher portfolio turnover rates. Short selling involves certain risks, including additional costs associated with covering short positions and a possibility of unlimited loss on certain short sale positions.

Merger arbitrage strategies which employ an investment process primarily focused on opportunities in equity and related instruments of companies which are currently engaged in a corporate transaction.

Mid-capitalization investing typically carries more risk than investing in well-established “blue-chip” companies. Historically, mid-cap companies’ stock has experienced a greater degree of market volatility than the average stock.

Price to forward earnings is a measure of the price-to-earnings ratio (P/E) using forecasted earnings. Price to book value compares a stock’s market value to its book value. Price to cash flow is a measure of the market’s expectations of a firm’s future financial health. Price to dividends is the ratio of the price of a share on a stock exchange to the dividends per share paid in the previous year, used as a measure of a company’s potential as an investment.

Real estate investments may be subject to a higher degree of market risk because of concentration in a specific industry, sector or geographical sector. Real estate investments may be subject to risks including, but not limited to, declines in the value of real estate, risks related to general and economic conditions, changes in the value of the underlying property owned by the trust and defaults by borrower.

Relative Value Strategies maintain positions in which the investment thesis is predicated on realization of a valuation discrepancy in the relationship between multiple securities.

Small-capitalization investing typically carries more risk than investing in well-established “blue-chip” companies since smaller companies generally have a higher risk of failure. Historically, smaller companies’ stock has experienced a greater degree of market volatility than the average stock.
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Unless otherwise stated, all data are as of June 30, 2023 or most recently available.

Guide to the Markets – U.S.

Quarterly-dc-review | 09gl230507152134