



# Investing Against the Wall of Worry

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MARKET INSIGHTS

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# Market Outlook

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# Recession may be avoided until 2024.

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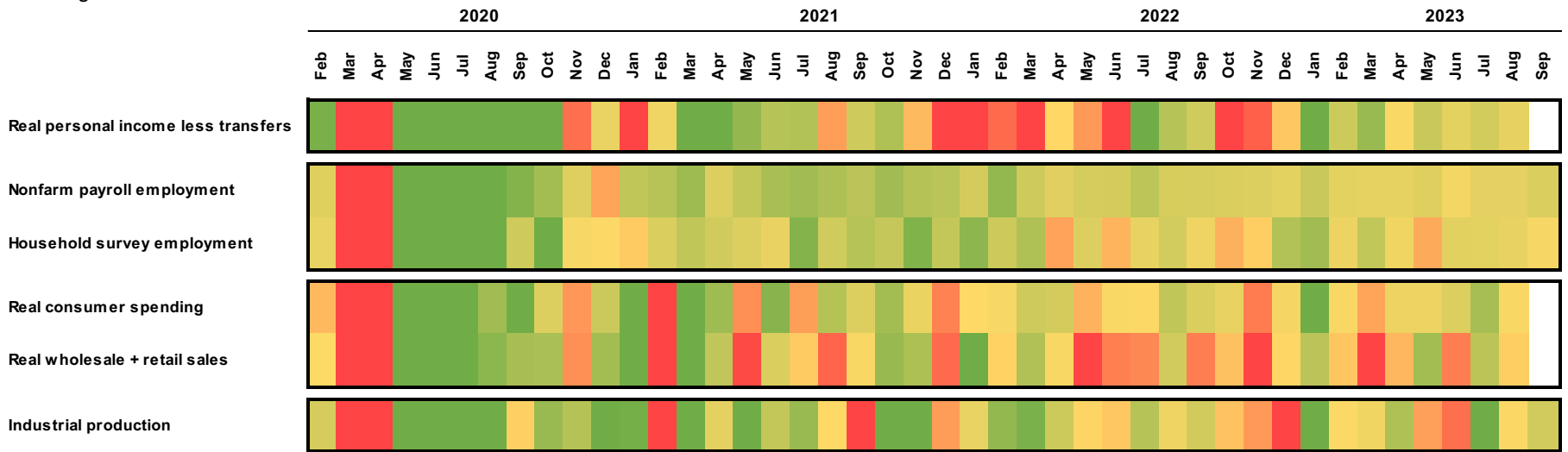
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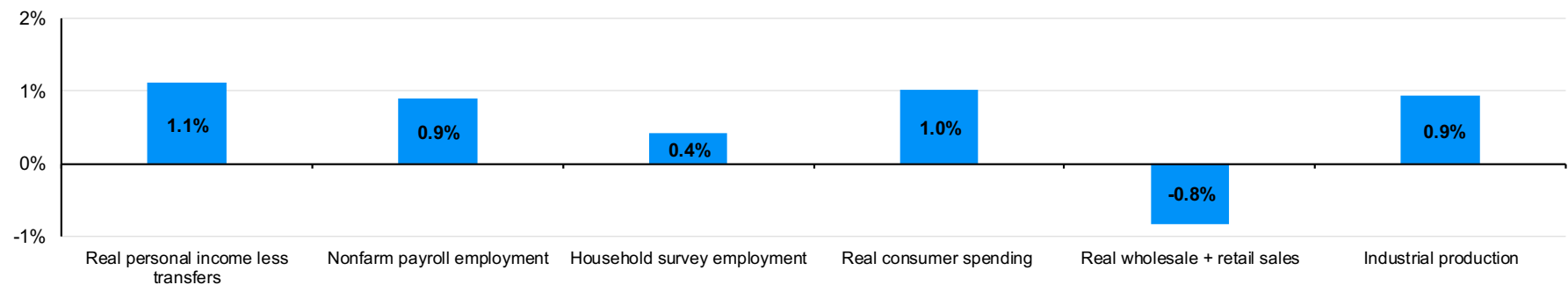
Economy

## Variables used by the NBER in making recession determination\*

% change month-over-month



% change, last six months



Source: BEA, BLS, Census Bureau, NBER, J.P. Morgan Asset Management. Heatmap shading reflects 10 years of data, with green and red reflecting a range of +/- 0.5 standard deviations from a baseline of 0% monthly growth. \*The NBER's definition of a recession involves a significant decline in economic activity that is spread across the economy and lasts more than a few months. Specifically, they consider real personal income less transfers, nonfarm payroll employment, employment as measured by the household survey, real personal consumption expenditures, wholesale-retail sales adjusted for price changes and industrial production. There is no fixed rule about which measures contribute to the process or how they are weighted, but the committee notes that "in recent decades, the two measures we have put the most weight on are real personal income less transfers and nonfarm payroll employment." *Guide to the Markets - U.S.* Data are as of October 23, 2023.



# Inflation is down but not out.

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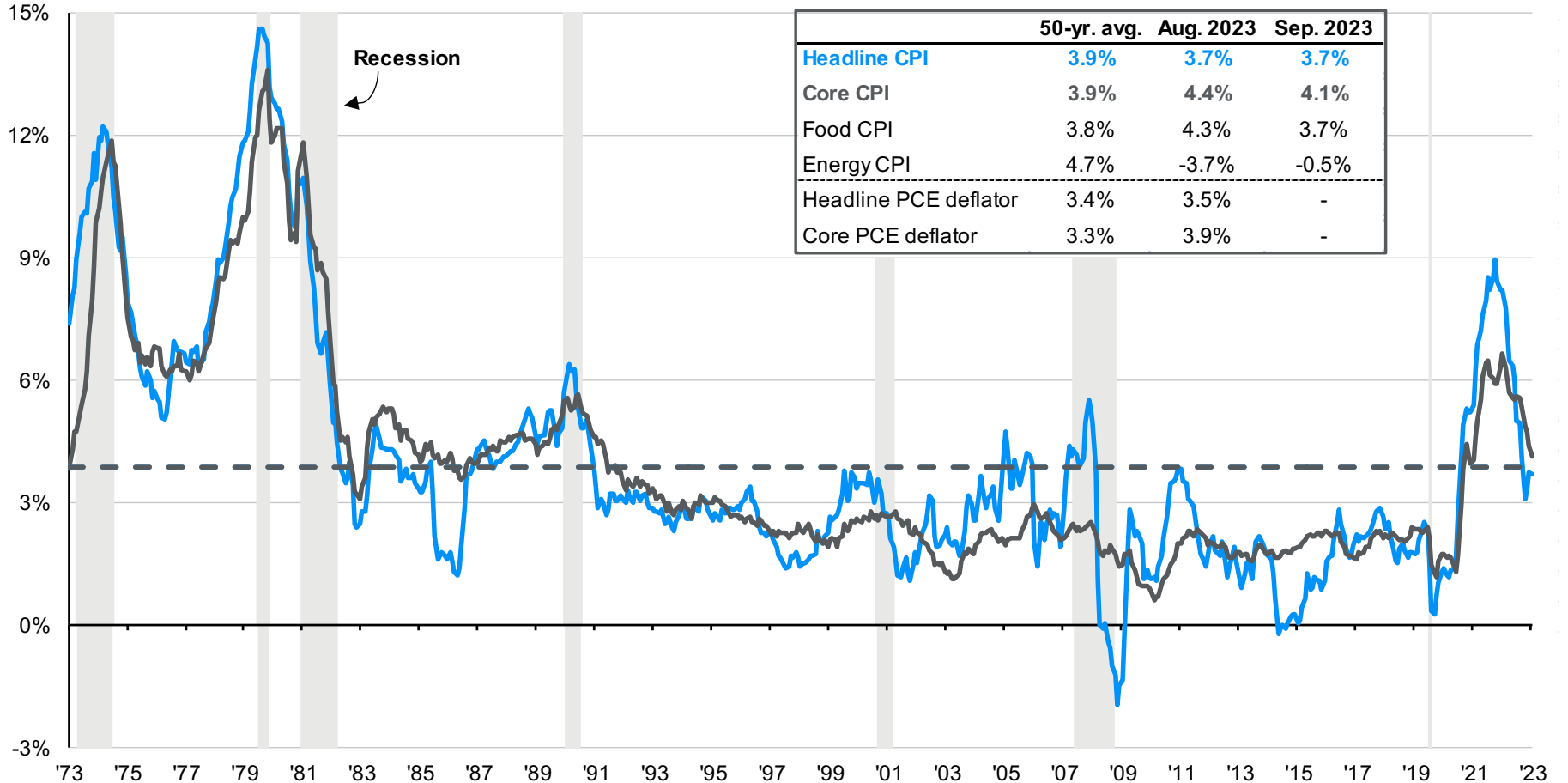
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Economy

## CPI and core CPI

% change vs. prior year, seasonally adjusted



Source: BLS, FactSet, J.P. Morgan Asset Management.

CPI used is CPI-U and values shown are % change vs. one year ago. Core CPI is defined as CPI excluding food and energy prices. The Personal Consumption Expenditure (PCE) deflator employs an evolving chain-weighted basket of consumer expenditures instead of the fixed-weight basket used in CPI calculations. *Guide to the Markets – U.S.* Data are as of October 23, 2023.

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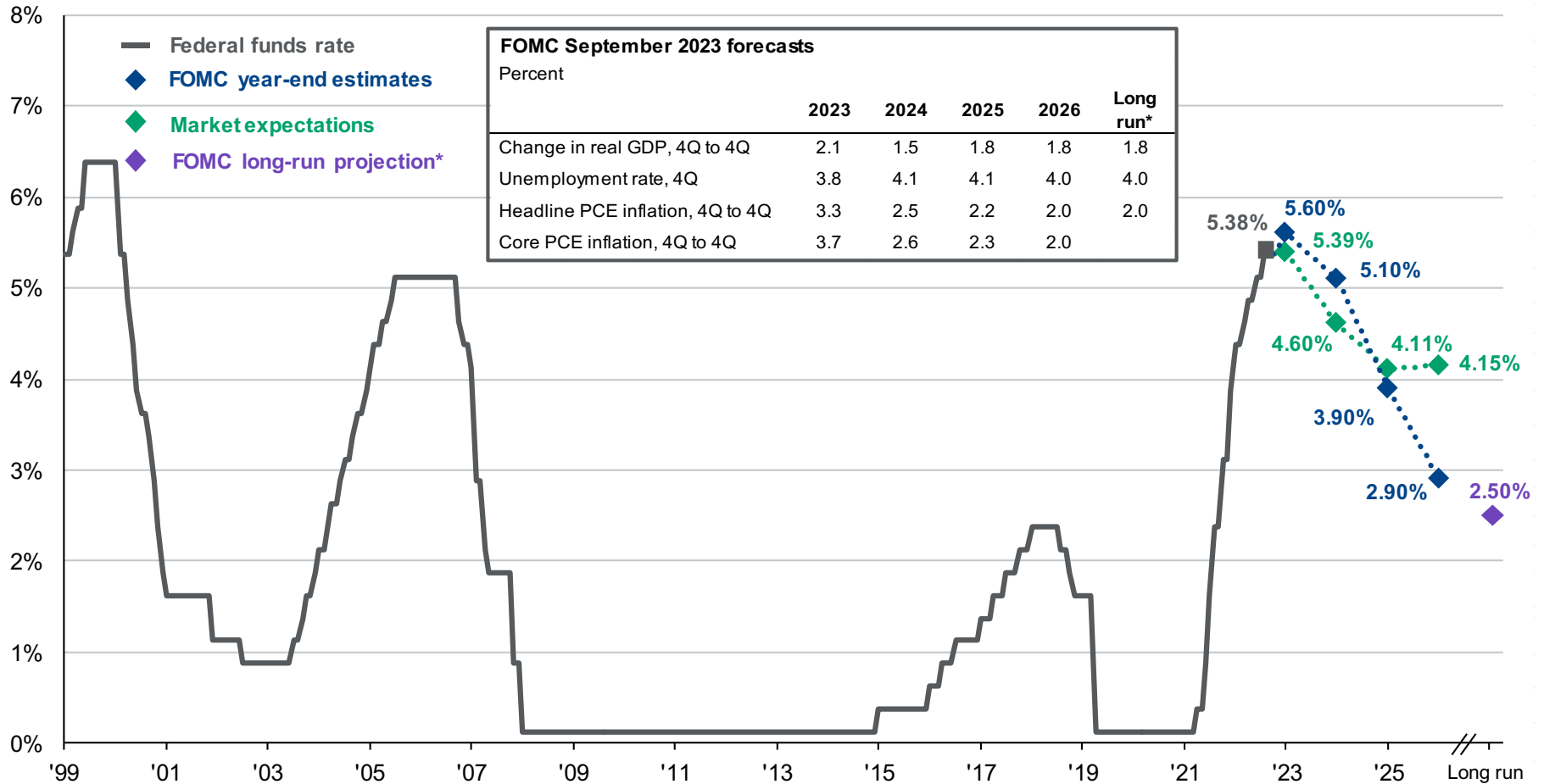


# The Federal Reserve is near the end of its hiking cycle.

Fixed Income

## Federal funds rate expectations

FOMC and market expectations for the federal funds rate



Source: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management.

Market expectations are based off of USD Overnight Index Swaps. \*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.

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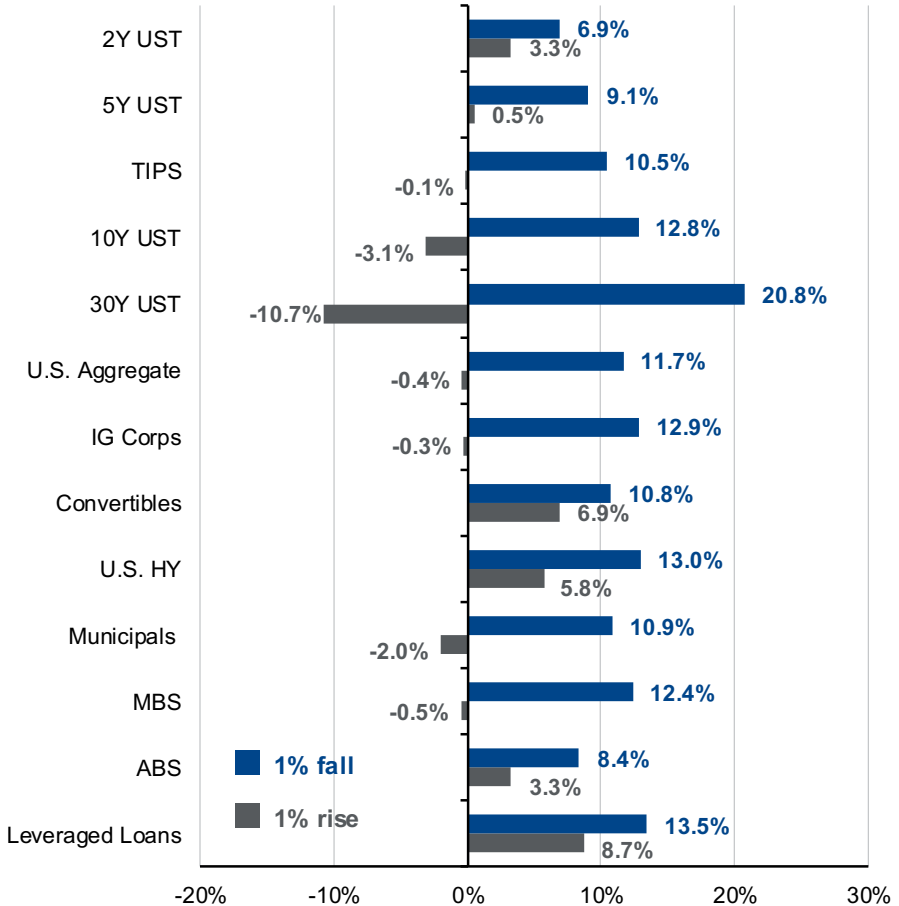
# Rate rises have been painful for bonds, but the outlook for bonds may improve.

Fixed Income

U.S. Treasuries	Yield		Return			
	10/23/2023	12/31/2022	2023 YTD	Avg. Maturity	Correlation to 10-year	Correlation to S&P 500
<b>2-Year</b>	5.05%	4.41%	1.43%	2 years	0.74	-0.12
<b>5-Year</b>	4.81%	3.99%	-1.09%	5	0.93	-0.11
<b>TIPS</b>	5.19%	4.38%	-1.40%	7	0.62	0.37
<b>10-Year</b>	4.86%	3.88%	-5.26%	10	1.00	-0.12
<b>30-Year</b>	5.01%	3.97%	-13.81%	30	0.93	-0.15
<b>Sector</b>						
<b>U.S. Aggregate</b>	5.62%	4.68%	-2.74%	8.5	0.86	0.22
<b>IG Corps</b>	6.31%	5.42%	-1.72%	10.4	0.58	0.46
<b>Convertibles</b>	8.42%	7.58%	3.25%	-	-0.13	0.87
<b>U.S. HY</b>	9.37%	8.96%	4.13%	4.9	-0.09	0.73
<b>Municipals</b>	4.48%	3.55%	-2.22%	13.0	0.57	0.20
<b>MBS</b>	5.97%	4.71%	-4.57%	8.7	0.78	0.17
<b>ABS</b>	6.51%	5.89%	4.19%	3.5	0.13	0.00
<b>Leveraged Loans</b>	11.08%	11.41%	10.21%	2.4	-0.34	0.58

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

Total return, assumes a parallel shift in the yield curve



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; TIPS: Treasury Inflation-Protected Securities; 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. Correlations are based on 15-years of monthly returns for all sectors. Past performance is not indicative of future results.

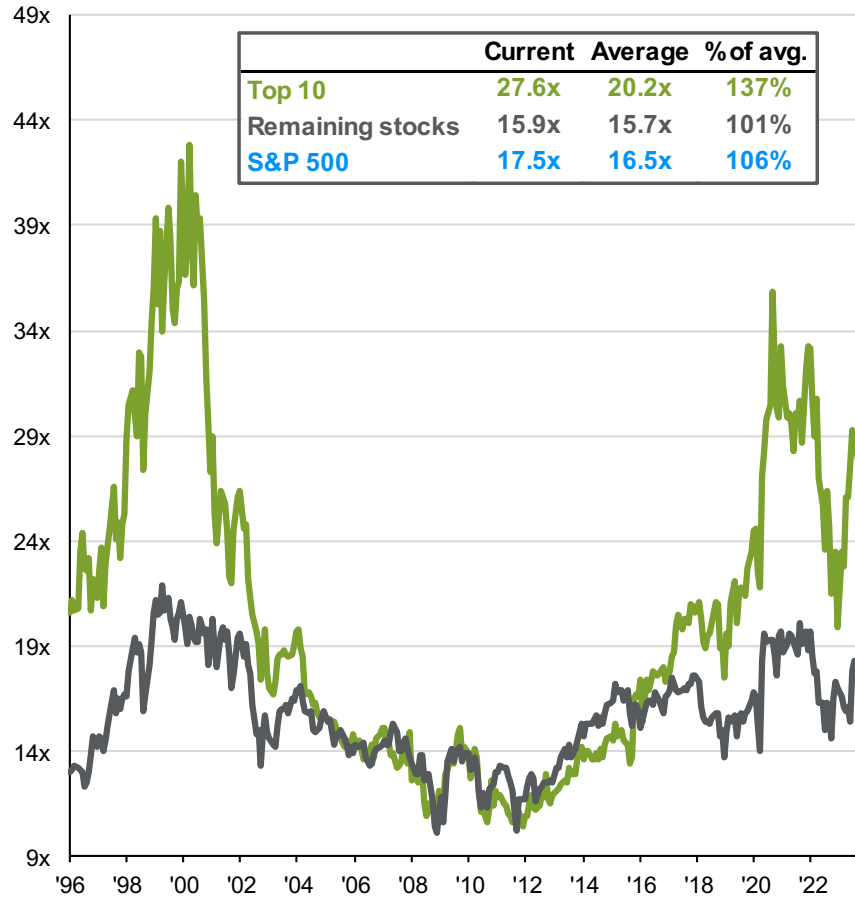
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# Markets have been driven by a small number of stocks.

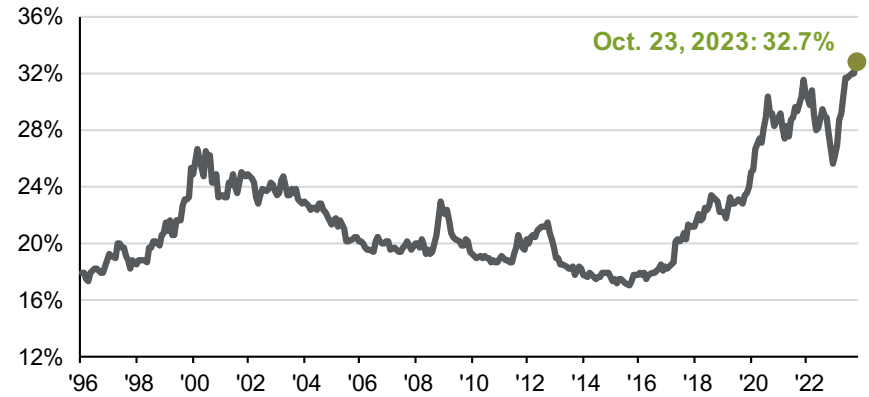
### P/E ratio of the top 10 and remaining stocks in the S&P 500

Next 12 months, 1996 - present



### Weight of the top 10 stocks in the S&P 500

% of market capitalization of the S&P 500



### Earnings contribution of the top 10 in the S&P 500

Based on last 12 months' earnings



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

The top 10 S&P 500 companies are based on the 10 largest index constituents at the beginning of each month. As of 9/30/2023, the top 10 companies in the index were AAPL (7.0%), MSFT (6.5%), AMZN (3.2%), NVDA (3.0%), GOOGL (2.2%), TSLA (1.9%), META (1.9%), GOOG (1.9%), BRK.B (1.8%), XOM (1.3%) and UNH (1.3%). The remaining stocks represent the rest of the 494 companies in the S&P 500.

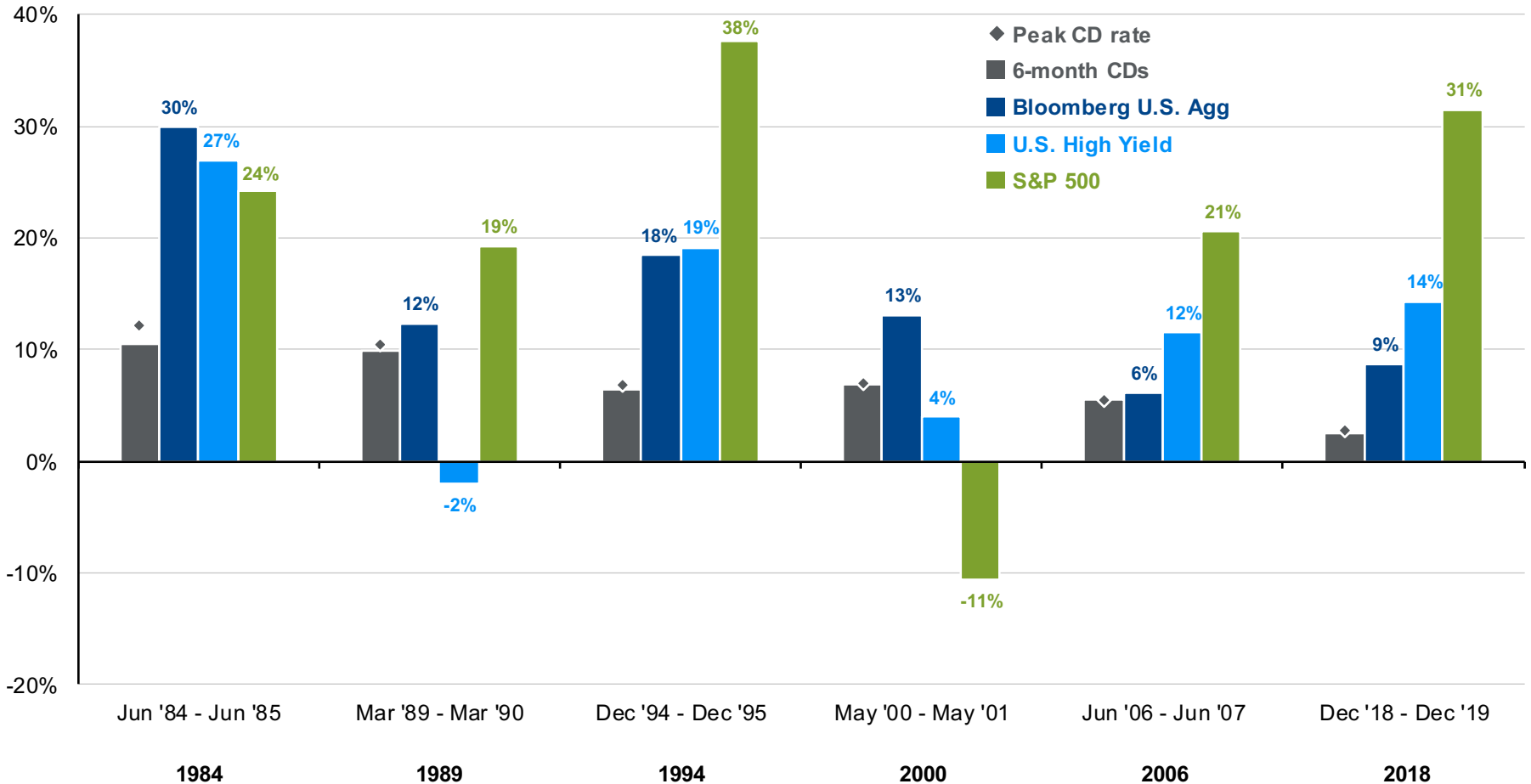
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# Hiding out in cash comes with an opportunity cost.

## Investment opportunities outside of CDs

Peak 6-month certificate of deposit (CD) rate during previous rate hiking cycles and subsequent 12-month total returns



Investing Principles

Source: Bloomberg, FactSet, Federal Reserve, Robert Shiller, J.P. Morgan Asset Management.

U.S. High Yield: Bloomberg U.S. Corporate High Yield Index. The S&P 500 total return figure from the 1984 period was calculated using data from Robert Shiller. The analysis references the month in which the month-end 6-month CD rate peaked during previous rate hiking cycles. CD rate data prior to 2013 are sourced from the Federal Reserve, whereas data from 2013 to 2023 are sourced from Bloomberg. CD subsequent 12-month return calculation assumes reinvestment at the prevailing 6-month rate when the initial CD matures.

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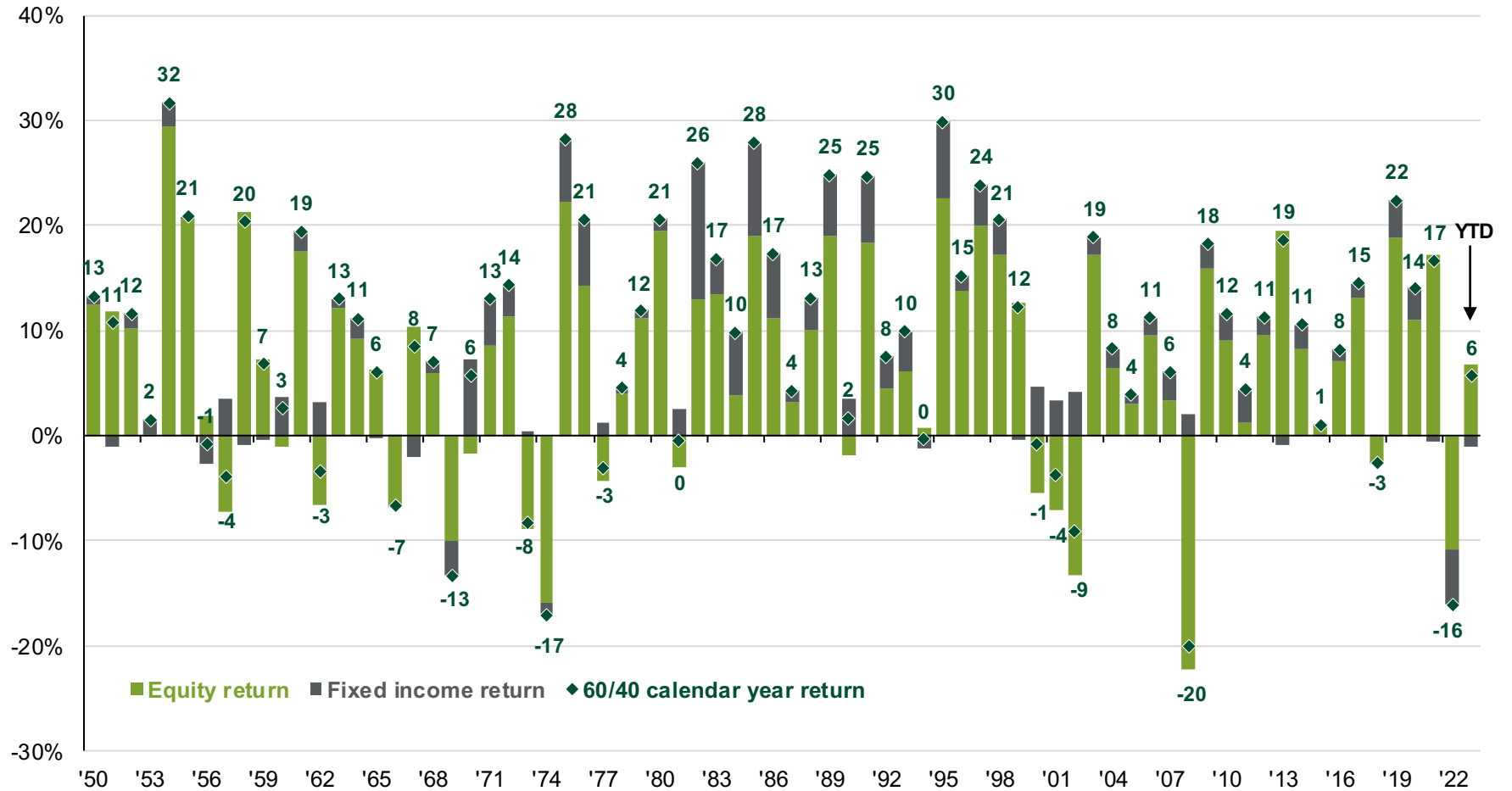


# Markets and the economy look in opposite directions.

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## 60/40 annual return decomposition

Total returns, 1950 – present



Source: Bloomberg, FactSet, Ibbotson/Strategas, Robert Shiller, Standard & Poor's, Yale University, J.P. Morgan Asset Management.  
 The 60/40 portfolio is 60% invested in S&P 500 Total Return Index and 40% invested in Bloomberg U.S. Aggregate Total Return Index. S&P 500 returns from 1950 to 1970 are estimated using the Shiller S&P Composite. U.S. fixed income total returns from 1950 to 1975 are estimated using data from Strategas/Ibbotson. The portfolio is rebalanced annually.  
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