Equity Strategy

Credit conditions keep tightening - Equity implications

- Credit spreads are down from last summer wides, now broadly half way between pricing in a recession and a steady state. Our credit team projects HY spreads to widen again from here, in both US and in Europe, but not dramatically. Still, we note credit markets are not sending a reassuring signal regarding the risk trade.
- 1. **All-in cost of financing for corporates and for the consumer keeps rising**. Total HY yield in Europe has moved up 530bp from the lows, to 8.0% currently. In the US, the upmove is 500bp, to 8.5% at present. These are at a premium to the average levels that corporates paid over the past 20 years. Cash flows and interest cover continue to appear healthy, but profit margins are starting to weaken, from the elevated levels. For consumer, mortgage rates are up to 6.5% in the US, from 2.5% at the start of '22, UK to 4.5% from 1.5% etc.
- Looking at the cross asset valuations, equities have now erased the cushion vs credit that was in force for a long time, with earnings yield over credit yield below last 10-year average. **Eurozone dividend yield is now outright below HG yield, for the first time since 2011** – bottom chart.
- 2. **Bank lending standards continue tightening**, for all categories. This is broadly similar to what is seen in the runup to past recessions.
- 3. Notably, **demand for credit is falling aggressively**, the most since GFC. This should not be taken as a sign that corporates are flush with liquidity, and don't need to borrow, but more a signal of worsening growth prospects.
- 4. Default rates are still generally subdued, but are rising. Our credit team is looking for 3% HY defaults in the US by end year, vs 1.4% currently, and for Europe at 2%. Interestingly, **US bankruptcy filings so far ytd are the highest since 2010 –** middle chart.
- At sector level, there is a clear historical differentiation in performance with respect to credit moves. When lending standards are tightening, and/or when demand for credit is falling, Defensive sectors such as Healthcare, Staples and Utilities are outperforming, in contrast to Cyclicals and to Banks, that are lagging. With respect to moves in credit spreads, when they widen, as is JPM base case, Defensives work, at the expense of Autos and Banks. **When all-in HY yield is moving up, Staples and Healthcare were typically by far the best performers, Financials and Real Estate the worst**.
- **We have been advocating in the past few months to turn bullish on Defensives**, post the big beta rally from July to March. Within this, we kept **UW Real Estate**, a continuation of our UW on the sector through the whole last year. Fundamentally, Real Estate is likely to stay under pressure from worsening asset values, weaker cash flow and tighter financing.
- The above add to our concerns that **risk-reward for equities is set to deteriorate**, with weakness likely into 2H, after the Q4&Q1 rally that we enjoyed. We reiterate last week's closure of the Eurozone vs US trade.

Equity Strategy
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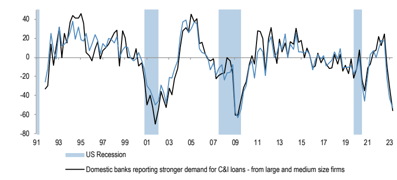
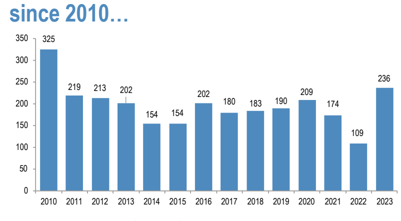
Bank lending standards keep tightening, and demand for credit is coming down aggressively, the most since GFC…



…delinquency rates are set to move up… ytd US bankruptcies are the highest since 2010…



…equity dividend yield is now below the HG yield, for the first time since 2010

Source: SLOOS, J.P. Morgan

See page 22 for analyst certification and important disclosures, including non-US analyst disclosures.

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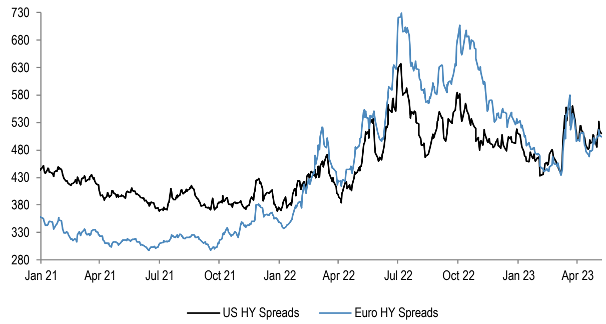
Anamil Kochar of J.P. Morgan India Private Limited is a co-author of this report

Credit conditions keep tightening - Equity implications

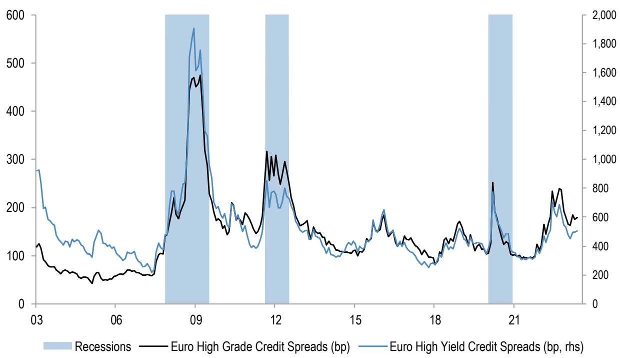
Figure 1: US and Eurozone HY credit spreads



Source: J.P. Morgan

Credit spreads have improved from last summer wides.

Figure 2: Euro HY and HG credit spreads



Source: J.P. Morgan

Broadly, they are mid way between the steady state and the recessionary levels.

Table 1: HY credit spreads and recessions

Past recessions	Trough in HY spreads	# months to recession	Move in spreads: trough to recession (bp)
1990	Jul-88	25	327
2001	Mar-98	37	513
2008	Jun-07	7	325
2020	Oct-18	17	784
Median		**21**	**420**
Average		**22**	**487**
Low in Jul'21 till peak in Jul'22			268
Low in Jul'21 till current			146

Source: J.P. Morgan

Spreads tended to widen on average 400bp+ in the runup to past recessions, which compares with 268bp to last summer wides, and 126bp to latest.

Table 2: US and Euro HY and HG credit spreads forecast

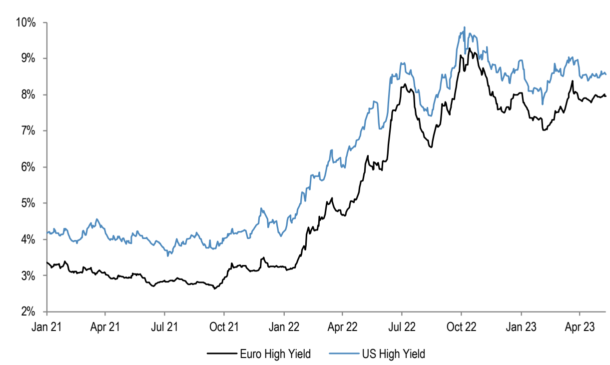
	US HG Spreads	US HY Spreads	Euro HG Spreads	Euro HY Spreads
Current	162	515	182	508
2023 year end target	150	575	200	550

Source: J.P. Morgan Credit Strategy team

Our Credit team expects HY spreads to widen from current levels in both the US and in Europe, but not by much. Despite this, relatively benign picture, we worry that credit markets in general are not sending constructive signals for equities.

1. Borrowing costs have risen sharply…

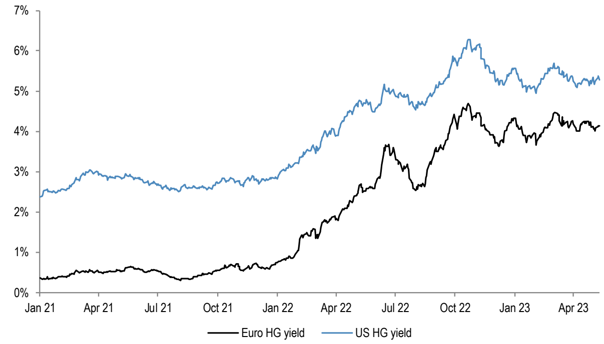
Figure 3: US and Euro HY yield – all-in



Source: J.P. Morgan

Despite the narrowing in spreads over the past few quarters, the total yield for both HY and HG credit has moved up materially. High yield levels are up 500bp+ vs a few years back.

Figure 4: US and Euro HG yield



Source: J.P. Morgan

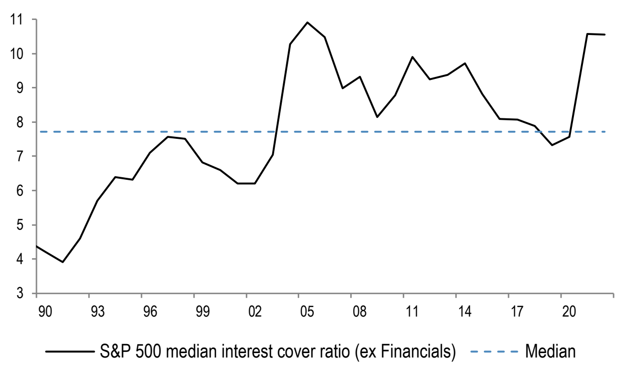
HG yield levels are also up, 278bp in US and 384bp in Europe, from lows.

Figure 5: US and Euro HG yield

Source: J.P. Morgan

This now puts cost of borrowing at a premium to last 10-20 year averages.

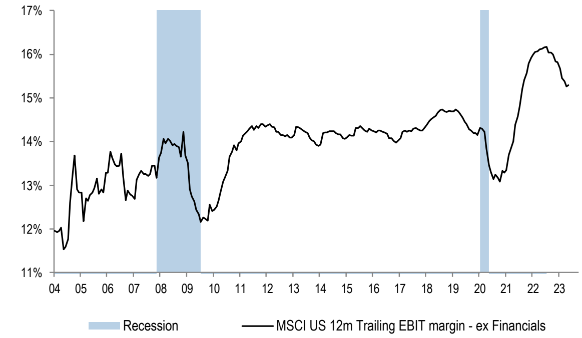
Figure 6: S&P500 interest cover ratio



Source: Datastream

We note that corporate balance sheets appear healthy, though. Interest cover ratios are the highest in years.

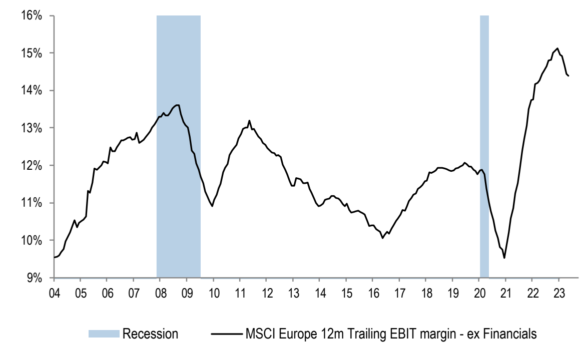
Figure 7: MSCI US 12m trailing EBIT margin



Source: IBES

This is thanks to elevated corporate profitability at present. We note though that profit margins appear to be peaking.

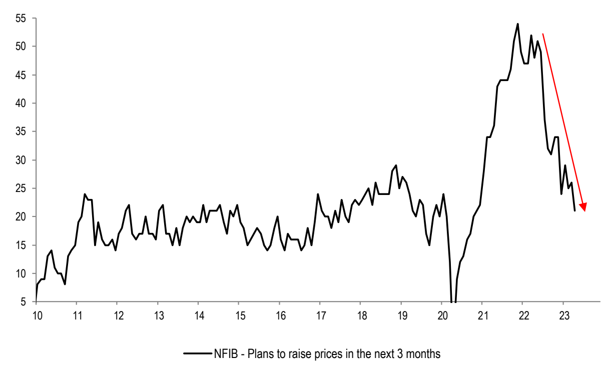
Figure 8: MSCI Europe 12m trailing EBIT margin



Source: IBES

Europe is set to roll over, too.

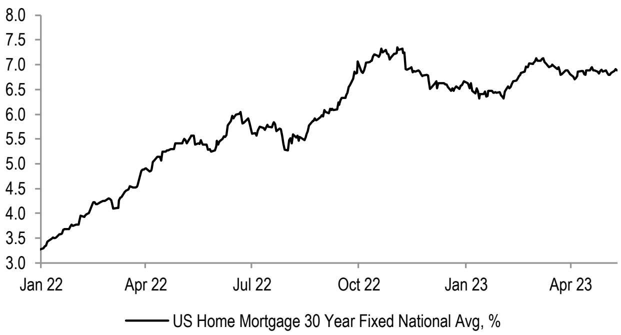
Figure 9: NFIB survey - Plans to raise prices in the next 3 months



Source: J.P. Morgan

Our call is that margins will get under increasing pressure as corporate pricing power wanes.

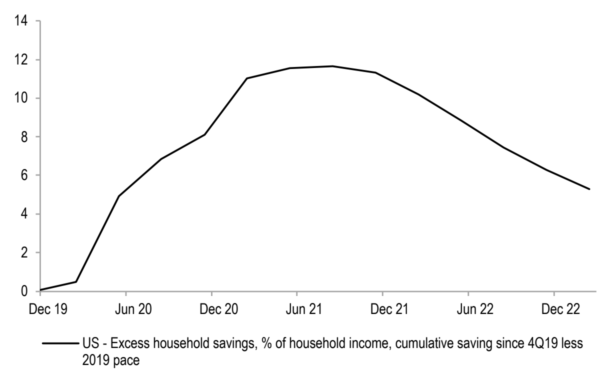
Figure 10: US 30Y Fixed Mortgage rate



Source: Bloomberg Finance L.P.

On the consumer side, the cost of borrowing is materially higher than a few year back. Mortgage rates have more than doubled in the US since the start of last year.

Figure 11: US excess savings

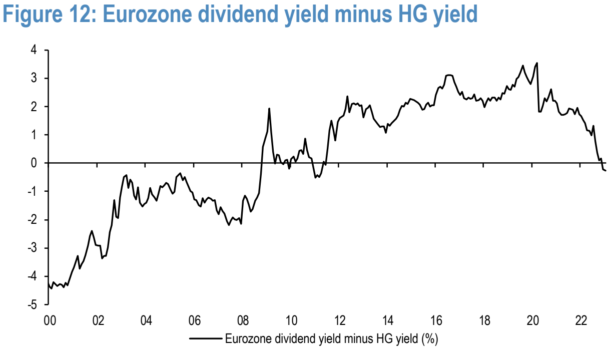


Source: J.P. Morgan Economics team

This will eat into consumer liquidity, the buffer of excess savings built during the pandemic is getting eroded.

…equities don't screen as attractive on relative valuations vs credit anymore

Figure 12: Eurozone dividend yield minus HG yield



Source: Datastream, J.P. Morgan

Relative equity valuation cushion is being eroded, too. Eurozone dividend yields are now below the high grade yields, for the first time since 2011.

Table 3: Spread between dividend yield and credit yield, at sector level for Eurozone market

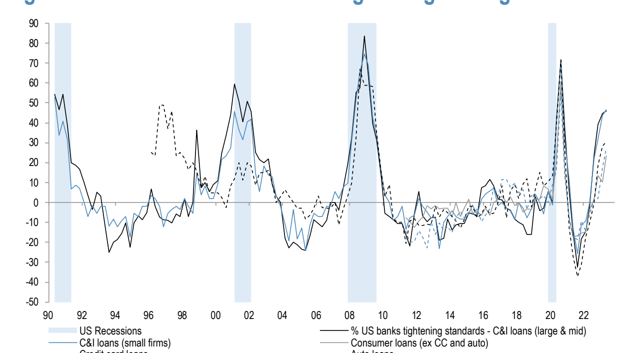
	Dividend Yield	High Grade Yield	Dividend Yield vs HG yield	LT Average	Current spread vs LT Average
Real Estate	6.9%	4.5%	2.4%	0.6%	1.8%
Autos	5.7%	3.6%	2.1%	-0.2%	2.2%
Energy	5.0%	3.5%	1.6%	1.2%	0.4%
Utilities	4.9%	3.7%	1.1%	1.3%	-0.1%
Financials	5.1%	4.1%	1.1%	0.6%	0.4%
Chemicals	3.4%	2.9%	0.5%	0.4%	0.1%
Materials	3.4%	2.9%	0.5%	-0.1%	0.6%
Telecoms	3.6%	3.5%	0.0%	1.0%	-1.0%
Eurozone	**3.1%**	**3.5%**	**-0.4%**	**0.1%**	**-0.5%**
Transport	3.2%	3.7%	-0.5%	-0.5%	0.0%
Const Materials	2.8%	3.5%	-0.7%	-0.6%	-0.1%
Discretionary	2.6%	3.6%	-1.0%	-0.7%	-0.3%
Capital Goods	2.3%	3.3%	-1.0%	-0.6%	-0.5%
Media	2.5%	3.6%	-1.0%	0.0%	-1.1%
Staples	2.0%	3.4%	-1.4%	-0.9%	-0.6%
Technology	1.1%	3.3%	-2.3%	-2.3%	0.0%

Source: J.P. Morgan, Datastream, LT average computed since 1998

This is currently below long-term averages. At a sector level, dividend yields for Technology, Staples, Media, Capital Goods, Discretionary, Construction Materials and Transport are below what is offered by their respective HG credit indices.

2. Bank lending standards are getting more restrictive

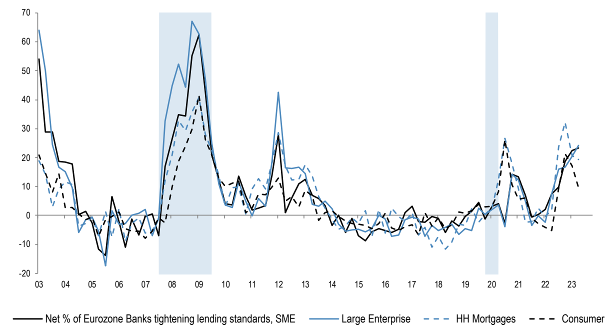
Figure 13: % of US domestic banks tightening lending standards



Source: FRB

The senior loan officer survey released by the FRB last week revealed that Banks had continued tightening lending standards through Q1, at an increasing pace. This is true for both corporate as well as consumer borrowing, across most categories of loans – see our economist report for details.

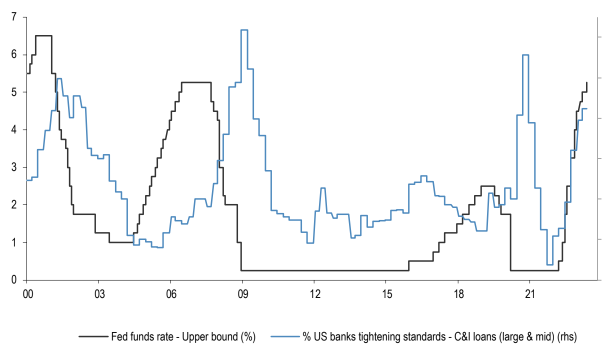
Figure 14: % of Eurozone banks tightening lending standards



Source: ECB

Eurozone Banks lending survey shows a similar trend, but no acceleration most recently.

Figure 15: Lending standards and Fed funds rate

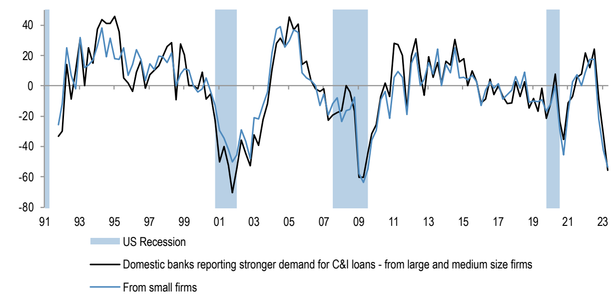


Source: Bloomberg Finance L.P., J.P. Morgan

Historically, banks get more restrictive with availability of loans during periods of economic downturns. Typically, Fed is well advanced with its cutting cycle when Banks lending standards peak, and start to ease.

3. Demand for loans is extremely weak

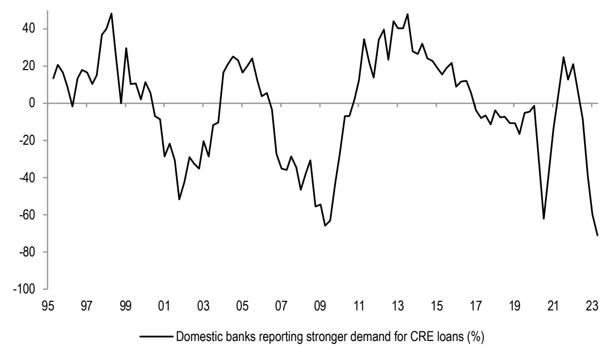
Figure 16: Domestic banks reporting stronger demand for C&I loans



Source: J.P. Morgan

It is not just the access to credit that is getting worse, but the demand for credit is deteriorating, too. Banks reporting stronger loan demand by small corporates were down more than 50% last quarter, the worst reading since the GFC lows and the 2nd lowest print on record.

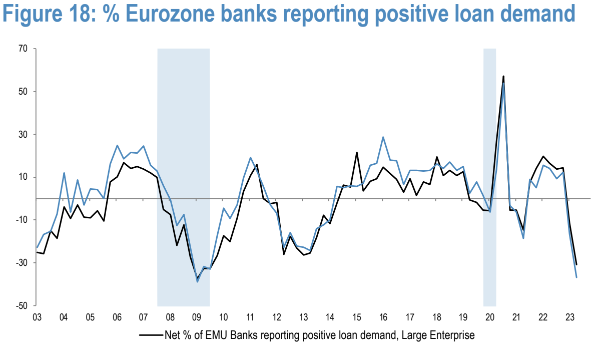
Figure 17: Domestic banks reporting stronger demand for CRE Loans



Source: J.P. Morgan

Loan demand was weak across most categories, with CRE loan demand the worst on record.

Figure 18: % Eurozone banks reporting positive loan demand

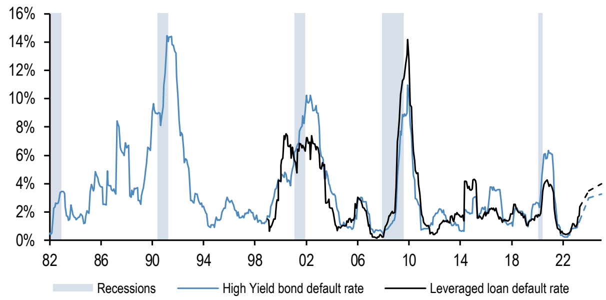


Source: Bloomberg Finance L.P., J.P. Morgan

It's a similar story in Eurozone, where most banks are reporting materially weaker loan demand. We think this should be taken as a worrying sign, a negative for growth outlook, rather than a signal of resilience and ample liquidity.

4. Delinquency rates are low in a historical context, but rising

Figure 19: US HY and leveraged loan default rate, with forecasts



Source: J.P. Morgan US HY strategy team

Default rates are relatively low in a historical context, but are moving up.

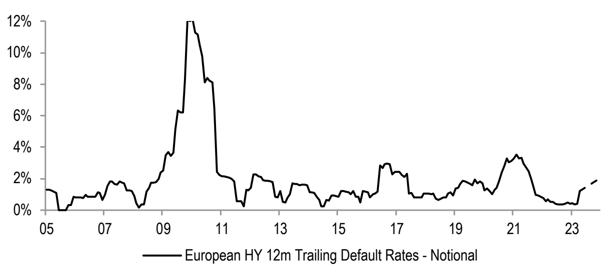
Table 4: JPM US default rate forecasts

	High Yield bond default rate	Leveraged loan default rate
Current	1.42%	2.37%
Dec-23	3.00%	3.50%
Dec-24	3.25%	4.00%

Source: J.P. Morgan US HY strategy team

Our credit analysts believe that this trend will continue. They expect HY default rates in the US to rise from the current 1.4% to 3% by the end of this year and another 25bp for next year. For leveraged loans, default rates are projected to reach 4% by end next year.

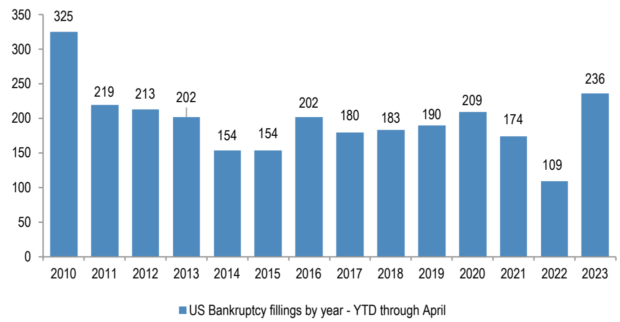
Figure 20: Euro HY default rate



Source: J.P. Morgan European Credit strategy team

It is a similar case in Europe. The defaults are currently low, but on the rise. Our credit analysts expect default rates in Europe to rise to 2% by the end of this year.

Figure 21: US Bankruptcy fillings, by year

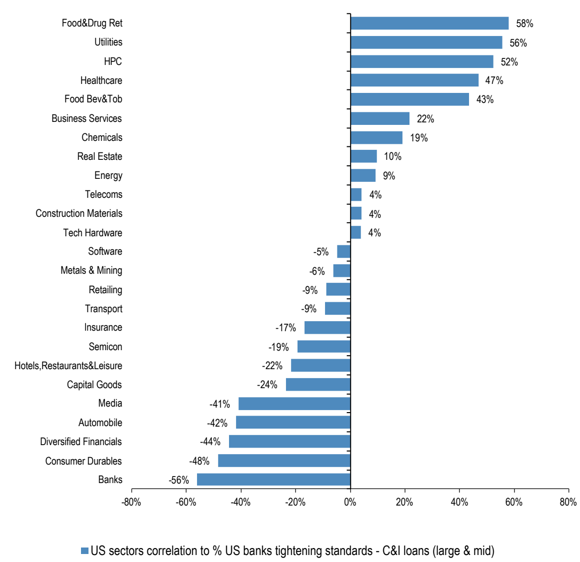


Source: S&PGlobal

We note that, year to date, corporate bankruptcy filings in the US are running at the fastest pace since 2010.

During periods of tightening lending standards, and weakening loan demand, sector leadership was dominated by Defensives…

Figure 22: US sectors correlation to % US banks tightening standards - C&I loans (large & mid)

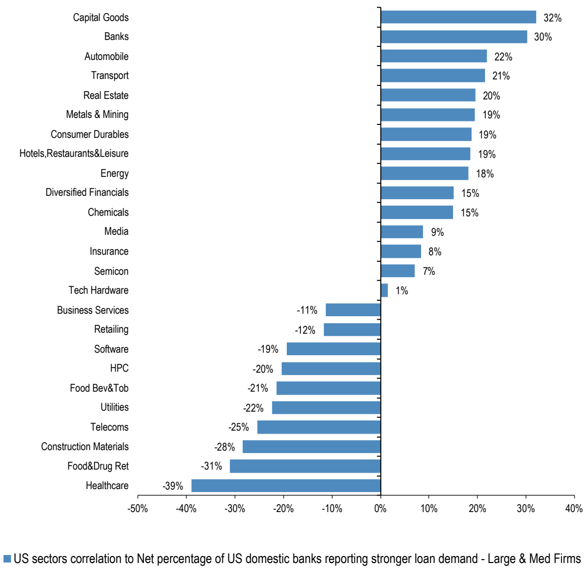


Source: Bloomberg Finance L.P., J.P. Morgan

In the past, tighter lending standards were typically associated with more Defensive sector leadership. Staples, Utilities and Healthcare sectors tended to outperform when bank lending was getting more restrictive. During this period, higher beta sectors such as

Banks, Consumer durables and Autos were among the worst performing sectors.

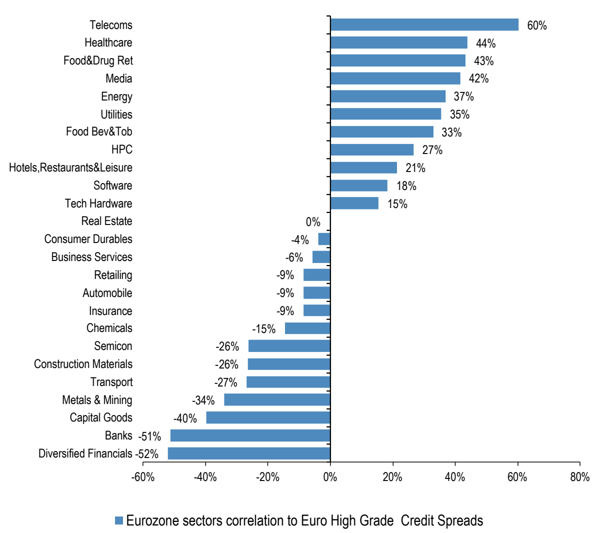
Figure 23: US sectors correlation to Net percentage of US domestic banks reporting stronger loan demand - Large & Med Firms



Source: Bloomberg Finance L.P., J.P. Morgan

Similarly, periods of weaker loan demand saw Defensive sectors do better than the overall market, while higher beta sectors such as Capital Goods, Banks and Autos lagged.

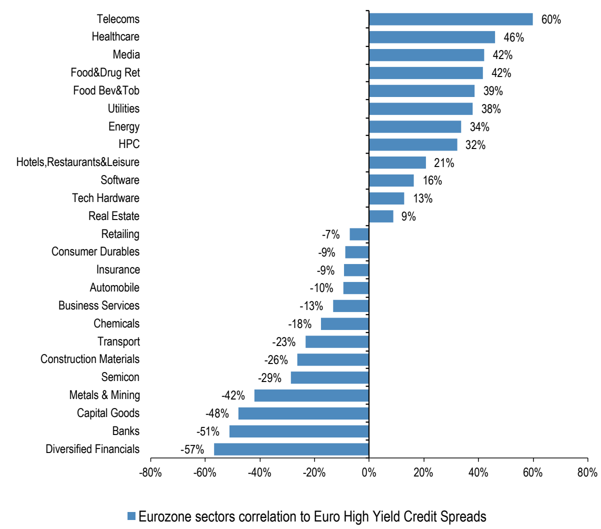
Figure 24: Eurozone sectors correlation to Euro High Grade Credit Spreads



Source: Bloomberg Finance L.P., J.P. Morgan

We also note that Defensive stocks led the market when spreads were widening. As can be seen in the chart above, periods with wider spreads saw Defensive sectors such as Telecoms, Health care and Staples perform better, while Cyclicals and Financials lagged.

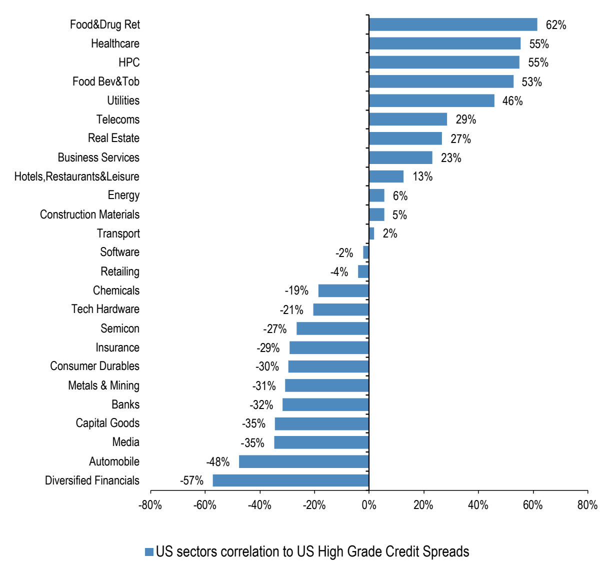
Figure 25: Eurozone sectors correlation to Euro High Yield Credit Spreads



Source: Bloomberg Finance L.P., J.P. Morgan

The pecking order is fairly similar when repeating the analysis using Euro HY spreads.

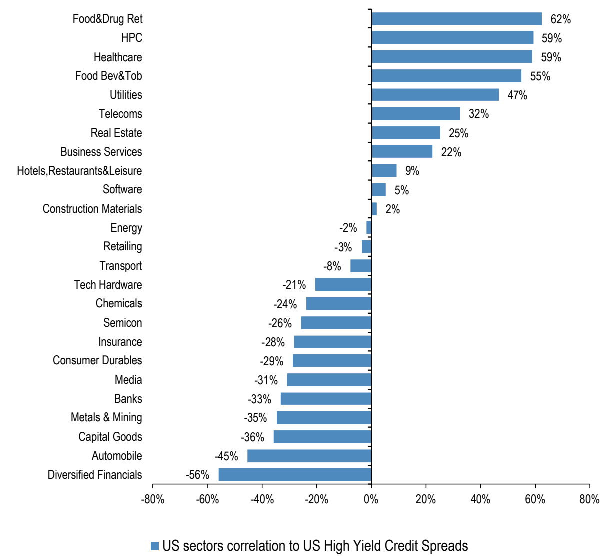
Figure 26: US sectors correlation to US High Grade Credit Spreads



Source: Bloomberg Finance L.P., J.P. Morgan

Looking at the correlation against US High Grade spreads, US sector performance also shows similar leadership pattern.

Figure 27: US sectors correlation to US High Yield Credit Spreads



Source: Bloomberg Finance L.P., J.P. Morgan

As is the case when considering US HY spreads.

Table 5: Eurozone sectors move from Euro HY trough to peak point

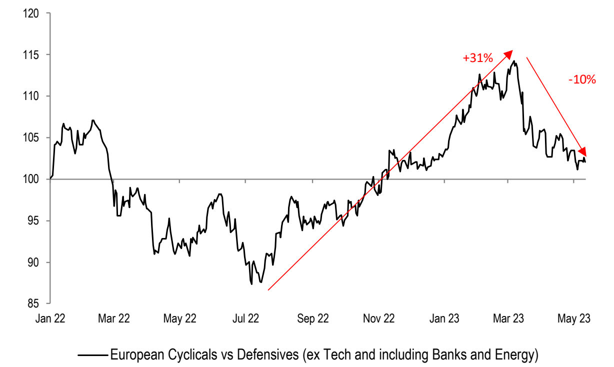
		Eurozone Sectors relative										
Trough in Euro HY yield	Peak in Euro HY yield	Energy	Materials	Industrials	Discretionary	Staples	Healthcare	Financials	IT	Com Services	Utilities	Real Estate
Apr 99	Oct 01	30%	4%	4%	-30%	9%	78%	-2%	-6%	-29%	15%	-10%
Mar 05	Dec 08	7%	16%	1%	10%	22%	-2%	-28%	-11%	15%	51%	-26%
Feb 11	Oct 11	3%	-4%	-4%	3%	28%	28%	-20%	2%	12%	2%	13%
Jun 14	Feb 16	-27%	-11%	1%	6%	31%	14%	-13%	21%	13%	-9%	20%
Feb 20	Mar 20	-10%	4%	-10%	3%	16%	13%	-16%	3%	12%	5%	-2%
Sep 21	Oct 22	53%	-6%	-1%	-3%	9%	1%	9%	-19%	8%	6%	-41%
	Average	9%	0%	-2%	-2%	19%	22%	-12%	-2%	5%	12%	-8%
	Median	5%	0%	0%	3%	19%	13%	-15%	-2%	12%	5%	-6%

Source: Bloomberg Finance L.P., J.P. Morgan

Looking at total credit yields, we note that in periods of rising credit yields, the relative returns of Staples and Healthcare sectors stand out. On the other hand, Financials and Real Estate were at the bottom of the pack in terms of relative performance.

…the above supports our sector shifts, where we have been advocating in the past 3 months to start turning OW Defensives and UW Value…

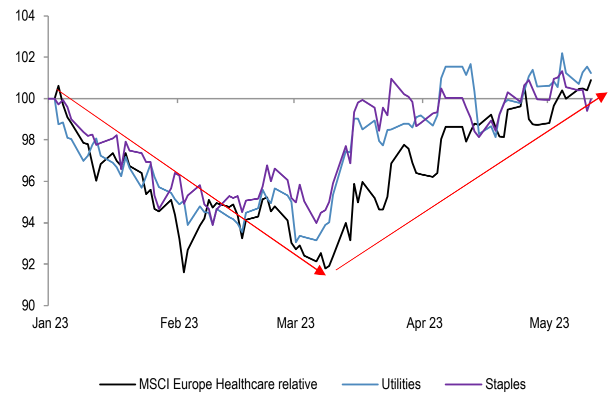
Figure 28: European Cyclicals vs Defensives since Jan '22



Source: Datastream

We have been advocating positioning for a more Defensive / low beta portfolio allocation over the last few months, post a strong beta rally seen since last summer.

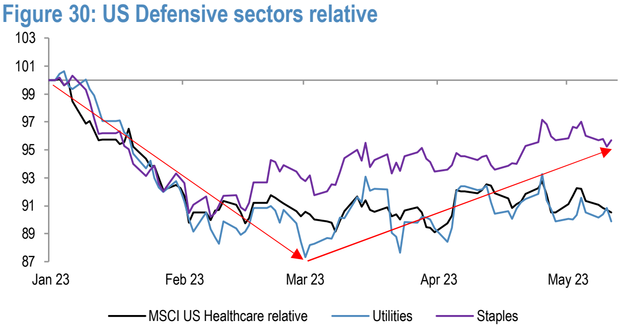
Figure 29: European Defensive sectors relative



Source: Datastream

All Defensive sectors appear to be participating in the recent rebound, helped by falling bond yields, and the risks of macro turn.

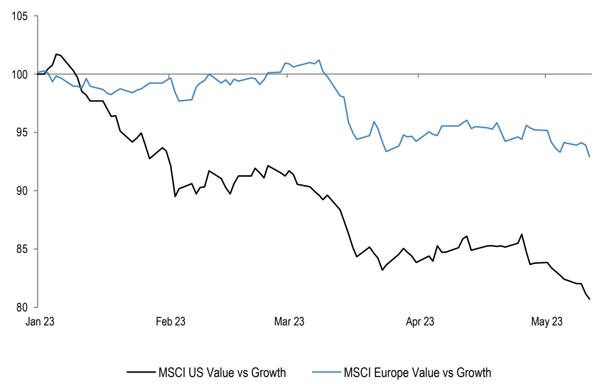
Figure 30: US Defensive sectors relative



Source: Datastream

In the US, the turn is also visible, but the relative move in Defensives is dampened to a good extent by an exceptionally strong showing of Tech.

Figure 31: US and European Value vs Growth ytd



Source: Datastream

We were OW Value vs Growth last year, but this year have the opposite call. We think Growth will be beating Value, and are more bullish on Tech than last year, but think that in absolute terms its moves are getting stretched.

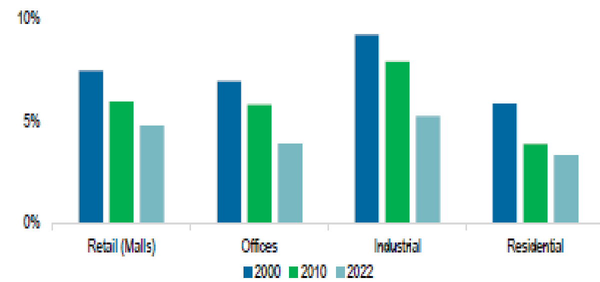
…within this, we stay UW Real Estate

Figure 32: European Real Estate relative

Source: Datastream

Real Estate is a defensive, but a notable exception, in our view.

Figure 33: Valuation yields by sub-sector



Source: J.P. Morgan. European Real Estate Team

Despite the sector being a traditional bond proxy, the headwinds in the form of worsening asset values, weaker cash flows and tighter financing are likely to continue dominating the investment case. We have been UW Real Estate last year, and it is the only Defensive sector which we stayed UW through this year. Link to Real Estate team report.

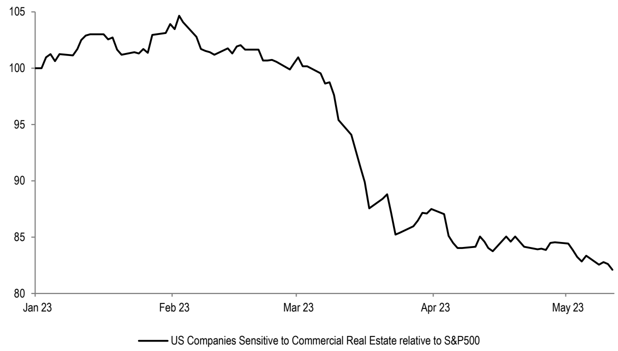
Table 6: US Companies sensitive to Commercial Real Estate Basket - JPAMCRUS

Name	Ticker	Sector
CATERPILLAR INC	CAT US	Industrials
MANITOWOC COMPANY INC	MTW US	Industrials
TEREX CORP	TEX US	Industrials
OSHKOSH CORP	OSK US	Industrials
WALGREENS BOOTS ALLIANCE INC	WBA US	Consumer Staples
RITE AID CORP	RAD US	Consumer Staples
CVS HEALTH CORP	CVS US	Health Care
APOLLO COMMERCIAL REAL ESTAT	ARI US	Financials
TPG RE FINANCE TRUST INC	TRTX US	Financials
CLAROS MORTGAGE TRUST INC	CMTG US	Financials
ARES COMMERCIAL REAL ESTATE	ACRE US	Financials
BLACKSTONE MORTGAGE TRU-CL A	BXMT US	Financials
PRINCIPAL FINANCIAL GROUP	PFG US	Financials
TRIMBLE INC	TRMB US	Information Technology
BOSTON PROPERTIES INC	BXP US	Real Estate
KILROY REALTY CORP	KRC US	Real Estate
DOUGLAS EMMETT INC	DEI US	Real Estate
BRANDYWINE REALTY TRUST	BDN US	Real Estate
VORNADO REALTY TRUST	VNO US	Real Estate
SL GREEN REALTY CORP	SLG US	Real Estate
CBRE GROUP INC - A	CBRE US	Real Estate
JONES LANG LASALLE INC	JLL US	Real Estate
CUSHMAN & WAKEFIELD PLC	CWK US	Real Estate
TRANE TECHNOLOGIES PLC	TT US	Industrials
CARRIER GLOBAL CORP	CARR US	Industrials
LENNOX INTERNATIONAL INC	LII US	Industrials
JOHNSON CONTROLS INTERNATION	JCI US	Industrials
RESIDEO TECHNOLOGIES INC	REZI US	Industrials
API GROUP CORP	APG US	Industrials
HUBBELL INC	HUBB US	Industrials
HONEYWELL INTERNATIONAL INC	HON US	Industrials
SNAP ONE HOLDINGS CORP	SNPO US	Consumer Discretionary
OTIS WORLDWIDE CORP	OTIS US	Industrials
ALARM.COM HOLDINGS INC	ALRM US	Information Technology
NCR CORPORATION	NCR US	Information Technology
CISCO SYSTEMS INC	CSCO US	Information Technology
LOGITECH INTERNATIONAL-REG	LOGI US	Information Technology
DIEBOLD NIXDORF INC	DBD US	Information Technology
ZEBRA TECHNOLOGIES CORP-CL A	ZBRA US	Information Technology
COGNEX CORP	CGNX US	Information Technology

Source: J.P. Morgan.

At a stock level, we highlight the recent work from our US strategists, in partnership with sectors analysts in both Europe and the US, where they identified companies that are exposed to commercial real estate.

Figure 34: US Companies Sensitive to Commercial Real Estate relative to S&P500



Source: Bloomberg Finance L.P., JPMorgan

The US basket has continued to lag the broader market this year.

Table 7: European Companies sensitive to Commercial Real Estate Basket - JPAMCREU

Name	Ticker	Sector
BASF SE	BAS GY	Materials
SIKA AG-REG	SIKA SW	Materials
AKZO NOBEL N.V.	AKZA NA	Materials
WACKER CHEMIE AG	WCH GY	Materials
COVESTRO AG	1COV GY	Materials
ARKEMA	AKE FP	Materials
HOLCIM LTD	HOLN SW	Materials
CRH PLC	CRH ID	Materials
HEIDELBERGCEMENT AG	HEI GY	Materials
BUZZI UNICEM SPA	BZU IM	Materials
COMPAGNIE DE SAINT GOBAIN	SGO FP	Industrials
ASSA ABLOY AB-B	ASSAB SS	Industrials
KINGSPAN GROUP PLC	KSP ID	Industrials
ROCKWOOL A/S-B SHS	ROCKB DC	Industrials
VINCI SA	DG FP	Industrials
SCHNEIDER ELECTRIC SE	SU FP	Industrials
ABB LTD-REG	ABBN SW	Industrials
LEGRAND SA	LR FP	Industrials
SIGNIFY NV	LIGHT NA	Industrials
KONE OYJ-B	KNEBV FH	Industrials
SCHINDLER HOLDING-PART CERT	SCHP SW	Industrials
FERGUSON PLC	FERG LN	Industrials
ASHTEAD GROUP PLC	AHT LN	Industrials
REXEL SA	RXL FP	Industrials
TRAVIS PERKINS PLC	TPK LN	Industrials
RENTOKIL INITIAL PLC	RTO LN	Industrials
SECURITAS AB-B SHS	SECUB SS	Industrials
AENA SME SA	AENA SM	Industrials
ADP	ADP FP	Industrials
FRAPORT AG FRANKFURT AIRPORT	FRA GY	Industrials
ACCOR SA	AC FP	Consumer Discretionary
WHITBREAD PLC	WTB LN	Consumer Discretionary
EQT AB	EQT SS	Financials
PARTNERS GROUP HOLDING AG	PGHN SW	Financials
AMUNDI SA	AMUN FP	Financials
SCHRODERS PLC	SDR LN	Financials
ST JAMES'S PLACE PLC	STJ LN	Financials
DWS GROUP GMBH & CO KGAA	DWS GY	Financials
ABRDN PLC	ABDN LN	Financials
INTERMEDIATE CAPITAL GROUP	ICP LN	Financials
PETERSHILL PARTNERS PLC	PHLL LN	Financials
QUILTER PLC	QLT LN	Financials
HALMA PLC	HLMA LN	Information Technology
RIGHTMOVE PLC	RMV LN	Communication Services
SCOUT24 SE	G24 GY	Communication Services

Source: J.P. Morgan.

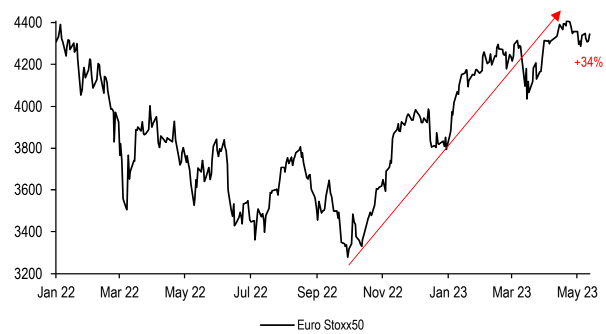
The basket also includes a list of European names which have high exposure to commercial real estate.

Our European sector analysts have also published a detailed Credit Check report last year, which includes a list of stocks with greatest leverage concerns/refinancing risk.

We believe that the risk-reward for equities will worsen into 2H… reiterate last week's closure of Eurozone vs US trade

We look for weaker equity markets in the 2nd half due to worsening Growth-Policy tradeoff, and the credit backdrop could add to the downside concerns.

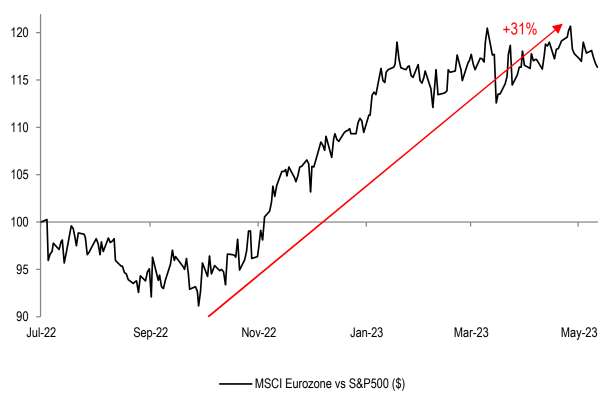
Figure 35: Euro Stoxx 50 since Jan'22



Source: Bloomberg Finance L.P.

Our call is that the strong equity rally that we enjoyed in Q4 and Q1 is likely to come to an end.

Figure 36: MSCI Eurozone vs US



Source: Datastream

Within this, we reiterate our last week's downgrade of Eurozone equities, which are traditionally more levered to the high beta / global cyclical trade.

Equity Strategy Key Calls and Drivers

The main disconnect that the market will need to grapple with revolves around the hopes of a soft landing, without much pain to profits, labour or credit, but at the same time the expectation that inflation will come down quickly. Further, will the consensus view that the worst of pressures is behind us be proven right, when the impact of the monetary tightening historically worked with a lag, and we never had a sustained rally before the Fed has even stopped hiking? Finally, to be positive on equities at this stage, one has to have a very bullish set of assumptions on growth/rates/China/politics etc, as there is an alternative, the main risk-free rate is offering 5%, duration risk free. All these are likely to contribute to our view that stocks are set to weaken for the remainder of the year. We were bullish equities in Q4, and we expected positive trading to spill over into Q1, but we believe one should be UW stocks from here. Our core view is that the activity upswing seen around the turn of the year, which was helped by the falling gas prices in Europe and by China reopening, is unlikely to transition into an acceleration in 2H. We think that the Eurozone composite PMI rebound, from 47 in November to the latest 54 in March, has likely run its course. Apart from likely renewed deterioration in fundamentals in 2H, the potential curveballs could come from US politics, among other, as well as credit markets. Internal leadership might become increasingly difficult for Europe to keep beating the US; We believe the time has come to now close the trade of OW Eurozone vs US. With this, we are OW UK, Japan, and smaller parts of DM, such as Switzerland, we are unexcited about EM, Neutral vs DM, and we keep UW in US, now joined with an UW in Eurozone. This allocation is more aligned with our current sector and style allocation, where we were bullish Value vs Growth style last year, but this year we believe one should be UW Value style, especially if our October call for peaking US yields keeps tracking. Finally, we advise to be defensively positioned with OW on Telecoms, Utilities and Staples, post Q1 bounce and reduce beta in Cyclicals, Value and Banks.

Table 8: J.P. Morgan Equity Strategy — Factors driving our medium-term views

Driver	Impact	Our Core Working Assumptions	Recent Developments
Global Growth	Negative	US recession a base case	Global composite PMI is at 54.2
European Growth	Negative	China reopen and gas price fall now behind us	
Monetary Policy	Neutral	Fed is unlikely to pivot, unless the macro backdrop deteriorates meaningfully	
Currency	Neutral	USD could stabilize post recent weakness	
Earnings	Negative	Margin squeeze and negative operating leverage coming up	Q1 results are likely to be better than expected
Valuations	Negative	US in particular is unattractive vs bond yields, but Europe screens better	MSCI Europe on 12.8x Fwd P/E
Technicals	Neutral	Sentiment is no longer cautious, and positioning normalized	Sentiment and positioning indicators are far from extreme, at either end, but breadth is low.

Source: J.P. Morgan estimates

Table 9: Base Case and Risks

Scenario	Assumption
Upside scenario	Strong reopening in China. No further hawkish tilt by the Fed. Inflation to soften quickly.
Base-case scenario	Inflation to soften, but US recession coming. Earnings downside from here
Downside scenario	Significant further Fed tightening – global recession becomes base case again

Source: J.P. Morgan estimates.

Table 10: Index targets

	Dec '23 Target	11-May-23	% upside
MSCI EMU	**256**	262	-2%
FTSE 100	**8,150**	7,731	5%
MSCI EUROPE	**1,880**	1,878	0%
DJ EURO STOXX 50	**4,150**	4,310	-4%
DJ STOXX 600 E	**465**	464	0%

Source: J.P. Morgan.

Table 11: Key Global sector calls

Overweight	Neutral	Underweight
Utilities	Technology	Capital Goods ex A&D
Insurance	Discretionary	Chemicals
Staples	Healthcare	Real Estate
Energy	Mining	Autos

Source: J.P. Morgan

Table 12: J.P. Morgan Equity Strategy — Key sector calls*

Sector	Recommendations	Key Drivers
Utilities	Overweight	Sector should see less regulatory uncertainty this year; resilient earnings, peaking bond yields are supports
Staples	Overweight	Sector is one of the best performers around the last Fed hike in the cycle, lower bond yields and better relative EPS momentum should further support
Autos	Underweight	Pricing power to weaken, consumer to slow down
Capital Goods ex A&D	Underweight	Sector trades expensive, on peak margins

Source: J.P. Morgan estimates. * Please see the last page for the full list of our calls and sector allocation.

Table 13: J.P. Morgan Equity Strategy — Key regional calls

Region	Recommendations	J.P. Morgan Views
EM	Neutral	China reopening is being worked through; geo-politics is a risk
DM	Neutral	
US	Underweight	Expensive, with earnings risk, Tech unlikely to be a safe haven this time around
Japan	Overweight	Japan is attractively priced, diverging policy path and reopening are potential tailwinds
Eurozone	Underweight	Post the strong rebound in Q4'22 & Q1 '23, the outperformance could stall, Growth-Policy tradeoff likely to deteriorate
UK	Overweight	Valuations still look very attractive, low beta with the highest regional dividend yield

Source: J.P. Morgan estimates

Top Picks

Table 14: J.P. Morgan European Strategy: Top European picks

Name	Ticker	Sector	Rating	Price	Currency	Market Cap (€ Bn)	EPS Growth 22e	EPS Growth 23e	EPS Growth 24e	Dividend Yield 23e	12m Fwd P/E Current	12m Fwd P/E 10Y Median	12m Fwd P/E % Premium	Performance -3m	Performance -12m
TOTALENERGIES	TTE FP	Energy	OW	55	E	136.6	109%	-23%	-10%	5.3%	5.8	10.6	-45%	-8%	9%
SHELL	SHEL LN	Energy	OW	28	E	186.6	116%	-6%	0%	4.3%	6.0	11.2	-47%	-4%	2%
BASF	BAS GR	Materials	OW	47	E	42.2	3%	-35%	14%	7.2%	9.9	13.1	-24%	-8%	-4%
SOLVAY	SOLB BB	Materials	OW	107	E	11.4	67%	-21%	-1%	3.9%	8.2	12.6	-35%	-1%	16%
GLENCORE	GLEN LN	Materials	OW	428	£	61.3	112%	-44%	-8%	10.1%	6.8	11.9	-43%	-17%	-10%
ANGLO AMERICAN	AAL LN	Materials	OW	2348	£	36.0	-31%	-16%	-6%	5.8%	7.3	9.8	-26%	-27%	-31%
SAINT GOBAIN	SGO FP	Industrials	OW	53	E	27.4	21%	-12%	8%	3.8%	9.1	12.9	-29%	1%	0%
VINCI	DG FP	Industrials	OW	109	E	64.2	66%	6%	9%	4.0%	13.3	15.1	-12%	3%	19%
ATLAS COPCO A	ATCOA SS	Industrials	OW	150	SK	63.0	26%	12%	5%	1.7%	27.1	21.1	28%	20%	40%
REXEL	RXL FP	Industrials	OW	19	E	5.7	59%	-15%	3%	6.0%	7.3	11.9	-38%	-12%	3%
DSV	DSV DC	Industrials	N	1324	DK	38.9	60%	-29%	5%	0.6%	22.6	21.6	5%	4%	27%
AIRBUS	AIR FP	Industrials	OW	121	E	95.9	21%	-4%	24%	1.7%	20.2	18.0	12%	7%	13%
BAE SYSTEMS	BA/ LN	Industrials	OW	982	£	34.4	17%	7%	9%	2.9%	16.0	11.9	34%	16%	32%
RENTOKIL INITIAL	RTO LN	Industrials	OW	643	£	18.6	18%	9%	15%	1.3%	26.6	22.2	20%	29%	27%
DR ING HC F PORSCHE PREF.	P911 GR	Discretionary	OW	115	E	104.1	-	7%	9%	2.0%	19.0	18.7	2%	1%	-
RENAULT	RNO FP	Discretionary	OW	33	E	9.9	-138%	-	21%	4.0%	3.3	5.7	-41%	-19%	45%
MERCEDES-BENZ GROUP N	MBG GR	Discretionary	OW	68	E	72.1	36%	-8%	1%	7.6%	5.4	7.6	-29%	-6%	7%
INDITEX	ITX SM	Discretionary	OW	31	E	97.6	189%	27%	12%	-	20.7	24.8	-16%	13%	57%
LVMH	MC FP	Discretionary	OW	888	E	445.6	17%	17%	11%	1.6%	26.0	21.5	21%	11%	55%
WHITBREAD	WTB LN	Discretionary	OW	3246	£	7.5	-	-	0%	1.5%	19.6	18.2	8%	8%	25%
B&M EUROPEAN VAL.RET.	BME LN	Discretionary	OW	489	£	5.6	-5%	-10%	-5%	5.0%	13.9	17.1	-19%	4%	7%
TESCO	TSCO LN	Staples	OW	274	£	22.9	81%	0%	-2%	4.0%	12.6	13.6	-7%	13%	-1%
KONINKLIJKE AHOLD DELHAIZE	AD NA	Staples	OW	31	E	30.3	16%	-2%	8%	3.5%	12.0	13.2	-9%	12%	18%
ANHEUSER-BUSCH INBEV	ABI BB	Staples	OW	57	E	114.1	13%	1%	15%	1.7%	18.2	19.5	-7%	4%	7%
DANONE	BN FP	Staples	OW	59	E	39.9	4%	1%	6%	3.5%	16.8	17.5	-4%	18%	7%
NESTLE 'N'	NESN SW	Staples	OW	115	SF	315.5	9%	4%	8%	2.7%	22.5	21.3	6%	5%	-5%
ASTRAZENECA	AZN LN	Health Care	OW	11924	£	211.8	26%	11%	16%	2.0%	19.1	17.7	8%	5%	19%
NOVO NORDISK 'B'	NOVOB DC	Health Care	OW	1156	DK	349.9	18%	41%	16%	1.4%	31.8	21.9	45%	19%	55%
SIEMENS HEALTHINEERS	SHL GR	Health Care	OW	54	E	60.5	13%	-11%	19%	1.7%	23.7	22.5	5%	4%	4%
UBS GROUP	UBSG SW	Financials	OW	17	SF	60.9	9%	1%	14%	3.1%	8.1	10.6	-23%	-14%	1%
ING GROEP	INGA NA	Financials	OW	11	E	41.6	-18%	52%	13%	6.9%	7.1	9.2	-23%	-12%	29%
LONDON STOCK EXCHANGE GROUP	LSEG LN	Financials	OW	8504	£	53.8	10%	9%	12%	1.4%	23.8	22.0	8%	12%	18%
AMUNDI (WI)	AMUN FP	Financials	OW	60	E	12.2	-11%	1%	6%	6.7%	10.1	12.8	-21%	-4%	9%
SWISS RE	SREN SW	Financials	OW	89	SF	29.1	-67%	597%	14%	7.0%	8.6	10.1	-15%	-5%	11%
PRUDENTIAL	PRU LN	Financials	OW	1182	£	37.3	-1%	17%	12%	1.4%	12.1	11.8	2%	-8%	25%
SAP	SAP GR	IT	OW	123	E	150.1	-40%	29%	18%	1.7%	21.9	19.3	14%	12%	34%
ASML HOLDING	ASML NA	IT	OW	593	E	239.2	-1%	33%	21%	1.1%	29.6	25.5	16%	-3%	15%
ADYEN	ADYEN NA	Financials	OW	1457	E	45.2	19%	24%	36%	0.0%	57.8	90.2	-36%	10%	6%
BT GROUP	BT/A LN	Telecoms	OW	153	£	17.4	6%	-1%	-6%	5.1%	8.3	9.5	-13%	12%	-14%
DEUTSCHE TELEKOM	DTE GR	Telecoms	OW	21	E	107.0	50%	-10%	15%	3.6%	12.4	14.4	-14%	7%	24%
INFRASTRUTTURE WIRELESS ITALIANE SPA NPV	INW IM	Telecoms	OW	12	E	11.7	54%	26%	17%	3.6%	29.7	28.4	5%	16%	18%
RELX	REL LN	Industrials	OW	2496	£	54.4	17%	9%	10%	2.3%	21.6	18.8	15%	4%	9%
PEARSON	PSON LN	Discretionary	OW	811	£	6.7	49%	9%	11%	2.8%	13.9	15.1	-8%	-9%	7%
DELIVERY HERO	DHER GR	Discretionary	OW	39	E	10.4	-	-	-	0.0%	-18.5	-30.3	-	-16%	53%
ENGIE	ENGI FP	Utilities	OW	15	E	36.0	74%	-30%	7%	7.6%	9.1	12.4	-27%	12%	31%
RWE	RWE GR	Utilities	OW	42	E	31.0	102%	-26%	-21%	2.3%	13.0	13.0	0%	5%	4%
SEGRO	SGRO LN	Real Estate	OW	809	£	11.4	7%	8%	8%	3.5%	23.6	25.3	-7%	-2%	-27%
VONOVIA	VNA GR	Real Estate	OW	19	E	14.8	3%	0%	-19%	7.9%	9.0	19.4	-54%	-28%	-45%

Source: Datastream, MSCI, IBES, J.P. Morgan, Prices and Valuations as of COB 11th May, 2023. Past performance is not indicative of future returns.

Please see the most recent company-specific research published by J.P. Morgan for an analysis of valuation methodology and risks on companies recommended in this report. Research is available or you can contact the covering analyst or your J.P. Morgan representative.

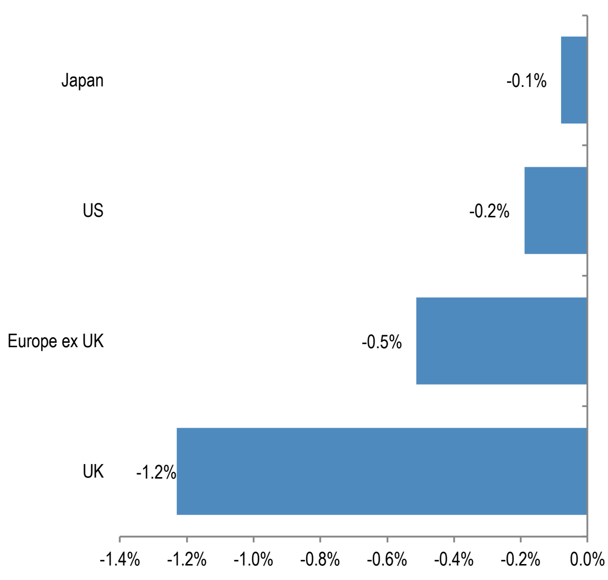
Equity Flows Snapshot

Table 15: DM Equity Fund Flows Summary

	Regional equity fund flows									
	$mn					% AUM				
	1w	1m	3m	YTD	12m	1w	1m	3m	YTD	12m
Europe ex UK	-442	-1,597	-2,860	-2,127	-24,549	-0.1%	-0.5%	-0.9%	-0.8%	-8.1%
UK	-523	-3,432	-7,455	-10,839	-29,342	-0.2%	-1.2%	-2.6%	-4.0%	-10.2%
US	-2,651	-15,514	-43,080	-58,130	24,040	0.0%	-0.2%	-0.5%	-0.8%	0.3%
Japan	834	-533	-4,839	-6,186	-6,880	0.1%	-0.1%	-0.7%	-1.0%	-1.0%

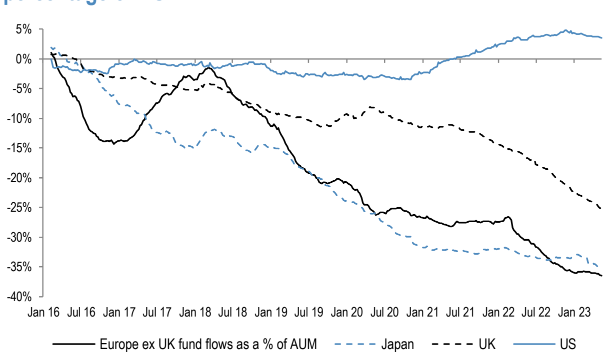
Source: EPFR, as of 10th May, 2023

Figure 37: DM Equity Fund flows – last month



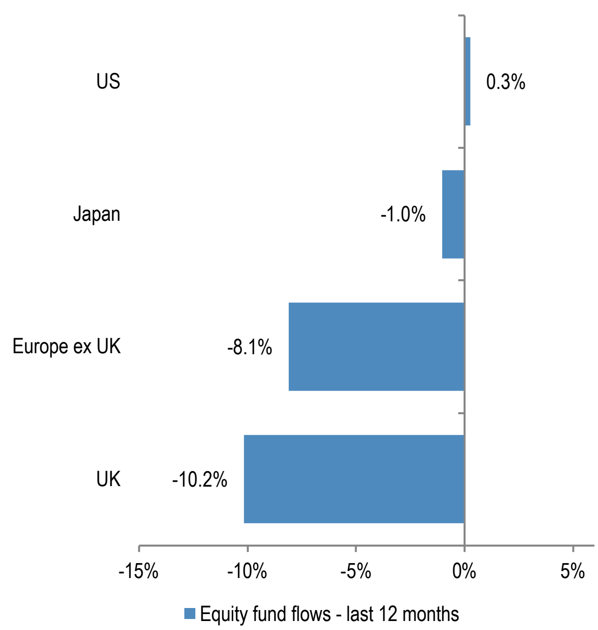
Source: EPFR, Japan includes BoJ purchases.

Figure 38: Cumulative fund flows into regional funds as a percentage of AUM



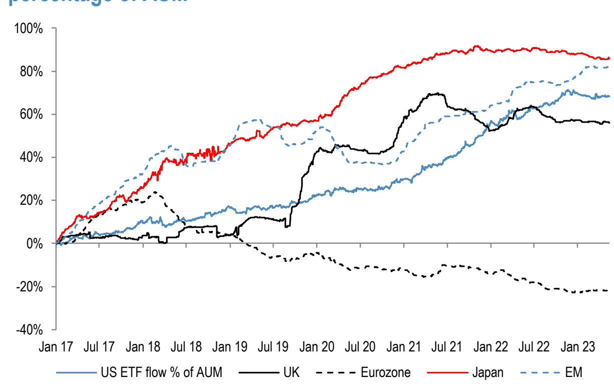
Source: EPFR, as of 10th May, 2023. Japan includes Non-ETF purchases only.

Figure 39: DM Equity Fund flows – last 12 months



Source: EPFR, Japan includes BoJ purchases.

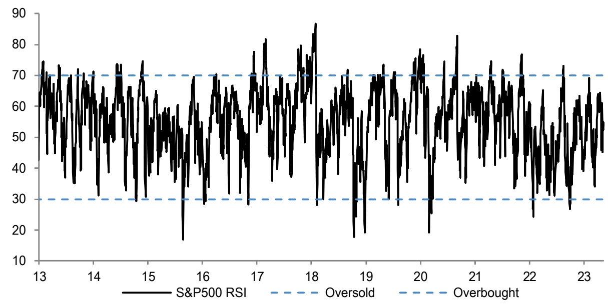
Figure 40: Cumulative fund flows into regional equity ETFs as a percentage of AUM



Source: Bloomberg Finance L.P. *Based on the 25 biggest ETF's with a mandate to invest in that particular region. Japan includes BoJ purchases

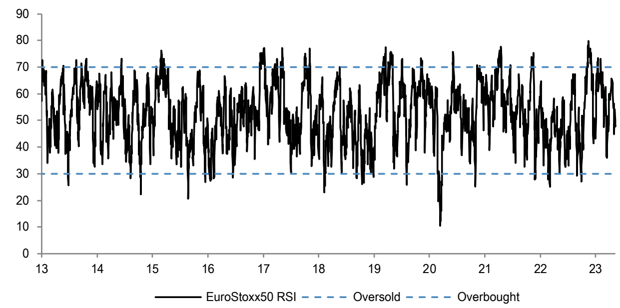
Technical Indicators

Figure 41: S&P500 RSI



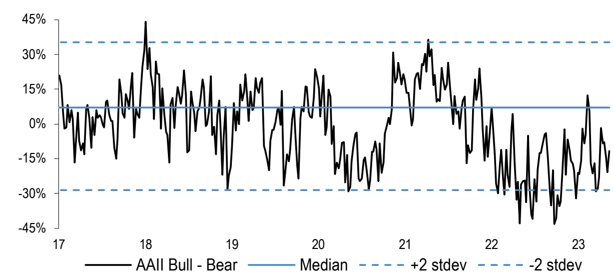
Source: Bloomberg Finance L.P.

Figure 45: Eurostoxx50 RSI



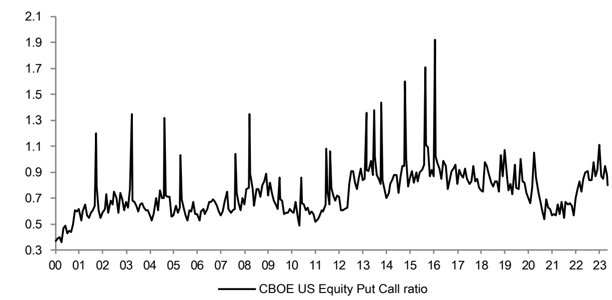
Source: Bloomberg Finance L.P.

Figure 42: AAII Bull-Bear



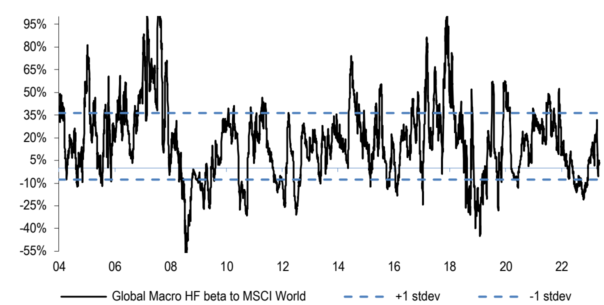
Source: Bloomberg Finance L.P

Figure 46: Put-call ratio



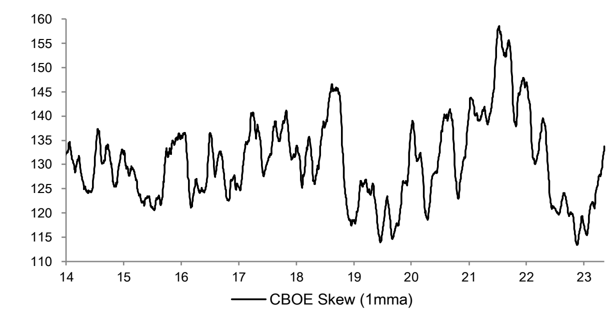
Source: Bloomberg Finance L.P.

Figure 43: Hedge Fund Beta



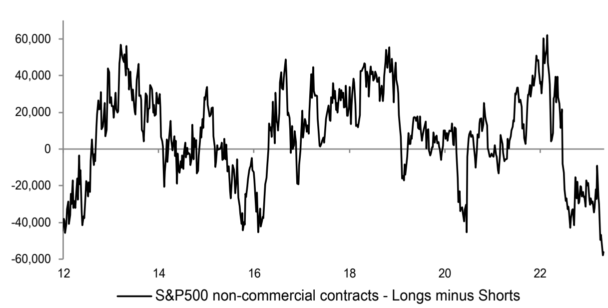
Source: Bloomberg Finance L.P.

Figure 47: Equity Skew



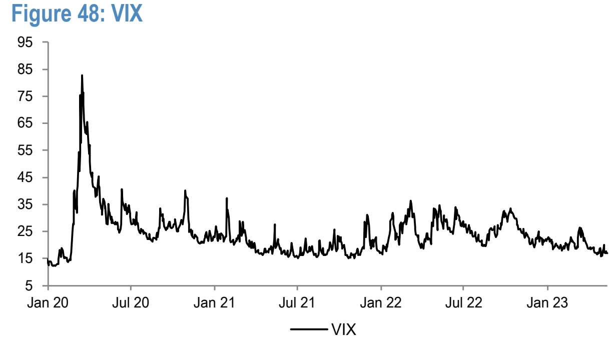
Source: Bloomberg Finance L.P.

Figure 44: Speculative positions in S&P500 futures contracts



Source: Bloomberg Finance L.P.

Figure 48: VIX



Source: Bloomberg Finance L.P.

Performance

Table 16: Sector Index Performances — MSCI Europe

(%change) Industry Group		Local currency 4week	12m	YTD
Europe		**(0.5)**	**8.8**	**9.0**
Energy		**(6.0)**	**3.3**	**(3.3)**
Materials		**(2.7)**	**(4.8)**	**0.1**
	Chemicals	1.5	(3.2)	9.6
	Construction Materials	1.9	24.2	22.6
	Metals & Mining	(12.5)	(13.3)	(18.2)
Industrials		**0.7**	**15.4**	**12.3**
	Capital Goods	1.9	19.6	13.8
	Transport	(0.6)	7.1	14.7
	Business Svs	(5.1)	0.1	3.0
Consumer Discretionary		**0.3**	**30.3**	**20.5**
	Automobile	(2.1)	10.3	15.3
	Consumer Durables	1.0	39.3	27.3
	Media	(1.2)	6.3	7.4
	Retailing	(0.5)	36.7	8.6
	Hotels, Restaurants & Leisure	3.6	34.7	21.2
Consumer Staples		**1.1**	**4.0**	**8.1**
	Food & Drug Retailing	(0.3)	(0.2)	14.2
	Food Beverage & Tobacco	1.3	(0.8)	5.6
	Household Products	0.8	18.4	12.6
Healthcare		**1.6**	**7.1**	**9.3**
Financials		**(1.8)**	**10.6**	**4.5**
	Banks	(1.3)	18.1	6.2
	Diversified Financials	(1.9)	1.4	5.2
	Insurance	(2.5)	6.7	1.4
Real Estate		**(1.8)**	**(31.4)**	**(6.4)**
Information Technology		**(1.5)**	**11.5**	**16.2**
	Software and Services	2.8	13.8	19.6
	Technology Hardware	(5.1)	(11.6)	(2.3)
	Semicon & Semicon Equip	(4.3)	16.4	18.5
Telecommunications Services		**(1.7)**	**(0.7)**	**14.5**
Utilities		**0.4**	**3.3**	**10.6**

Source: MSCI, Datastream, as at COB 11th May, 2023.

Table 17: Country and Region Index Performances

(%change)		Local Currency			US$		
Country	Index	4week	12m	YTD	4week	12m	YTD
Austria	ATX	(1.4)	3.2	1.7	(2.6)	6.9	4.1
Belgium	BEL 20	(1.9)	(5.5)	1.0	(3.1)	(2.2)	3.4
Denmark	KFX	2.9	30.1	14.7	1.7	34.4	17.2
Finland	HEX 20	(2.4)	(1.1)	(2.6)	(3.6)	2.4	(0.4)
France	CAC 40	(1.3)	17.7	14.0	(2.5)	21.9	16.6
Germany	DAX	0.7	14.5	13.7	(0.5)	18.5	16.3
Greece	ASE General	1.8	30.1	20.7	0.6	34.7	23.5
Ireland	ISEQ	3.5	22.5	20.2	2.3	26.8	22.9
Italy	FTSE MIB	(1.9)	14.2	14.3	(3.1)	18.2	16.9
Japan	Topix	3.7	12.5	10.1	2.2	9.1	8.1
Netherlands	AEX	(1.2)	10.0	9.0	(2.4)	13.9	11.5
Norway	OBX	(4.6)	(4.8)	(3.4)	(7.5)	(13.5)	(10.7)
Portugal	BVL GEN	(2.1)	3.9	2.3	(3.3)	7.5	4.6
Spain	IBEX 35	(1.4)	10.5	11.6	(2.5)	14.4	14.2
Sweden	OMX	0.2	12.8	9.1	(0.2)	9.1	10.1
Switzerland	SMI	2.3	(0.3)	7.4	1.7	10.5	11.1
United States	S&P 500	(0.4)	5.0	7.6	(0.4)	5.0	7.6
United States	NASDAQ	1.3	8.5	17.8	1.3	8.5	17.8
United Kingdom	FTSE 100	(1.4)	5.2	3.7	(1.3)	6.8	8.0
EMU	MSCI EMU	(1.1)	12.5	11.8	(2.2)	16.5	14.4
Europe	**MSCI Europe**	**(0.5)**	**8.8**	**9.0**	**(1.3)**	**12.7**	**11.9**
Global	MSCI AC World	(0.2)	5.8	7.7	(0.5)	6.1	8.2

Source: MSCI, Datastream, as at COB 11th May, 2023.

Earnings

Table 18: IBES Consensus EPS Sector Forecasts — MSCI Europe

	EPS Growth (%)			
	2022	2023E	2024E	2025E
Europe	**18.5**	**0.0**	**7.2**	**7.8**
Energy	**122.1**	**(22.9)**	**(6.5)**	**(5.7)**
Materials	**2.0**	**(23.8)**	**4.0**	**3.8**
Chemicals	0.1	(14.5)	14.8	10.4
Construction Materials	16.5	(1.2)	8.9	11.2
Metals & Mining	(2.7)	(31.7)	(5.6)	(5.2)
Industrials	**21.0**	**(2.5)**	**10.4**	**12.5**
Capital Goods	6.9	19.4	11.7	12.5
Transport	86.1	(58.6)	1.6	14.1
Business Svs	12.9	5.0	10.1	10.6
Discretionary	**10.8**	**8.7**	**11.1**	**9.2**
Automobile	18.2	(6.7)	4.7	6.3
Consumer Durables	12.6	2.7	15.6	11.0
Media	58.0	(1.4)	11.0	14.0
Retailing	(132.0)	-	29.1	13.1
Hotels, Restaurants & Leisure	94.3	27.6	20.5	16.0
Staples	**12.9**	**2.9**	**9.1**	**8.6**
Food & Drug Retailing	5.2	(0.8)	13.2	10.0
Food Beverage & Tobacco	16.7	3.2	8.3	8.8
Household Products	5.4	3.5	9.5	7.1
Healthcare	**7.6**	**4.5**	**12.1**	**12.3**
Financials	**(0.8)**	**21.5**	**8.2**	**8.4**
Banks	8.5	16.3	6.4	7.2
Diversified Financials	(38.3)	51.4	13.4	14.9
Insurance	1.1	21.6	9.5	7.7
Real Estate	**4.8**	**7.2**	**(2.3)**	**4.3**
IT	**3.4**	**14.8**	**15.0**	**16.5**
Software and Services	(13.1)	21.9	17.1	14.9
Technology Hardware	1.3	(11.5)	17.9	8.7
Semicon & Semicon Equip	25.0	21.7	12.2	21.0
Telecoms	**28.9**	**(2.1)**	**11.7**	**11.1**
Utilities	**22.9**	**(3.9)**	**4.0**	**4.1**

Source: IBES, MSCI, Datastream. As at COB 11th May, 2023.

Table 19: IBES Consensus EPS Country Forecasts

		EPS Growth (%)			
Country	**Index**	**2022**	**2023E**	**2024E**	**2025E**
Austria	ATX	35.2	(21.6)	2.2	2.9
Belgium	BEL 20	(3.9)	6.2	11.8	14.8
Denmark	Denmark KFX	31.2	(32.1)	12.9	16.1
Finland	MSCI Finland	4.5	(10.2)	9.1	5.4
France	CAC 40	27.4	(2.3)	7.3	7.9
Germany	DAX	9.2	(0.9)	10.7	9.6
Greece	MSCI Greece	121.4	(8.3)	3.6	6.8
Ireland	MSCI Ireland	28.7	1.3	11.1	12.7
Italy	MSCI Italy	29.7	(0.8)	2.5	3.8
Netherlands	AEX	30.9	(4.6)	8.0	5.9
Norway	MSCI Norway	84.0	(29.2)	3.4	(6.8)
Portugal	MSCI Portugal	25.6	30.6	6.2	8.6
Spain	IBEX 35	29.5	(6.9)	4.9	9.5
Sweden	OMX	(8.8)	26.9	6.8	7.8
Switzerland	SMI	(10.5)	27.1	11.3	9.9
United Kingdom	FTSE 100	28.5	(7.1)	4.0	4.6
EMU	MSCI EMU	19.5	2.0	8.5	9.1
Europe ex UK	MSCI Europe ex UK	15.1	3.4	8.8	9.1
Europe	MSCI Europe	18.5	0.0	7.2	7.8
United States	S&P 500	7.2	0.1	11.2	11.4
Japan	Topix	4.9	6.5	8.3	7.5
Emerging Market	MSCI EM	4.4	(2.4)	17.2	12.2
Global	MSCI AC World	8.8	0.2	10.8	10.2

Source: IBES, MSCI, Datastream. As at COB 11th May, 2023** Japan refers to the period from March in the year stated to March in the following year – EPS post-goodwill

Valuations

Table 20: IBES Consensus European Sector Valuations

	P/E			Dividend Yields			EV/EBITDA			Price to Book		
	2023e	2024e	2025e	2023e	2024e	2025e	2023e	2024e	2025e	2023e	2024e	2025e
Europe	**13.2**	**12.3**	**11.4**	**3.2%**	**3.4%**	**3.6%**	**7.3**	**7.9**	**7.5**	**1.9**	**1.8**	**1.7**
Energy	**5.9**	**6.3**	**6.7**	**5.4%**	**6.0%**	**5.6%**	**2.4**	**2.8**	**2.9**	**1.3**	**1.1**	**1.0**
Materials	**12.4**	**11.9**	**11.5**	**4.7%**	**4.5%**	**4.5%**	**5.4**	**6.5**	**6.3**	**1.6**	**1.5**	**1.5**
Chemicals	19.4	16.9	15.3	3.5%	3.2%	3.3%	8.4	10.1	9.2	2.4	2.3	2.2
Construction Materials	11.5	10.6	9.5	3.5%	3.7%	3.9%	5.9	6.4	5.8	1.2	1.2	1.1
Metals & Mining	7.5	7.9	8.4	7.2%	7.0%	6.6%	3.6	4.3	4.4	1.2	1.2	1.1
Industrials	**17.8**	**16.1**	**14.3**	**2.5%**	**2.6%**	**2.8%**	**8.3**	**9.8**	**8.9**	**3.1**	**3.0**	**2.9**
Capital Goods	17.9	16.0	14.2	2.2%	2.5%	2.7%	9.8	10.2	9.1	3.1	2.9	2.8
Transport	15.2	15.0	13.1	4.7%	3.2%	3.2%	3.8	7.2	6.9	2.2	2.2	2.1
Business Svs	20.0	18.2	16.4	2.5%	2.5%	2.8%	13.2	11.9	11.0	5.5	5.4	5.0
Discretionary	**14.2**	**12.8**	**11.7**	**2.3%**	**2.4%**	**2.7%**	**7.0**	**6.3**	**5.8**	**1.9**	**2.1**	**1.9**
Automobile	5.8	5.6	5.2	5.1%	5.0%	5.3%	4.2	2.7	2.5	0.7	0.8	0.7
Consumer Durables	25.1	21.7	19.5	1.4%	1.6%	1.8%	13.2	15.0	13.7	6.1	5.7	5.0
Media & Entertainment	14.7	13.3	11.6	2.3%	2.4%	2.6%	11.0	11.5	10.2	1.6	1.6	1.5
Retailing	22.7	17.6	15.5	1.5%	1.8%	2.0%	17.9	13.4	10.0	3.2	2.7	2.6
Hotels, Restaurants & Leisure	24.7	20.5	17.6	1.4%	1.8%	2.3%	14.7	13.6	11.5	4.1	3.8	3.5
Staples	**19.2**	**17.6**	**16.2**	**2.5%**	**2.7%**	**2.9%**	**11.6**	**12.0**	**11.1**	**3.0**	**3.0**	**2.8**
Food & Drug Retailing	14.2	12.5	11.4	3.1%	3.3%	3.6%	6.8	6.5	6.4	1.7	1.7	1.7
Food Beverage & Tobacco	18.9	17.4	16.0	2.8%	3.0%	3.2%	11.8	11.9	11.0	2.7	2.8	2.6
Household Products	22.3	20.4	19.0	2.0%	2.2%	2.3%	13.9	15.4	14.1	4.7	4.4	4.1
Healthcare	**18.1**	**16.1**	**14.4**	**2.2%**	**2.3%**	**2.5%**	**12.1**	**12.3**	**10.8**	**3.9**	**3.6**	**3.3**
Financials	**8.0**	**7.4**	**6.8**	**5.0%**	**5.9%**	**6.4%**	**-**	**-**	**-**	**0.9**	**0.9**	**0.9**
Banks	6.5	6.1	5.7	5.9%	7.3%	8.0%	-	-	-	0.7	0.7	0.6
Diversified Financials	11.6	10.3	8.8	2.8%	3.1%	3.4%	-	-	-	1.1	1.0	1.1
Insurance	9.7	8.9	8.2	5.3%	5.7%	6.0%	-	-	-	1.7	1.5	1.4
Real Estate	**11.1**	**11.4**	**10.9**	**4.6%**	**5.9%**	**6.0%**	**-**	**-**	**-**	**0.6**	**0.6**	**0.6**
IT	**22.1**	**19.2**	**16.5**	**1.2%**	**1.3%**	**1.5%**	**13.4**	**13.6**	**11.9**	**4.4**	**4.0**	**3.6**
Software and Services	24.1	20.6	17.9	1.2%	1.3%	1.4%	14.4	14.6	12.8	3.9	3.5	3.3
Technology Hardware	14.7	12.5	11.5	2.4%	2.5%	2.9%	8.2	8.2	7.3	1.8	1.7	1.6
Semicon & Semicon Equip	23.1	20.6	17.0	0.9%	1.0%	1.2%	15.2	14.8	13.1	8.8	7.3	6.1
Communication Services	**14.7**	**13.2**	**11.8**	**3.9%**	**4.1%**	**4.3%**	**6.6**	**6.8**	**6.5**	**1.5**	**1.4**	**1.4**
Utilities	**14.2**	**13.7**	**13.2**	**4.4%**	**4.6%**	**4.6%**	**7.9**	**8.6**	**8.6**	**1.9**	**1.8**	**1.7**

Source: IBES, MSCI, Datastream. As at COB 11th May, 2023.

Table 21: IBES Consensus P/E and 12-Month Forward Dividend Yields — Country Forecasts

Country	Index	P/E 12mth Fwd	P/E 2023E	P/E 2024E	P/E 2025E	Dividend Yield 12mth Fwd
Austria	ATX	7.1	7.2	7.0	6.8	6.0%
Belgium	BEL 20	15.6	16.4	14.6	12.5	3.1%
Denmark	Denmark KFX	25.3	26.7	23.7	20.4	1.8%
Finland	MSCI Finland	14.1	14.6	13.4	12.7	4.3%
France	CAC 40	12.4	12.8	11.9	11.0	3.3%
Germany	DAX	11.3	11.8	10.6	9.7	3.5%
Greece	MSCI Greece	39.2	39.8	38.4	36.0	1.4%
Ireland	MSCI Ireland	14.4	15.0	13.5	12.0	2.3%
Italy	MSCI Italy	8.2	8.3	8.1	7.8	5.7%
Netherlands	AEX	13.4	13.8	12.8	12.0	2.6%
Norway	MSCI Norway	8.7	8.8	8.5	9.1	7.2%
Portugal	MSCI Portugal	15.8	16.2	15.3	14.1	3.5%
Spain	IBEX 35	11.0	11.2	10.7	9.8	4.7%
Sweden	OMX	13.9	14.3	13.4	12.4	3.9%
Switzerland	SMI	16.8	17.6	15.8	14.4	3.1%
United Kingdom	FTSE 100	10.5	10.7	10.3	9.8	4.2%
EMU	MSCI EMU	12.4	12.8	11.8	10.8	3.5%
Europe ex UK	MSCI Europe ex UK	13.7	14.2	13.0	11.9	3.3%
Europe	**MSCI Europe**	**12.8**	13.2	12.3	11.4	**3.5%**
United States	S&P 500	18.1	19.1	17.1	15.4	1.7%
Japan	Topix	13.2	13.4	12.4	11.6	2.5%
Emerging Market	MSCI EM	11.7	12.5	10.7	9.5	3.2%
Global	MSCI AC World	15.5	16.2	14.7	13.3	2.4%

Source: IBES, MSCI, Datastream. As at COB 11th May, 2023; ** Japan refers to the period from March in the year stated to March in the following year – P/E post goodwill.

Economic, Interest Rate and Exchange Rate Outlook

Table 22: Economic Outlook in Summary

	Real GDP % oya			Real GDP % over previous period, saar						Consumer prices % oya			
	2022	2023E	2024E	4Q22	1Q23E	2Q23E	3Q23E	4Q23E	1Q24E	4Q22	2Q23E	4Q23E	2Q24E
United States	2.1	1.3	0.4	2.6	1.1	1.0	0.5	-0.5	-0.5	7.1	4.1	2.9	2.2
Eurozone	3.5	1.1	0.9	-0.2	0.3	2.0	1.5	0.5	0.3	10.0	6.5	3.0	2.1
United Kingdom	4.1	0.7	0.7	0.5	0.6	1.3	1.5	0.8	0.4	10.8	7.9	4.4	2.6
Japan	1.0	0.8	0.6	0.1	1.4	1.4	0.2	0.2	0.6	3.9	3.3	3.5	3.0
Emerging markets	3.4	4.3	3.9	2.2	7.8	4.3	3.5	3.3	3.9	5.9	3.6	4.1	4.3
Global	3.0	2.5	2.0	1.6	3.8	2.6	1.9	1.4	1.7	7.1	4.5	3.5	3.1

Source: J.P. Morgan economic research J.P. Morgan estimates, as of COB 11th May, 2023

Table 23: Official Rates Outlook

%	Official interest rate	Current	Last change (bp)	Forecast next change (bp)	Forecast for Jun 23	Sep 23	Dec 23	Mar 24
United States	Federal funds rate	5.25	03 May 23 (+25bp)	2Q24 (-50bp)	5.25	5.25	5.25	5.25
Eurozone	Depo rate	3.25	04 May 23 (+25bp)	Jun 23 (+25bp)	3.50	3.75	3.75	3.75
United Kingdom	Repo rate	4.50	11 May 23 (+25bp)	Jun 23 (+25bp)	4.75	4.75	4.75	4.50
Japan	Overnight call rate	-0.10	Jan 16 (-20bp)	On hold	-0.10	-0.10	-0.10	-0.10

Source: J.P. Morgan estimates, Datastream, as of COB 11th May 2023.

Table 24: 10-Year Government Bond Yield Forecasts

10Yr Govt BY	11-May-23	Forecast for end of Jun 23	Sep 23	Dec 23	Mar 24
US	3.38	3.70	3.55	3.40	3.40
Euro Area	2.23	2.40	2.25	2.00	1.65
United Kingdom	3.71	3.50	3.30	3.05	2.80
Japan	0.39	0.65	0.55	0.55	0.75

Source: J.P. Morgan estimates, Datastream, forecasts as of COB 05th May, 2023.

Table 25: Exchange Rate Forecasts vs. US Dollar

Exchange rates vs US$	11-May-23	Forecast for end of Jun 23	Sep 23	Dec 23	Mar 24
EUR	1.09	1.10	1.08	1.08	1.08
GBP	1.25	1.20	1.18	1.17	1.16
CHF	0.89	0.89	0.90	0.89	0.88
JPY	135	140	135	134	133
DXY	102.1	102.6	103.4	103.5	103.7

Source: J.P. Morgan estimates, Datastream, forecasts as of COB 05th May, 2023.

Sector, Regional and Asset Class Allocations

Table 26: J.P. Morgan Equity Strategy — European Sector Allocation

		MSCI Europe Weights	J.P. Morgan Allocation	Deviation From MSCI	J.P. Morgan Recommendation
Energy		**6.0%**	7.0%	1.0%	**OW**
Materials		**7.1%**	7.0%	-0.1%	**N**
	Chemicals				UW
	Construction Materials				N
	Metals & Mining				N
Industrials		**14.9%**	14.0%	-0.9%	**N**
	Capital Goods ex Aerospace & Defence				UW
	Aerospace & Defence*				OW
	Transport				N
	Business Services				N
Consumer Discretionary		**10.0%**	9.0%	-1.0%	**UW**
	Automobile				UW
	Consumer Durables				N
	Hotels, Restaurants, Leisure				N
	Speciality Retail				UW
	Internet Retail				UW
Consumer Staples		**13.0%**	14.0%	1.0%	**OW**
	Food & Drug Retailing				N
	Beverages				N
	Food & Tobacco				OW
	Household Products				OW
Healthcare		**15.6%**	15.0%	-0.6%	**N**
Financials		**16.2%**	15.0%	-1.2%	**N**
	Banks				N
	Insurance				OW
Real Estate		**0.7%**	0.0%	-0.7%	**UW**
Information Technology		**7.5%**	7.0%	-0.5%	**N**
	Software and Services				N
	Technology Hardware				N
	Semicon & Semicon Equip				N
Communication Services		**4.8%**	6.0%	1.2%	**OW**
	Telecommunication Services				OW
	Media				N
Utilities		**4.3%**	6.0%	1.7%	**OW**
		100.0%	**100.0%**	**0.0%**	**Balanced**

Source: MSCI, Datastream, J.P. Morgan.

Table 27: J.P. Morgan Equity Strategy — Global Regional Allocation

	MSCI Weights	Allocation	Deviation	Recommendation
EM	10.9%	11.0%	0.1%	Neutral
DM	89.1%	89.0%	-0.1%	Neutral
US	67.7%	64.0%	-3.7%	Underweight
Japan	6.1%	9.0%	2.9%	Overweight
Eurozone	9.8%	8.0%	-1.8%	Underweight
UK	4.3%	6.0%	1.7%	Overweight
Other*	12.1%	13.0%	0.9%	Overweight
	100.0%	**100.0%**	**0.0%**	**Balanced**

Source: MSCI, J.P. Morgan *Other includes Denmark, Switzerland, Australia, Canada, Hong Kong SAR, Sweden, Singapore, New Zealand, Israel and Norway

Table 28: J.P. Morgan Equity Strategy — European Regional Allocation

	MSCI Europe Weights	Allocation	Deviation	Recommendation
Eurozone	51.5%	47.0%	-4.5%	Underweight
United Kingdom	22.7%	26.0%	3.3%	Overweight
Other**	25.9%	27.0%	1.1%	Overweight
	100.0%	**100.0%**	**0.0%**	**Balanced**

Source: MSCI, J.P. Morgan **Other includes Denmark, Switzerland, Sweden and Norway

Table 29: J.P. Morgan Equity Strategy — Asset Class Allocation

	Benchmark Weighting	Allocation	Deviation	Recommendation
Equities	60%	55%	-5%	Underweight
Bonds	30%	35%	5%	Overweight
Cash	10%	10%	0%	Neutral
	100%	**100%**	**0%**	**Balanced**

Source: MSCI, J.P. Morgan

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