

Equity Strategy

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Reiterate that long duration trade is to have a tactical respite... Fed cuts might still be overdiscounted... USD matters, and could be bottoming out...

- The year started with the US ahead of International, Growth outperforming Value, large caps again beating small - Russell2000 is outright down on the year, and China continued struggling. We believe that this, ultimately unhealthy, high concentration and narrow leadership is set to continue until something breaks. To buy Value, beta and International stocks, one needs to see a reflationary backdrop, in our view, but we could have the exact opposite. The risk is of a disappointment on both sides of the Goldilocks narrative.
- **Fed cuts might still be overdiscounted**, despite the recent hawkish repricing, and the chances are that inflation picks up again, supply side driven, rather than due to stronger activity, see freight rates nearly tripling, page 39. Our key call last October was to go long duration, to position for the rollover in bond yields, see report "[Time coming to go long duration](#)". We believe this call will have legs in 2024, but have argued at the start of this year that yields could consolidate near term - see "[Is the duration trade done?](#)". **We think that it is unlikely that yields will have another leg lower in the near term for the market friendly reasons**, such as when the Q4 pivot and benign CPI prints drove the Nov-Dec rally. Any further move lower from here could be more driven by the central banks cuts timing concerns, credit issues, geopolitics or growth slowing more than anticipated.
- In terms of activity outlook, **soft landing is what most are comfortable with these days, and that is fully priced into markets, recession odds are at lows** – page 30, and market internals are at '09-'10 record highs, when synchronised global recovery was underway post the GFC - see page 37. That is unlikely to be the template this time around.
- Bottom line, how will the following, **likely inconsistent, combination** be resolved: the market is at present pricing in no risk of a downturn and is looking for earnings reacceleration, but at the same time the expectation is for aggressive Fed cuts and continued disinflation. This is especially as VIX is near lows, credit spreads are tight, current S&P500 P/E is at 20x, geopolitical risks might be underappreciated, and the **USD could be bottoming out** – page 48. We see the following drivers:
 - 1) US and European activity momentum to be weaker than last year, in 0-1% real GDP growth range. Labour markets remain a bright spot, for now, but that can change quickly. China backdrop is staying challenging, we believe.
 - 2) The Fed could end up sounding relatively hawkish near term, and the next move lower in bond yields could be due to growth concerns coming up, not just due to disinflation. **Yield curve** remains strongly inverted - started in October '22, and is historically an ominous sign. It was never wrong re the downturn risk, with the time lag of typically 12-18 months.
 - 3) Profit margins are softening - **corporate pricing power is likely to weaken from here**. 2024 SPX EPS forecasts, calling for 10% EPS growth reacceleration, are at risk of downgrades. We note that 2024 EPS projections are continuing their downtrend – page 25.
 - 4) **At 20x, US forward P/E is still stretched, especially vs real yields**. Dividend yield – bond yield gaps are not supportive in most places – page 75, with the exception of Japan, which remains our key regional OW.
 - 5) The Nov-Dec rally has created a complacent technical picture. **Sentiment and positioning indicators are near highs**.

...keep preference for US over Eurozone, despite Eurozone cheapness...
remain OW Japan... China stays challenging, keep fading the bounces...

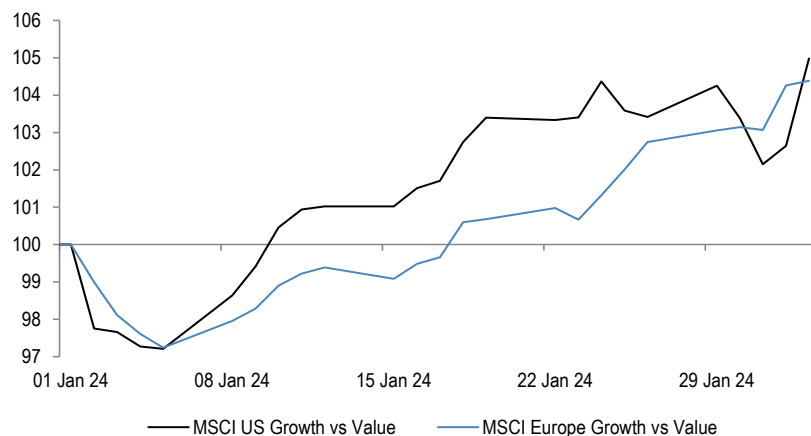
- The question is when should there be another rotation away from the US to international? We **have in early May closed the regional outperformance trade**, after a period of a strong run by International stocks vs the US, where SX5E beat SPX by more than 30% in USD terms from September '22 to May '23 – page 7. We are **UW international stocks since, and in particular UW Eurozone vs the US**, and despite the significant valuation discount in International vs US stocks, we keep this preference. We remain cautious on China and OW Japan. **USD is the wild card, and the risk is that it starts to strengthen again** - EM and Eurozone typically lagged during periods of USD strength – page 48. We think that potentially an opportunity could come up later in 2024 to add EM, Eurozone and small caps more sustainably, after a period of big underperformance, but we would wait to get past the initial Fed cuts.
- **OW Japan.** In our global regional allocation, we have upgraded Japan to OW in December '22, and stay bullish – page 49. It is dislocated from the global cycle due to YCC, and it was the last DM to reopen. Japan is a beneficiary of an exit from deflation, and of the improving governance/multiples on the back of TSE initiative. Japan looks attractively priced, with more than half companies net cash – buybacks are accelerating. Inflows could increase further, as well as the domestic reallocation into equities. We advise not to hedge the FX anymore.
- **OW UK.** The UK could start to be more supported given the record discount vs other regions, as well as the highest dividend yield globally. UK has done poorly in '23 as global indices were up, but crucially the UK is a low beta market, and could hold up better during potential periods of volatility. Within the UK, we held **OW FTSE100 vs FTSE250** pair trade over the past 24 months, and still believe that it should not be reversed.
- **Neutral EM,** we are cautious vs DM, focused on China, in the world of elevated Fed rates and challenging geopolitics. Medium term, we remain concerned about China's housing market outlook, with clear similarities to Japan in 1990, FAI in China continues to look too high vs the rest of the world, and credit multiplier is waning. Having said that, as China stocks are already down 30%+ since January '23, there could be periodical short squeezes.
- **UW Eurozone,** it looks cheap, but Eurozone is a global cycle Value play, and could struggle to outperform in the event of more aggressive earnings downgrades, and with Growth leading. **We have in early May taken profits on the Eurozone trade, after a 30%+ run, moving it to UW in a regional context**, and expect continued weaker relative PMI performance in the region.
- **Neutral US.** The US benefits from a greater Growth tilt and outperformance if USD strengthens. If markets weaken, the US typically held up better than other regions during risk-off periods. The concern is that the US is trading at relative P/E and EPS highs, and that could constrain its absolute performance from here. We advised in October '22 to turn more positive on Tech, and have been OW Growth vs Value in '23, which helps the US, but the Tech run has already been exceptional, and there could be increased volatility in that space ahead.
- **OW RoW,** with focus on Switzerland, which has a Defensive allocation and a clear below 1 beta to global equity direction, which might come in handy.

...we stay OW Growth vs Value; Reiterate Banks downgrade, Healthcare and Staples to pick up; Small caps are underperforming in all regions again ytd

- We are OW Growth vs Value, continuing our call from 2023, and opposite to our preference for Value over Growth that we held in 2021 and 2022. Within this, quality Tech is still preferred, we think more Cyclical Tech is at risk, and stay cautious on unprofitable Tech. As of end October '23, the average stock in S&P500 was down on the year, with SPW at -5%. Nov-Dec rally has driven a broadening in leadership, but we think that is unlikely to continue and the equity market is set to revert to a more concentrated performance. We think Defensives could look better this year, after 2 poor years, on more subdued market EPS momentum, softer activity and the central banks rate cuts. **We have recently cut Banks, Food Retail, General Retail and Hotels&Travel to UW, and added to Healthcare and Real Estate.**
- **Banks (UW)** have performed very well over the past 3 years, up 60% relative in Europe. We took this opportunity to recently advise opening a short in the sector – page 42. Banks look cheap, on 0.7x P/B, and their balance sheets are well capitalized. However, Banks NII is likely peaking, provisioning could increase, cost of capital will be much higher than before, and yield curve is staying heavily inverted. One should short Banks as bond yields peak out, and on the rising deposit betas. We do not think Banks will have another big leg of outperformance until central banks are undertaking a series of rate cuts. Regionally, we continue to favour Japanese Banks to European and the US ones.
- We think **Energy (OW)**, will trade more like a defensive. It offers cheap valuations currently, along with a discount vs the spot, which is supported by supply constraints and low inventories. Energy is also a good hedge on elevated geopolitical risks. **Miners (N)** have lost 30% relative since January '23, and while we remain structurally bearish on China, we have recently advised to close the shorts, tactically.
- Tech is likely to hold up well, but it won't be immune to any potential consumer slowdown, given an elevated earnings base. Valuations again look unattractive, and while we do not advise going against the Tech run, still thinking that Tech will beat Cyclical and small caps from here, we do not see much further absolute upside for the sector, after a very strong run in 2023, even with lower yields - we are **Neutral**, more cautious of late on Semis and staying positioned in Defensive Growth part of the sector.
- As PMIs, EPS revisions and eventually the bond yields are likely to be subdued, we advise caution on corporate Cyclical – **Capital Goods (UW)** ex Aerospace and Defense, still **Chemicals (UW)**, as well as Consumer Cyclical – **Retail (UW)** and **Autos (UW)**. Defensives are likely to recover, Healthcare, Utilities and Staples. These sectors are some of the best performers around the last Fed hike in the cycle. We have in October closed our longstanding UW on **Real Estate**, post the 50% underperformance. We are **OW Telecoms**.
- Out of key themes, we highlight: Defensives and Cyclical baskets – **JPDEEDEF** and **JPDEECYC**, and Value and Growth baskets – **JPDEVALU** and **JPDEGROW**. We advise pair trades of OW Japanese Value and Banks vs US & European Value and Banks.

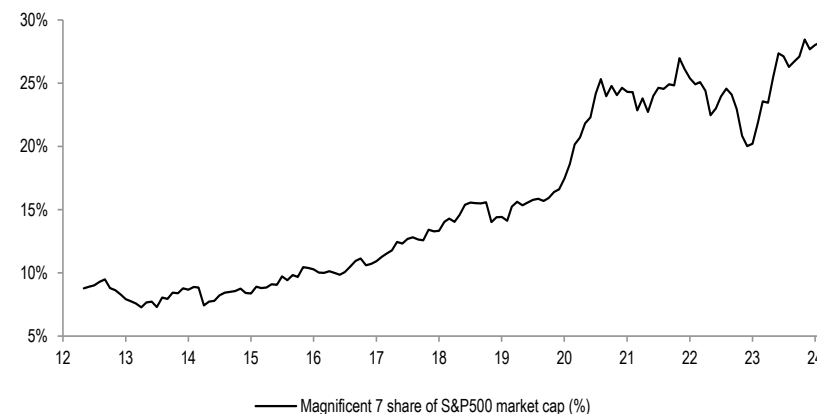
The equity market is staying very concentrated... Growth resumed outperformance vs Value... small caps are behind large caps everywhere again this year...

US and Europe Growth vs Value ytd



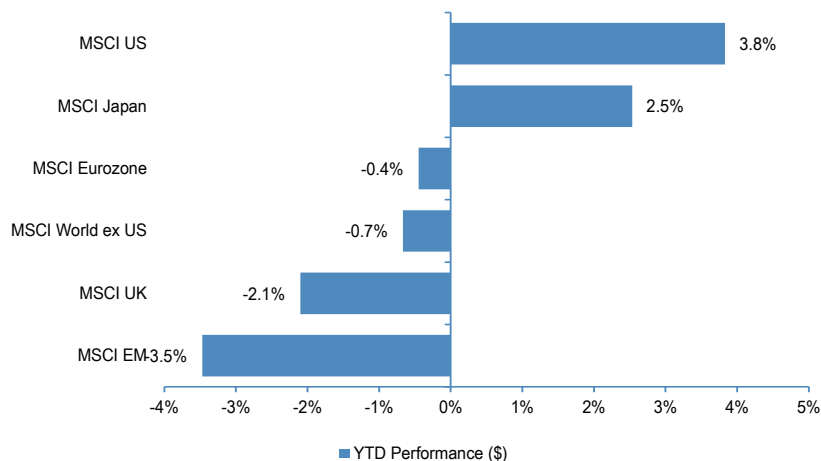
Source: Datastream

Magnificent 7 share of S&P500 market cap



Source: Datastream

Key regions ytd performance



Source: Datastream

Small caps vs large caps - YTD performance

		% Ytd Perf
MSCI US	Small Cap	-2.3%
	Large Cap	2.7%
MSCI UK	Small Cap	-3.1%
	Large Cap	-1.4%
MSCI Eurozone	Small Cap	-1.6%
	Large Cap	1.6%
MSCI Japan	Small Cap	3.7%
	Large Cap	7.6%

Source: Datastream

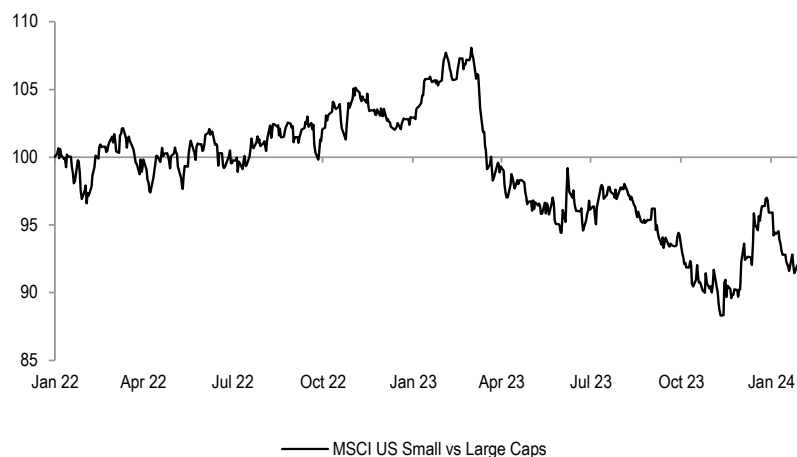
...we keep preference for US vs Eurozone equities...



Source: Datastream

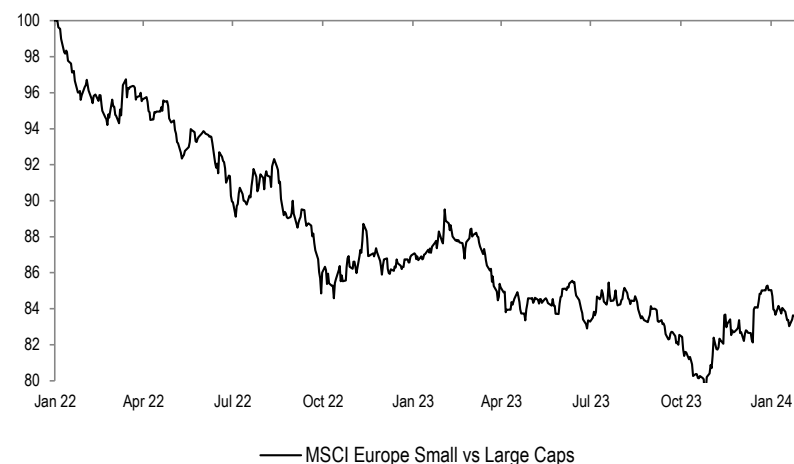
...small caps have performed poorly over the past two years, and are resuming this downtrend so far ytd, fading Nov-Dec bounce...

US small caps vs large caps



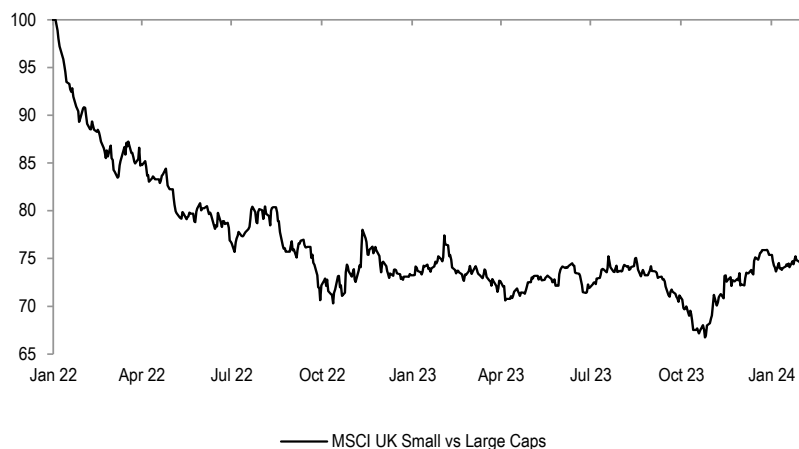
Source: Datastream

Europe small caps vs large caps



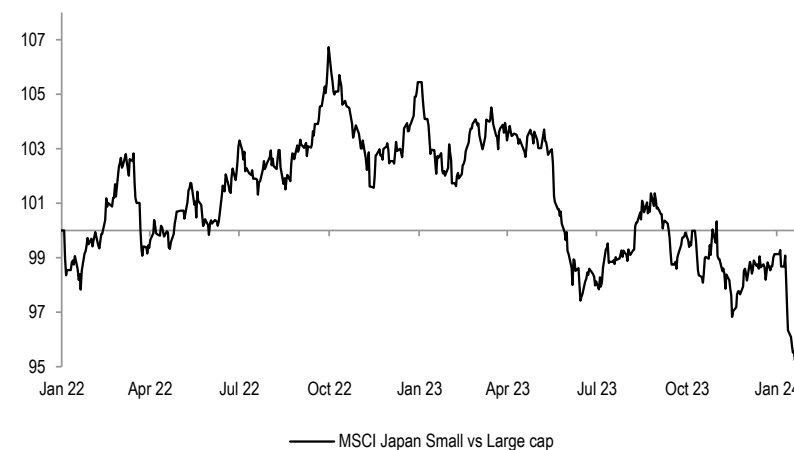
Source: Datastream

UK small caps vs large caps



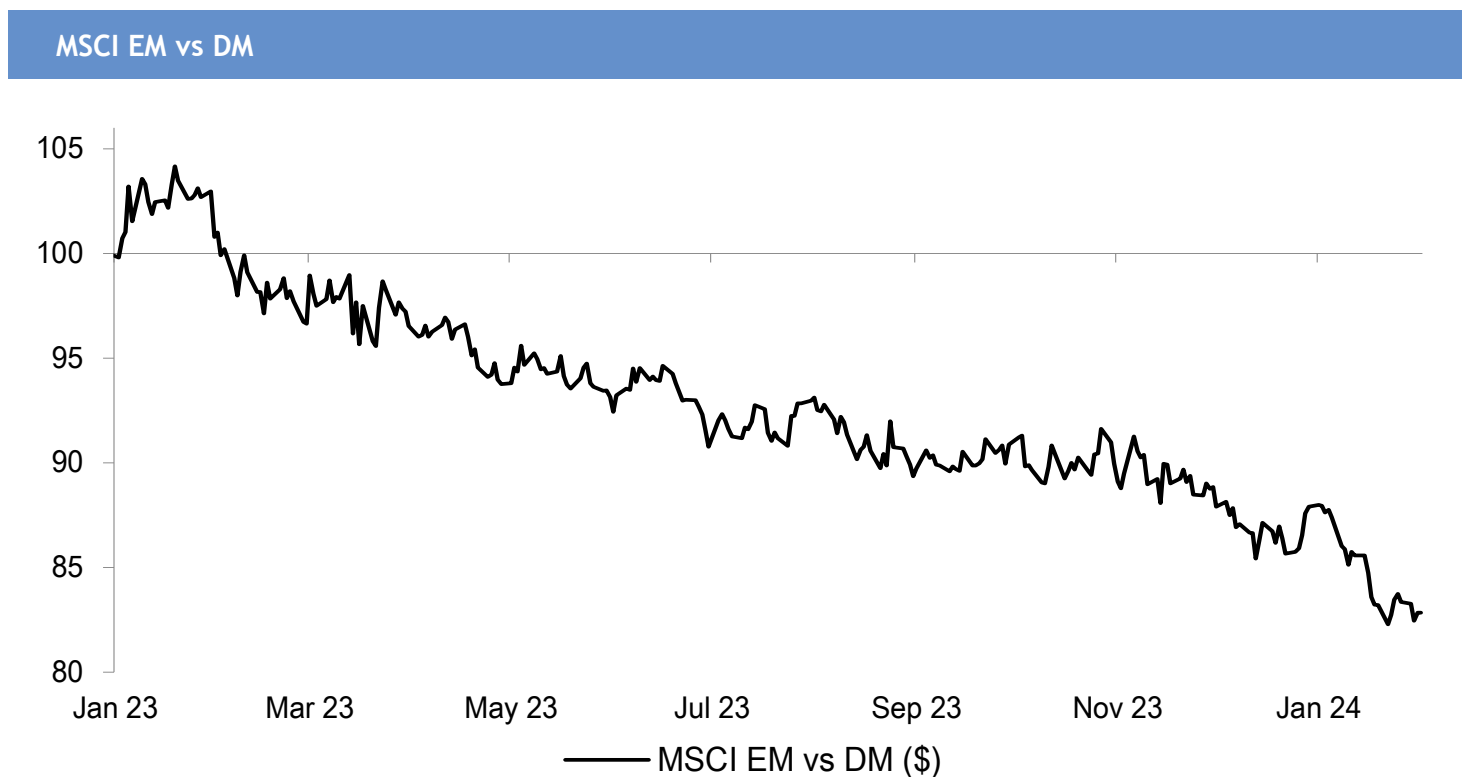
Source: Datastream

Japanese small caps vs large caps



Source: Datastream

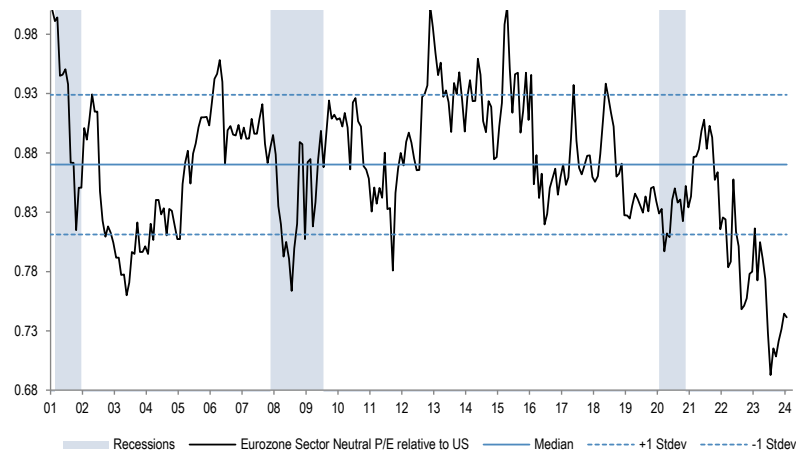
...EM are down vs DM in 2023 and so far ytd... even taking out China impact, EM failed to outperform... we stay cautious...



Source: Datastream

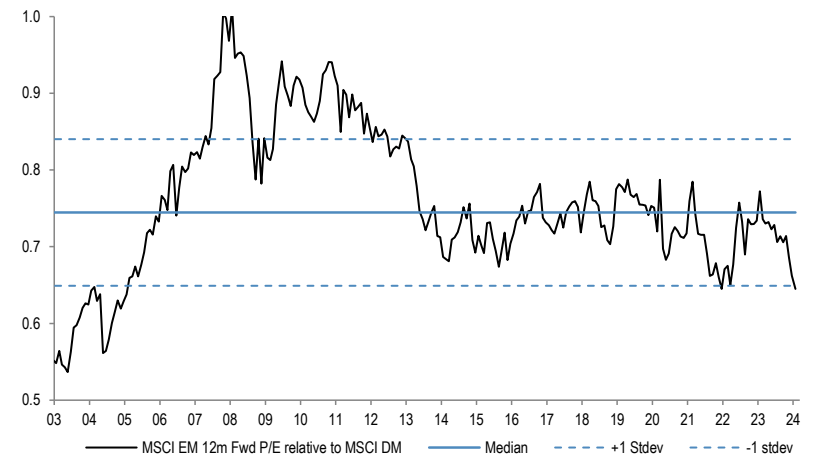
...what can change these trends? Valuations are already very attractive, but in our view one needs reflationary impulse for a turn...

MSCI Eurozone vs US sector neutral P/E relative



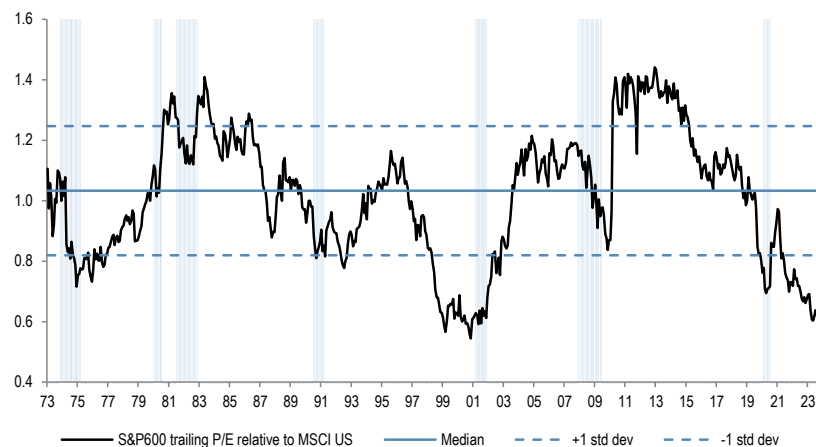
Source: Datastream

MSCI EM vs DM P/E relative



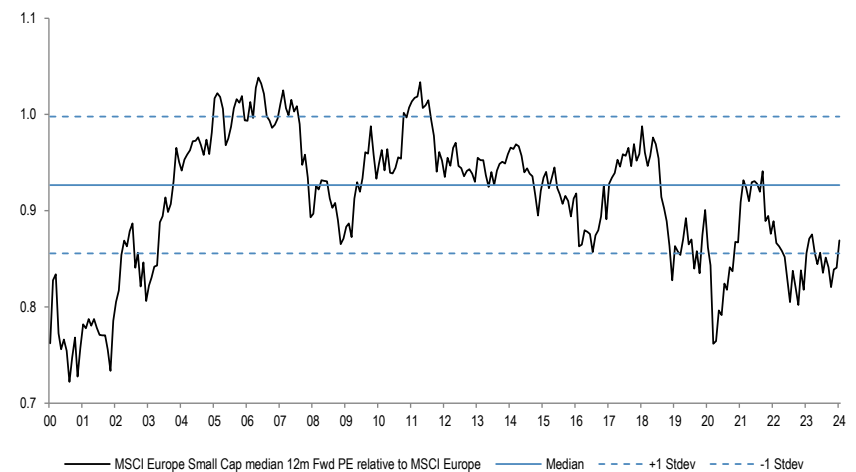
Source: Datastream

US small caps vs large caps P/E relative



Source: Datastream

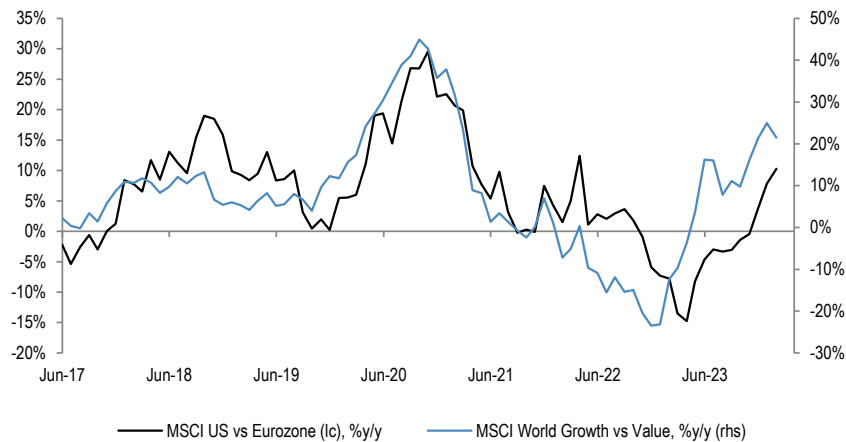
Europe small caps vs large caps P/E relative



Source: Datastream

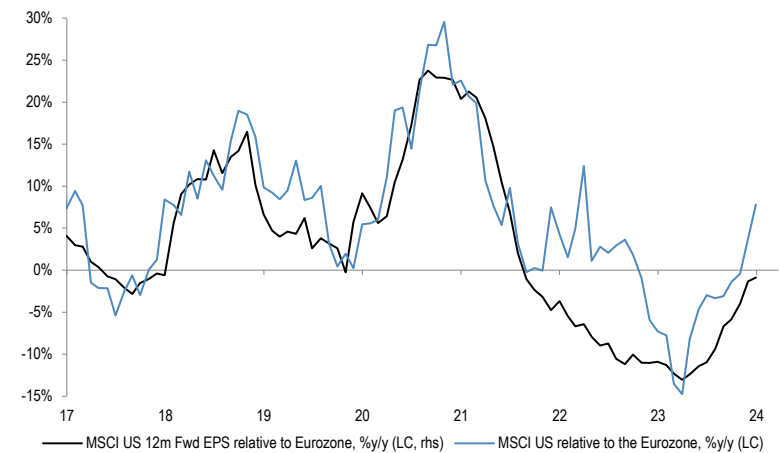
...earnings of Growth style are still advancing vs Value, which supports our Growth & US preference; Eurozone activity and equity performance shows a gap

MSCI US vs Eurozone and World Growth vs Value



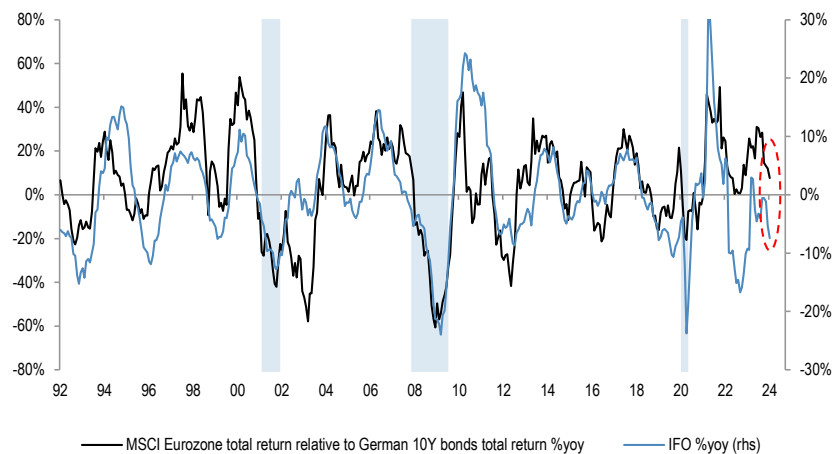
Source: Datastream

MSCI US relative to Eurozone - price and EPS



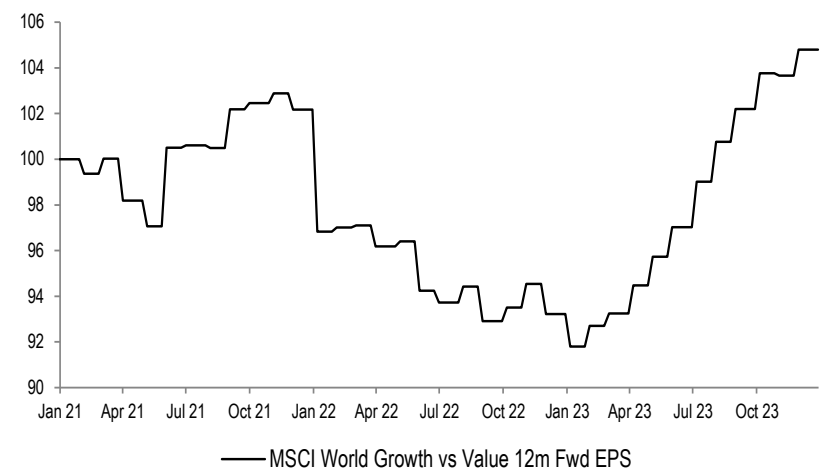
Source: Datastream

MSCI Eurozone total return relative to Bunds and IFO



Source: Datastream

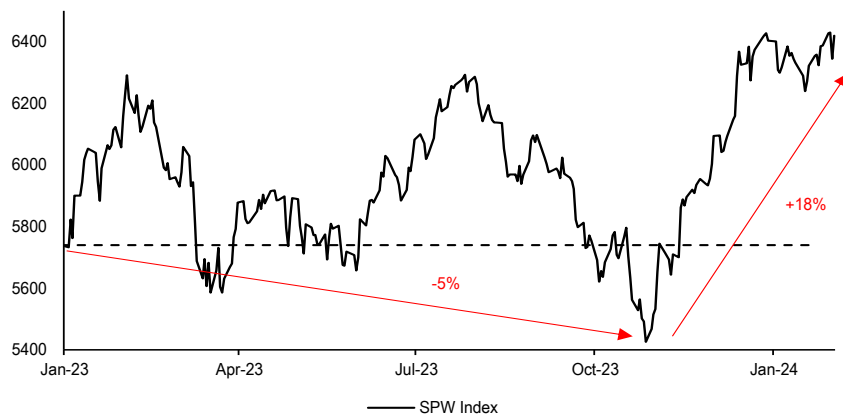
MSCI World Growth vs Value 12m Fwd. EPS



Source: IBES

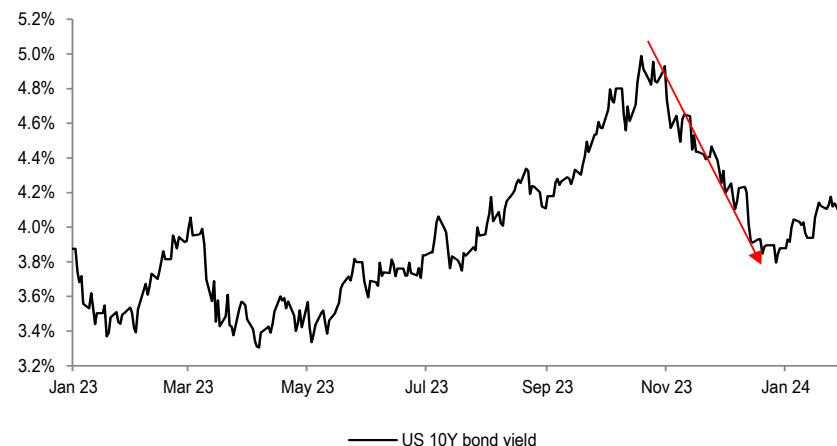
The Nov-Dec rally has left the positioning and sentiment indicators stretched, and the question is will the bond yields keep falling for the “right reasons”

S&P500 equal-weighted index



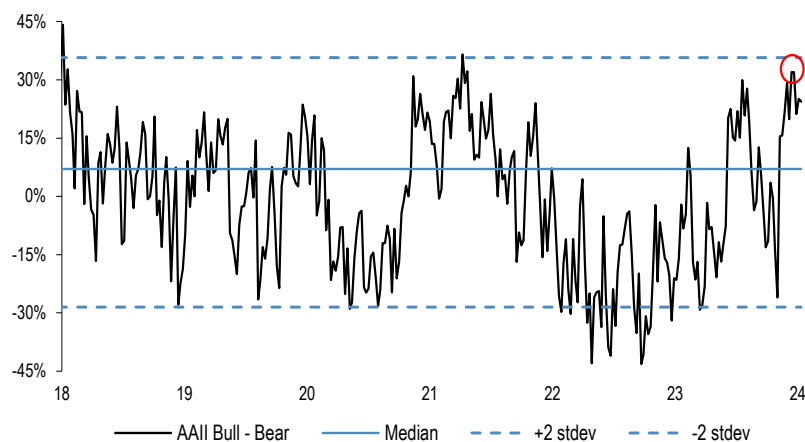
Source: Bloomberg Finance L.P.

US 10Y bond yield



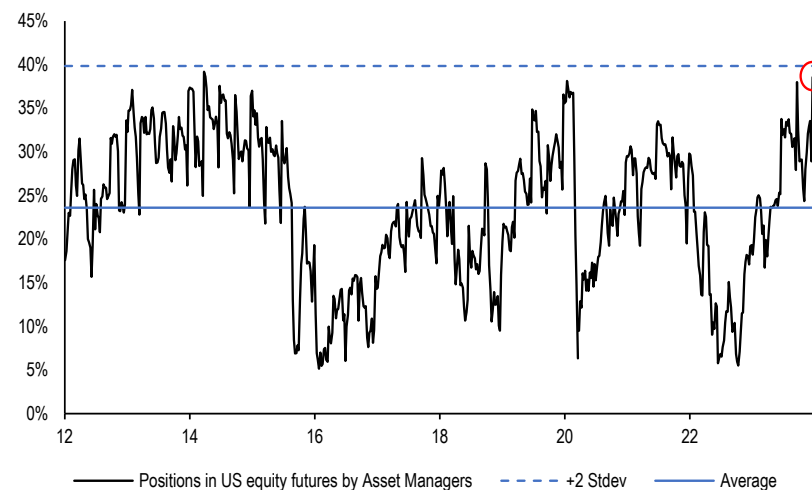
Source: Datastream

AAll Bull-Bear



Source: Bloomberg Finance L.P.

Positions in US Equity futures by Asset Managers and Leveraged Funds



Source: J.P. Morgan. Flows and Liquidity Team

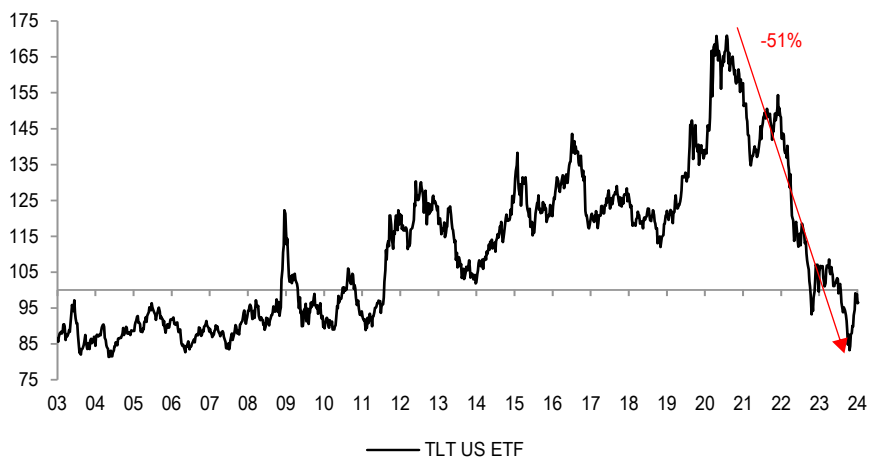
We called in October to go long duration... after the final Fed hike, bond yields always fell...

US10Y bond yield move around last Fed hike										
US 10Y bond yield move (bps)										
	Aug 84	Sep 87	Feb 89	Feb 95	Mar 97	May 00	Jun 06	Dec 18	Average	Median
-12m	100	214	118	192	52	80	122	29	113	109
-11m	97	200	87	138	23	50	92	10	87	89
-10m	100	201	61	72	11	76	103	-12	76	74
-9m	97	232	17	62	-13	46	90	-10	65	54
-8m	79	216	49	54	-8	53	63	-16	61	53
-7m	96	207	28	34	1	36	72	-30	55	35
-6m	69	218	4	55	7	47	84	-14	59	51
-5m	7	175	42	49	23	12	68	-8	46	32
-4m	-14	82	57	6	63	-26	64	-11	28	31
-3m	-86	76	30	-24	42	-12	39	-31	4	9
-2m	-113	100	34	-27	14	18	14	-44	0	14
-1m	-76	51	44	-16	37	57	15	-31	10	26
Fed last hike										
1m	-13	29	4	-44	18	-45	-20	3	-9	-5
2m	-66	-41	-23	-46	-2	-33	-42	-12	-33	-37
3m	-125	-33	-76	-60	-32	-59	-57	-14	-57	-58
4m	-127	-50	-114	-146	-58	-58	-52	-20	-78	-58
5m	-116	-102	-135	-146	-38	-69	-67	-36	-89	-86
6m	-100	-101	-120	-119	-64	-76	-49	-73	-88	-88
7m	-81	-63	-117	-143	-78	-124	-30	-70	-88	-80
8m	-144	-37	-151	-148	-91	-119	-63	-115	-108	-117
9m	-200	-22	-159	-168	-102	-132	-55	-97	-117	-117
10m	-224	-52	-156	-195	-108	-165	-50	-100	-131	-132
11m	-229	-31	-101	-209	-115	-117	-31	-97	-116	-108
12m	-246	-29	-84	-206	-112	-98	-17	-83	-109	-91

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

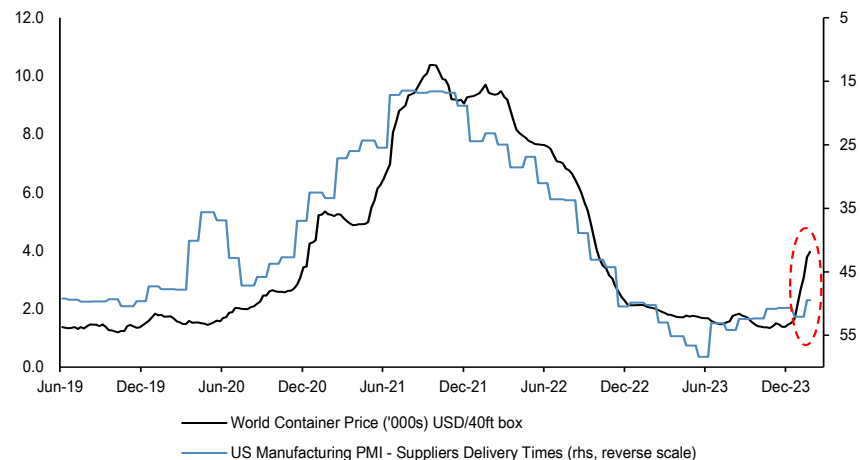
...we believe this trade will continue in 2024, as yield had a big upmove in last 3 years, but a tactical pause is likely first

US Bond ETF - TLT US



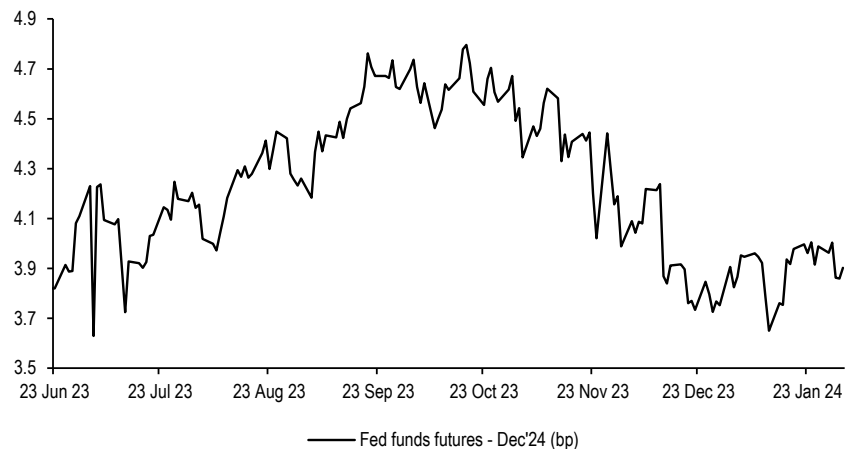
Source: Bloomberg Finance L.P.

World Container Price and US Manufacturing PMI - Supplier Delivery Times Index



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

Fed funds futures - Dec'24



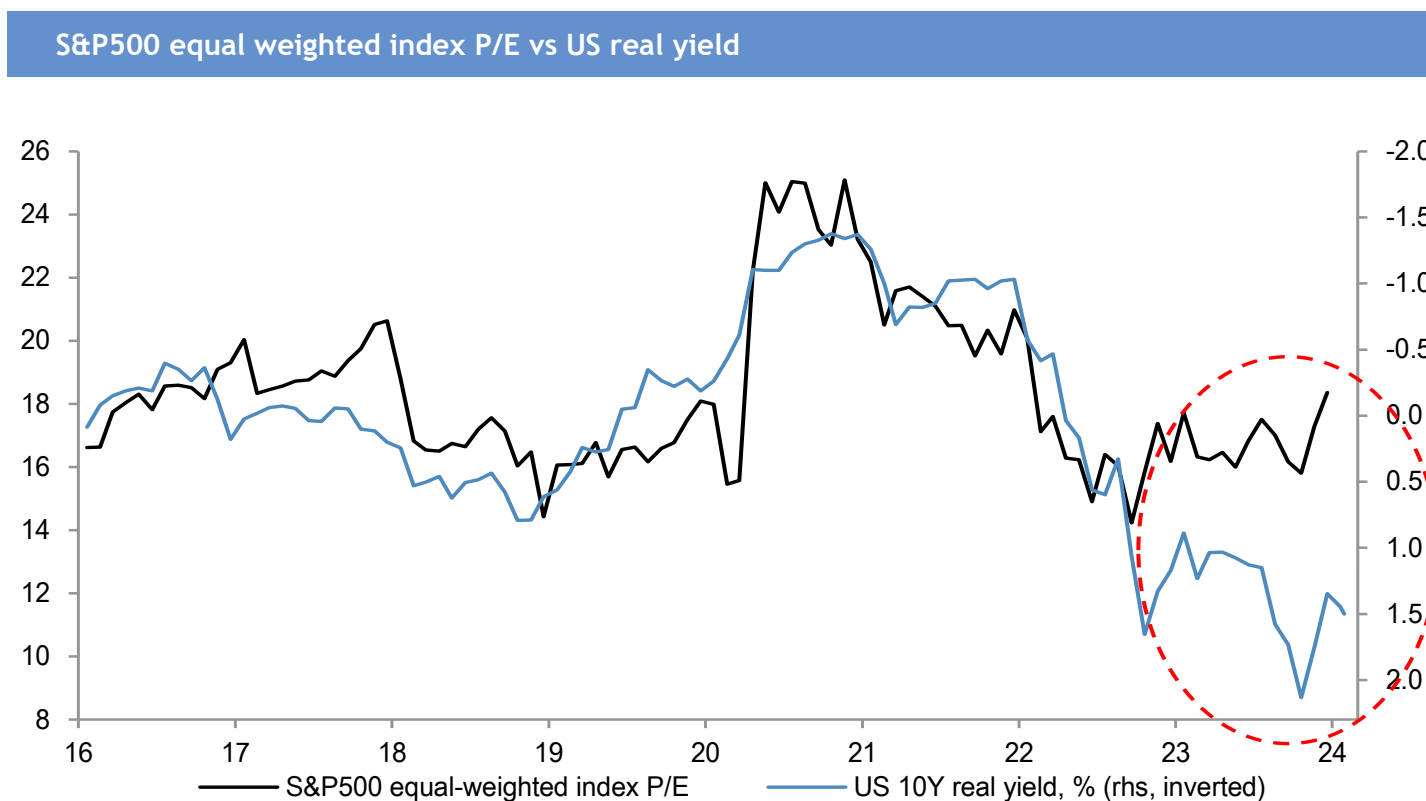
Source: Bloomberg Finance L.P.

Fed funds rate projections - Market and JPM

Meeting	Market expected change (bp)	JPM
03/20/2024	-6	0
05/01/2024	-17	0
06/12/2024	-22	-25
07/31/2024	-21	-25
09/18/2024	-24	-25
11/07/2024	-17	-25
12/18/2024	-18	-25
2024 cumulative cuts	-125	-125

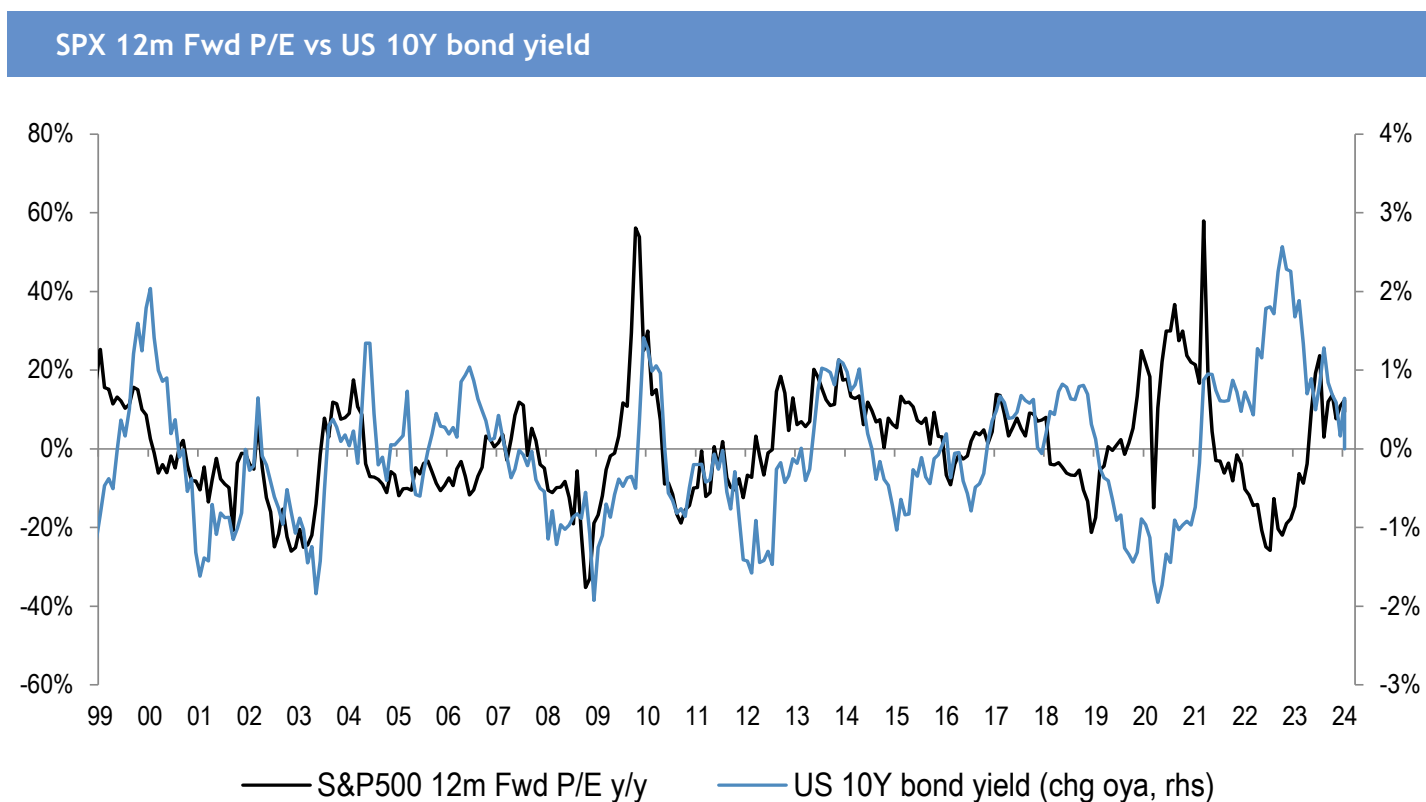
Source: Bloomberg Finance L.P., J.P. Morgan

Knee-jerk reaction to peaking bond yields is a positive one, but this is unlikely to last... even ex Tech, market does not look cheap vs bond yields...



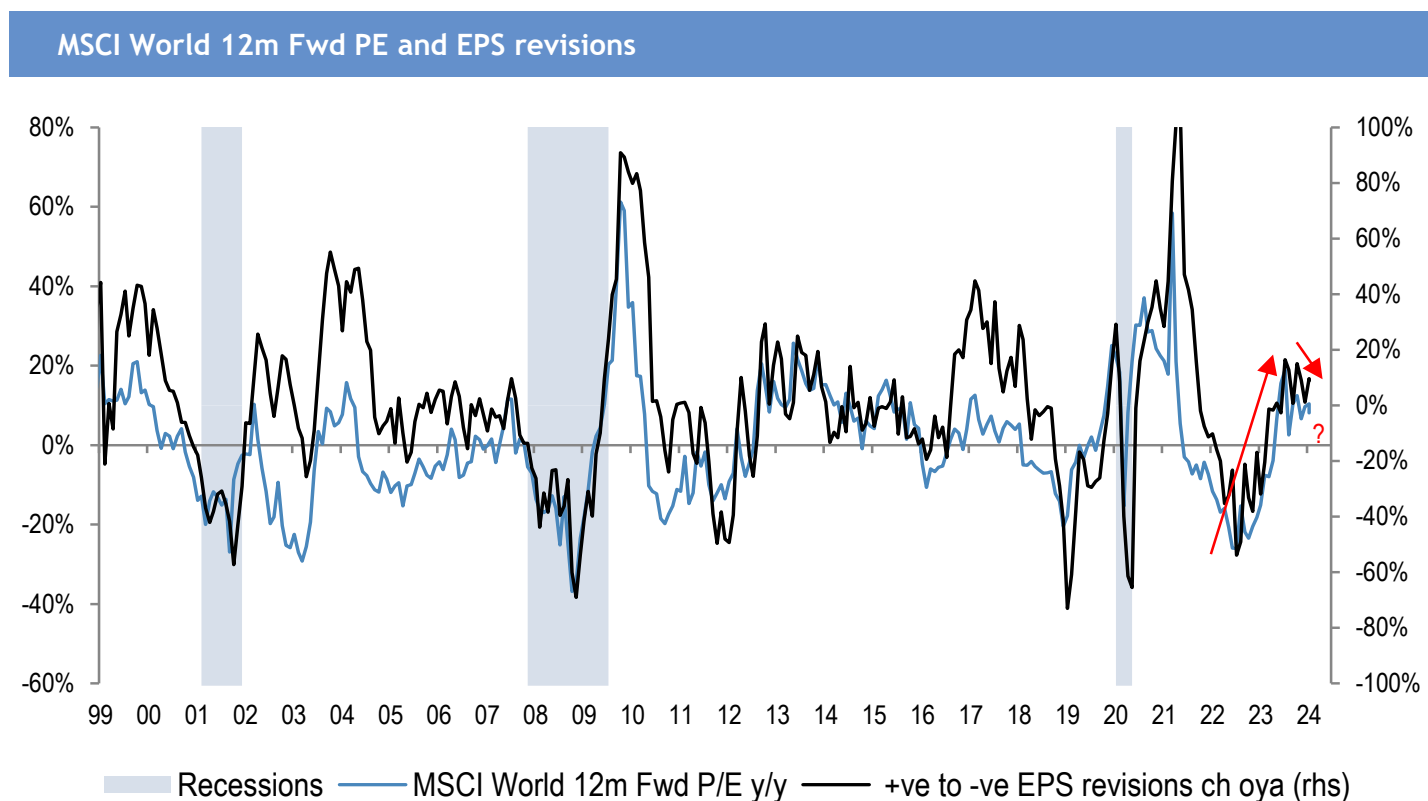
Source: IBES

...importantly, yields vs P/Es correlation was historically not stable... it was most often positive, ie falling yields would mean falling P/Es...



Source: Datastream, Bloomberg Finance L.P.

...the key is EPS momentum, earnings – P/Es correlation was always positive, and matters for P/E direction more than bond yields do



Source: IBES

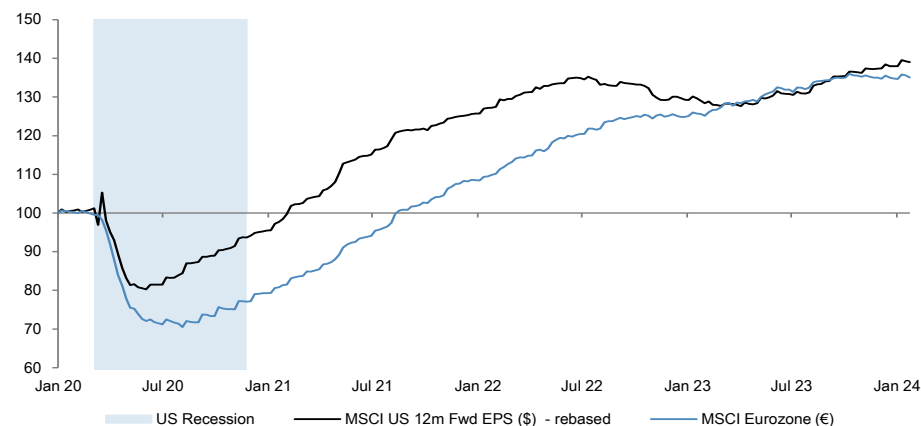
We were bullish on earnings for the past few years, believing them to be resilient. This could change, even without a recession...

Changes in US equities, earnings and PE during past recessions

Recession	Peak in MSCI US	Trough in MSCI US	MSCI US peak to trough move	12m Fwd P/E at MSCI US peak	12m Fwd P/E at MSCI US trough	Move in MSCI US 12m Fwd P/E from peak to trough	MSCI US Fwd EPS peak to trough move
1990	Jul-90	Oct-90	-20%	12.8	10.4	-19%	-14%
2001	Mar-00	Oct-02	-51%	25.7	13.8	-46%	-23%
2008	Oct-07	Mar-09	-56%	15.4	10.4	-32%	-40%
2020	Feb-20	Mar-20	-34%	19.6	13.2	-33%	-15%
Average			-40%	18.4	12.0	-33%	-23%

Source: IBES

MSCI US and Eurozone 12m Fwd. EPS



Source: IBES

Changes in Eurozone equities, earnings and GDP during past recessions

Recession	MSCI Eurozone peak to trough move	12m Fwd P/E at MSCI Eurozone trough	12m Fwd P/E at trough - Eurozone vs US	MSCI Eurozone Fwd. EPS peak to trough move	Euro Area real GDP peak to trough move
1990	-29%	9.7	0.87	-27%	-1.8%
2001	-64%	11.1	0.76	-21%	-0.3%
2008	-62%	7.5	0.72	-42%	-5.7%
2012	-32%	7.4	0.72	-20%	-1.8%
2020	-38%	9.0	0.69	-30%	-14.7%
Average	-45%	9.0	0.75	-28%	-4.9%

Source: IBES

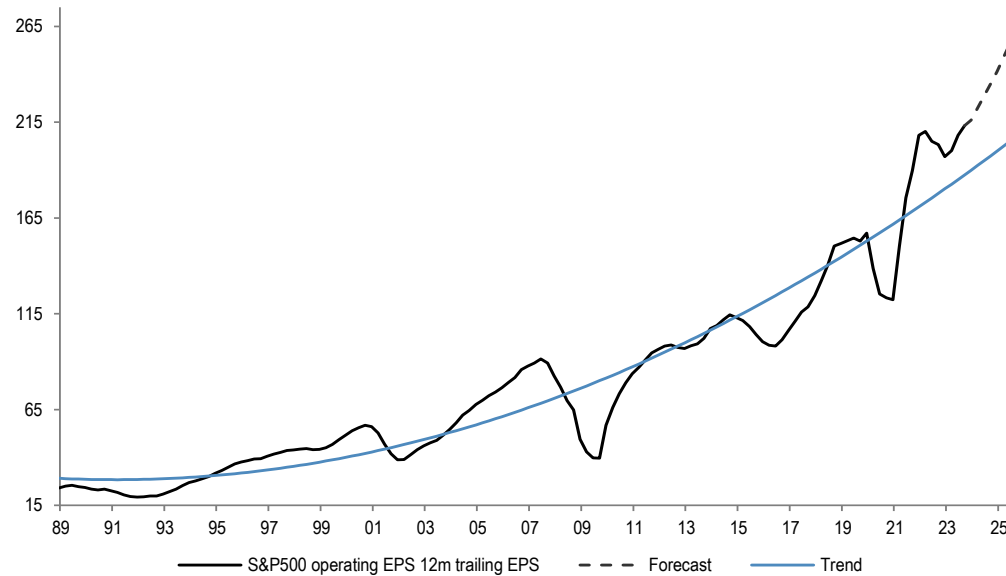
Changes in UK equities, earnings and PE during past recessions

Recession	Peak in MSCI UK	Trough in MSCI UK	12m Fwd P/E at MSCI UK peak	12m Fwd P/E at MSCI UK trough	Move in MSCI UK 12m Fwd P/E from peak to trough	MSCI UK Fwd EPS peak to trough move
1990	Jul-90	Sep-90	9.9	9.1	-9%	-20%
2001	Sep-00	Mar-03	20.8	15.1	-28%	-40%
2008	Jun-07	Mar-09	13.1	7.8	-40%	-11%
2020	Jan-20	Mar-20	13.3	9.2	-31%	-30%
Average			14.3	10.3	-27%	-15%

Source: IBES

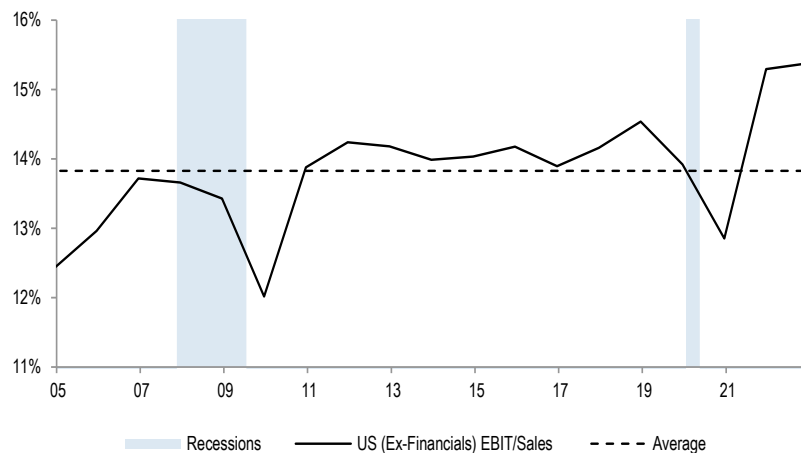
...the starting hurdle rate is elevated... post COVID profit margins reached record highs...

S&P500 EPS vs trend



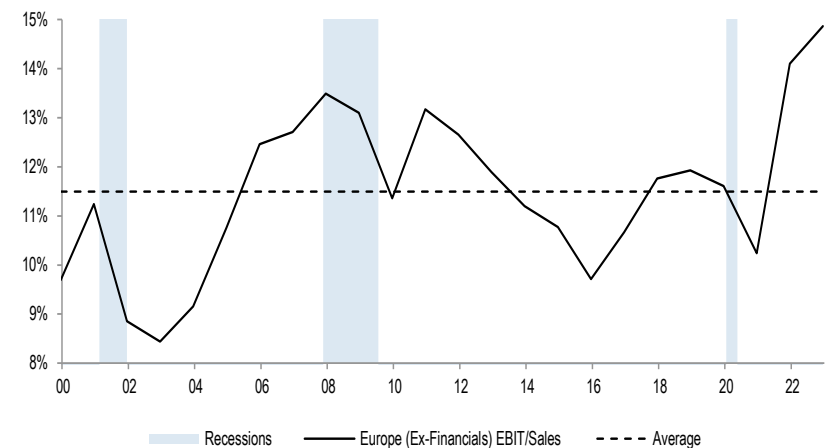
Source: Datastream

US EBIT margin - ex Financials



Source: Datastream

European EBIT margin - ex Financials



Source: Datastream

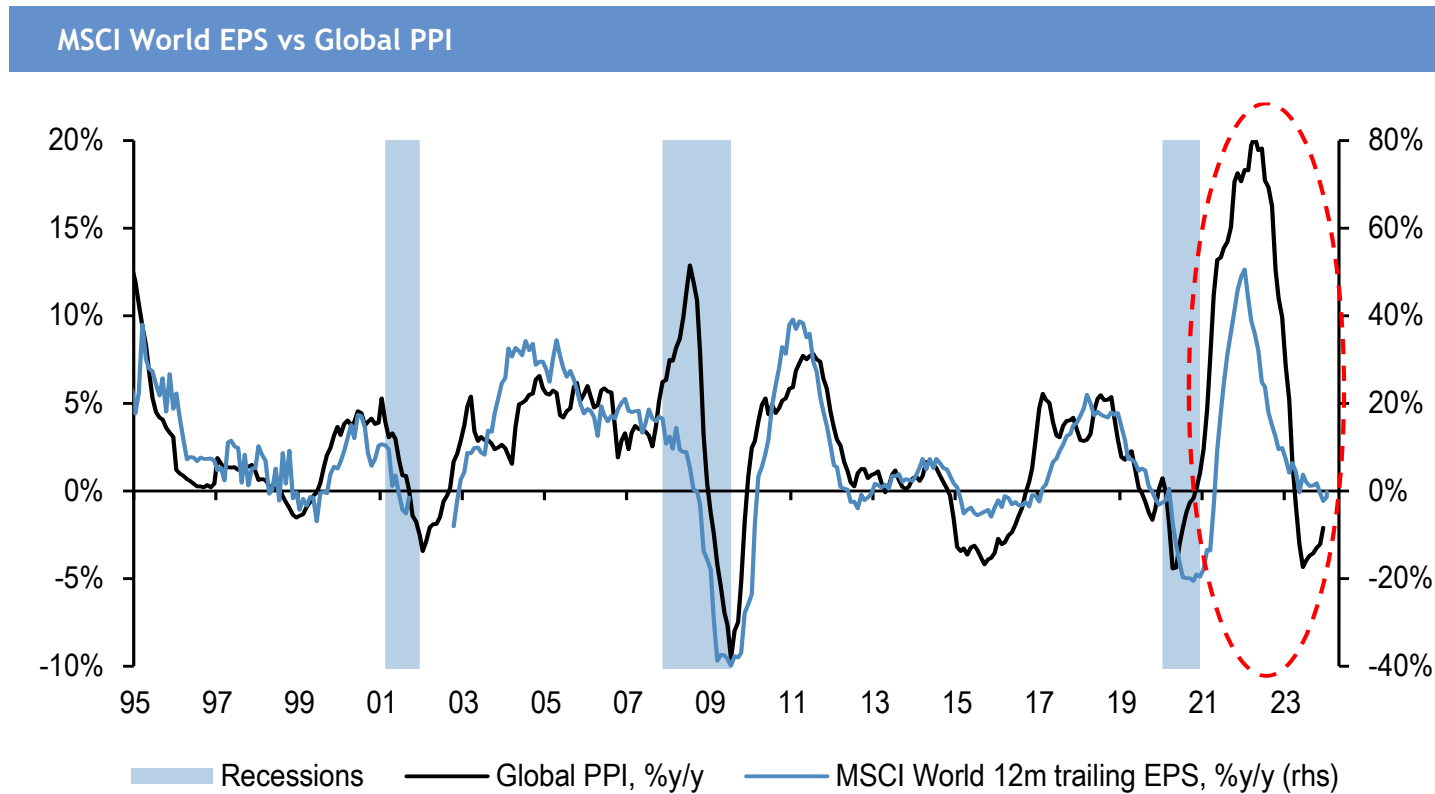
...consensus is looking for EPS growth re-acceleration this and next year...

MSCI World consensus EPS growth projections

Earnings growth	MSCI World		
	2023e	2024e	2025e
Market	0.5%	8.5%	11.6%
Energy	-26.0%	-3.9%	6.0%
Materials	-30.6%	7.8%	8.5%
Industrials	4.8%	9.2%	12.5%
Discretionary	32.1%	9.2%	13.7%
Staples	1.6%	5.6%	8.7%
Healthcare	-14.4%	14.7%	13.0%
Financials	13.2%	6.1%	9.9%
IT	3.8%	14.8%	17.2%
Telecoms	22.0%	16.0%	13.5%
Utilities	13.3%	2.7%	5.0%
Real Estate	-5.6%	-0.3%	8.3%

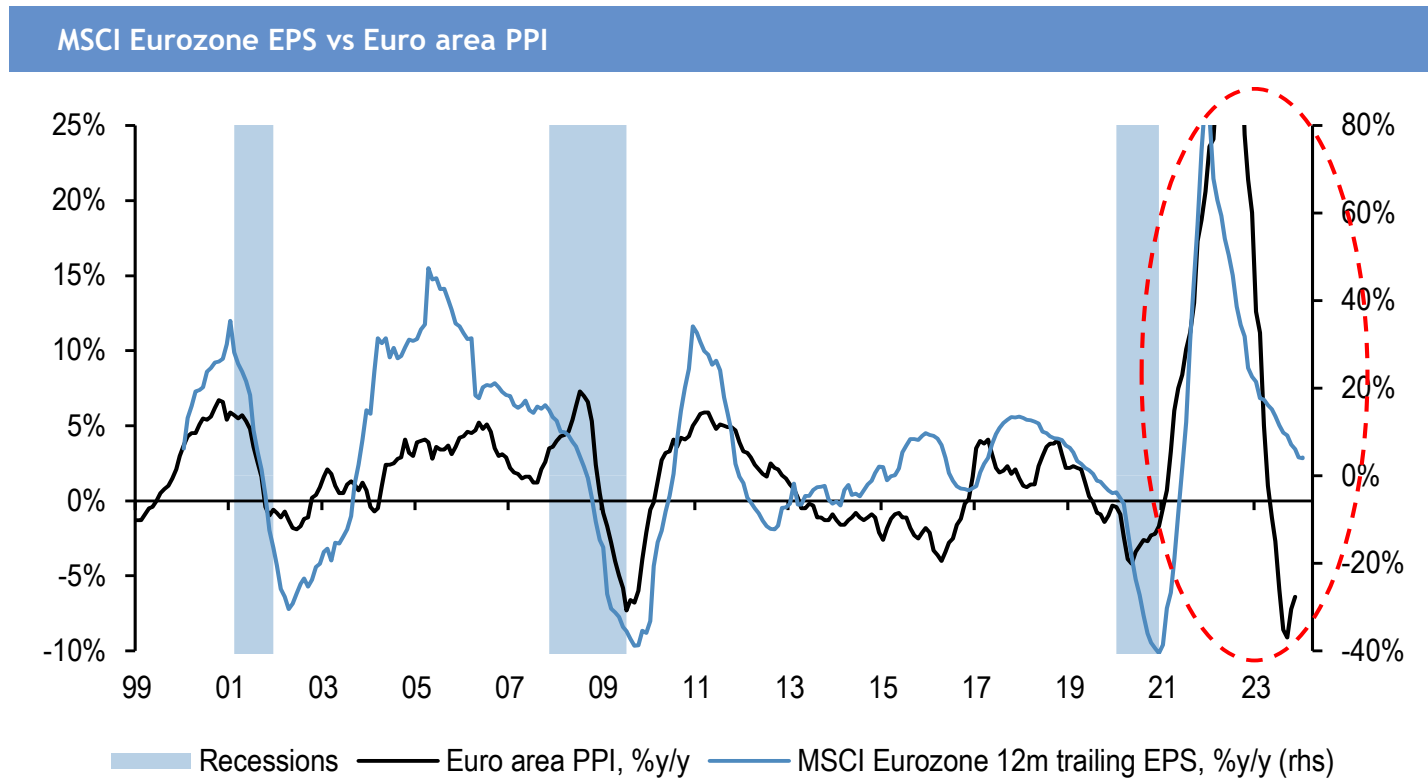
Source: IBES

...but, weakening pricing is set to be a constraint for earnings growth...



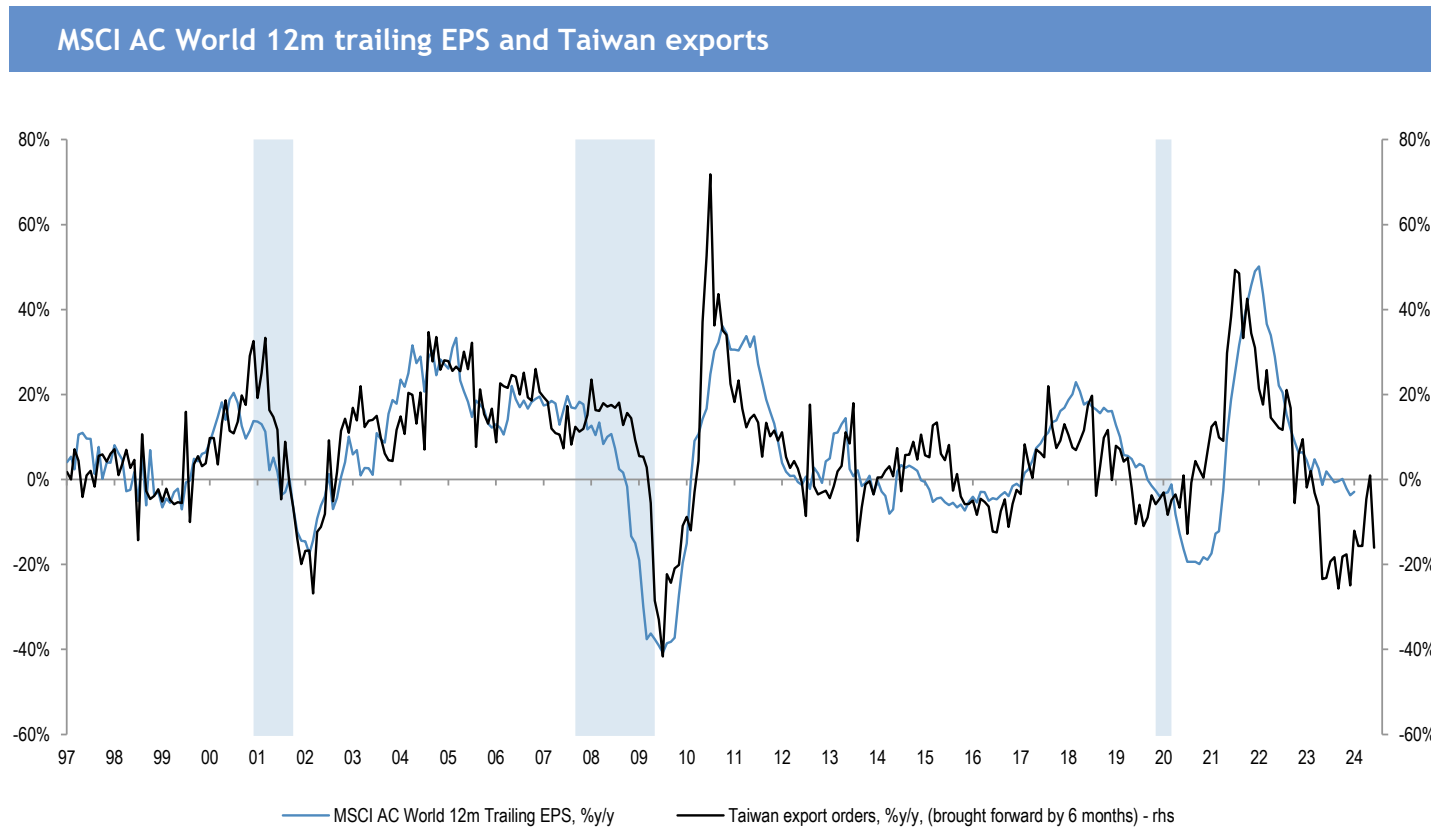
Source: IBES

...especially in Europe...



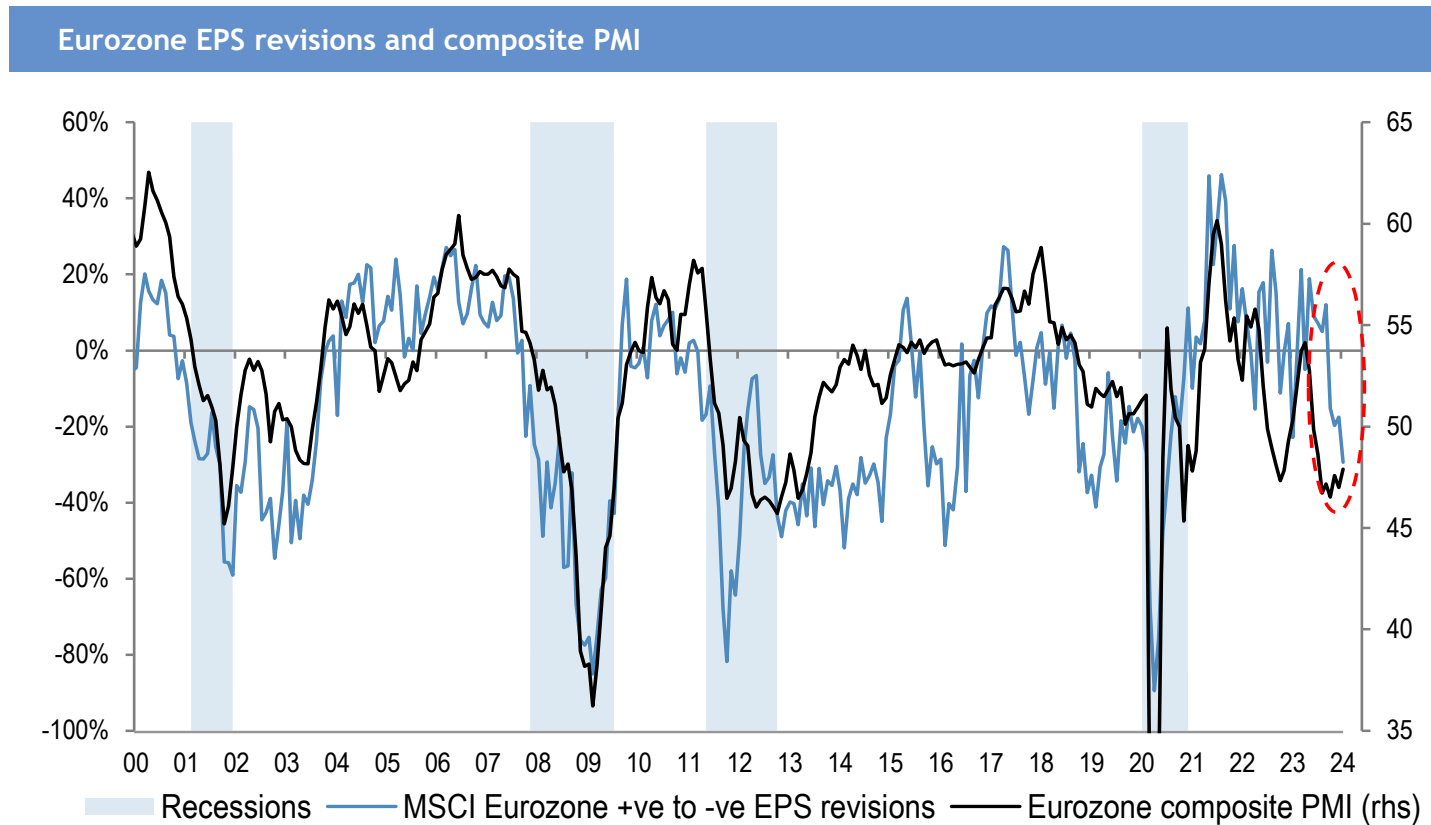
Source: IBES

...as could be the deteriorating operating leverage...



Source: IBES, S&P Global

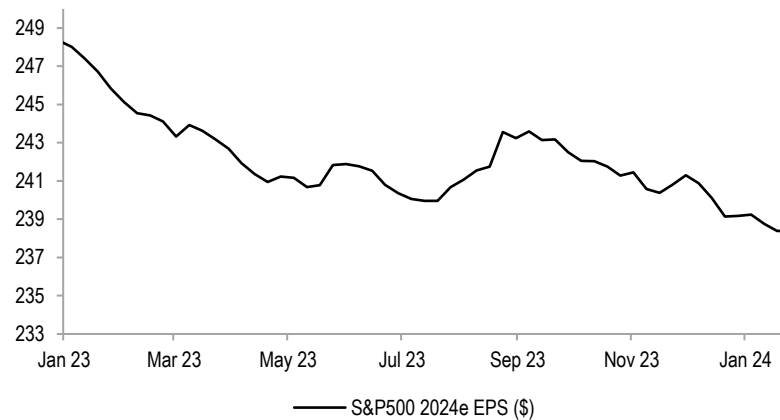
...EPS revisions are moving lower again



Source: IBES

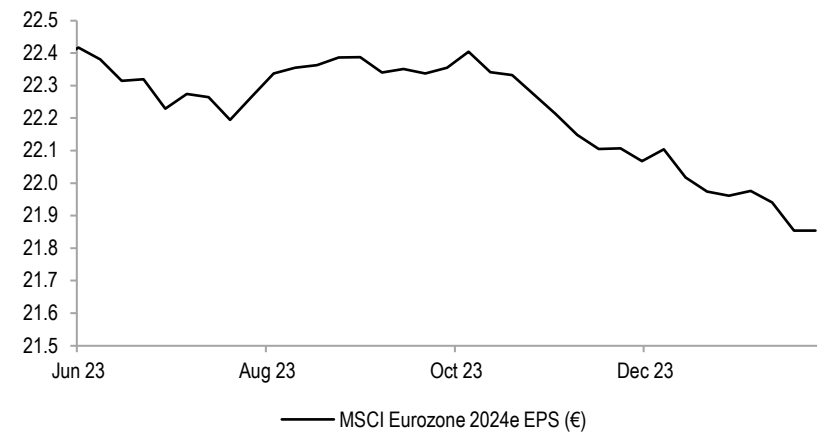
Notably, 2024 EPS projections are still on a downtrend, making fresh lows

S&P500 2024e EPS



Source: IBES

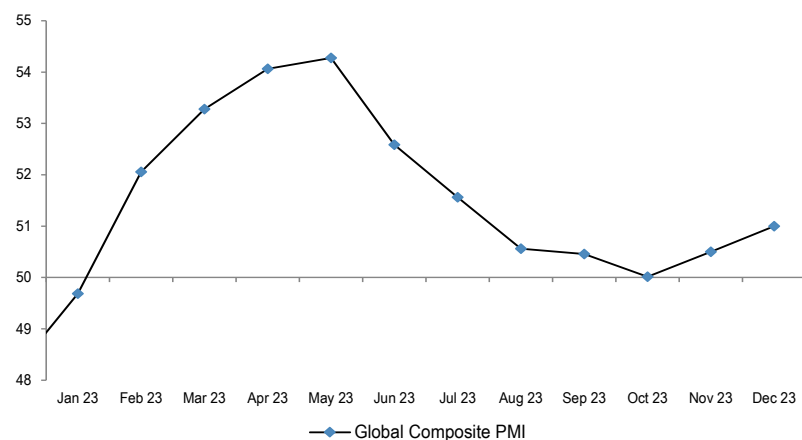
MSCI Eurozone 2024e EPS



Source: IBES

Global activity momentum has stabilized of late, but has clearly softened vs mid last year...

Global composite PMI since Jan '23



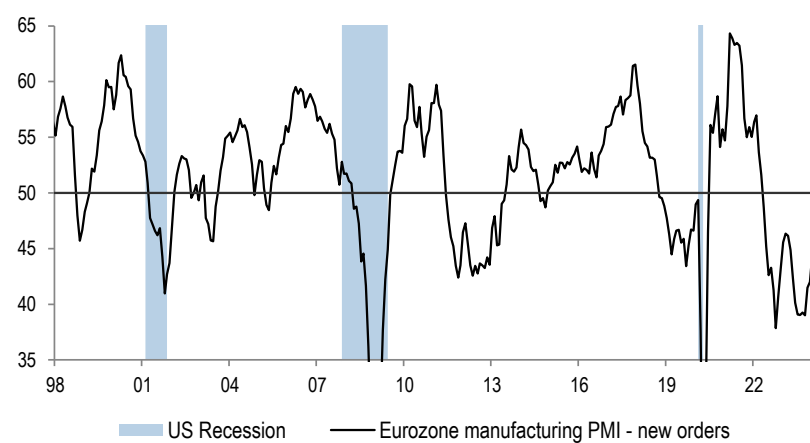
Source: J.P. Morgan

PMIs for key regions

	Jan'23	Feb'23	Mar'23	Apr'23	May'23	Jun'23	Jul'23	Aug'23	Sep'23	Oct'23	Nov'23	Dec'23	Jan'24
Global													
Composite	49.7	52.1	53.3	54.1	54.3	52.6	51.6	50.6	50.5	50.0	50.5	51.0	
Manufacturing	49.1	49.9	49.6	49.6	49.5	48.7	48.6	49.0	49.2	48.8	49.3	49.0	
Services	50.0	52.5	54.3	55.3	55.3	53.8	52.6	51.0	50.7	50.4	50.6	51.6	
US													
Composite	46.8	50.1	52.3	53.4	54.3	53.2	52.0	50.2	50.2	50.7	50.7	50.9	52.3
Manufacturing	46.9	47.3	49.2	50.2	48.4	46.3	49.0	47.9	49.8	50.0	49.4	47.9	50.3
Services	46.8	50.6	52.6	53.6	54.9	54.4	52.3	50.5	50.1	50.6	50.8	51.4	52.9
Eurozone													
Composite	50.3	52.0	53.7	54.1	52.8	49.9	48.6	46.7	47.2	46.5	47.6	47.6	47.9
Manufacturing	48.8	48.5	47.3	45.8	44.8	43.4	42.7	43.5	43.4	43.1	44.2	44.4	46.6
Services	50.8	52.7	55.0	56.2	55.1	52.0	50.9	47.9	48.7	47.8	48.7	48.8	48.4
China													
Composite	52.9	56.4	57.0	54.4	52.9	52.3	51.1	51.3	52.0	50.7	50.4	50.3	
Manufacturing	50.1	52.6	51.9	49.2	48.8	49.0	49.3	49.7	50.2	49.5	49.4	49.0	
Services	54.0	55.6	56.9	55.1	53.8	52.8	51.5	50.5	50.9	50.1	49.3	49.3	
UK													
Composite	48.5	53.1	52.2	54.9	54.0	52.8	50.8	48.6	48.5	48.7	50.7	52.1	52.5
Manufacturing	47.0	49.3	47.9	47.8	47.1	46.2	45.3	43.0	44.3	44.8	47.2	46.2	47.3
Services	48.7	53.5	52.9	55.9	55.2	53.7	51.5	49.5	49.3	49.5	50.9	53.4	53.8

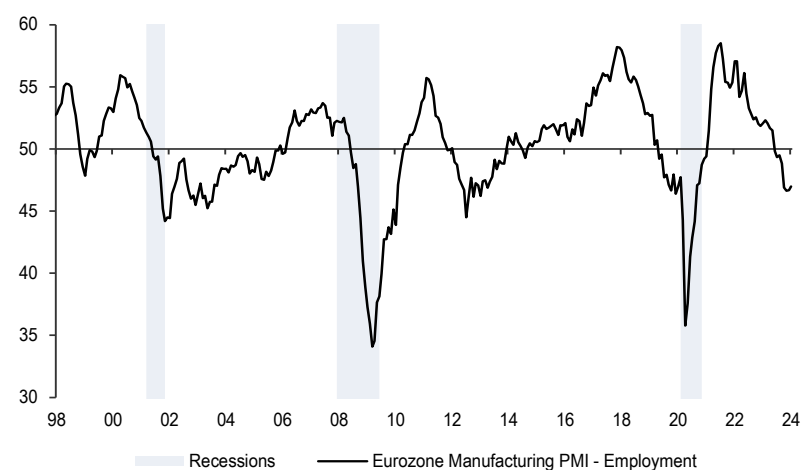
Source: Bloomberg Finance L.P.

Eurozone manufacturing PMI - new orders



Source: J.P. Morgan

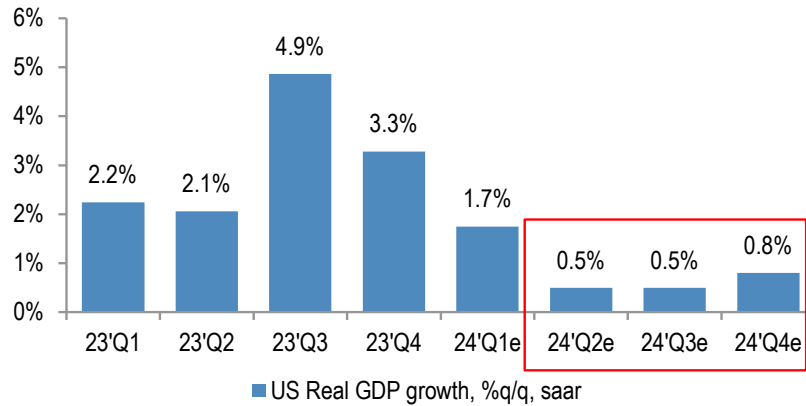
Eurozone Manufacturing PMI - Employment



Source: J.P. Morgan

...real GDP growth could be at stall speed for most of 2024...

US Real GDP forecasts



Source: J.P. Morgan

Profit margins and Earnings in different GDP regimes

US Real GDP, %y/y	Profit Margins, yoy, bps	NIPA Profits, %yoy	S&P 500 EPS, %y/y
<-3%	-51	-8%	-79%
-3% to -2%	-96	-9%	-26%
-2% to -1%	-83	-8%	-6%
-1% to 0%	11	4%	-3%
0% to 1%	-29	1%	-13%
1% to 2%	-40	1%	0%
2% to 3%	19	7%	10%
3% to 4%	45	11%	15%
4% to 5%	24	9%	16%
>5%	93	23%	25%

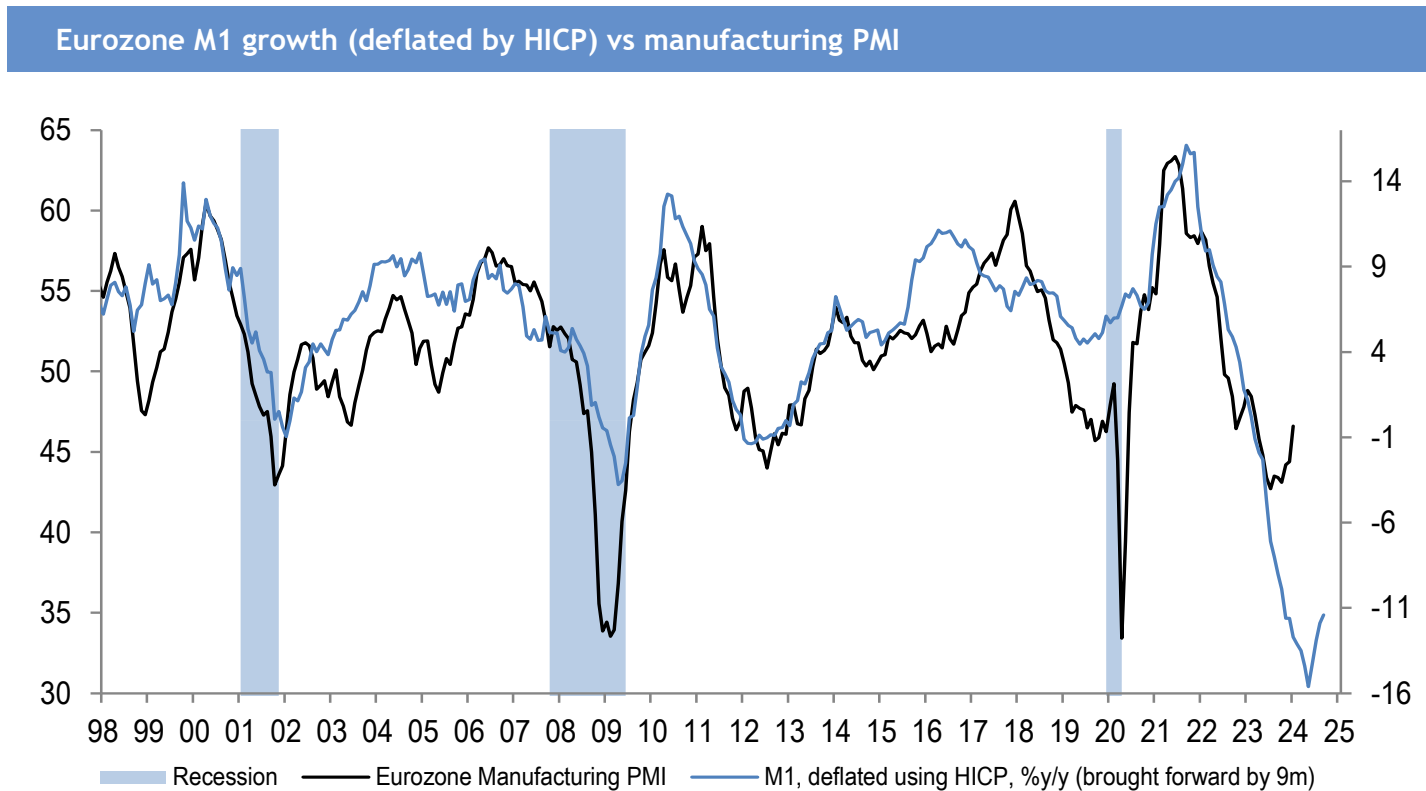
Source: J.P. Morgan, IBES

Key Regions - JPM Real GDP growth projections

	Real GDP, %y/y		
	2023E	2024E	2025E
United States	2.5%	2.0%	1.5%
Eurozone	0.5%	0.4%	1.0%
United Kingdom	0.3%	0.3%	0.1%
China	5.2%	4.9%	4.0%
Global	2.7%	2.3%	2.2%

Source: J.P. Morgan

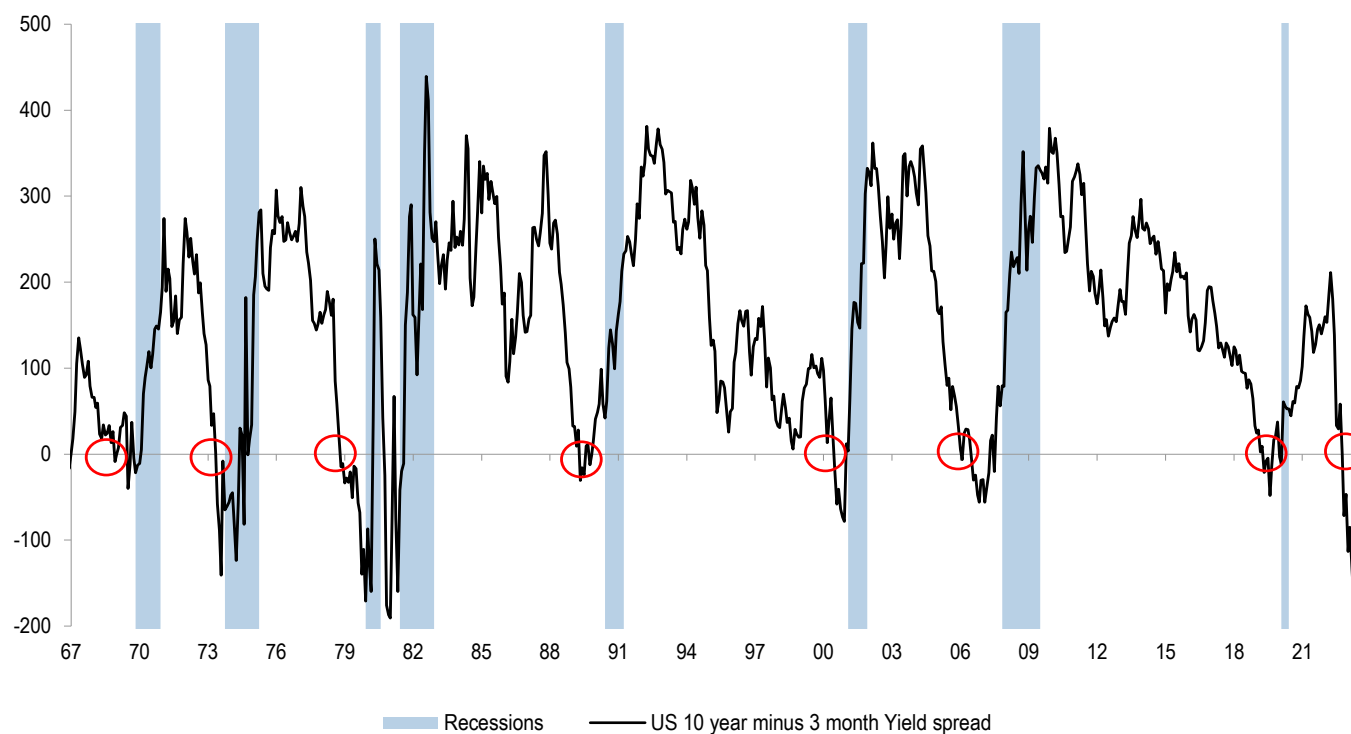
...lead indicators are bottoming, but they do not show upside for PMIs



Source: Bloomberg Finance L.P., S&P Global

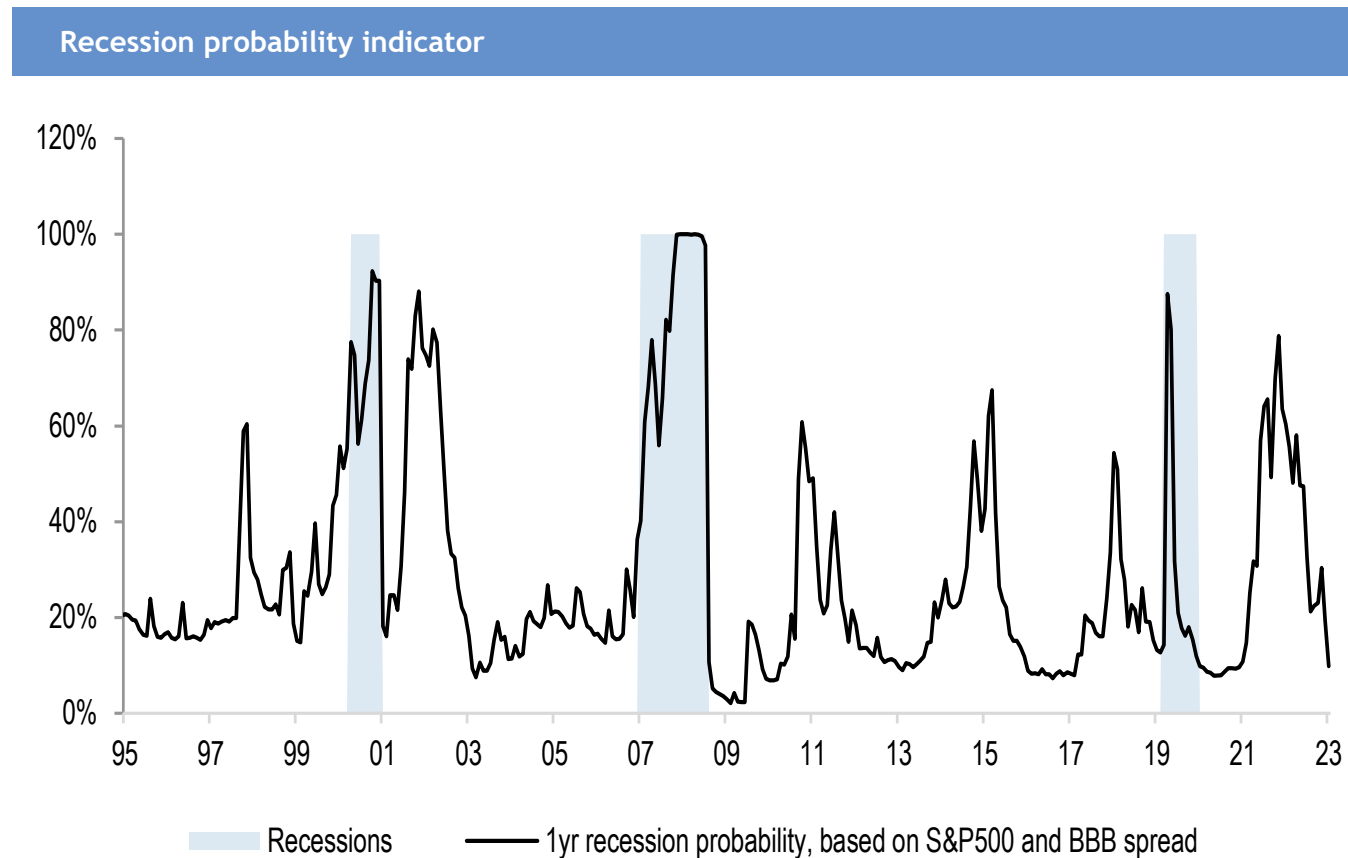
The consensus has fully embraced soft/no landing, but the yield curve was never wrong... the lead-lag was around 18 months... it inverted in October '22

US 10Y - 3M yield curve and recessions



Source: Datastream

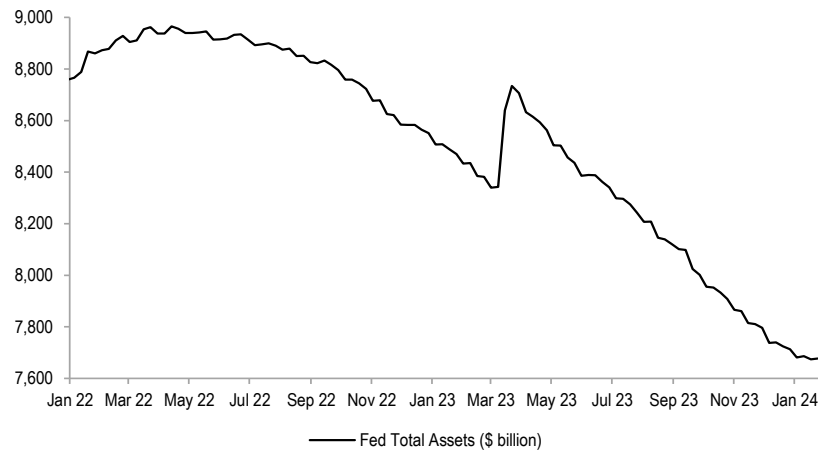
Unlike a year ago, when most had high chance of recession in mind, consensus views and market pricing are much more complacent these days



Source: J.P. Morgan

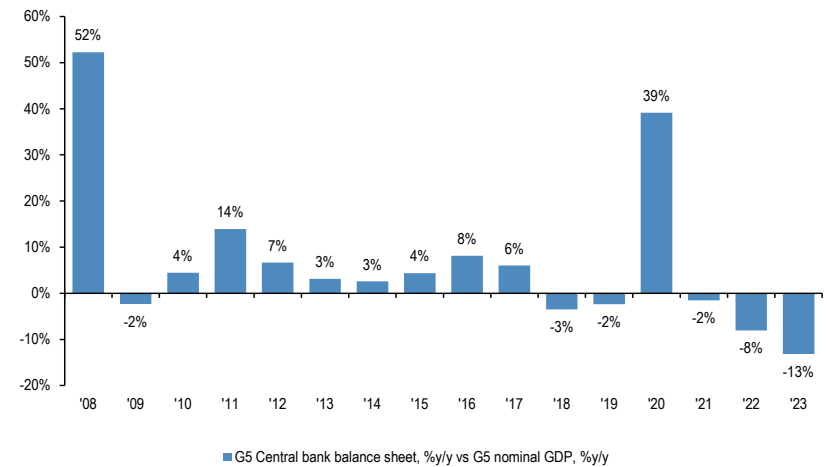
Mini QE resulted as a response to the March banking crisis, but the big picture is one of a continued withdrawal of excess liquidity

Fed total assets - since Jan '22



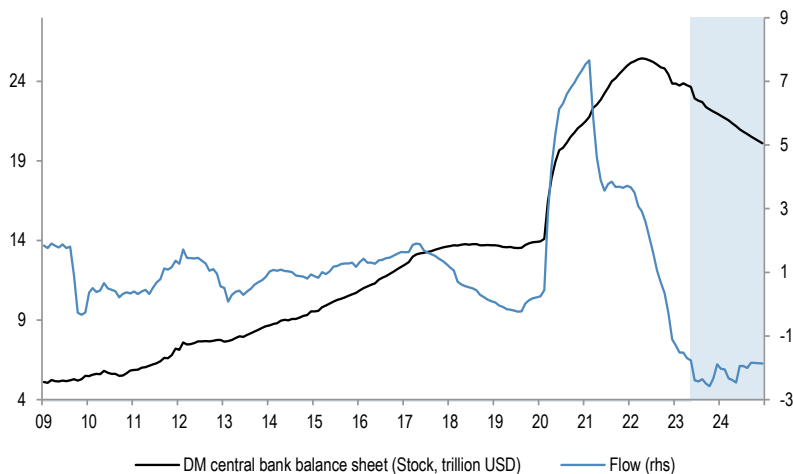
Source: Bloomberg Finance L.P.

G5 central banks balance sheet vs nominal GDP growth



Source: J.P. Morgan

DM central bank balance sheet



Source: J.P. Morgan

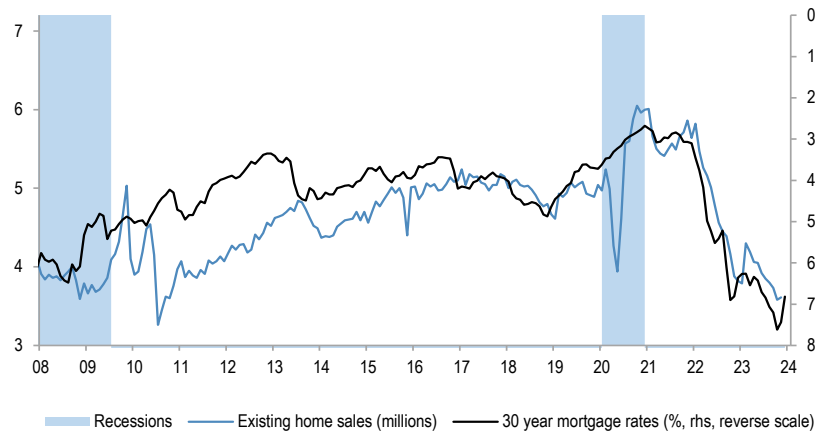
DM Central bank balance sheet (\$bn)

	2018	2019	2020	2021	2022	2023	2024
Fed	-385	115	3161	1431	-258	-754	-930
ECB	244	-32	2473	1695	-639	-1109	-776
BoJ	204	139	860	141	-132	401	-66
BoE	34	-12	388	274	-27	-188	-177
BoC	4	3	312	-35	-65	-70	-111
RBA	-6	0	91	197	0	-42	-80
RBNZ	1	-3	28	10	7	-2	-6
Total	96	210	7313	3713	-1114	-1764	-2146

Source: J.P. Morgan; *12m difference as of December

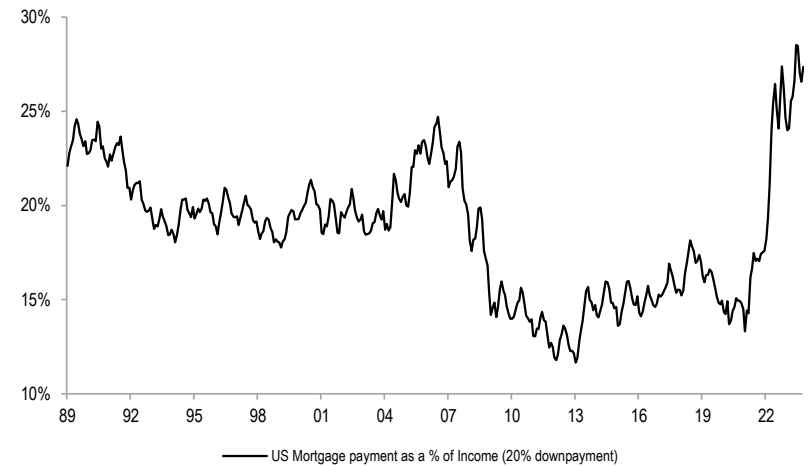
Consumer has been resilient so far, will that continue?

US existing home sales and mortgage rates



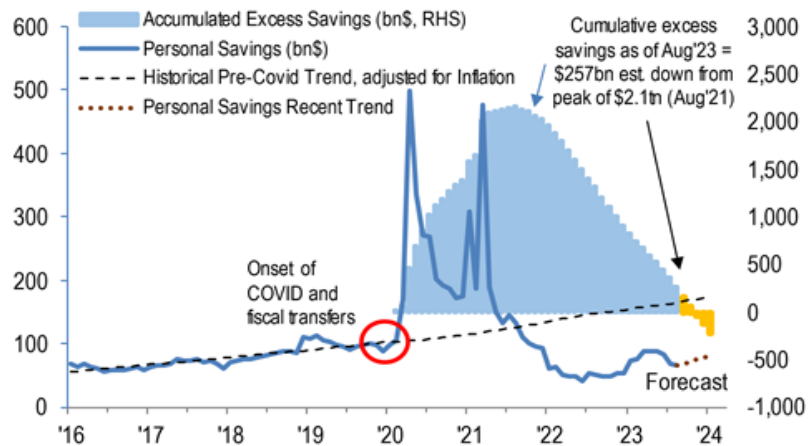
Source: Bloomberg Finance L.P.

US homebuyer affordability - % of spending on mortgage payments



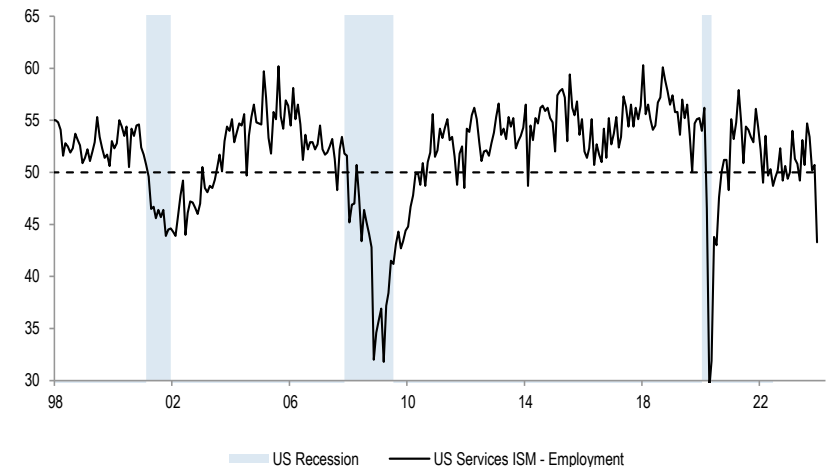
Source: Bloomberg Finance L.P., IBES

US excess savings



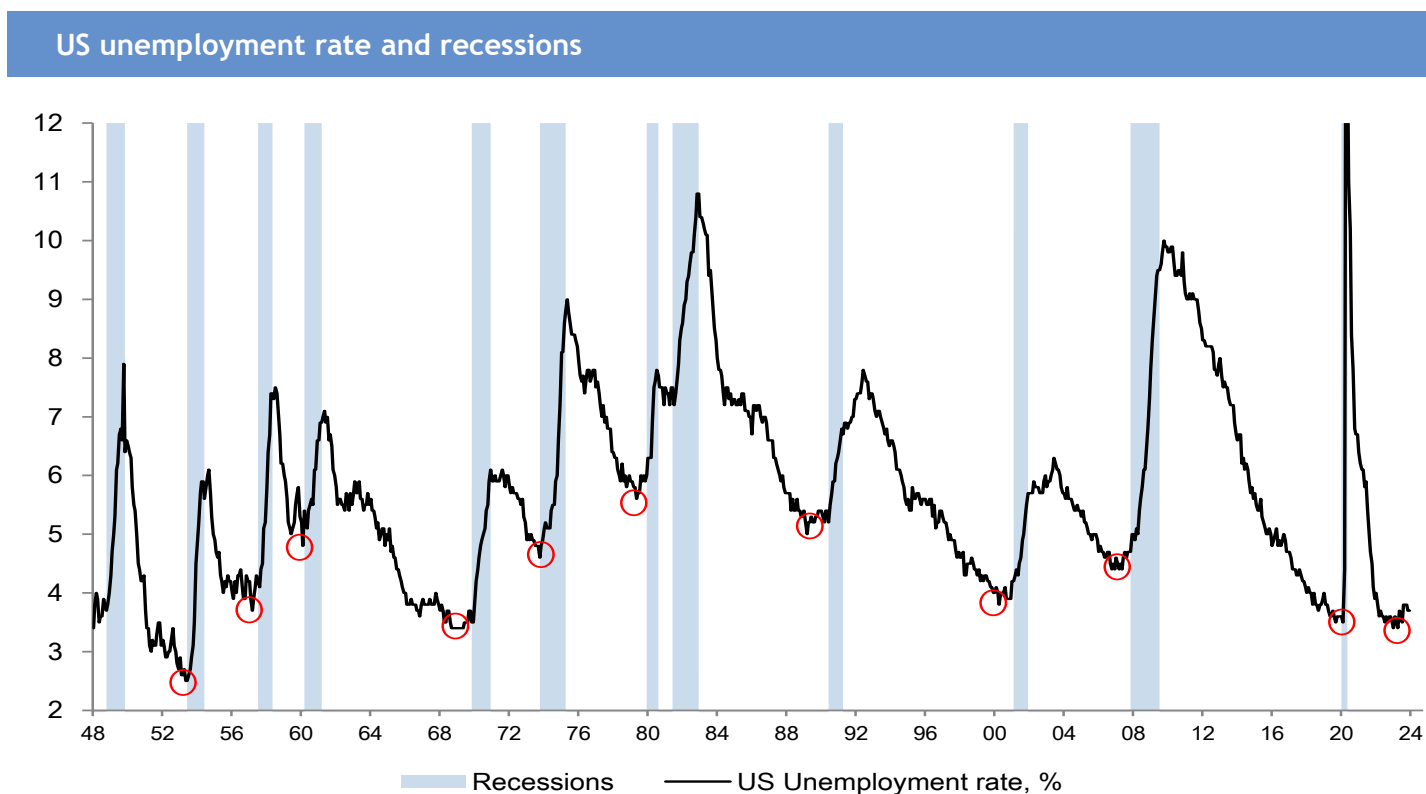
Source: J.P. Morgan US Equity Strategy

ISM services employment



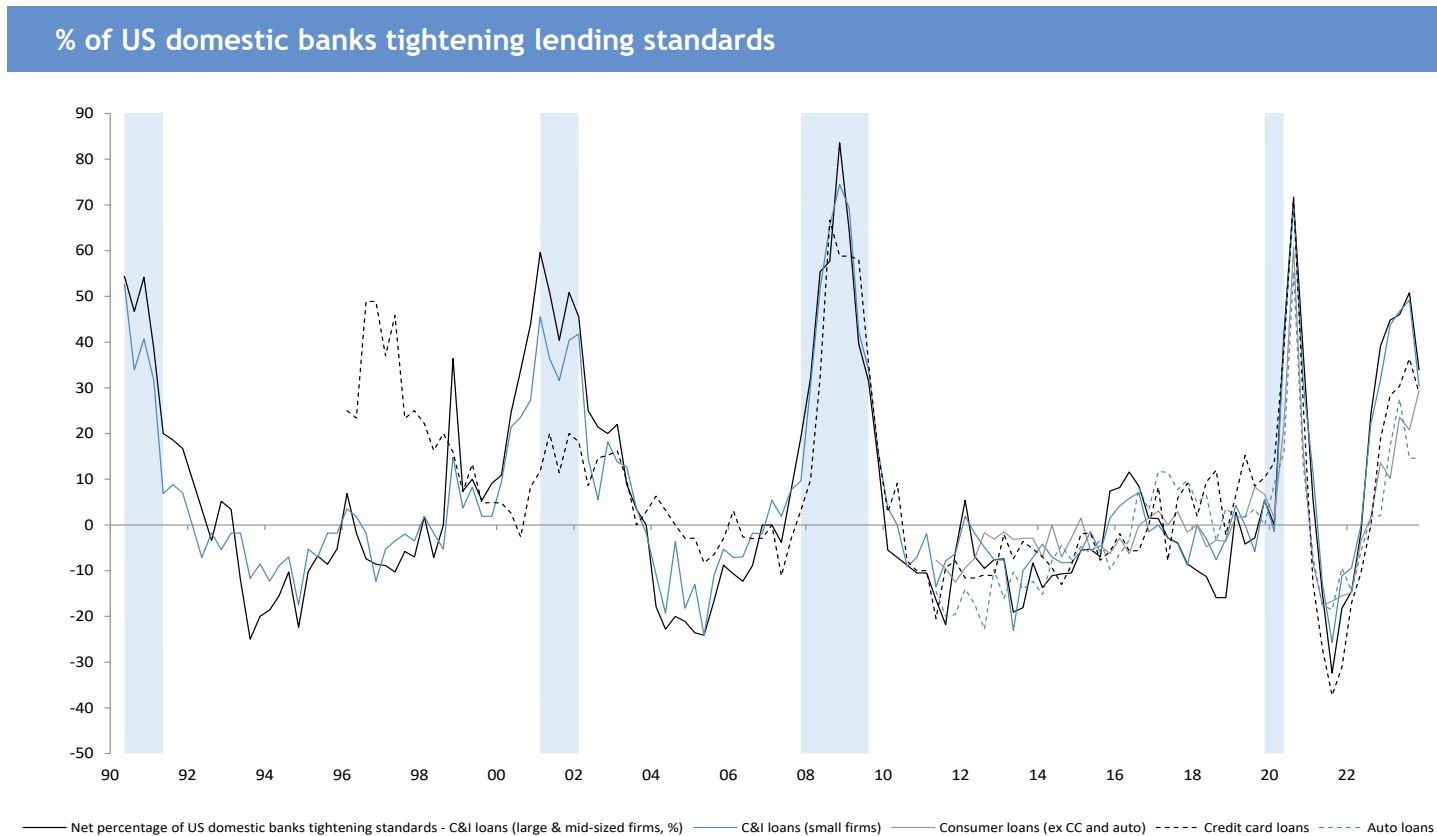
Source: JPMorgan

Labour market is a lagging indicator... the time between the best labour prints in the cycle and the next slowdown is quite short



Source: Bloomberg Finance L.P.

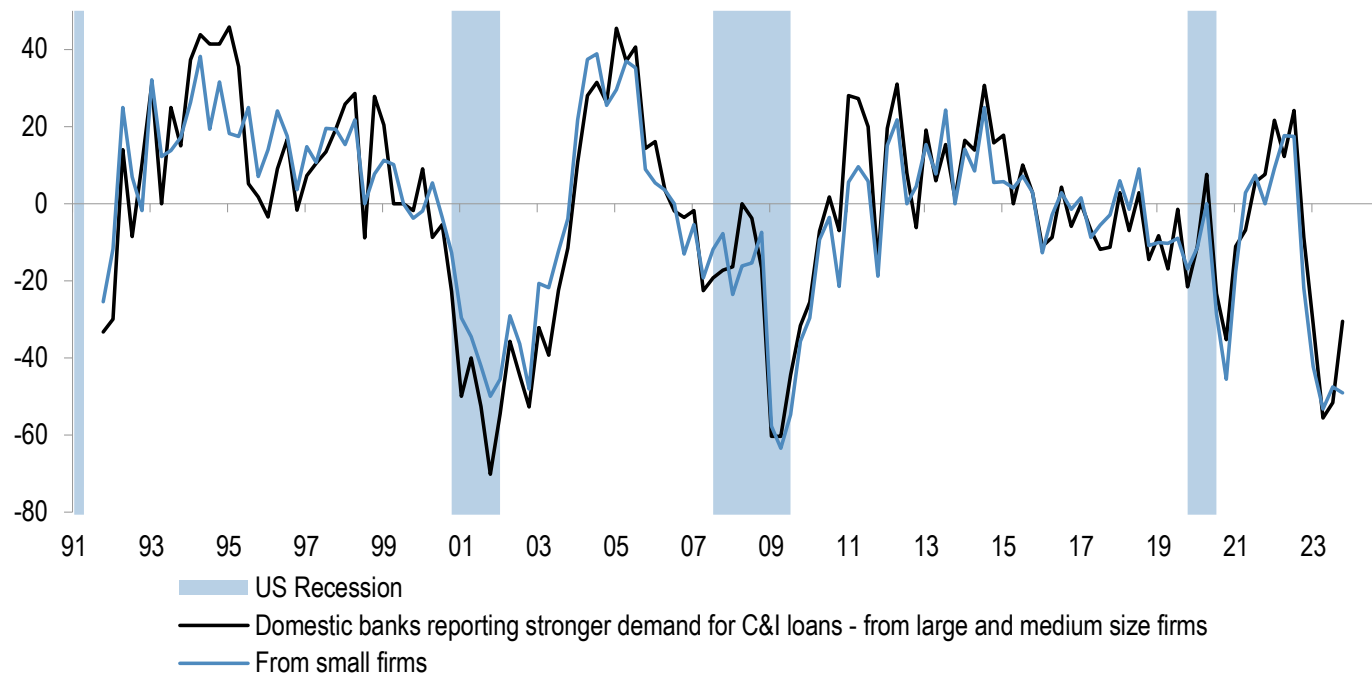
Credit conditions have tightened...



Source: FRB

...demand for credit has come down aggressively, the most since GFC

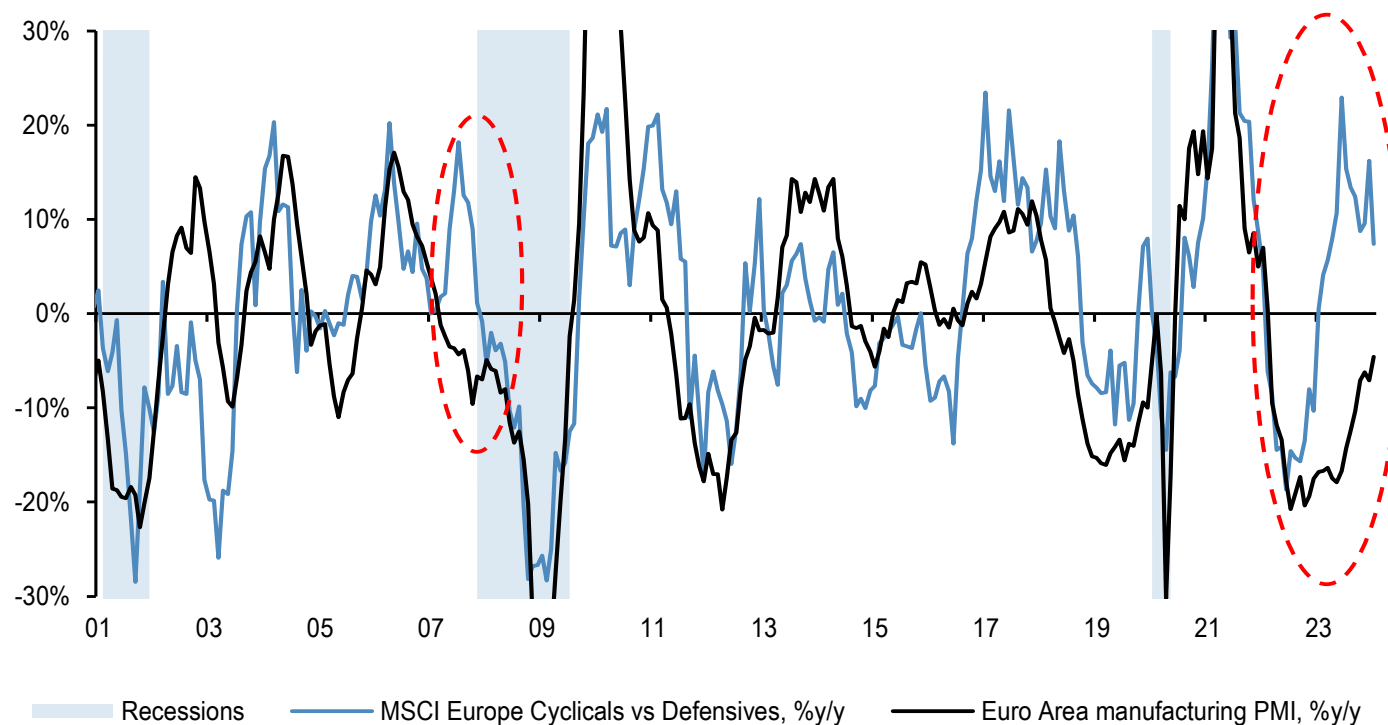
Domestic banks reporting stronger demand for C&I loans



Source: FRB

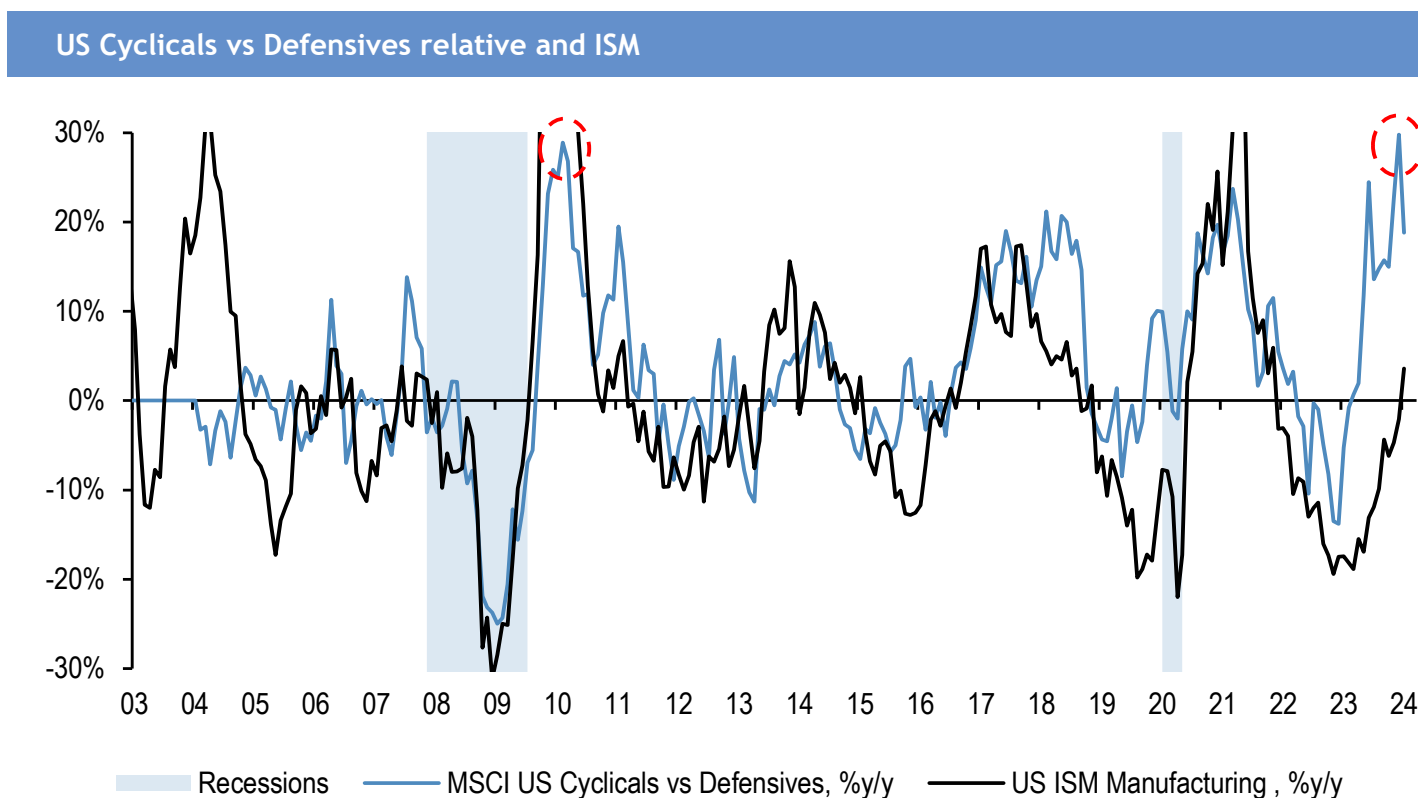
Market is far from pricing in a risk of a downturn... the gap that opened up between the performance of Cyc vs Def sectors and PMIs is still wide...

European Cyclical vs Defensives relative and PMI



Source: IBES, S&P Global

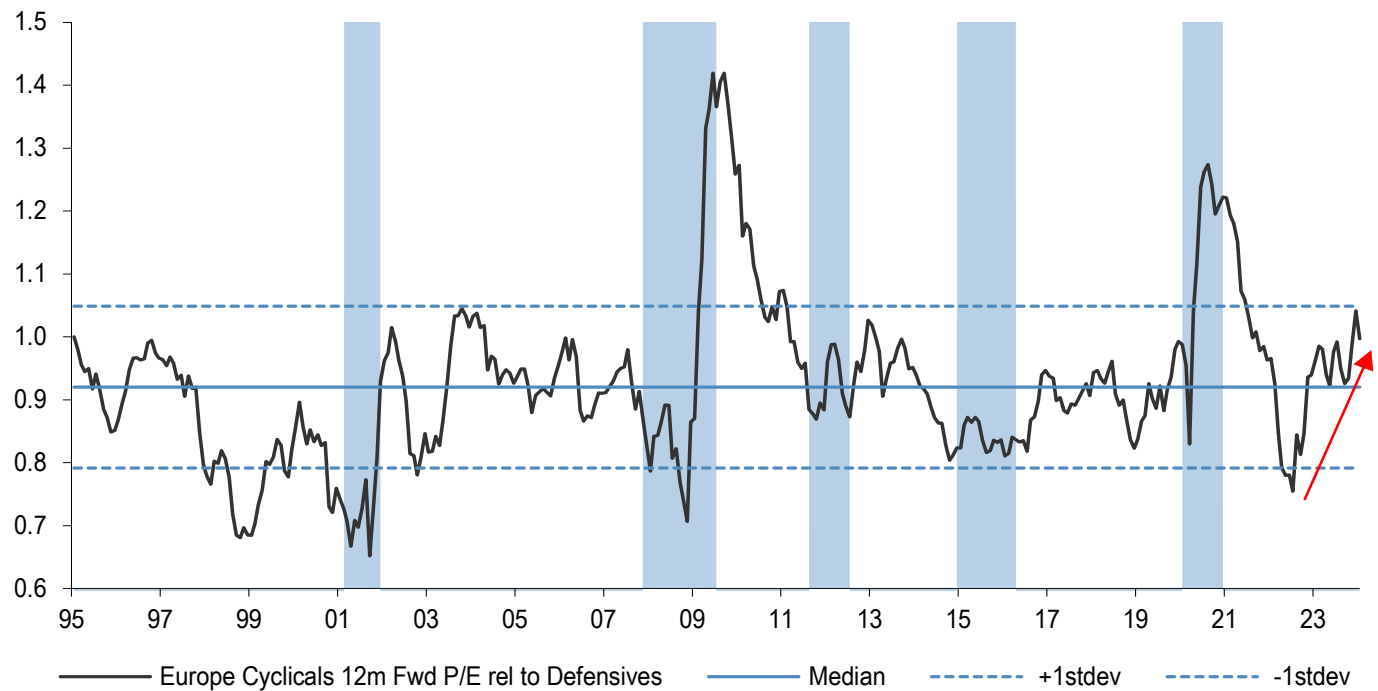
...US market is showing a similar gap... the market internals are currently as high as they were at peak in '09-'10, post GFC... that might be too aggressive



Source: IBES, S&P Global

Cyclicals have re-rated to near expensive vs Defensives

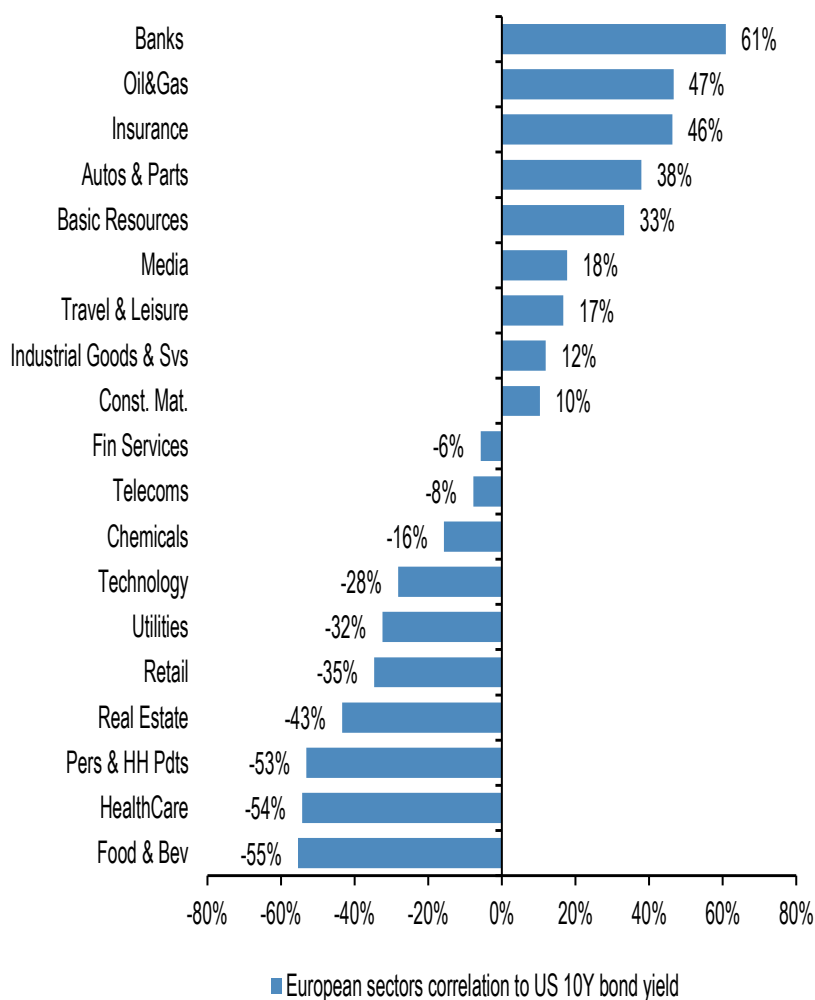
Cyclicals vs Defensives 12m Fwd. P/E relative



Source: IBES, S&P Global

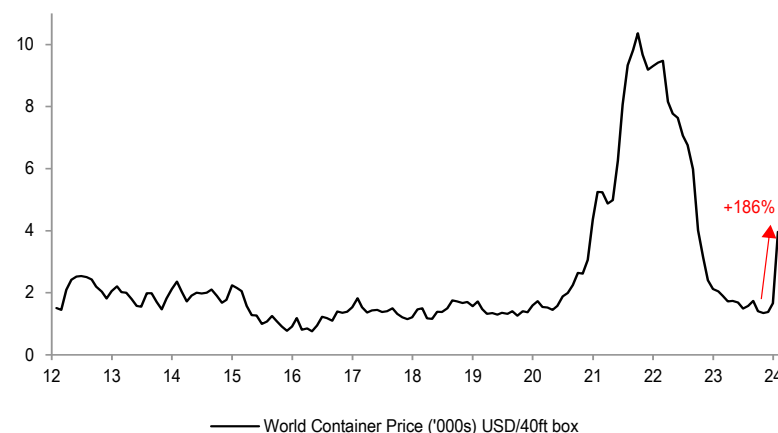
Value & Cyclicals are typically positively correlated to bond yields and to earnings... we keep the longstanding view that inflation will continue moving down on an end to COVID distortions, but next few prints could be messy

European Sector correlation to US 10Y bond yields



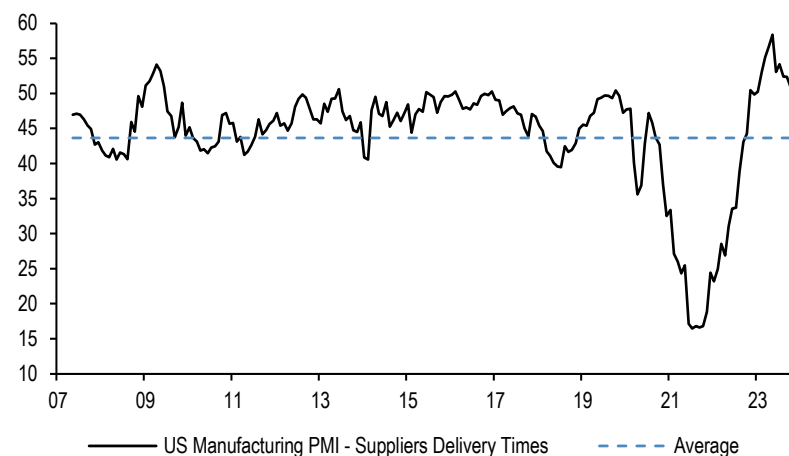
Source: Datastream

World Container Prices



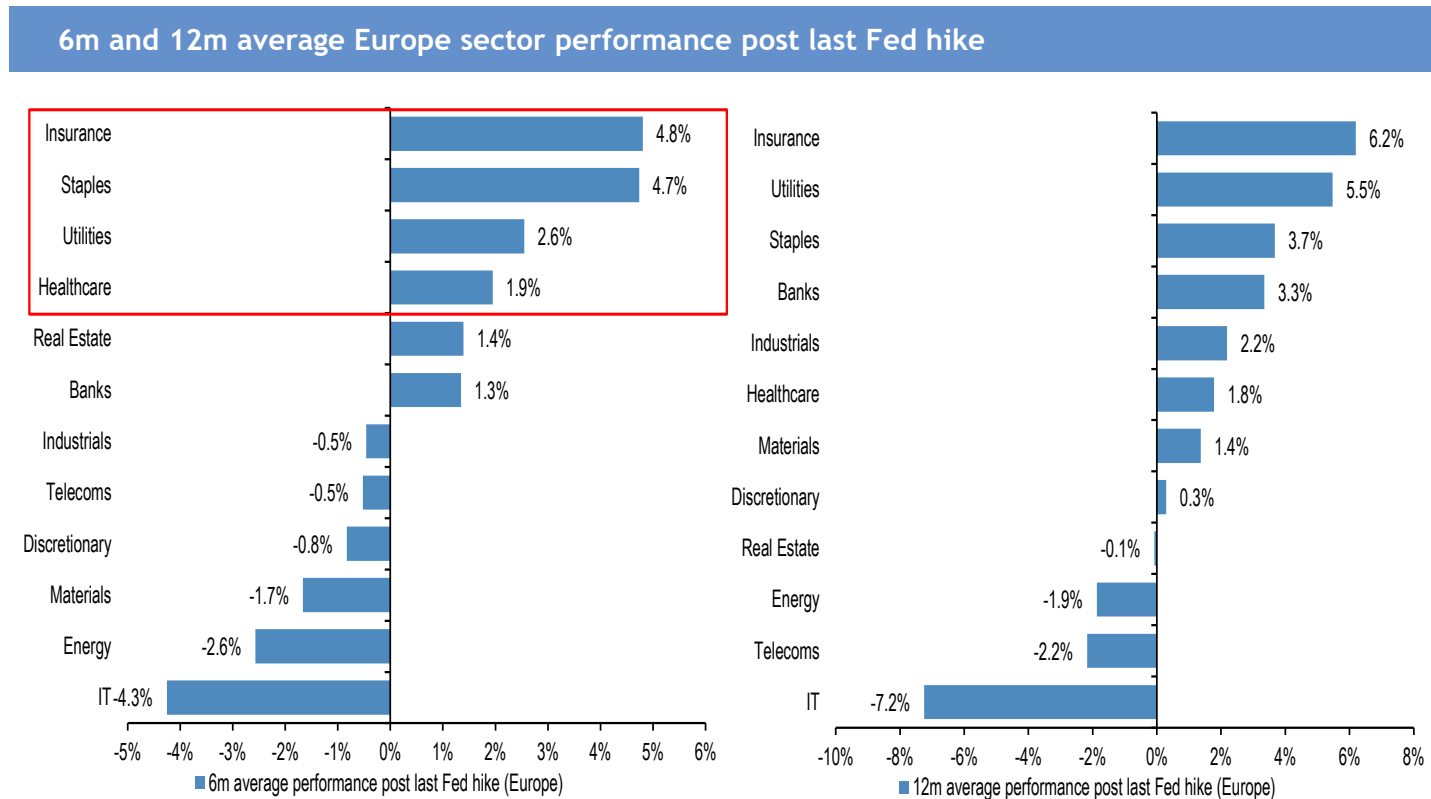
Source: Bloomberg Finance L.P.

US Manufacturing PMI - Suppliers Delivery Times



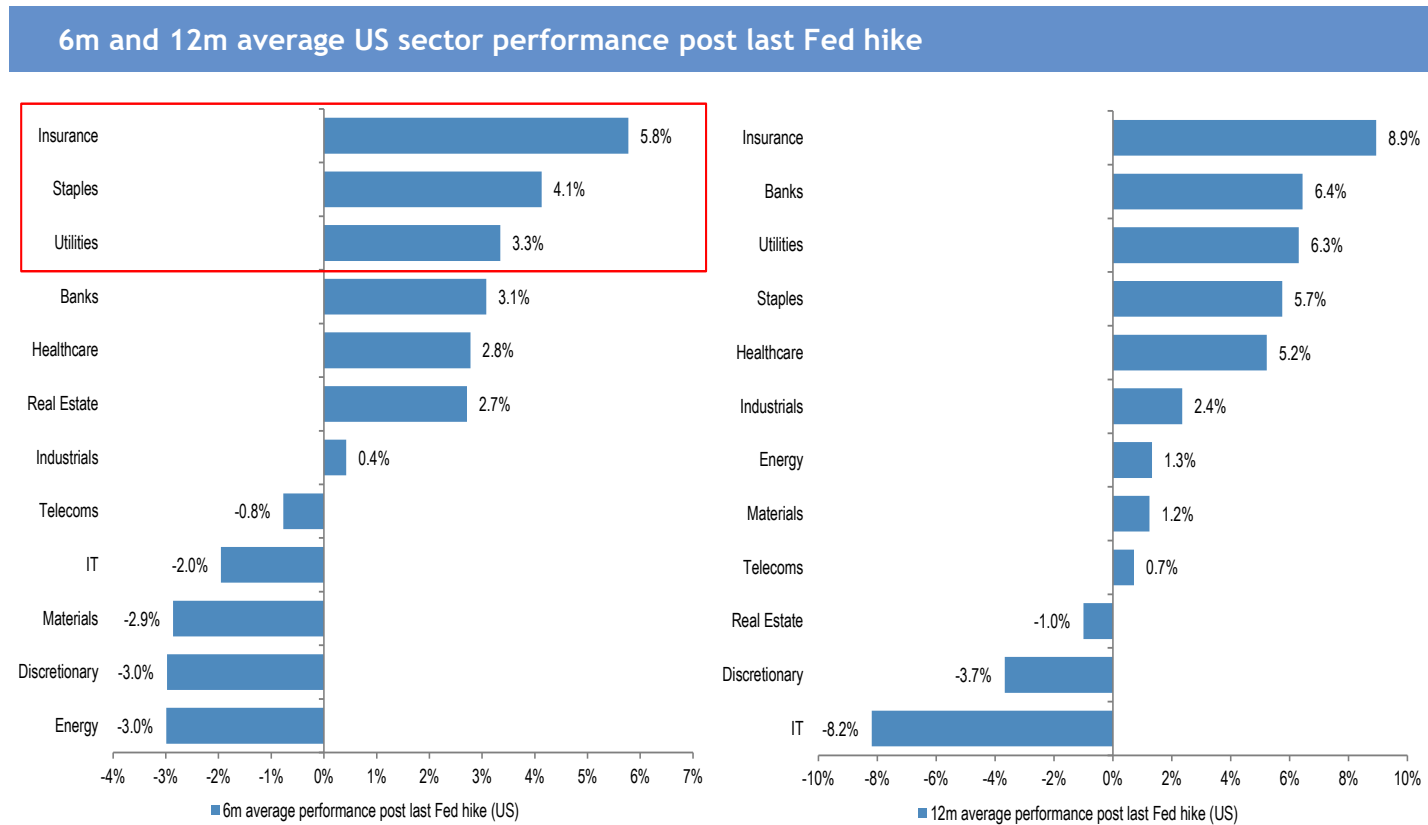
Source: J.P. Morgan

Trading around the final Fed hike in the cycle - Defensives tended to outperform...



Source: Datastream

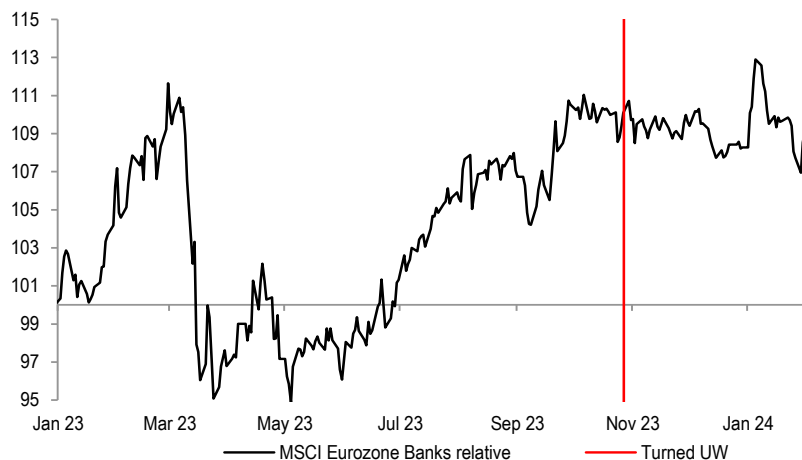
...similar sector leadership is visible in the US



Source: Datastream

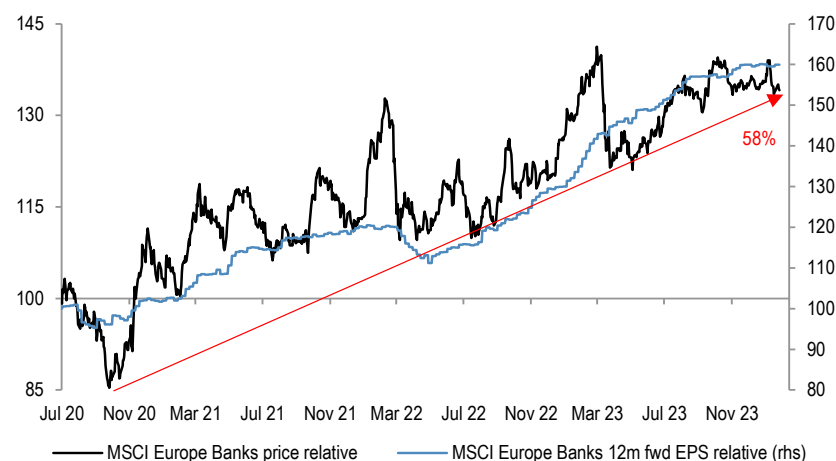
We advised recently to go short European Banks, taking advantage of their very strong rally in the last 3 years

MSCI Eurozone Banks relative



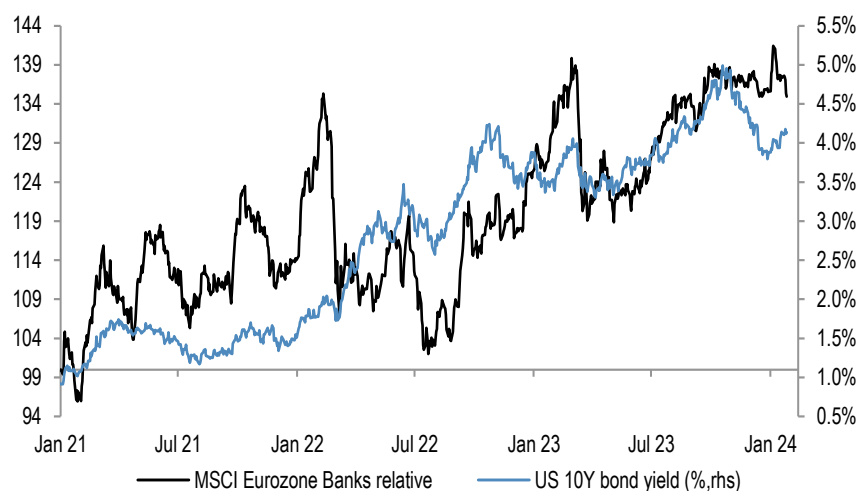
Source: Bloomberg Finance L.P.

MSCI Europe Banks relative and EPS relative



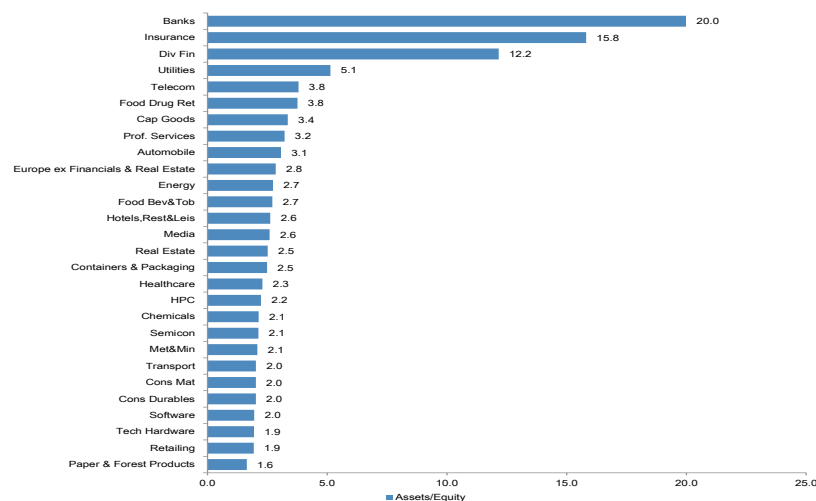
Source: Bloomberg Finance L.P., IBES

European Banks relative vs US 10Y bond yield



Source: Bloomberg Finance L.P.

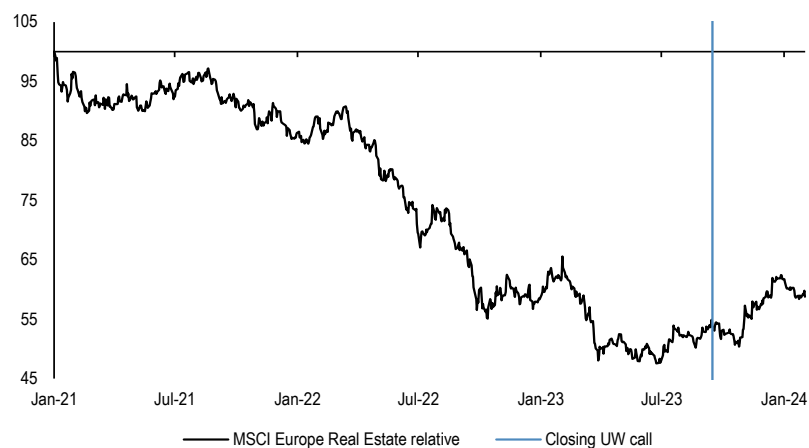
MSCI Europe sectors Asset to Equity



Source: Bloomberg Finance L.P.

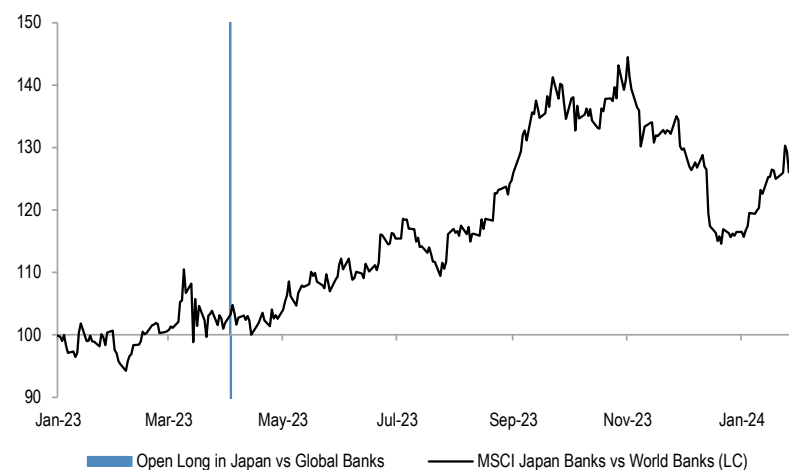
In Q4 we reversed our 2-year long UW on Real Estate; Stay OW Japanese vs Eurozone Banks; Defensives to have a catch-up trade

European Real Estate price relative



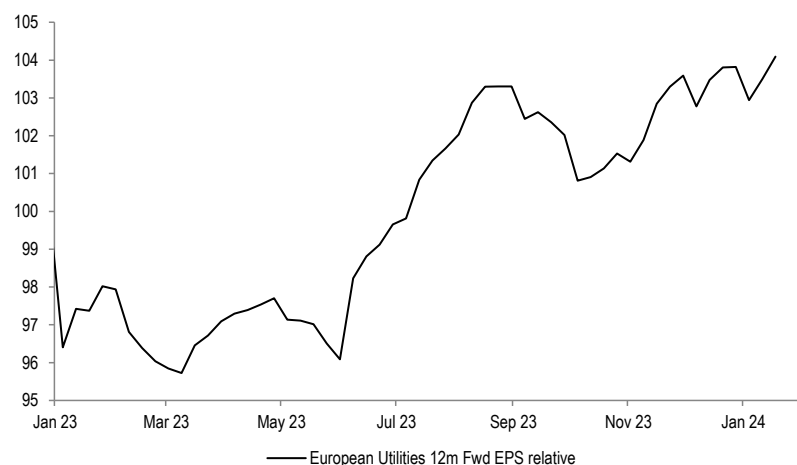
Source: Datastream

MSCI Japan Banks relative to Global Banks



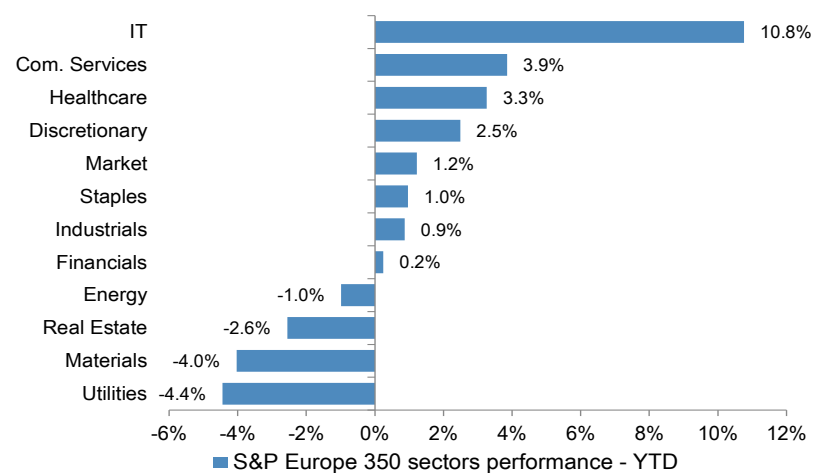
Source: Datastream

European Utilities 12m Fwd. EPS relative



Source: Bloomberg Finance L.P.

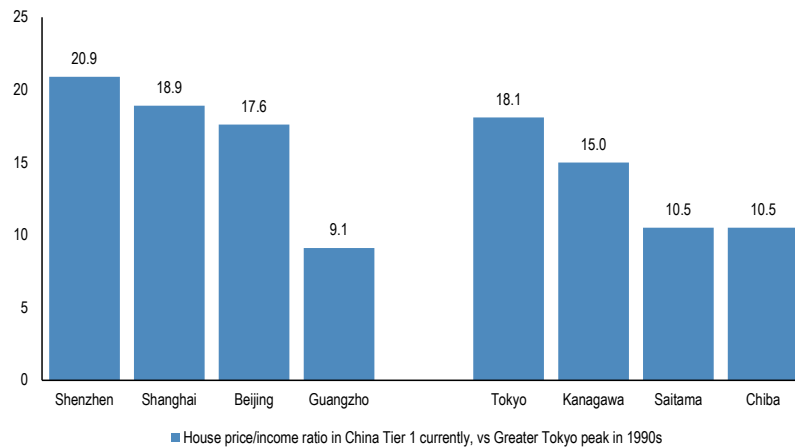
European YTD sector performance



Source: IBES

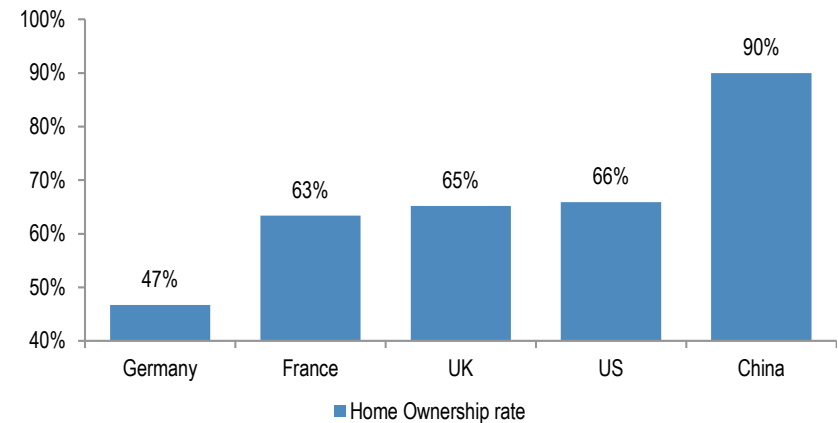
We remain medium term bearish on China... the good news is that China equities are already down 30%+ from January '23 highs...

House price to income ratio in China Tier 1 cities, vs Japan in 1990s



Source: J.P. Morgan China Strategy

Home ownership rate



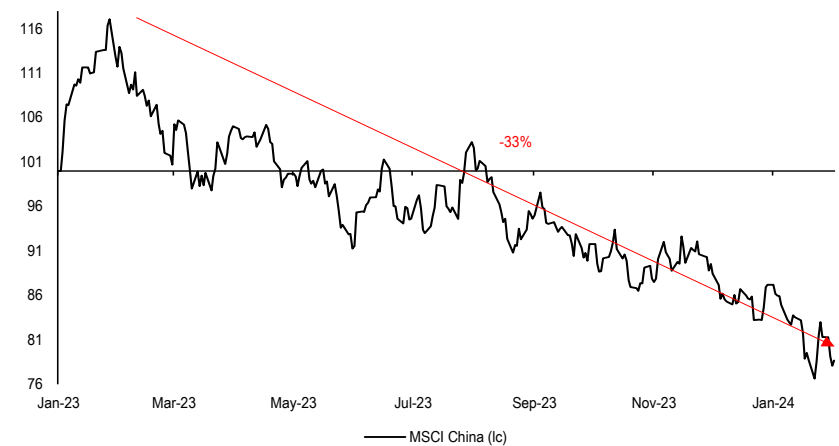
Source: Various Websites

China CPI



Source: Bloomberg Finance L.P.

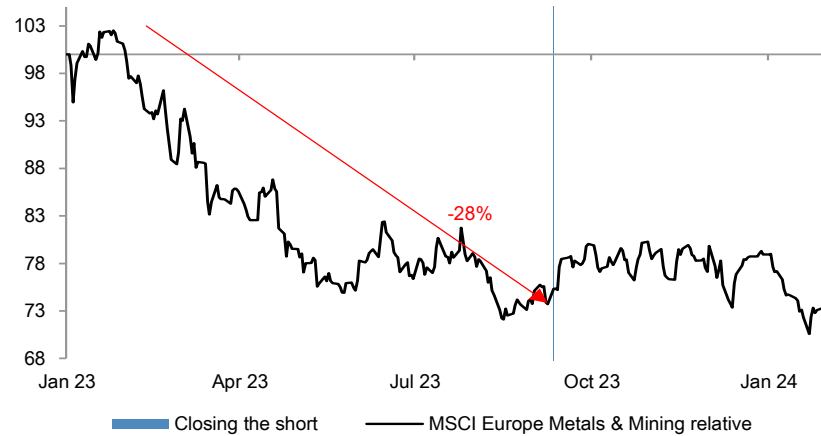
MSCI China



Source: Datastream

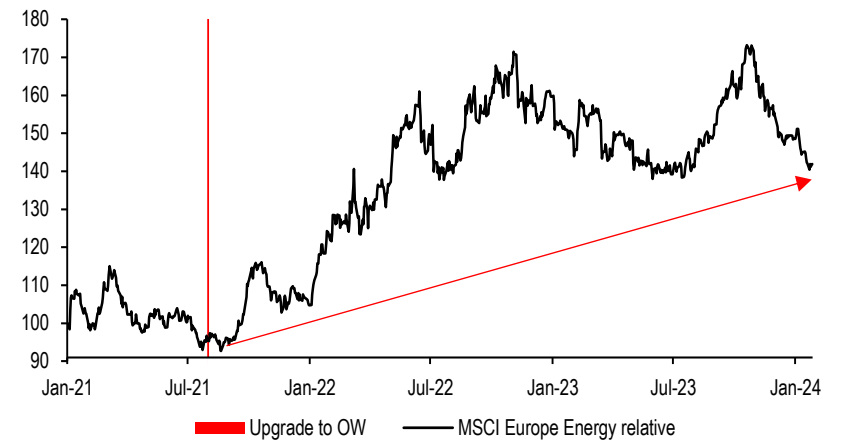
...there is a wide dispersion in China plays performance

MSCI Europe Miners relative



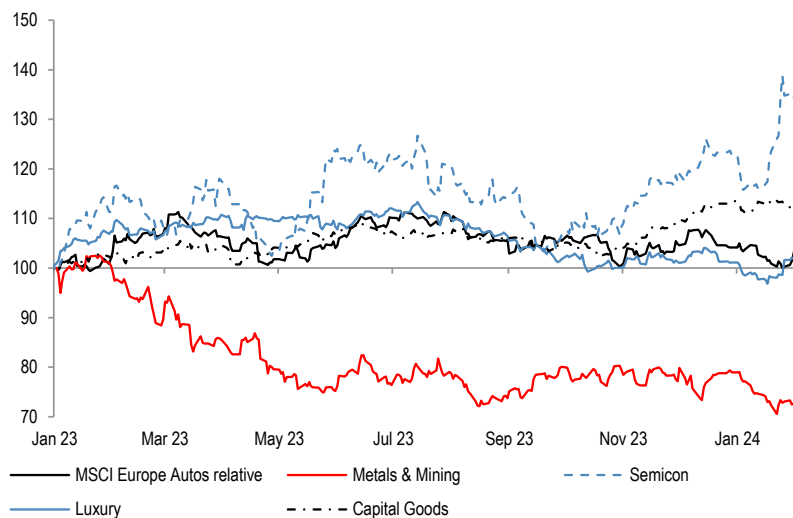
Source: Datastream

MSCI Europe Energy relative



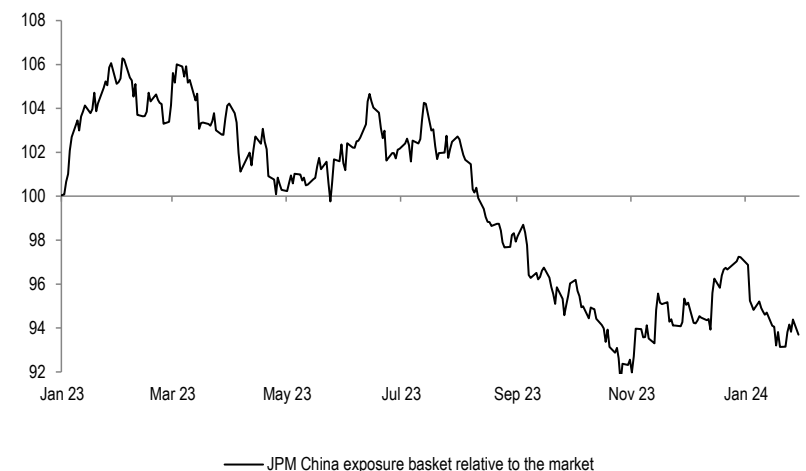
Source: Datastream

European sectors relative



Source: Datastream

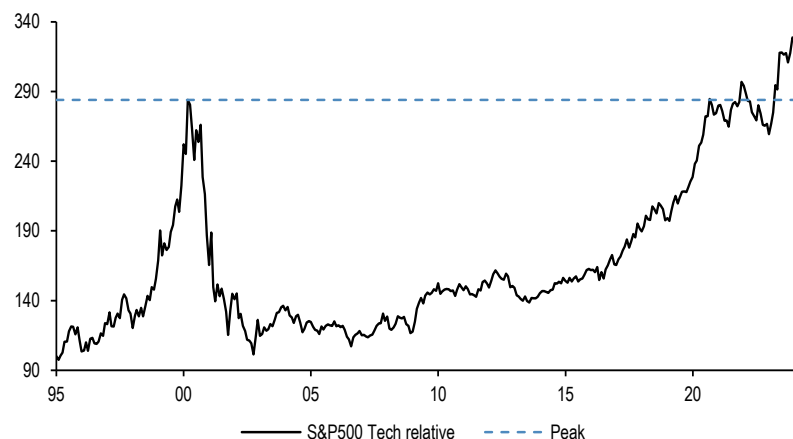
JPM China Exposure basket relative



Source: Bloomberg Finance L.P.

Tech should at face value be supported in 2024 given that it is a long duration structural growth sector, but it has dramatically frontloaded the returns

S&P500 Tech relative



Source: Datastream

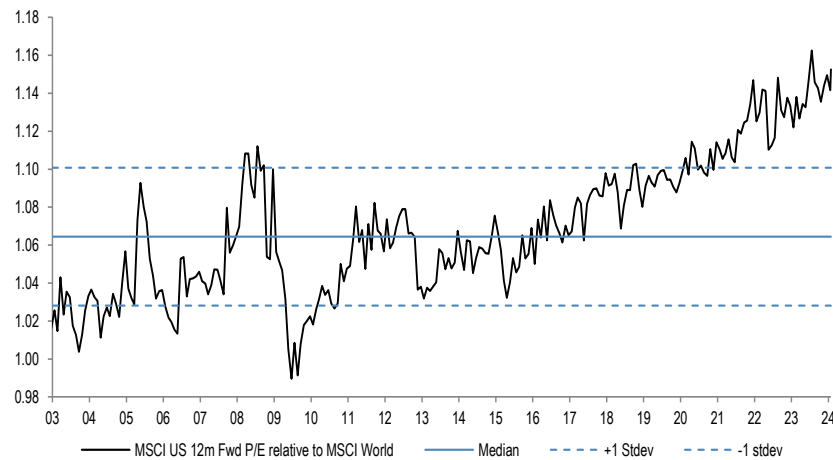
MSCI World Tech 12m Fwd. P/E relative



Source: IBES

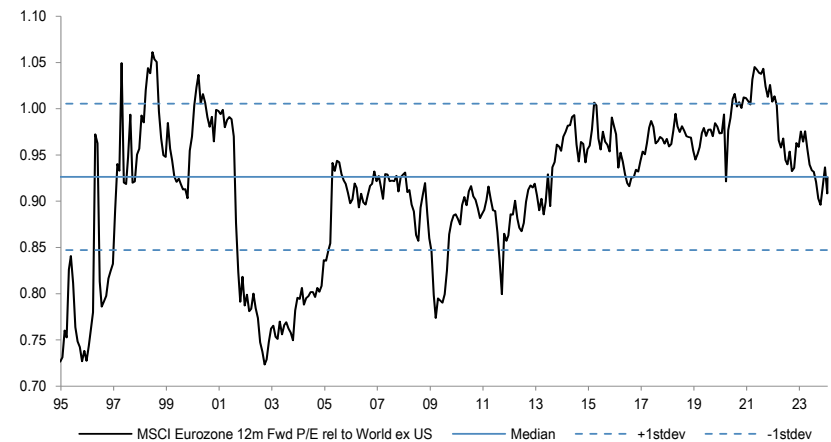
Even as US equity market valuations are unattractive, we prefer it over Eurozone, for now... only Japan is outright cheap vs fixed income...

MSCI US 12m Fwd. P/E relative to World ex US



Source: IBES

MSCI Eurozone 12m Fwd. P/E relative to World ex US



Source: IBES

12m Fwd. P/E across key geographies

	Current	20Y Median	Current vs Median
US	20.4	15.8	29%
World	17.7	15.0	18%
Switzerland	17.5	15.1	16%
France	13.6	12.8	6%
Japan	14.8	14.2	4%
EM	11.4	11.3	1%
Eurozone	12.6	12.8	-1%
Germany	11.4	12.4	-8%
UK	10.8	12.4	-13%
Spain	10.0	11.9	-16%
Italy	8.3	11.9	-30%

Source: IBES, *MSCI indices

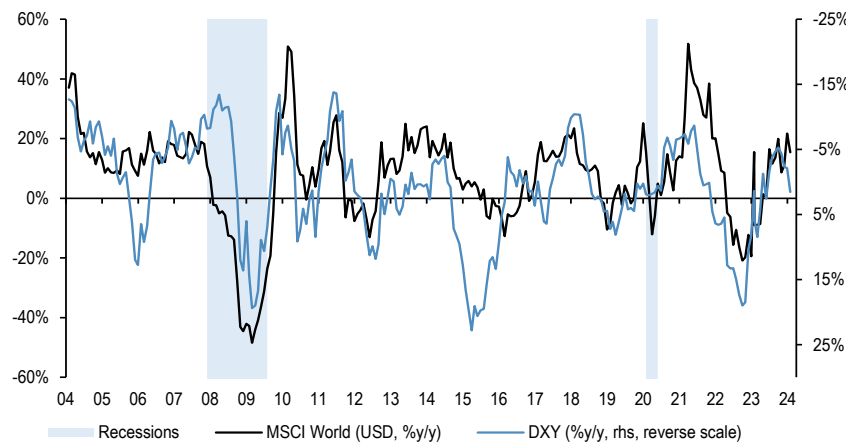
DM Yield Gap in a historical context

	Dividend yield	10Y Bond yield	Dividend yield minus bond yield	Average since '00	Current vs Average (bp)
US	1.4%	4.1%	-2.7%	-1.4%	-133
Japan	2.1%	0.7%	1.4%	0.9%	47
Eurozone	3.0%	2.8%	0.2%	0.5%	-31
UK	3.7%	3.9%	-0.2%	0.6%	-81

Source: Datastream

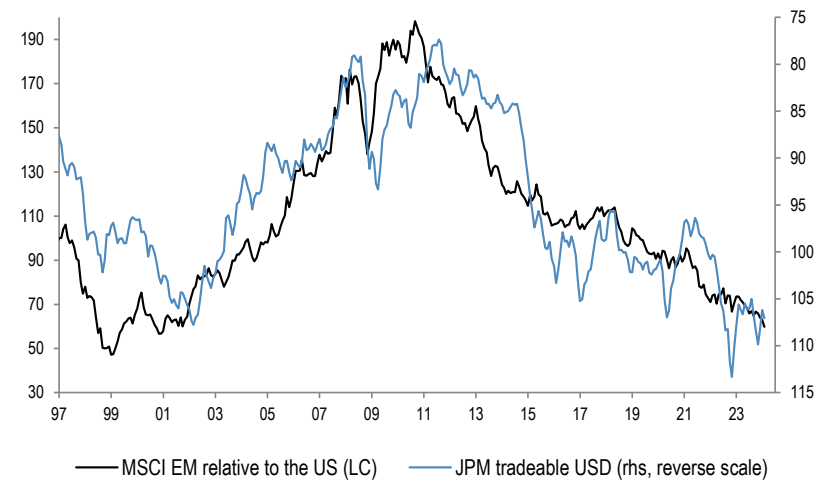
...any renewed strengthening in USD could be a problem for risky assets

MSCI World performance and DXY



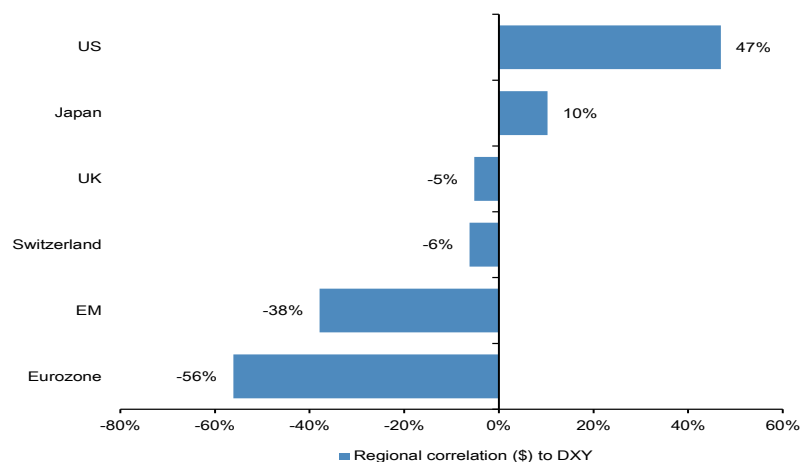
Source: Datastream

MSCI EM vs DM and USD



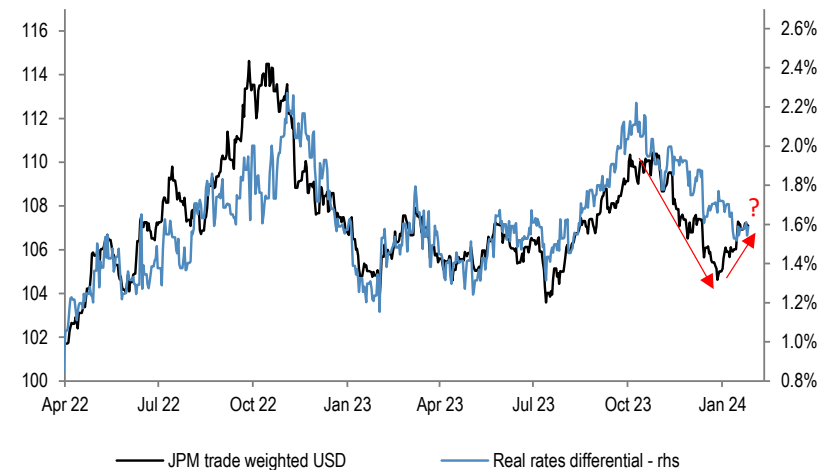
Source: Bloomberg Finance L.P.

Regional correlations vs USD



Source: Bloomberg Finance L.P.

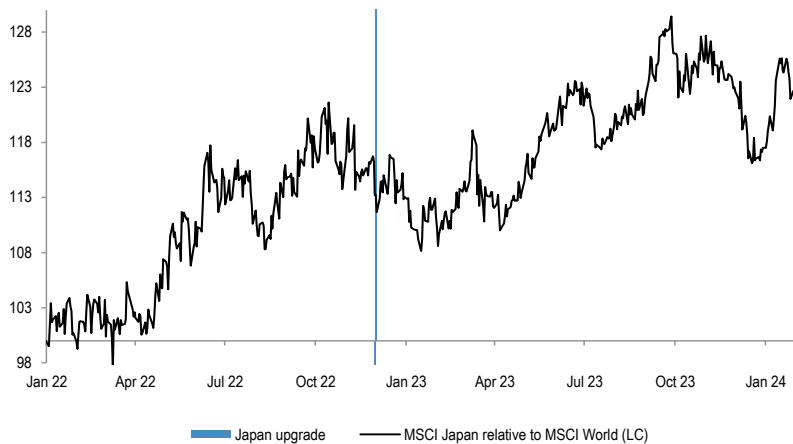
USD and real rates differential



Source: Bloomberg Finance L.P. * US 5Y TIPS minus average of Germany, Japan, UK and Australia 5Y inflation adjusted yields

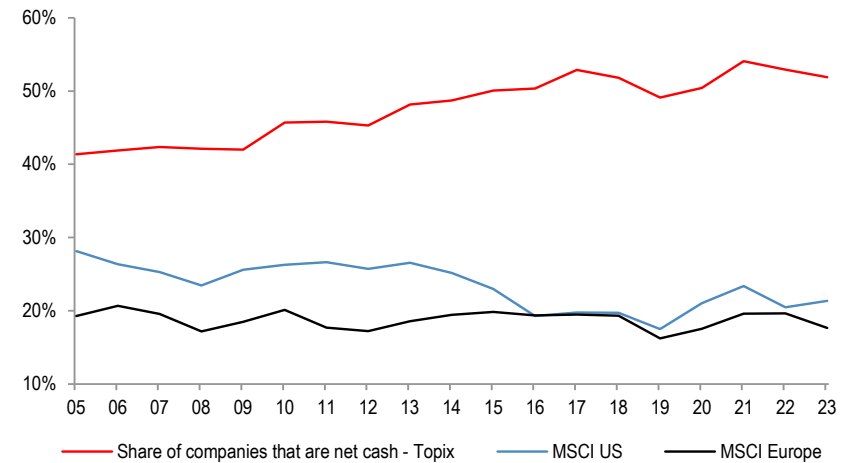
We have upgraded Japan to OW in December '22... one potentially does not need to hedge the FX anymore

MSCI Japan price relative (lc)



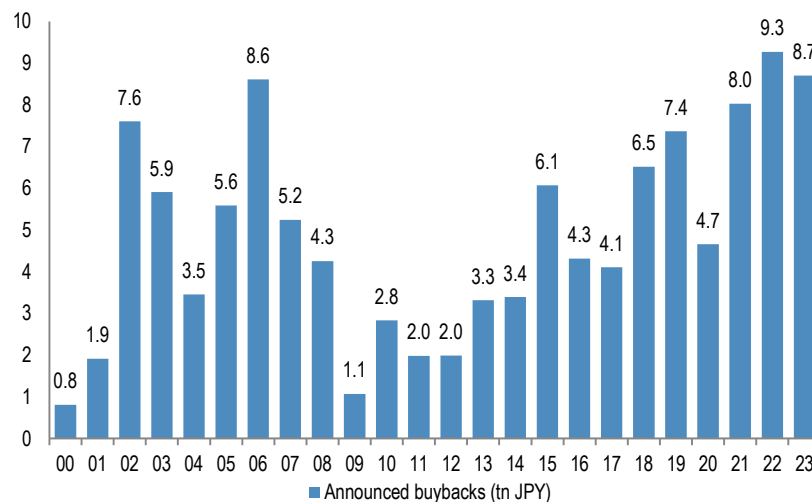
Source: Datastream

% of net cash companies in the index



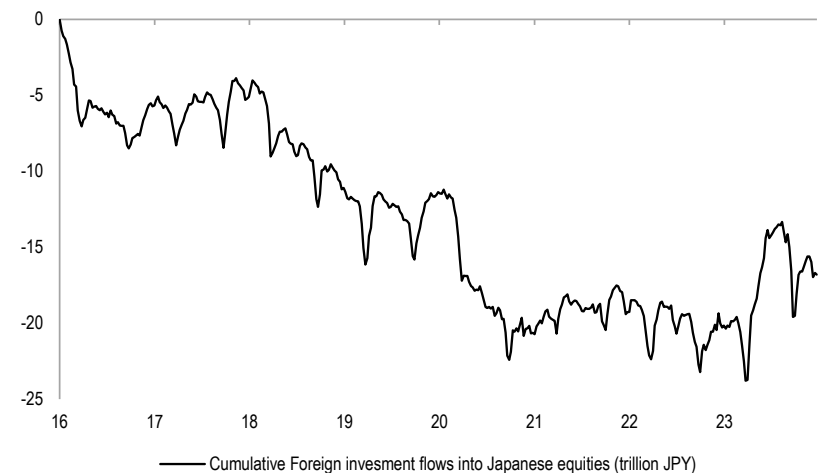
Source: Bloomberg Finance L.P.

Announced buybacks - TOPIX universe



Source: Bloomberg Finance L.P. 2023 refers to annualized numbers; buybacks till Oct

Foreign investment flows into Japanese equities



Source: JPM Japan Strategy

OW UK, on attractive valuations... keep long FTSE100 vs FTSE250, for now

MSCI UK 12m Fwd. P/E relative to MSCI World



Source: Datastream

FTSE100 vs FTSE250



Source: Datastream

Fundamentally: 1) Growth momentum has softened

- There is a loss of momentum evident since mid last year, especially in Europe and in China. Manufacturing is still not showing a meaningful bounce, and services could stall.
- Even though there are no clear imbalances in the DM, the pressure keeps building, as the impact of monetary tightening historically worked with a lag.

JPM GDP forecasts, by region

	Real GDP		
	% oya		
	2023E	2024E	2025E
United States	2.5	2.0	1.5
Eurozone	0.5	0.4	1.0
United Kingdom	0.3	0.3	0.1
Japan	2.0	0.7	0.7
Emerging Markets	4.1	3.8	3.6
Global	2.7	2.3	2.2

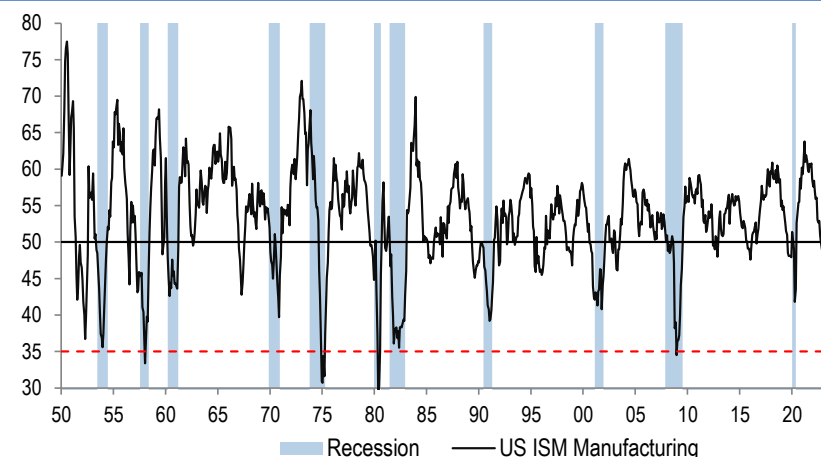
Source: Bloomberg Finance L.P., S&P Global

J.P. Morgan global composite PMI

JPM Global composite PMI summary												
	Jan'23	Feb'23	Mar'23	Apr'23	May'23	Jun'23	Jul'23	Aug'23	Sep'23	Oct'23	Nov'23	Dec'23
Global PMI	49.7	52.1	53.4	54.2	54.4	52.7	51.6	50.6	50.5	50.0	50.4	51.0
Output	49.7	52.1	53.4	54.2	54.4	52.7	51.6	50.6	50.5	50.0	50.4	51.0
Future output	64.1	64.8	64.1	64.6	63.8	64.1	61.9	62.4	61.5	61.4	61.3	62.5
New orders	49.9	51.3	52.6	53.2	53.7	52.3	50.7	50.1	49.3	49.3	50.0	50.8
Export orders	47.8	48.7	48.6	49.3	48.8	48.3	47.8	47.9	48.1	48.0	48.5	48.3
Employment	50.4	51.5	51.9	52.3	52.0	51.9	51.0	51.0	50.9	50.5	50.1	50.4
Output prices	55.0	55.3	54.9	55.0	54.4	53.4	53.7	53.4	53.6	53.0	53.5	53.5

Source: J.P. Morgan, S&P Global

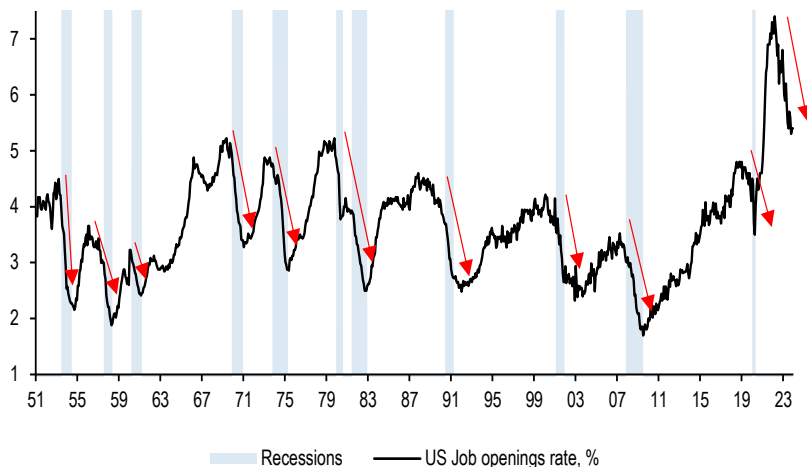
US ISM Manufacturing and past recessions



Source: Bloomberg Finance L.P. *dotted line refers to median trough during recessions

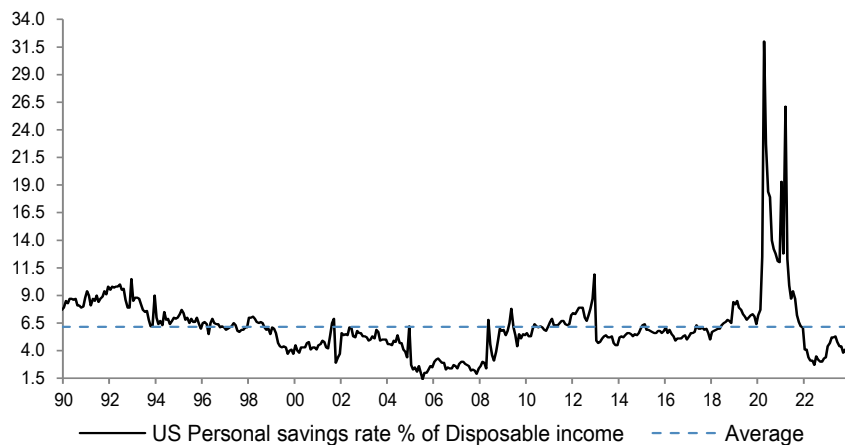
Consumer could weaken from here... pent up demand has been depleted...

US job vacancies rate



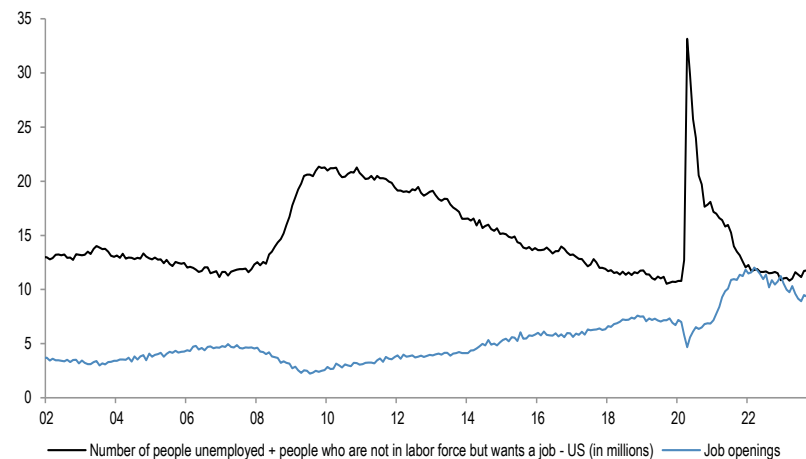
Source: Barnichon, SF Fed, J.P. Morgan

US savings rate



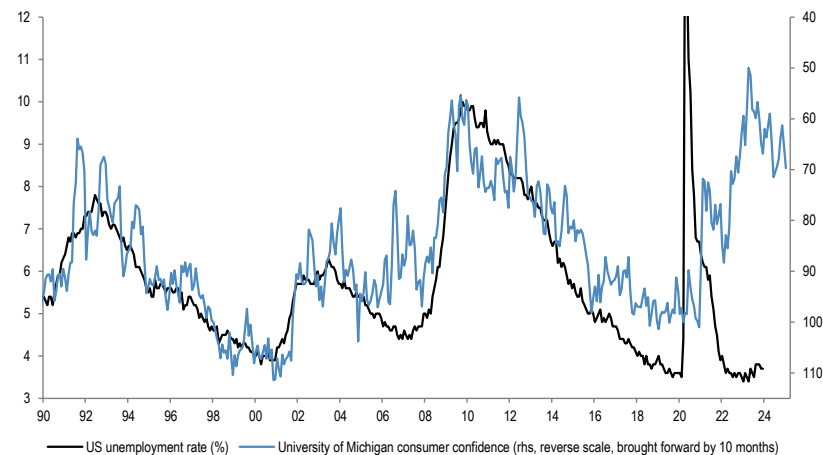
Source: Bloomberg Finance L.P.

US job openings and unemployed population



Source: J.P. Morgan

Consumer confidence vs unemployment rate

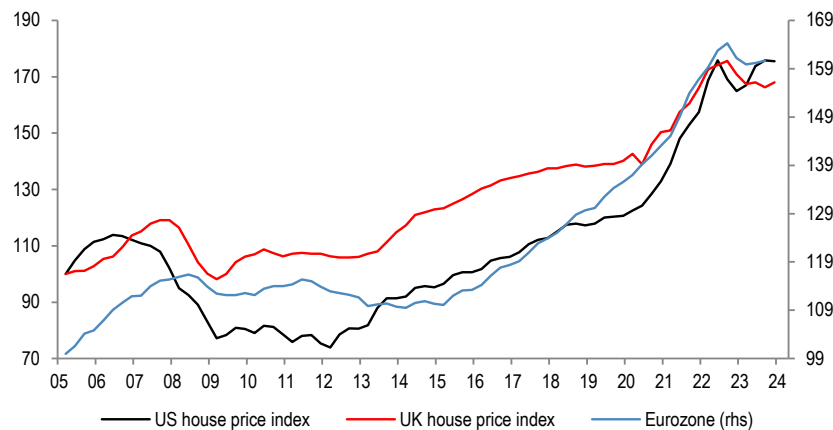


Source: J.P. Morgan

...house prices are likely to be lower

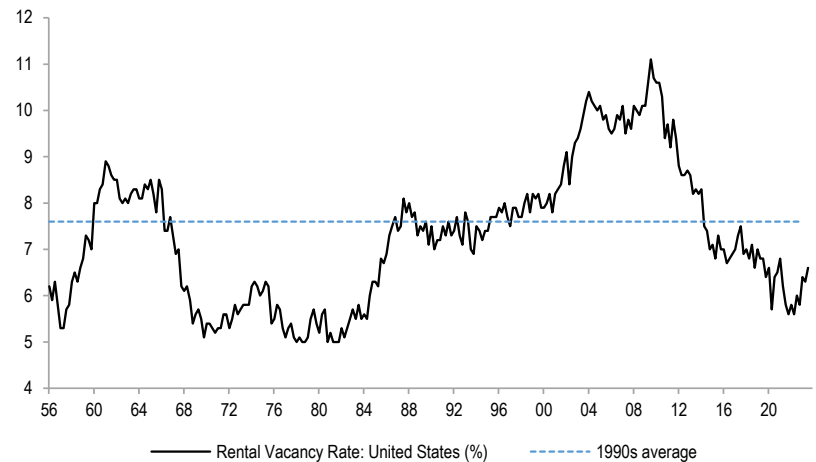
- House prices have been driven up due to strong demand and limited inventory.
- Vacancy rates for rentals are relatively low.
- Consumer balance sheets look healthy, but house prices are likely to move lower, given reduced affordability.

US, UK and Eurozone house prices



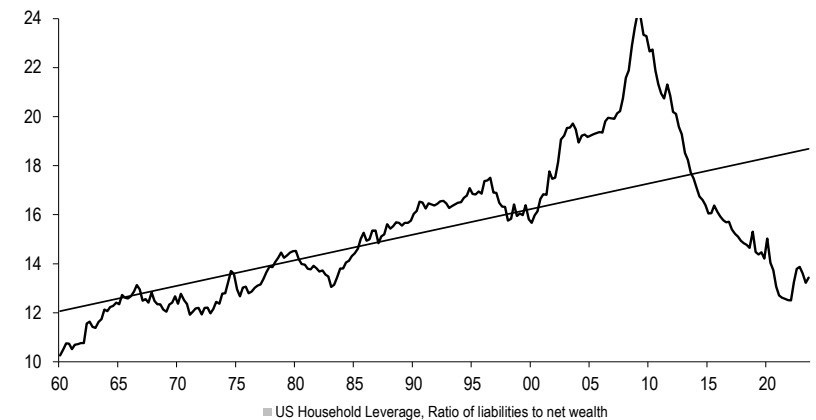
Source: Bloomberg Finance L.P.

US rental vacancy rate



Source: BEA

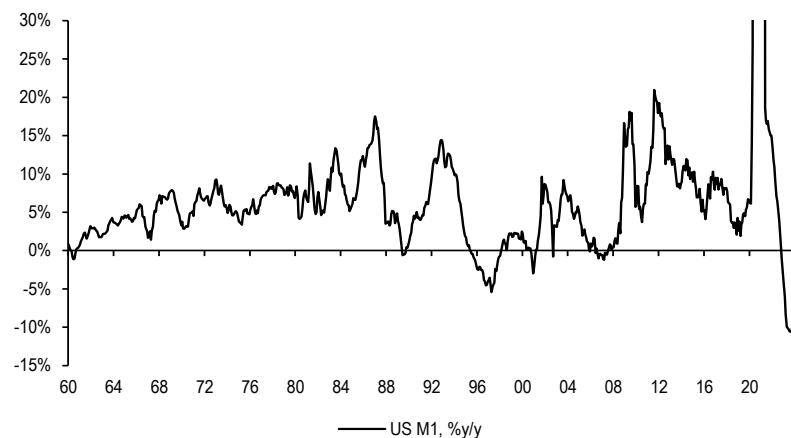
US household leverage (%)



Source: FRB

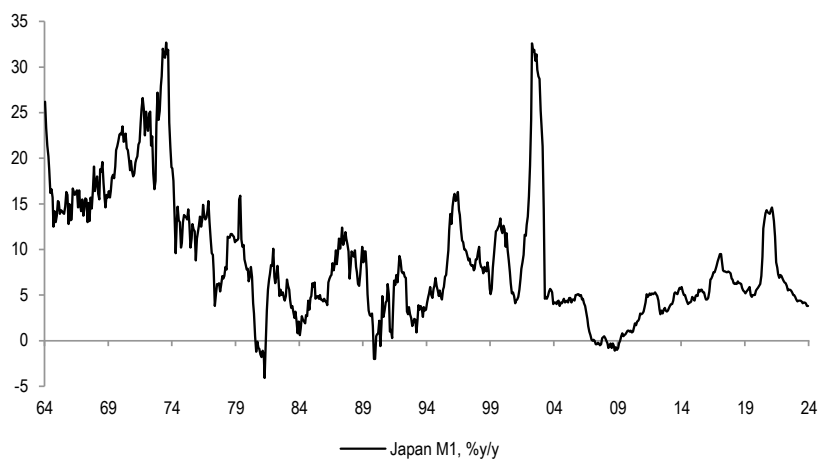
Money supply – a leading indicator for PMIs – is stabilizing, but at a low level

US M1, %y/y



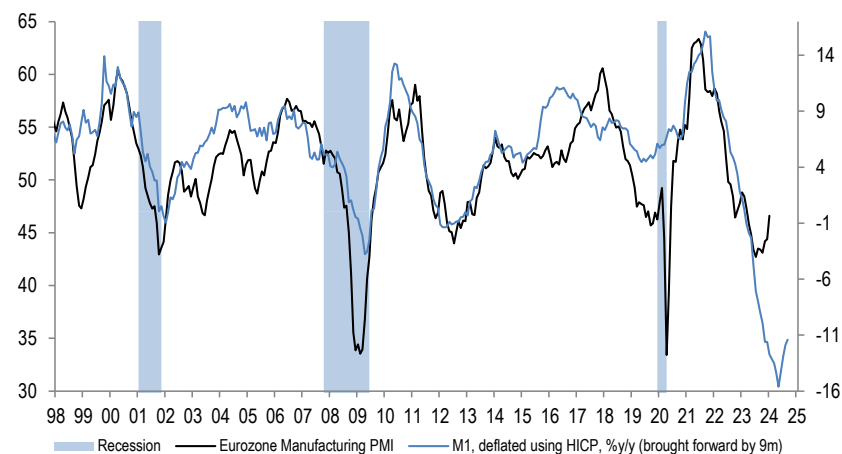
Source: Bloomberg Finance L.P.

Japan M1, %y/y



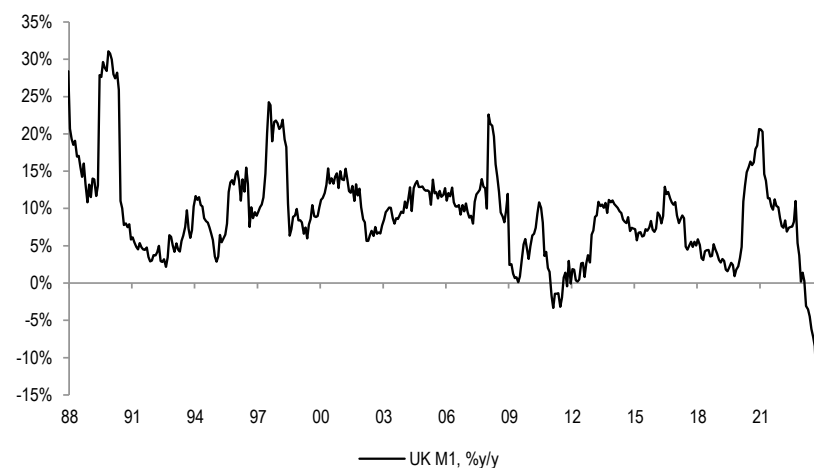
Source: Bloomberg Finance L.P.

Eurozone M1 growth (deflated by HICP) vs PMI



Source: Bloomberg Finance L.P., S&P Global

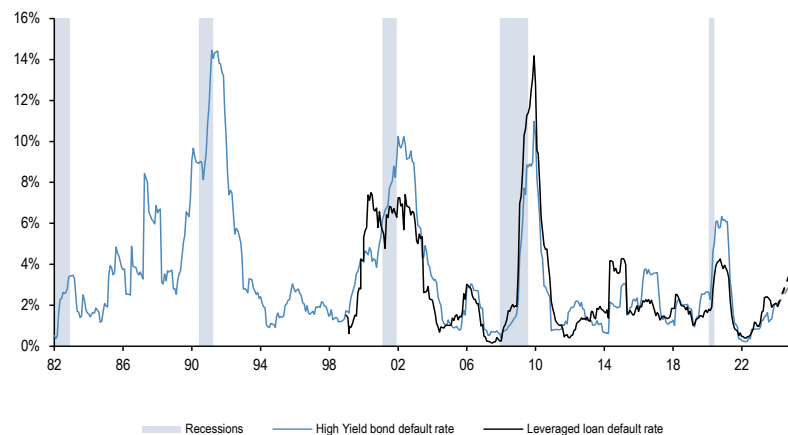
UK M1, %y/y



Source: Bloomberg Finance L.P.

Default rates are low, but will that hold?

US HY and leveraged loan default rate



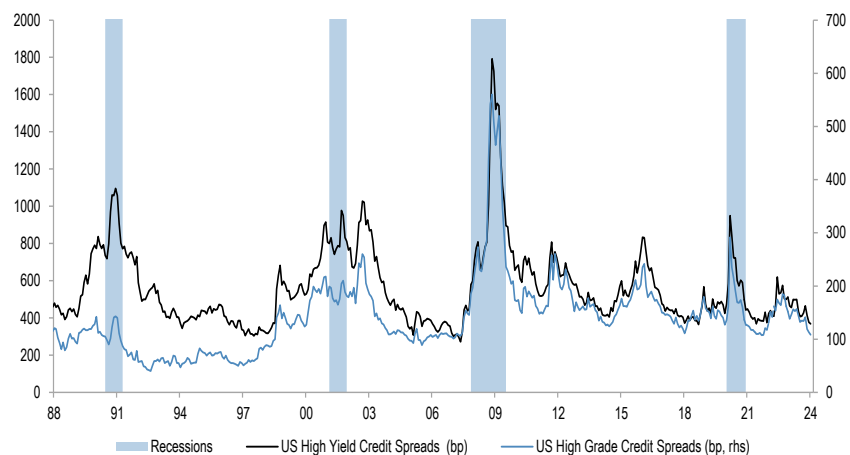
Source: J.P. Morgan

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

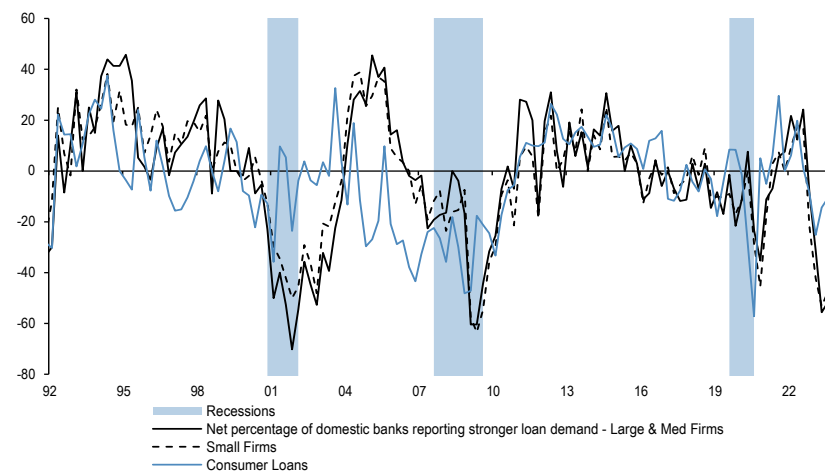
Source: J.P. Morgan, *move from trough to present

US HY and HG credit spreads



Source: J.P. Morgan, NBER

% of US banks reporting stronger loan demand

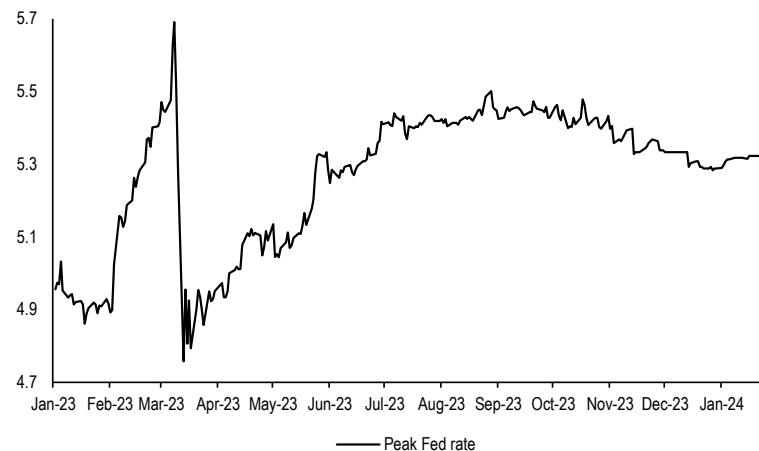


Source: FRB

2) Fed easing might be overdiscounted in money markets

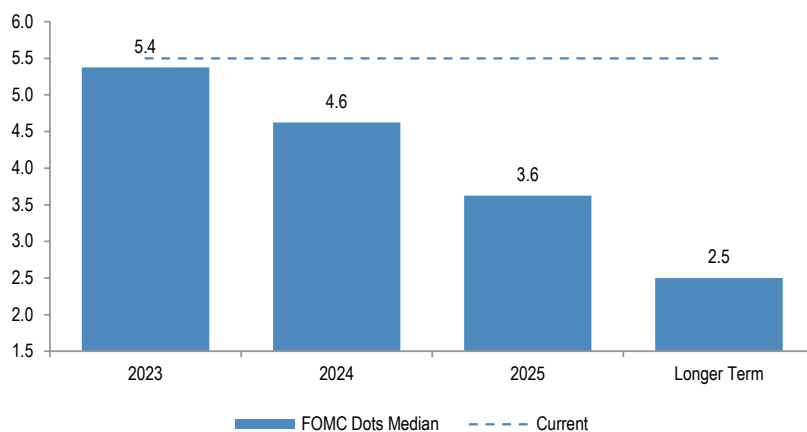
- Fed is likely to stay “higher for longer”, until the market weakness forces them to reconsider, in our view. We are unlikely to see more aggressive cuts than what is already priced in without softer macro momentum in the background.

Fed Funds Futures - peak Fed rate



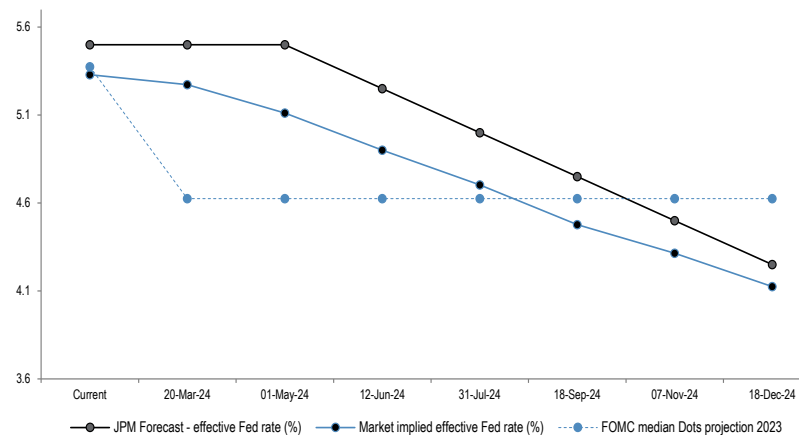
Source: Bloomberg Finance L.P.

FOMC Dots median



Source: Bloomberg Finance L.P.

JPM expected and market implied Fed funds rate

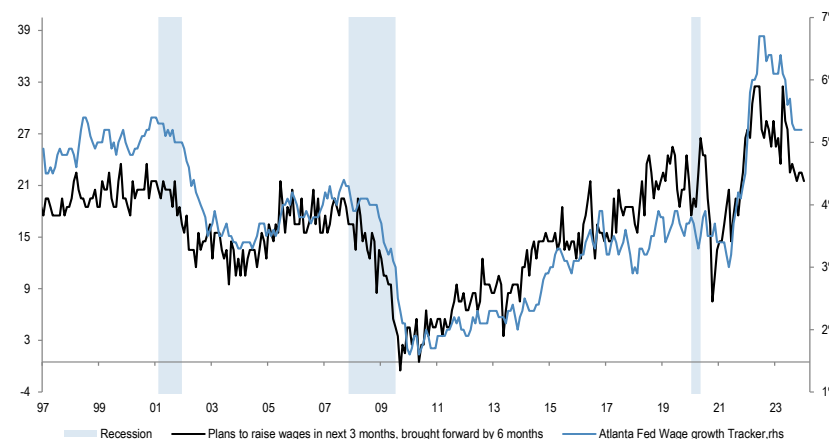


Source: Bloomberg Finance L.P.

JPM expects inflation to keep moving lower, but at a reduced pace...

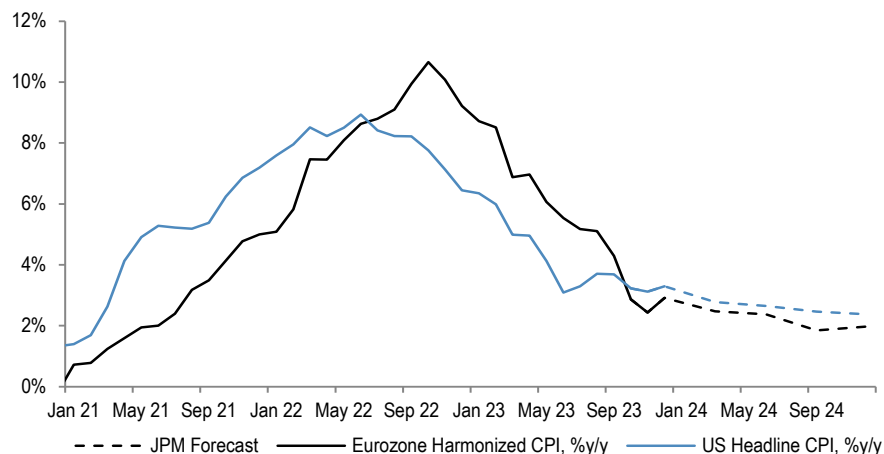
- JPM projection is for a continued move lower in inflation from here.
- Bond yields have moved lower over the last few months and inflation breakevens continue to point to further downside.

NFIB survey – wage plans vs Atlanta Fed Wage tracker



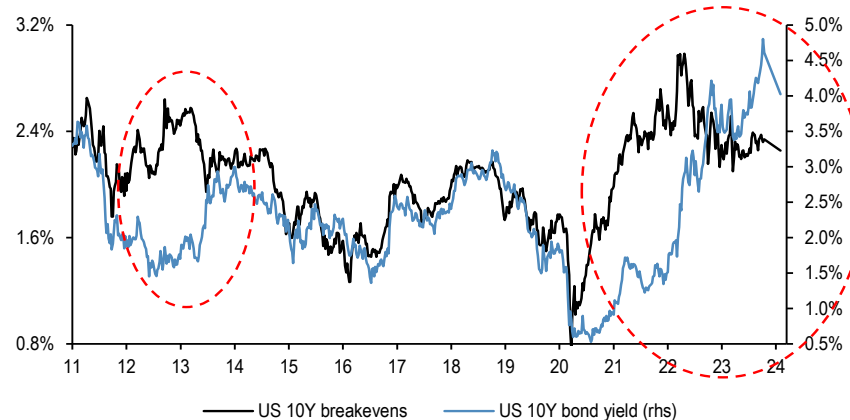
Source: Bloomberg Finance L.P.

JPM inflation projections



Source: J.P. Morgan

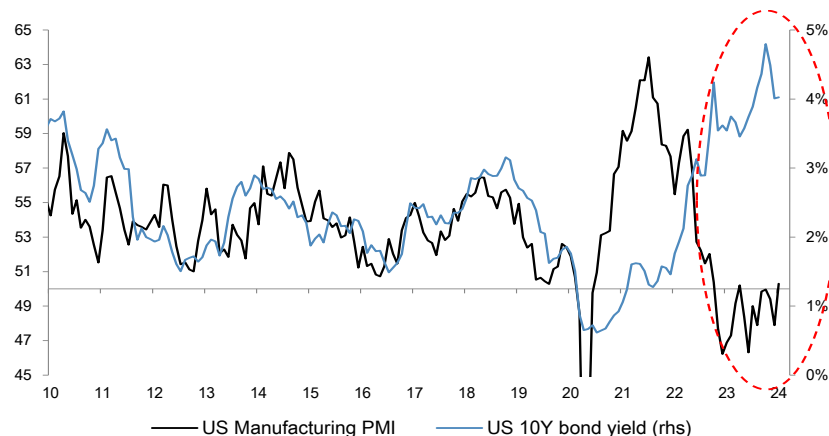
US 10Y breakevens and 10Y bond yield



Source: Bloomberg Finance L.P.

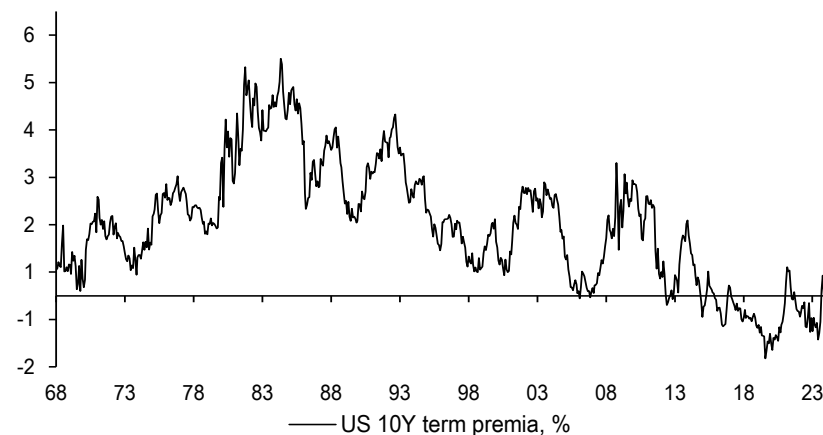
...term premia has moved up, but is still low

US manufacturing PMI and US 10Y bond yield



Source: Bloomberg Finance L.P., S&P Global

US 10-year term-premia



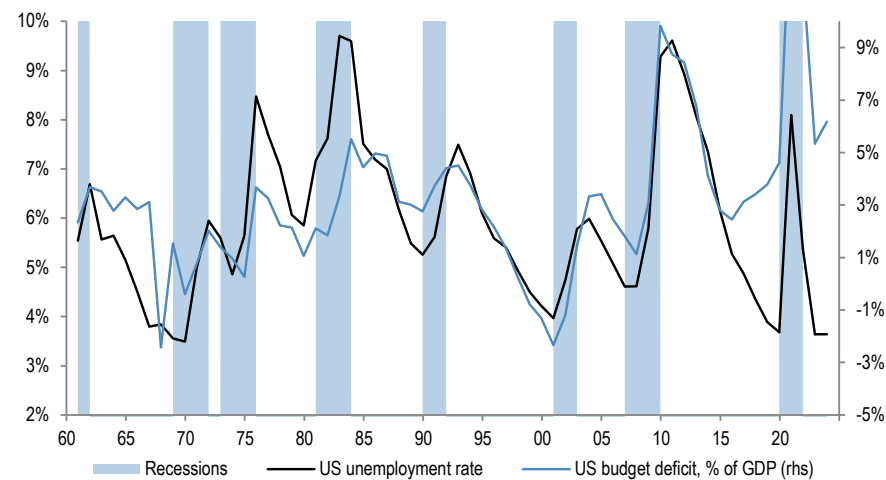
Source: J.P. Morgan

Move in yields during past Fed hiking cycles

Fed hiking cycles	Move in		
	10Y - 2Y yield curve (bp)	10Y bond yield (bp)	2Y bond yield (bp)
Oct '80 - May '81	-85	157	241
Mar '83 - Aug '84	-65	268	333
Apr '87 - May '89	-113	116	229
Feb '94 - Feb '95	-118	157	275
Jun '99 - May '00	-75	57	132
Jun '04 - Jun '06	-215	50	265
Dec '15 - Dec '18	-112	48	160
Current	-82	220	303

Source: J.P. Morgan

US unemployment rate and budget deficit



Source: J.P. Morgan

The question is over the impact of liquidity withdrawal on stocks

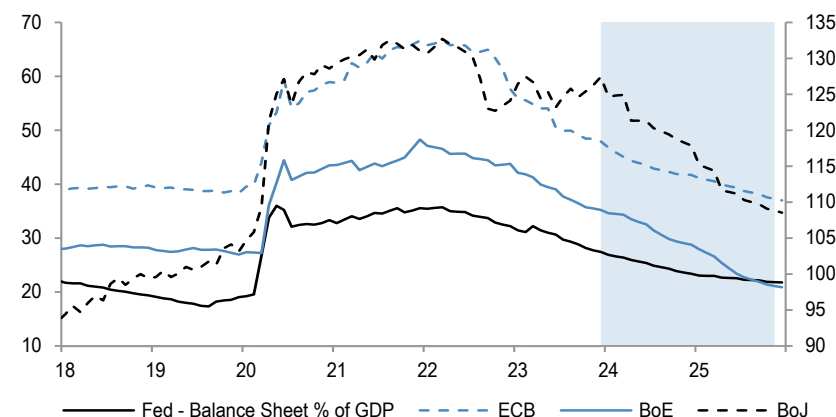
- The aggregate central banks balance sheet is set to contract, in an accelerating manner.

DM central bank balance sheets, 12m diff as of Dec, \$bn

	2018	2019	2020	2021	2022	2023	2024
Fed	-385	115	3161	1431	-258	-848	-930
ECB	244	-32	2473	1695	-639	-1109	-776
BoJ	204	139	860	141	-132	390	-66
BoE	34	-12	388	274	-27	-188	-177
Total	97	210	6882	3541	-1056	-1755	-1949

Source: J.P. Morgan Economics Research

Central Bank Balance sheets as a share of GDP



Source: J.P. Morgan Economics Research

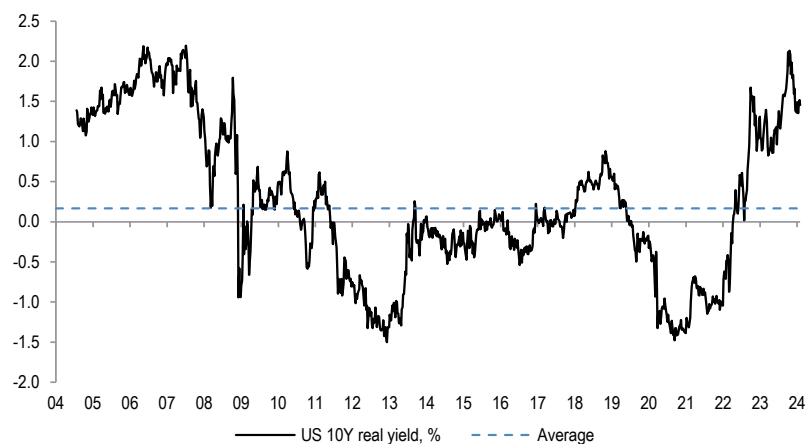
G5 Central Bank Balance sheet and Nominal GDP

	CB Balance Sheet (\$Tn)				Expansion		
	2022	2023e	2024e	2025e	2023e vs 2022	2024e vs 2023	2025e vs 2024e
FED	8.6	7.7	6.7	6.5	-10%	-13%	-3%
ECB	8.7	7.6	6.7	6.1	-13%	-12%	-9%
BoE	1.4	1.2	1.1	0.8	-10%	-15%	-25%
BoJ	5.2	5.2	5.1	5.0	0%	-2%	-3%
PBOC	6.0	6.4	6.4	6.4	7%	0%	0%
G3 Aggregate CB Balance Sheet	22.5	20.5	18.6	17.6	-9%	-10%	-5%
G5 Aggregate CB Balance Sheet	29.9	28.2	26.0	24.8	-6%	-8%	-5%
G3 Nominal GDP Growth					7%	3%	4%
G5 Nominal GDP Growth					7%	4%	4%
G3 Aggregate CB Balance Sheet vs Nominal GDP Growth					-16%	-13%	-9%
G5 Aggregate CB Balance Sheet vs Nominal GDP Growth					-12%	-12%	-9%

Source: J.P. Morgan Economics Research

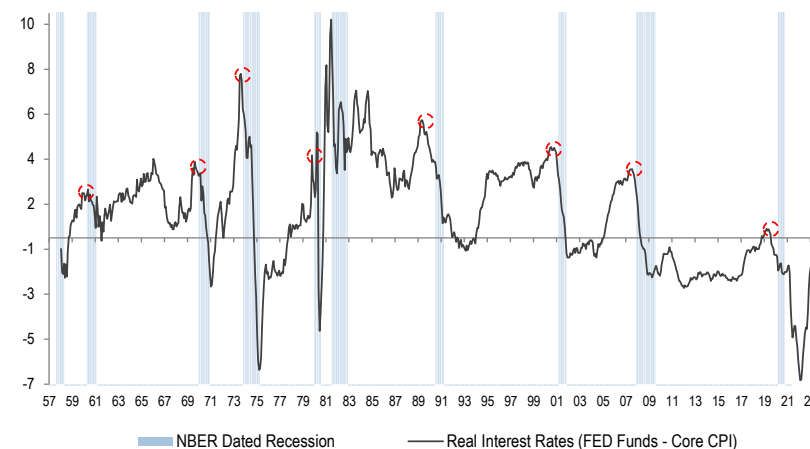
Real rates are near highs, and could stay so as inflation comes down

US real rates



Source: Bloomberg Finance L.P.

US real policy rates and recessions



Source: Bloomberg Finance L.P.

US real rates entering recessions

Recession Start	Real Interest Rate (Fed Funds - Core CPI, %yoy)	
	Level at the start of recession	6m avg before the start of recession
1960	1.9%	1.9%
1969	2.8%	3.0%
1973	5.5%	6.3%
1980	1.8%	2.2%
1990	3.2%	3.4%
2001	2.6%	3.4%
2007	1.8%	2.6%
2020	-0.8%	-0.7%
Average	2.4%	2.8%
Median	2.3%	2.8%
Current	1.4%	0.9%

Source: Bloomberg Finance L.P.

US real rates at the point of curve inversion

Yield Curve inversion date	Real Interest Rate (Fed Funds - Core CPI, %yoy)	
	Latest reading	6m Avg
Dec-67	0.6%	0.5%
Mar-73	3.8%	2.9%
Aug-78	0.4%	0.5%
Dec-88	4.0%	3.7%
Feb-00	3.5%	3.3%
Jan-06	2.2%	1.8%
Aug-19	0.2%	0.2%
Average	2.1%	1.9%
Median	2.2%	1.8%

Source: Bloomberg Finance L.P.

USD could strengthen again

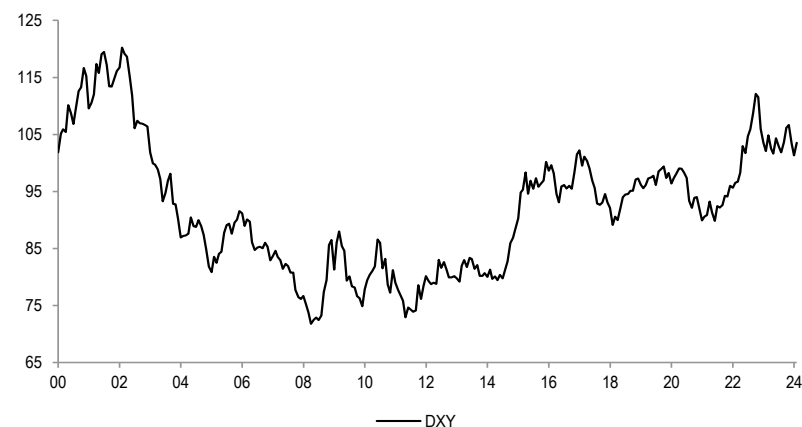
- USD is supported by the still elevated interest rate differential.
- USD positioning is not stretched by any means. We think that the dollar could show a rebound.

USD net positioning



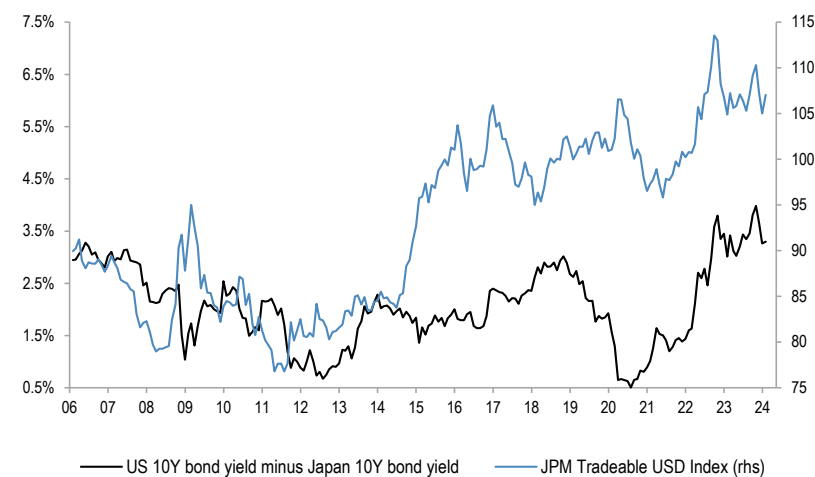
Source: J.P. Morgan

DXY



Source: Bloomberg Finance L.P.

US-Japan 10Y bond yield differential and USD



Source: Bloomberg Finance L.P.

Yield curve framework is still sending a recession signal, it was never wrong, lead-lag was 6-24 months... we are now at 17

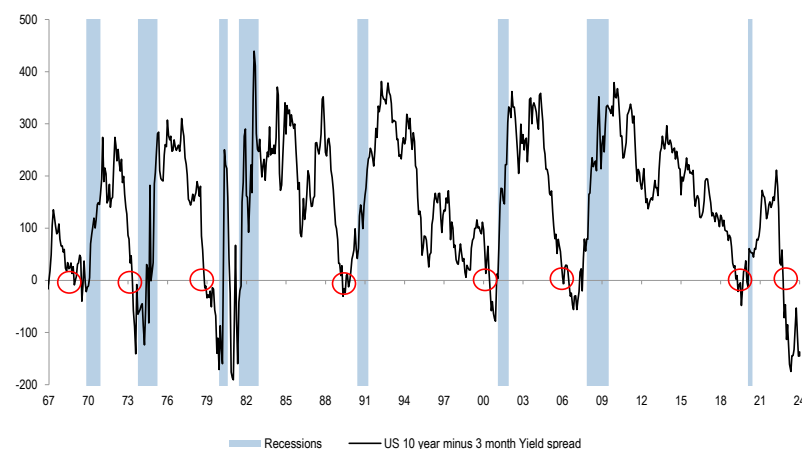
- The US 10Y/2Y yield curve, which has been a reliable recession indicator in the past, has been inverted for more than a year now. That is typically the length of time it takes from the inversion to the equity market peak.
- US 10Y/3M yield spreads, another reliable recession indicator, is also inverted.

SPX move from yield curve inversion to the market peak

# months between				
Yield Curve inversion date (10-2Y)	Yield curve inversion & SPX peak	SPX peak & recession	Yield curve inversion & recession	SPX move from YC inversion to SPX peak*
Dec-67	11	13	24	14%
Mar-73	-2	10	8	-4%
Aug-78	18	-1	17	13%
Dec-88	19	0	19	34%
Feb-00	2	12	13	8%
Jan-06	20	2	23	22%
Aug-19	6	0	6	18%
Median	11	2	17	14%
Average	11	5	16	15%

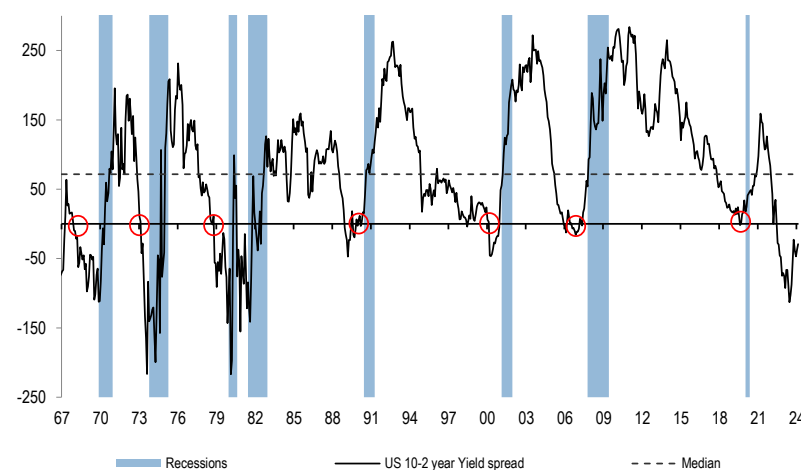
Source: Bloomberg Finance L.P.

US 10Y-3M yield curve



Source: Bloomberg Finance L.P.

US 10Y-2Y yield curve



Source: Bloomberg Finance L.P.

3) Most were skeptical about earnings over the last two years, to be now turning more constructive... this could be a mistake...

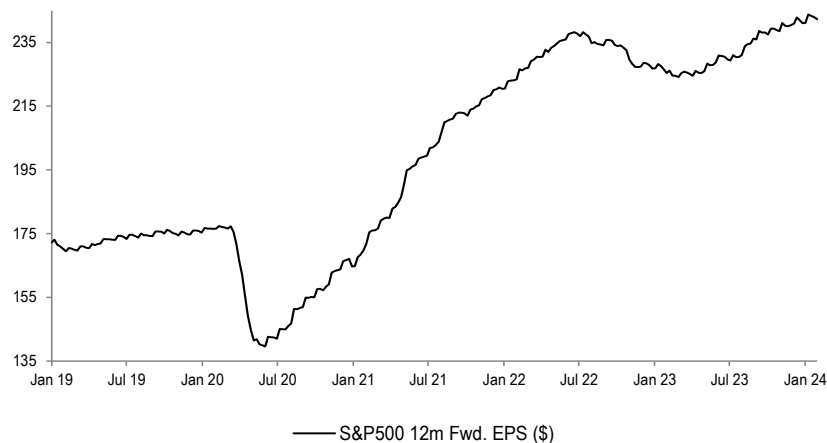
- Earnings have been very resilient over the past 2 years, taking advantage of rising input costs in order to boost pricing power, and drive higher profit margins.
- Consensus expects EPS to have a meaningful move up this year. We believe there are downside risks to these earnings projections.

US and Europe EPS Growth consensus projections

	EPS Growth		
	2023e	2024e	2025e
S&P 500	1.5%	10.1%	13.2%
Stoxx 600	-1.4%	5.0%	9.5%

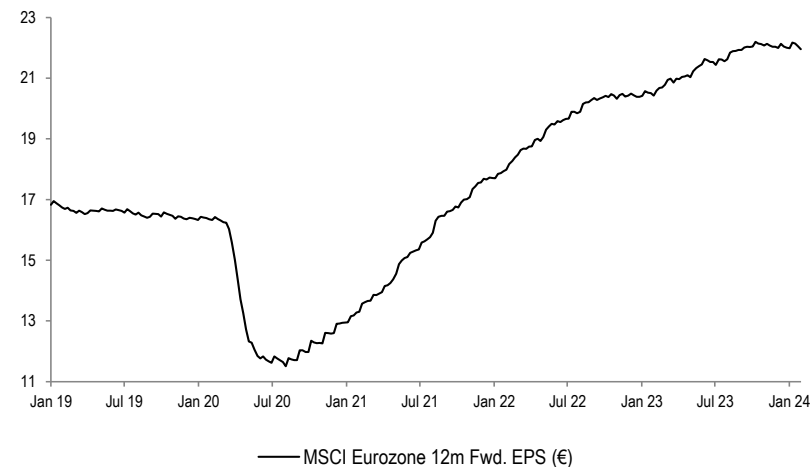
Source: IBES

US 12-month forward EPS



Source: IBES

Eurozone 12-month forward EPS

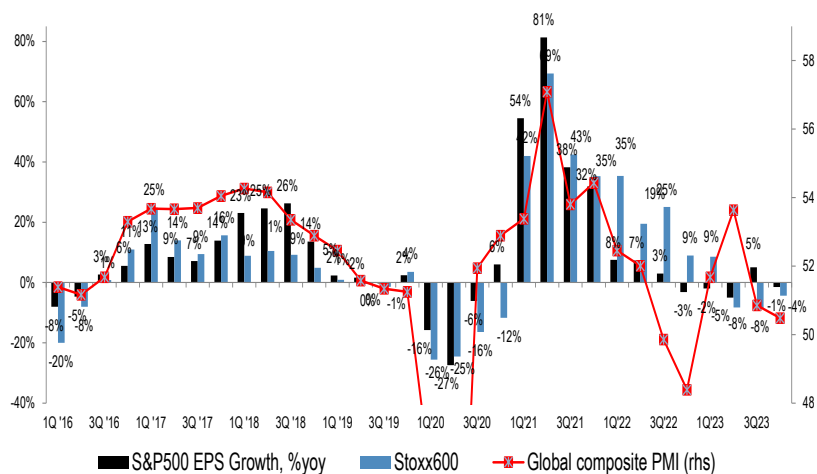


Source: IBES

...the slowdown in macro activity could weigh on earnings... consensus estimates to keep moving lower...

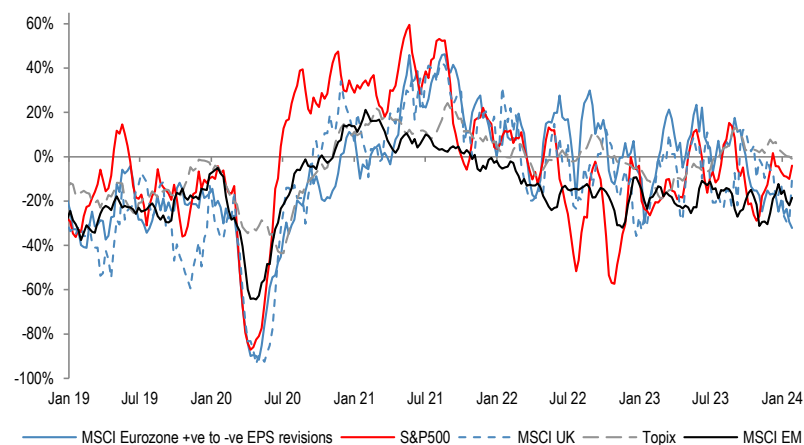
- PMI remain sluggish and are pointing to a slowdown in earnings.

US and European quarterly EPS growth and global composite PMI



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

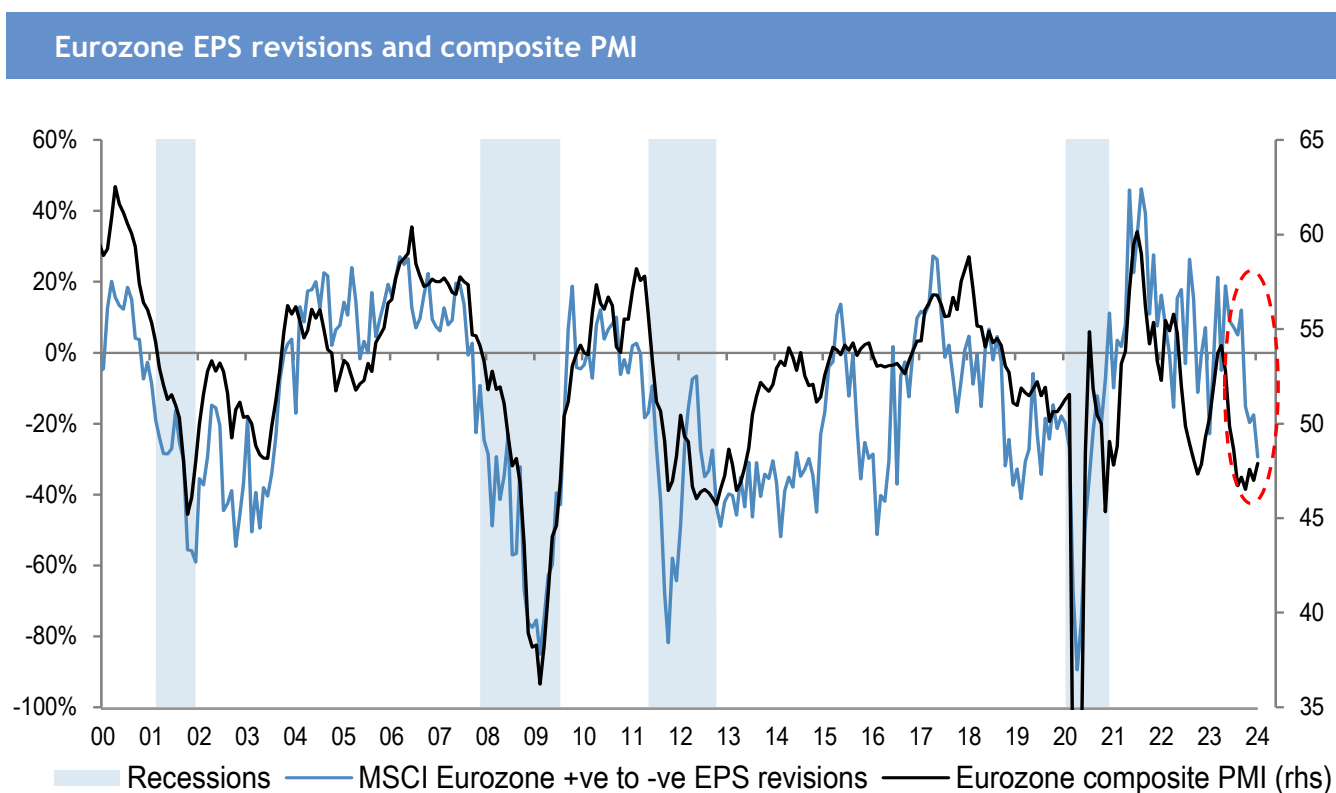
Weekly EPS revisions in different regions



Source: IBES

...earnings revisions are negative; they need PMIs to sustain above 54 in order to be above zero...

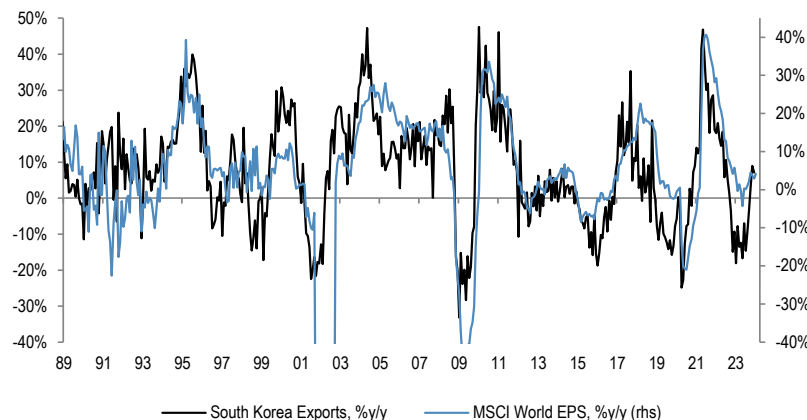
- Historically, PMIs below 54 have been consistent with negative EPS revisions.



Source: Bloomberg Finance L.P. , S&P Global

...beyond a potential rollover in pricing, operating leverage is likely to be softer, too

Korean exports vs global earnings



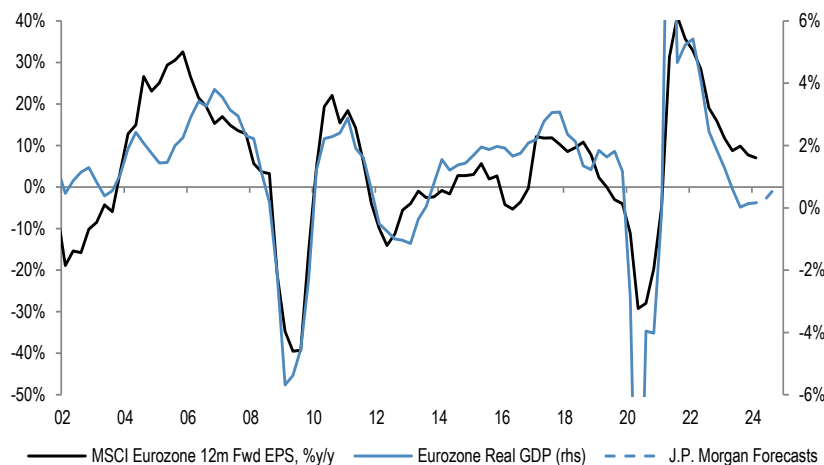
Source: IBES, KOSTAT

Profit margins and EPS growth vs GDP growth regimes

US Real GDP, % y/y	Profit Margins, yoy, bps	S&P 500 EPS %yoy
<-3%	-51	-79%
-3% to -2%	-96	-26%
-2% to -1%	-68	-3%
-1% to 0%	11	-3%
0% to 1%	-29	-13%
1% to 2%	-42	-1%
2% to 3%	17	9%
3% to 4%	59	16%
4% to 5%	24	15%
>5%	85	24%

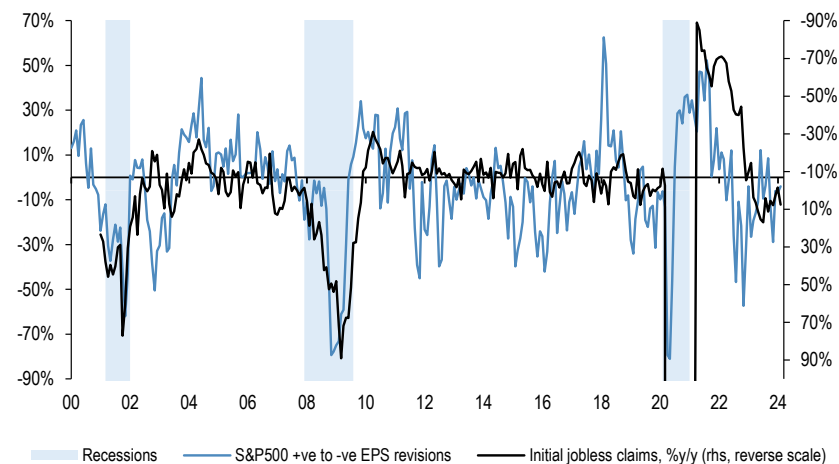
Source: Bloomberg Finance L.P.

Eurozone EPS growth vs GDP growth



Source: IBES, J.P. Morgan

S&P500 EPS revisions and jobless claims



Source: IBES

The earnings downside in past recessions was material

- Earnings declines in past recessions were very significant. This might not be the case this time around if the topline keeps growing, despite real GDP falls. Further, interest rates are still likely to be significantly below nominal growth, and below inflation rates, in contrast to the 1970-ies experience. Still, there is likely to be a certain level of earnings weakness.

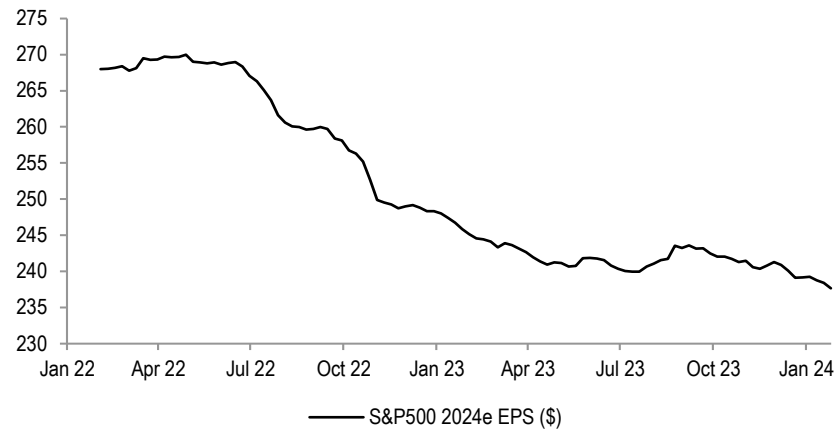
Changes in Eurozone equities, earnings and GDP during past recessions

Recession	Peak in MSCI Eurozone	Trough In MSCI Eurozone	MSCI Eurozone peak to trough move	12m Fwd P/E at MSCI Eurozone trough	12m Fwd P/E at trough - Eurozone vs US	Peak in MSCI Eurozone Fwd. EPS	Trough In MSCI Eurozone Fwd. EPS	MSCI Eurozone Fwd. EPS peak to trough move	Peak to Trough - MSCI Eurozone actual EPS	MSCI Eurozone actual EPS peak to trough move	Peak in Euro Area real GDP	Trough in Euro Area real GDP	Euro Area real GDP peak to trough move
1990	Jul-90	Jan-91	-29%	9.7	0.87	Feb-92	May-93	-27%	'89 - '93	-55%	Q1 '92	Q1' 93	-1.8%
2001	Mar-00	Mar-03	-64%	11.1	0.76	Oct-01	May-03	-21%	'00 - '02	-31%	Q4 '02	Q1' 03	-0.3%
2008	Jun-07	Mar-09	-62%	7.5	0.72	Mar-08	May-09	-42%	'06 - '09	-43%	Q1 '08	Q2 '09	-5.7%
2012	Feb-11	Sep-11	-32%	7.4	0.72	Jun-11	May-13	-20%	'10 - '13	-29%	Q3 '11	Q1' 13	-1.8%
2020	Feb-20	Mar-20	-38%	9.6	0.73	Mar-20	Jul-20	-30%	'19 - '20	-35%	Q4 '19	Q2 '20	-14.7%
Average			-45%	9.0	0.76			-28%		-39%			-4.9%

Source: Bloomberg Finance L.P., S&P Global

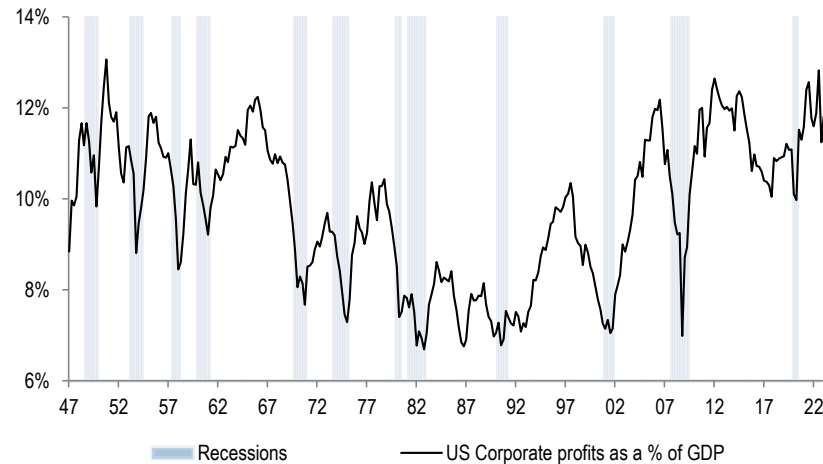
Profit margins are at risk...

S&P500 2024e EPS (\$)



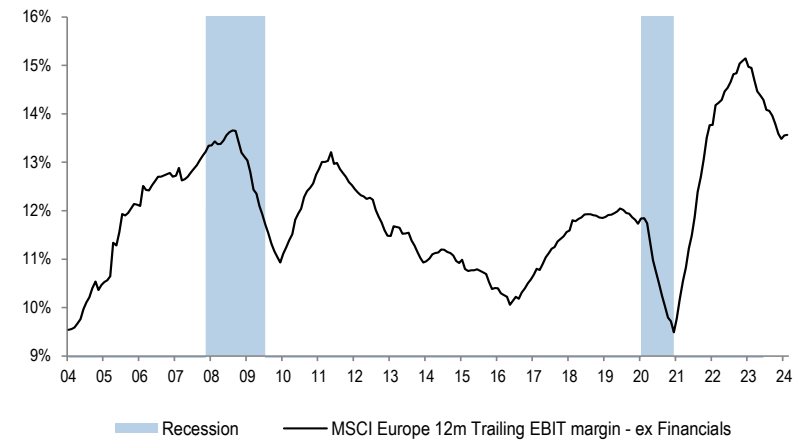
Source: IBES

US corporate profit margins



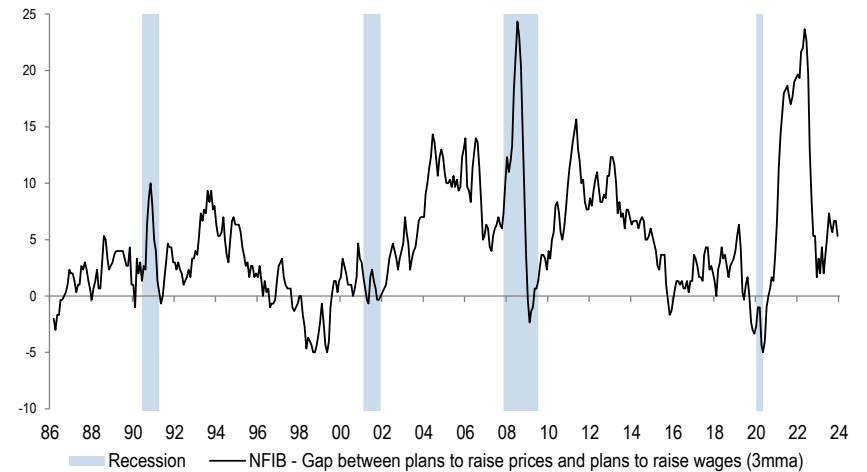
Source: BEA

MSCI Europe 12m Trailing EBIT margin



Source: S&P Global

NFIB survey - Plans to increase prices minus plans to increase wages



Source: Bloomberg Finance L.P.

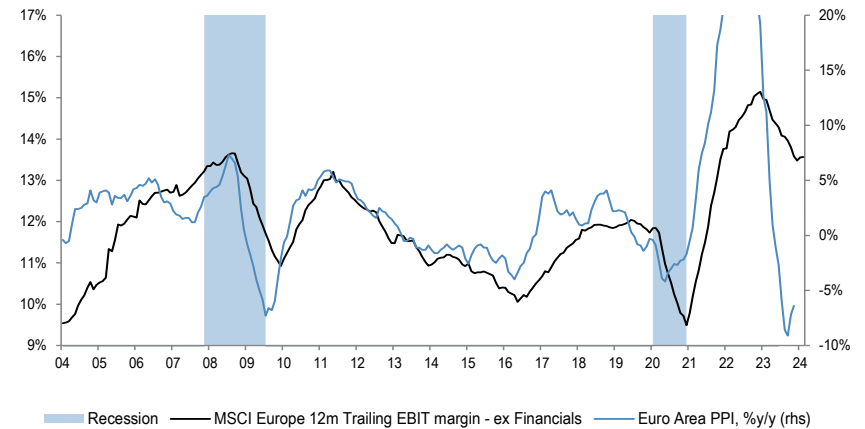
...rising PPIs more than CPIs were not usually a concern for margins, but the opposite is

US profit margins in different PPI and CPI regimes

	US Corporate profits as a % of GDP, vs 4q ago (since 1990)		
	PPIs up more than CPI	PPIs up less than CPI	PPIs down
Average	0.2%	0.3%	-0.3%
Median	0.4%	0.3%	-0.3%

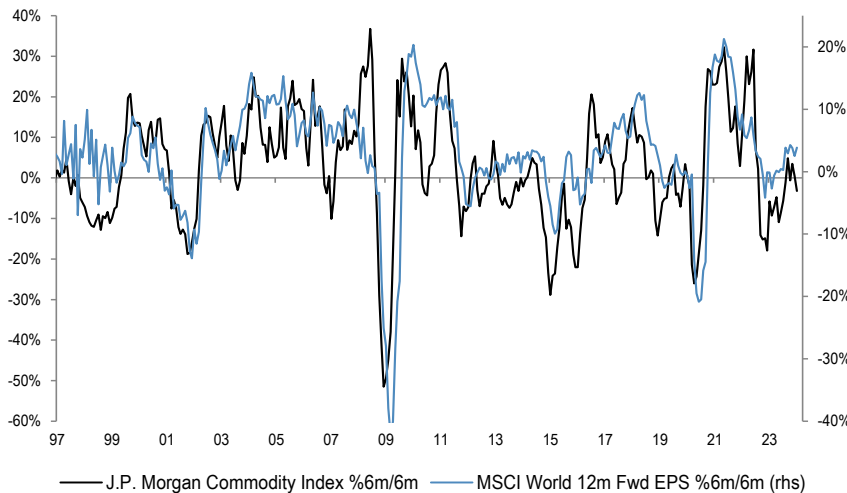
Source: BEA, Bloomberg Finance L.P., J.P. Morgan

Europe profit margins vs PPI



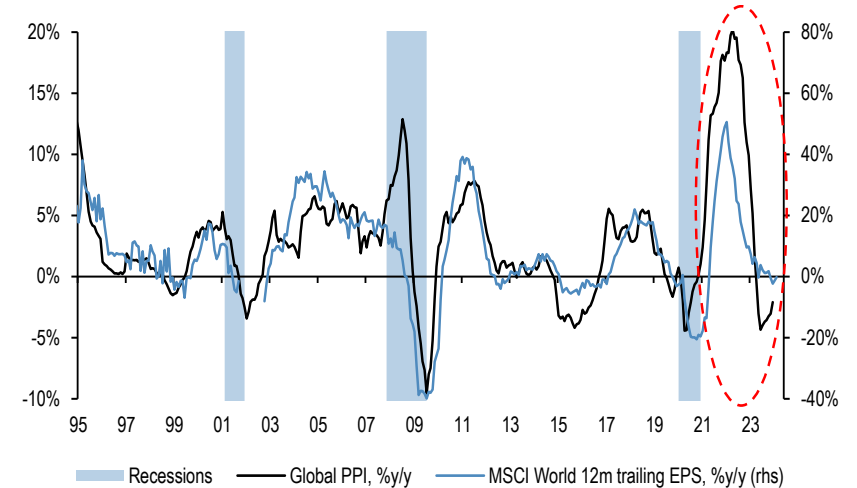
Source: IBES, J.P. Morgan

MSCI World EPS growth and commodity prices



Source: IBES, J.P. Morgan

MSCI World EPS vs global PPI



Source: IBES, Bloomberg Finance L.P.

US earnings typically fell 15%+ in a recession, they are at record highs...

- US earnings have recovered strongly from the COVID lows. At present, they are well above trend and may not sustain.

US 12m Fwd. EPS during past recessions

MSCI US 12m Fwd. EPS			
Recession year	Peak date	Trough date	Peak to trough move
1990	Jan-91	May-91	-14%
2001	Aug-00	Nov-01	-23%
2008	Oct-08	Apr-09	-40%
2020	Mar-20	Sep-20	-15%
Average			-23%
Median			-19%

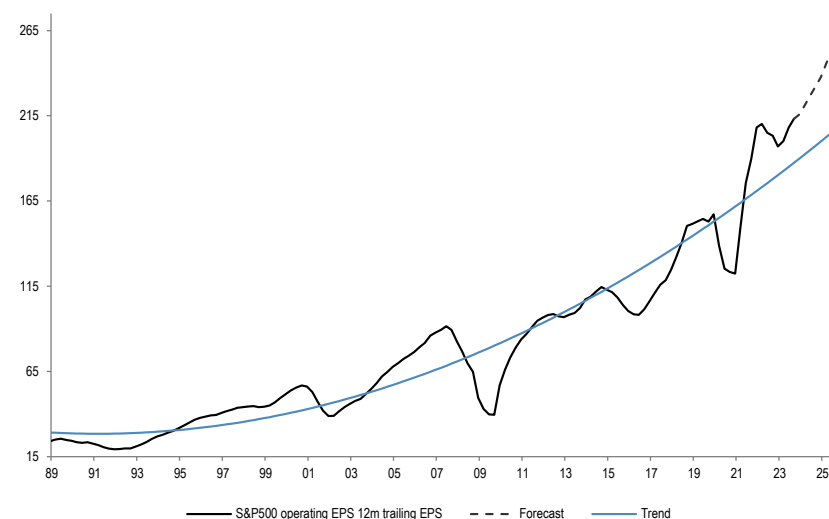
Source: IBES

Key regions EPS levels 2024 vs 2019

	EPS levels		2024e vs 2019
	2024e	2019	
MSCI World	43.4	30.6	42%
S&P 500	237.6	157.2	51%
MSCI Europe	151.0	112.8	34%
MSCI Eurozone	21.8	13.8	58%
FTSE 100	700.0	515.1	36%

Source: IBES

S&P500 EPS vs trend

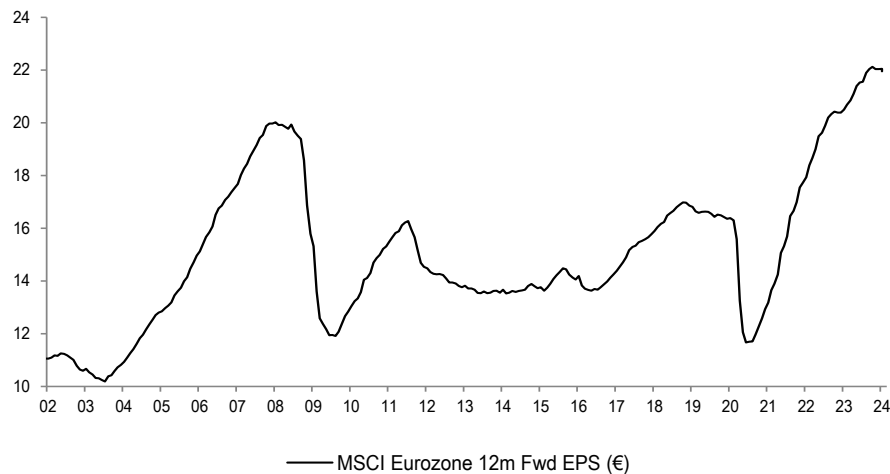


Source: IBES, NBER, Thomson Reuters. *Trailing EPS

...Eurozone earnings have been held back by domestic sectors

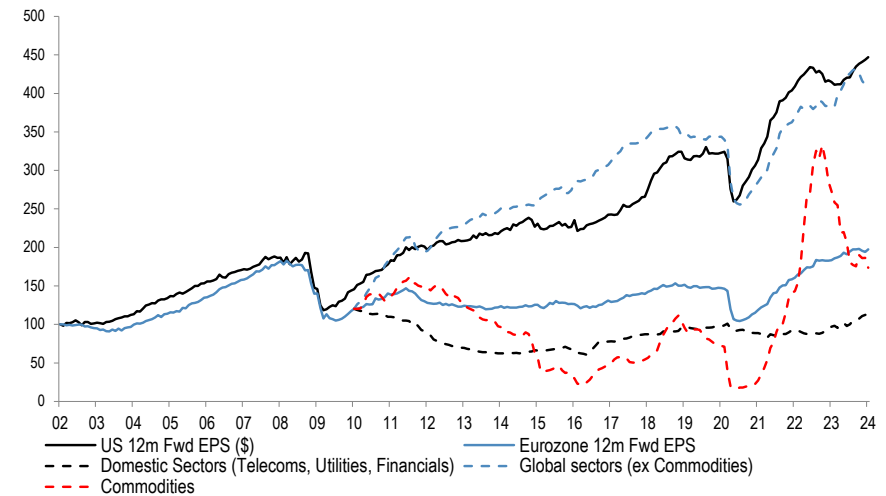
- Within Eurozone, it is the earnings base of domestic plays that has weighed on the overall regions' earnings.

MSCI Eurozone 12m Fwd EPS



Source: IBES

US earnings vs Eurozone earnings, broken down by domestic, global and commodity sectors



Source: IBES. *Global includes all sectors except Utilities, Telecoms, Financials and commodity sectors

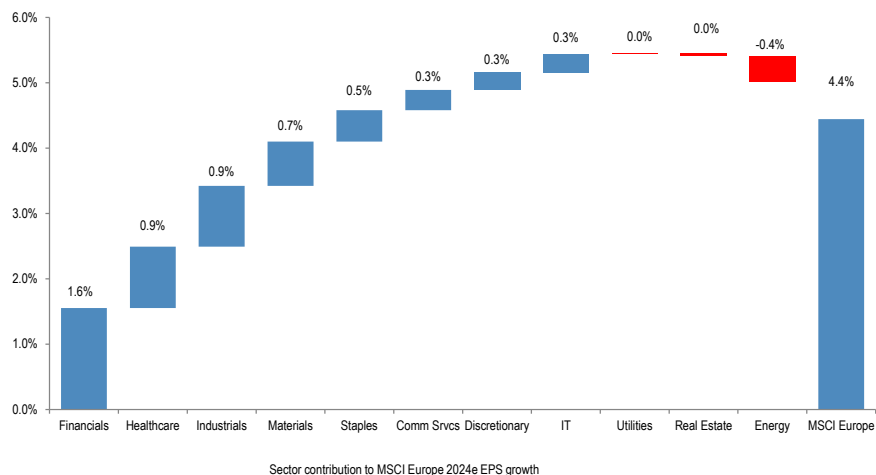
Sector earnings contribution breakdown

Regional and sectoral EPS growth projections for 2023 and 2024

	MSCI World		US		Europe		Eurozone		UK		Japan*		EM	
	2023e	2024e	2023e	2024e	2023e	2024e	2023e	2024e	2023e	2024e	2024e	2025e	2023e	2024e
Market	0.6%	8.1%	1.9%	10.1%	-3.2%	4.4%	4.4%	3.5%	-13.9%	4.0%	11.7%	7.5%	-4.3%	17.5%
Energy	-26.3%	-5.3%	-22.7%	-7.9%	-30.4%	-3.5%	-25.0%	-10.7%	-33.3%	3.5%	0.1%	-3.9%	-20.2%	-5.2%
Materials	-30.7%	7.3%	-23.0%	3.0%	-39.2%	11.3%	-41.6%	19.4%	-41.8%	3.9%	-14.6%	22.2%	-34.2%	21.4%
Industrials	4.9%	9.0%	16.7%	11.1%	-1.5%	8.4%	9.6%	15.6%	13.2%	12.0%	-14.9%	2.4%	-20.4%	16.0%
Discretionary	31.8%	8.9%	44.9%	13.3%	7.5%	2.3%	10.5%	1.5%	-13.1%	1.0%	47.5%	6.7%	58.7%	16.7%
Staples	1.5%	5.5%	2.1%	4.8%	1.3%	4.9%	-2.5%	8.3%	2.2%	3.5%	0.0%	17.3%	3.6%	16.8%
Healthcare	-14.5%	14.7%	-19.8%	17.4%	1.5%	7.9%	-8.6%	3.4%	7.8%	9.0%	3.2%	8.2%	35.7%	22.3%
Financials	13.2%	6.1%	10.9%	7.2%	16.7%	5.9%	28.9%	6.9%	0.0%	1.7%	31.9%	7.6%	13.6%	8.1%
IT	4.5%	13.8%	3.5%	15.2%	21.5%	-6.7%	27.0%	-8.8%	14.6%	10.8%	-4.1%	16.4%	-45.2%	62.3%
Telecoms	22.0%	15.6%	25.0%	15.8%	-7.9%	11.1%	-4.1%	12.4%	-12.7%	7.9%	41.7%	25.4%	31.7%	14.9%
Utilities	13.6%	2.5%	11.8%	7.1%	1.2%	0.0%	10.5%	-7.3%	2.0%	0.8%	394.2%	-28.1%	203.2%	33.9%
Real Estate	-5.6%	-0.5%	-12.7%	-2.0%	12.4%	-4.1%	10.9%	-3.2%	0.2%	3.9%	1.8%	4.8%	-14.8%	28.5%
Median	5.4%	7.6%	4.6%	7.6%	5.6%	6.7%	6.6%	6.7%	3.8%	6.3%	6.9%	7.0%	10.7%	17.1%
Median ex-commo	6.9%	7.7%	5.7%	7.7%	7.3%	6.6%	8.1%	6.8%	5.2%	6.6%	7.7%	7.7%	13.7%	16.8%
Median - Cyclicals	6.9%	8.7%	5.6%	8.6%	6.1%	7.2%	7.1%	7.4%	4.0%	6.1%	9.6%	5.4%	7.3%	22.4%
Median - Defensives	3.9%	6.9%	3.9%	7.0%	0.6%	6.8%	-1.4%	8.8%	3.9%	5.9%	9.0%	13.7%	13.5%	17.3%

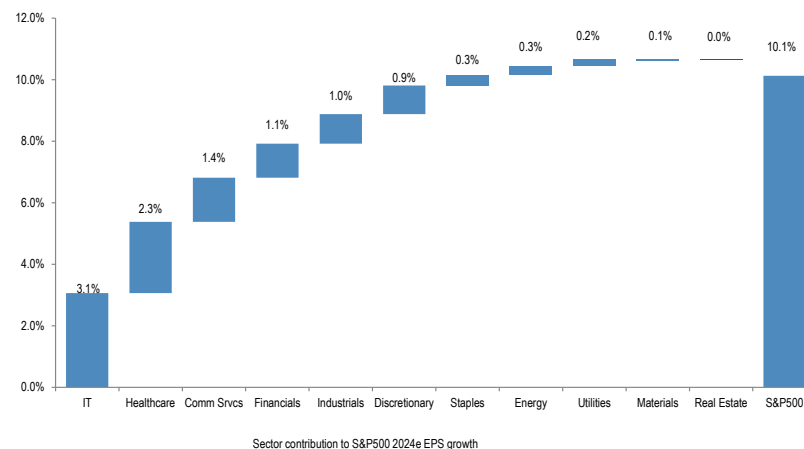
Source: IBES, *Japan refers to fiscal year ending March 2024, 2025

Sector contribution to MSCI Europe 2024e EPS growth



Source: IBES.

Sector contribution to S&P500 2024e EPS growth

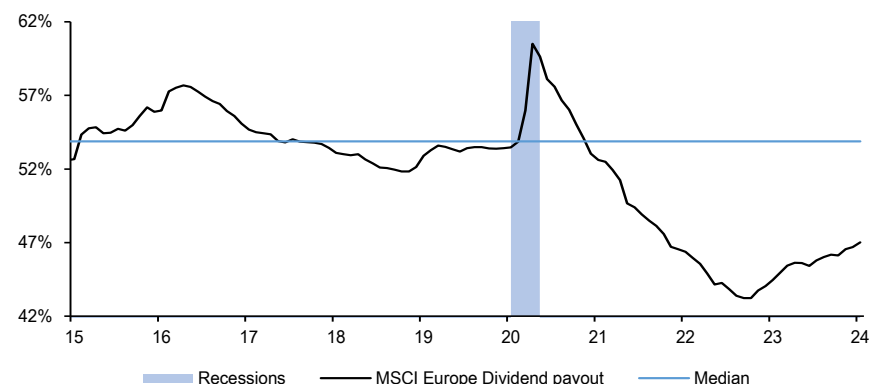


Source: IBES.

Buybacks activity has been robust... dividend payout ratios are low, supportive of higher dividends

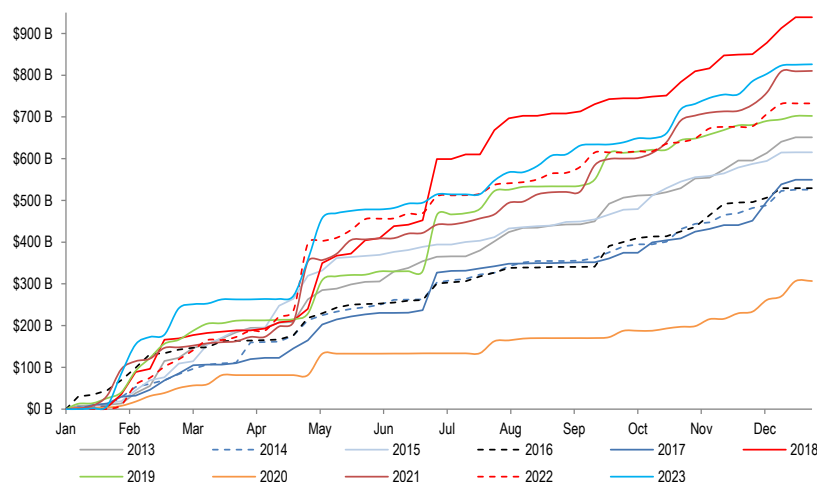
- We have seen very strong momentum in buyback announcements last year.
- Buybacks as a share of profits are still low.
- Dividend payout ratios are low, too.

MSCI Europe dividend payout ratio



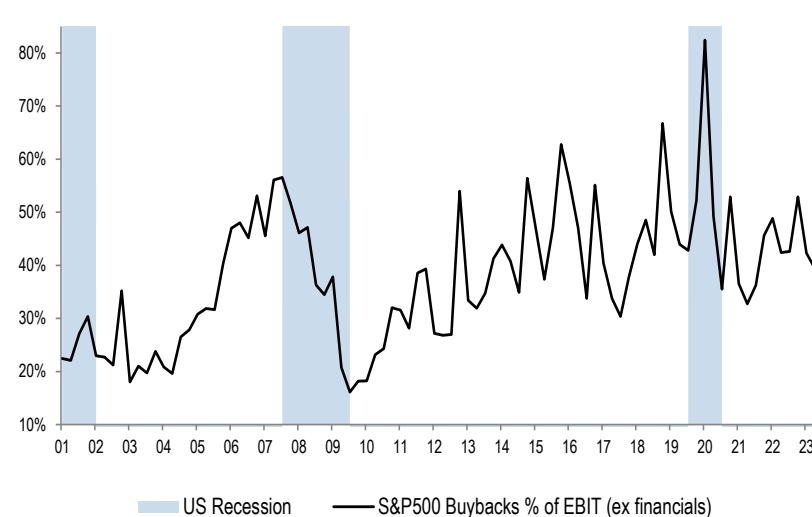
Source: IBES

S&P500 announced buybacks



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

S&P500 buybacks as a % of EBIT



Source: Bloomberg Finance L.P.

4) Equity P/E multiples are generally not stretched outside the US, but the US is at risk... SPX at 20x P/E is far from pricing in any weakness...

12m Fwd. P/E across key geographies

	Current	20Y Median	Current vs Median
US	20.3	15.8	29%
World	17.8	15.0	19%
Switzerland	17.4	15.1	15%
EM	13.7	12.8	7%
France	15.1	14.2	6%
Japan	11.3	11.3	0%
Eurozone	12.7	12.8	0%
Germany	11.4	12.4	-8%
Spain	10.8	12.4	-13%
UK	10.2	11.9	-14%
Italy	8.4	11.9	-29%

Source: IBES

Fall in MSCI US P/E during past recessions

Recession	Market Peak	Market Trough	MSCI US peak to trough move	12m Fwd P/E at MSCI US peak	12m Fwd P/E at MSCI US trough	Move in MSCI US 12m Fwd P/E from peak to trough
1990	Jul-90	Oct-90	-20%	12.8	10.4	-19%
2001	Mar-00	Oct-02	-51%	25.7	13.8	-46%
2008	Oct-07	Mar-09	-56%	15.4	10.4	-32%
2020	Feb-20	Mar-20	-34%	19.6	13.2	-33%
Average			-40%			-33%

Source: IBES

...DY-BY gap no longer appears attractive, with the exception of Japan

- DY-BY gaps have closed, and reversed, as yields moved higher.
- US P/Es are high considering the rising levels of real bond yields.

Global bond yields and MSCI World 12m Fwd P/E



Source: Datastream, IBES

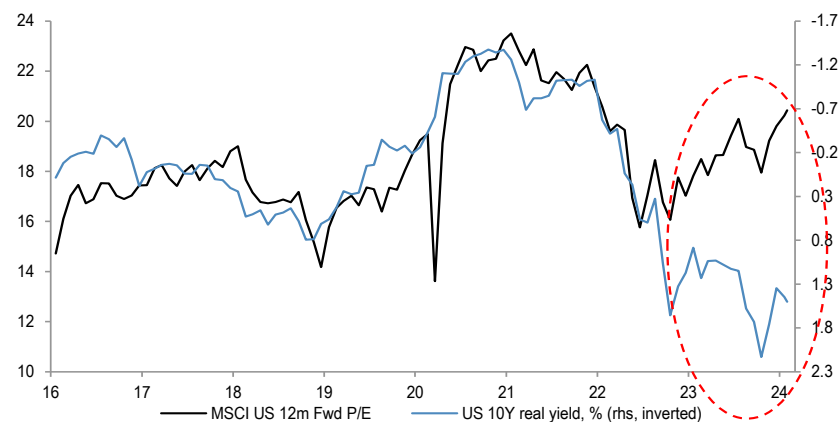
DM yield gap in the historical context

	Dividend yield	10Y Bond yield	Dividend yield minus bond yield	Average since '00	Current vs Average (bp)
US	1.4%	4.0%	-2.5%	-1.4%	-116
Japan	2.1%	0.7%	1.4%	0.9%	49
Eurozone	3.0%	2.8%	0.2%	0.5%	-31
UK	3.7%	3.8%	-0.1%	0.6%	-69

*Current as of 2nd Jan'24

Source: Datastream

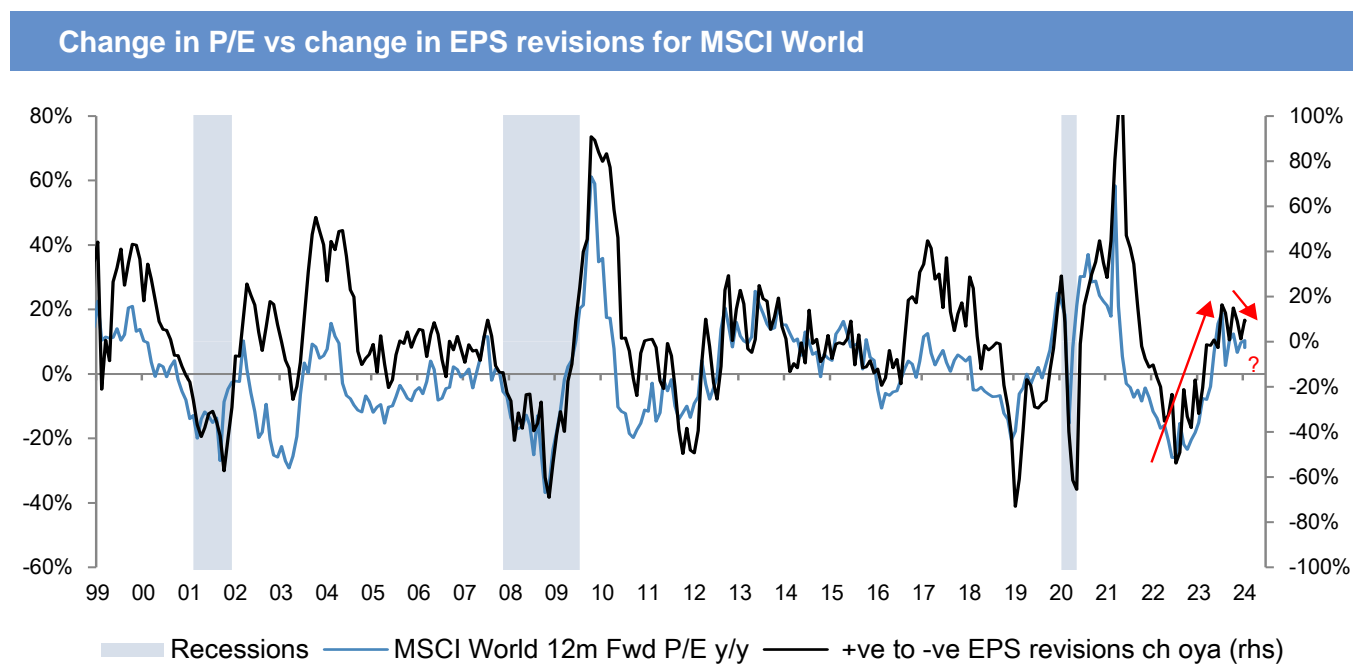
US 12m Fwd. P/E vs US real yield



Source: Datastream

P/E multiples show a positive correlation with EPS momentum... EPS revisions might turn lower again

- The moves in P/E's are strongly positively correlated with EPS revisions.

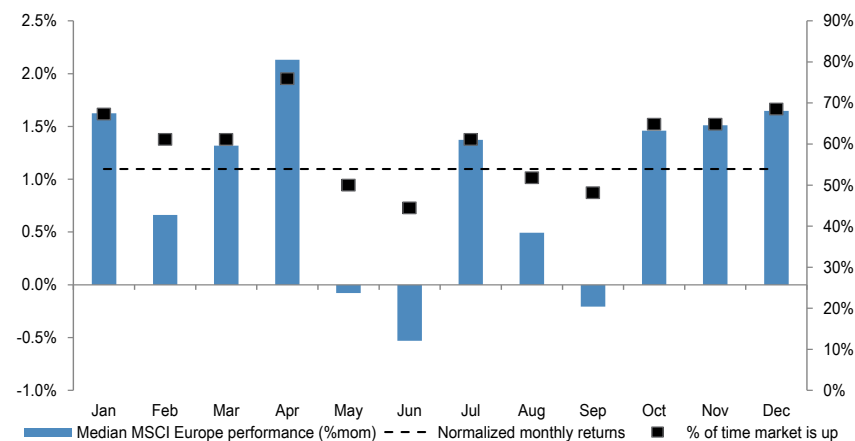


Source: IBES

5) Sentiment and positioning are far from depressed, especially post the recent rally...

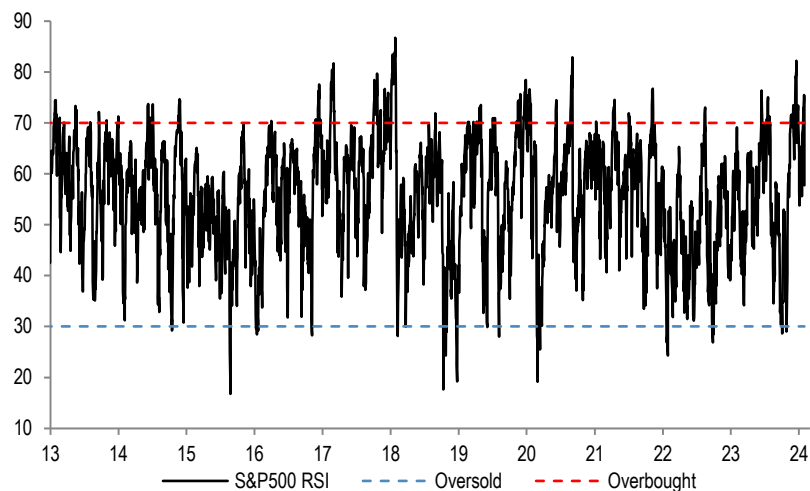
- The recent rally in equities has led to overbought conditions.
- On the positive side, seasonality is typically supportive in Jan-April.

Seasonality* of MSCI Europe performance



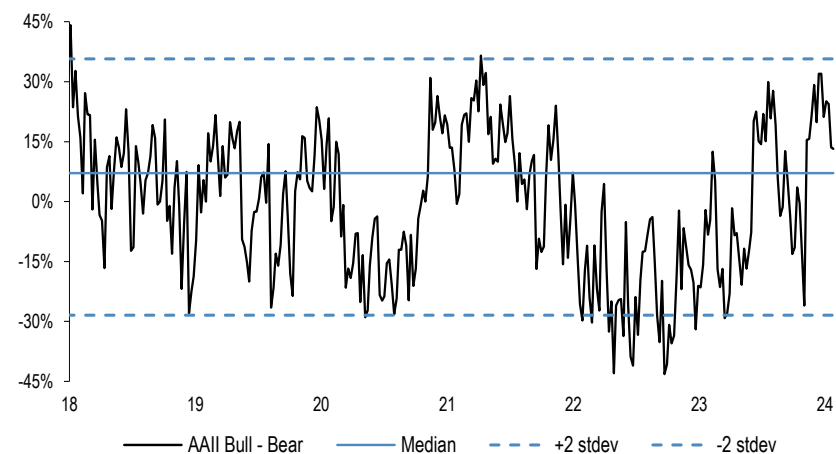
Source: Datastream, *Median since 1970

S&P500 RSI



Source: Bloomberg Finance L.P.

AAII Bull - Bear

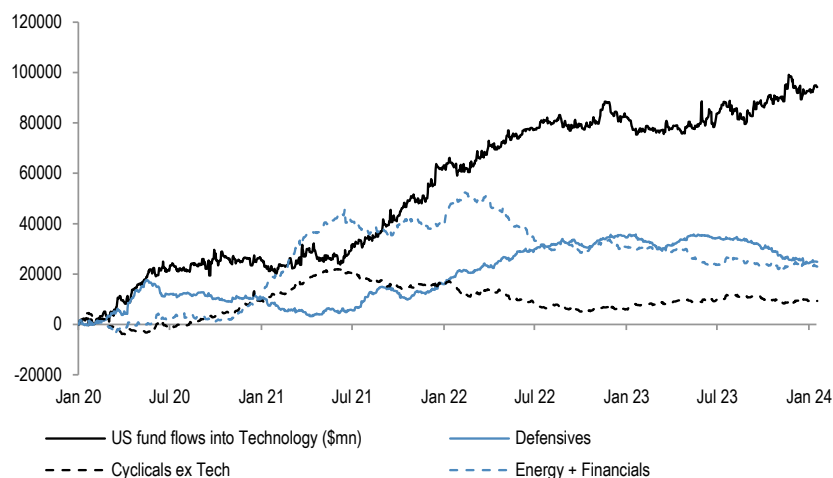


Source: Bloomberg Finance L.P.

...positioning is generally stretched

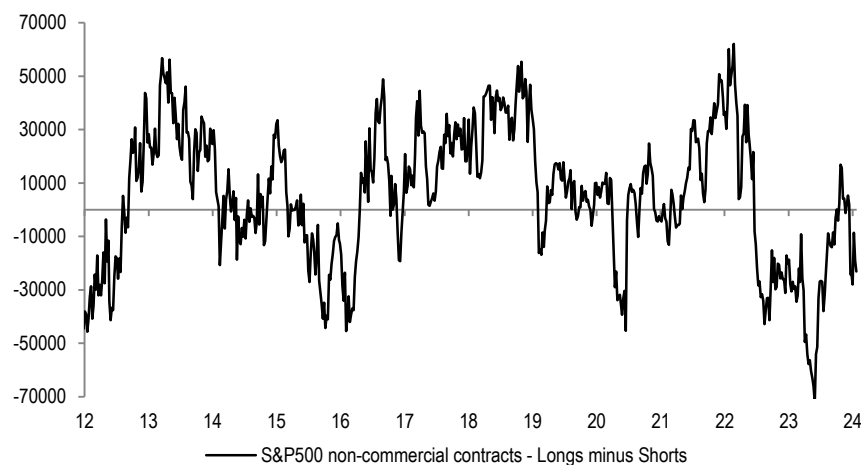
- Full list of technical indicators is in the last section of the chartbook.

Flows into US sectors



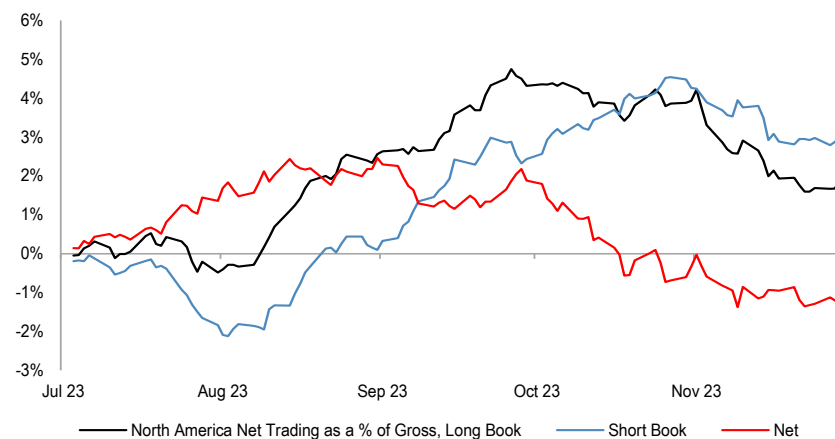
Source: Bloomberg Finance L.P.

Speculative positions on S&P500 futures contracts



Source: Bloomberg Finance L.P.

N. America net trading, % Gross



Source: JPMorgan Positioning Intelligence.

Positions in US Equity futures by Asset Managers

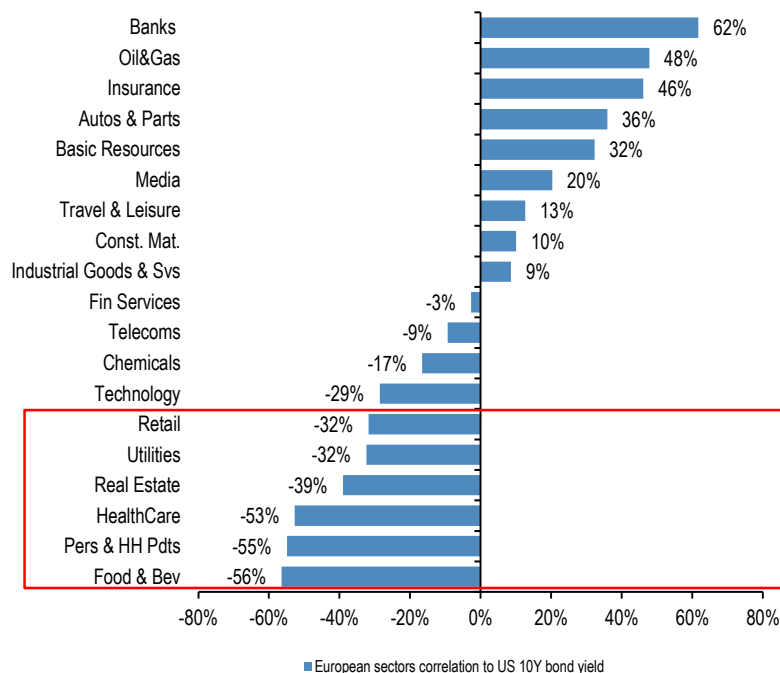


Source: J.P. Morgan. Flows and Liquidity Team

Key drivers of sector performance: 1) Bond yields... Cyclical and Financials typically show positive correlation to yields

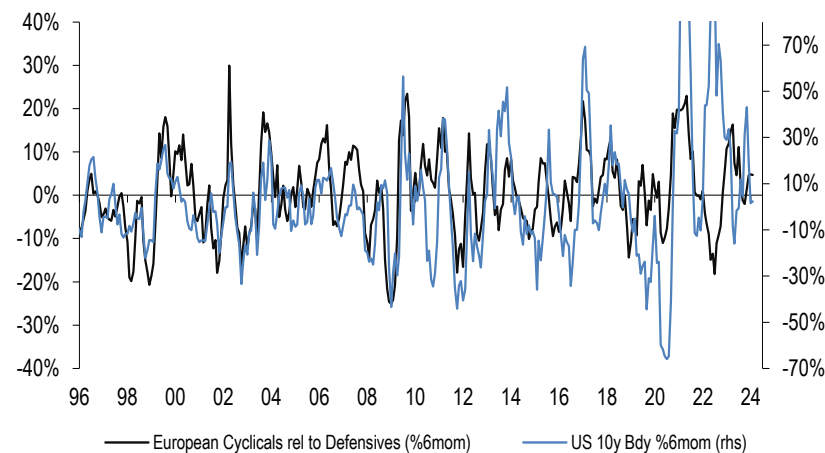
- Cyclical and Banks show the highest correlation to bond yields, out of any sector. We believe that these sectors will likely struggle if yields move lower in the coming months.

European sectors correlation to bond yields



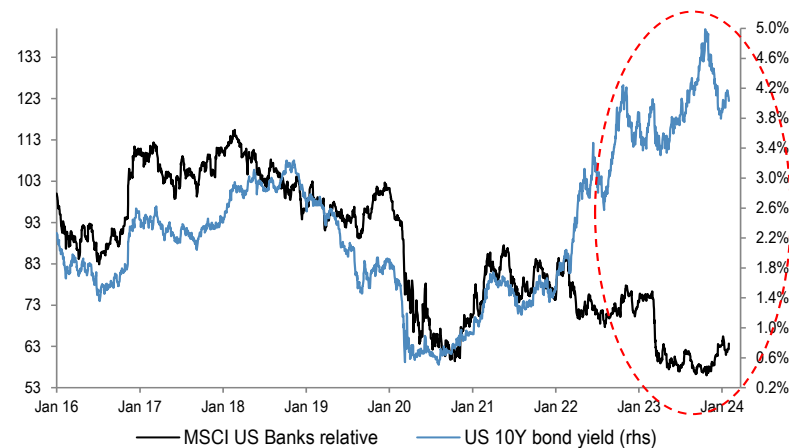
Source: Bloomberg Finance L.P.

European Cyclical versus Defensives and bond yields



Source: Datastream

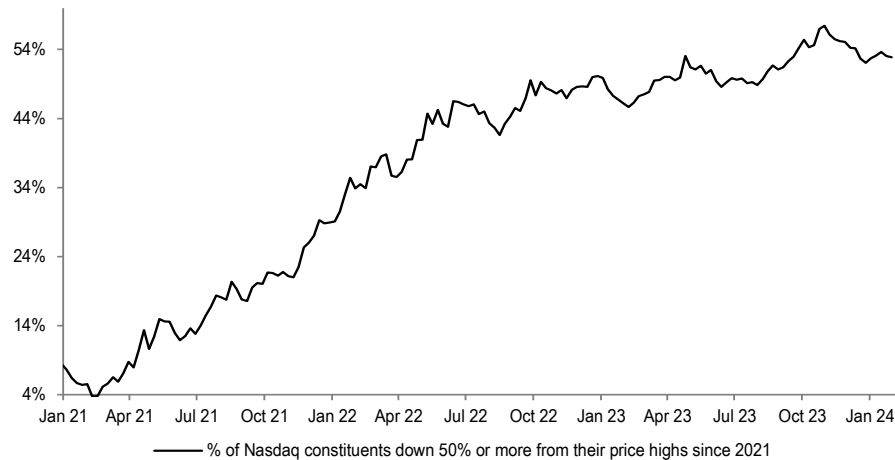
US Banks relative vs US 10-year yield



Source: Datastream

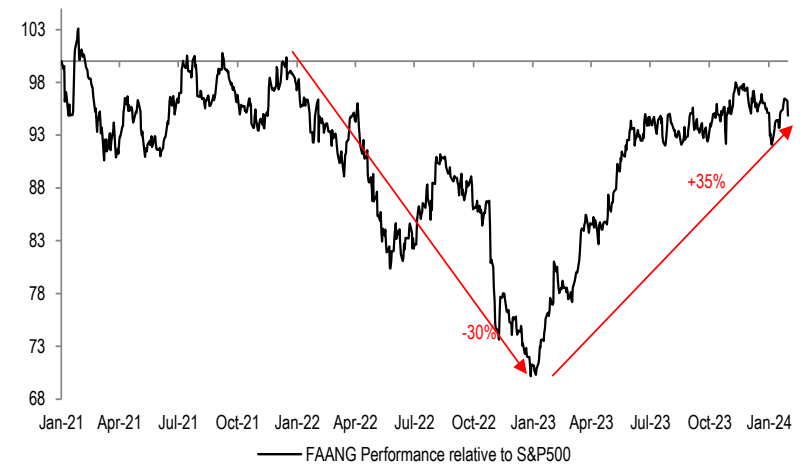
We called in October '22 for the quality Growth part of the market to recover... almost half of Nasdaq traded at least 50% down vs highs since 2021

% of Nasdaq constituents down 50% or more from price highs



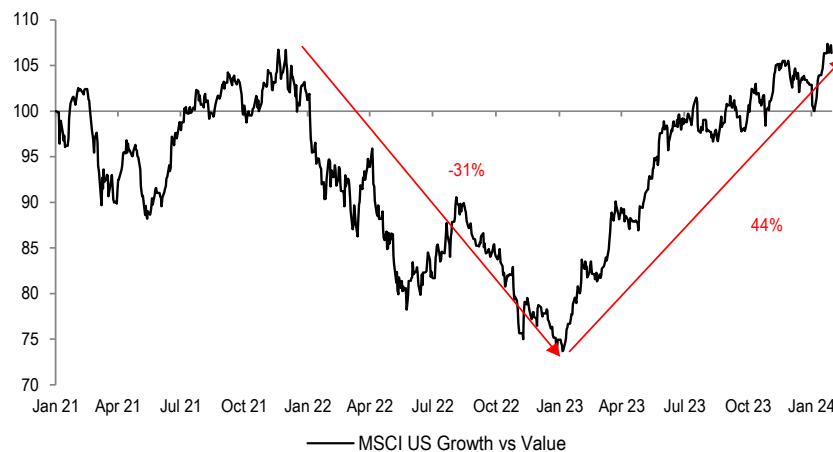
Source: Datastream

FAANG price relative



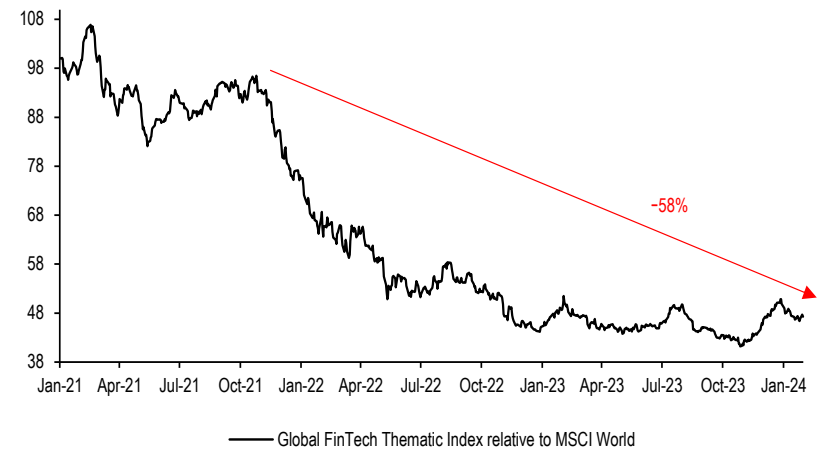
Source: Bloomberg Finance L.P.

MSCI US Growth vs Value



Source: Bloomberg Finance L.P.

Global Fintech Index relative



Source: Bloomberg Finance L.P.

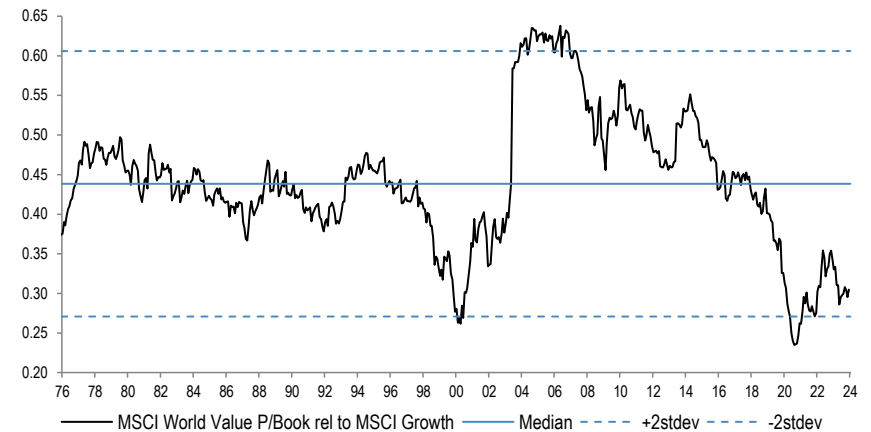
We called for a rebound in Growth vs Value last year, but note that Value still screens cheap...

MSCI World Value and Growth FCF yield



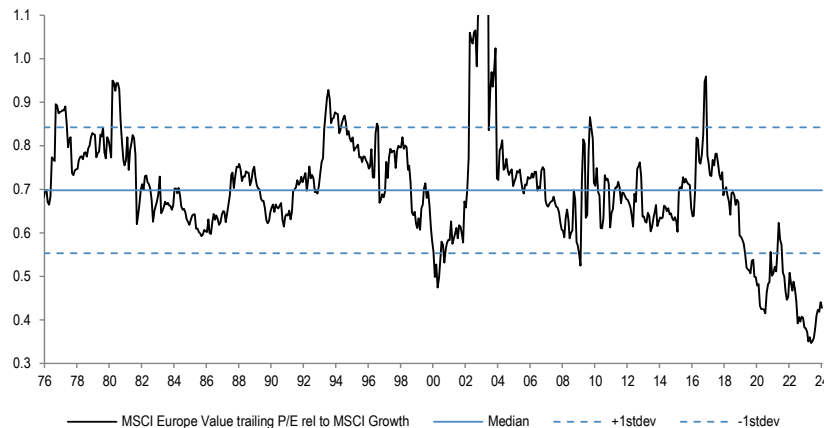
Source: Datastream

MSCI World Value vs Growth P/Book



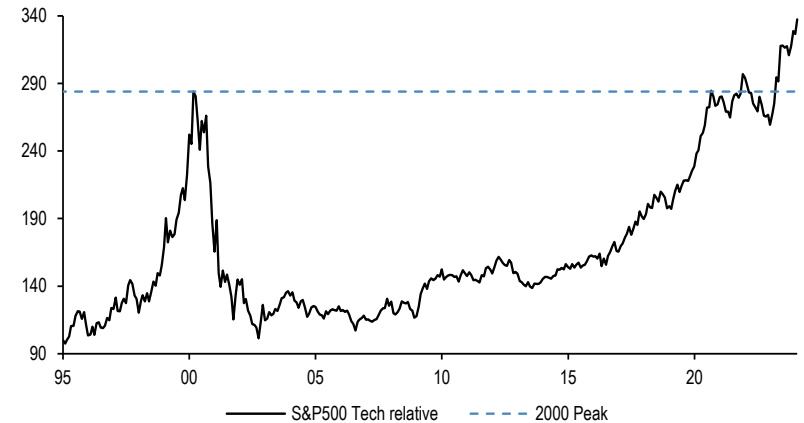
Source: Datastream

MSCI Europe Value vs Growth P/E



Source: Datastream

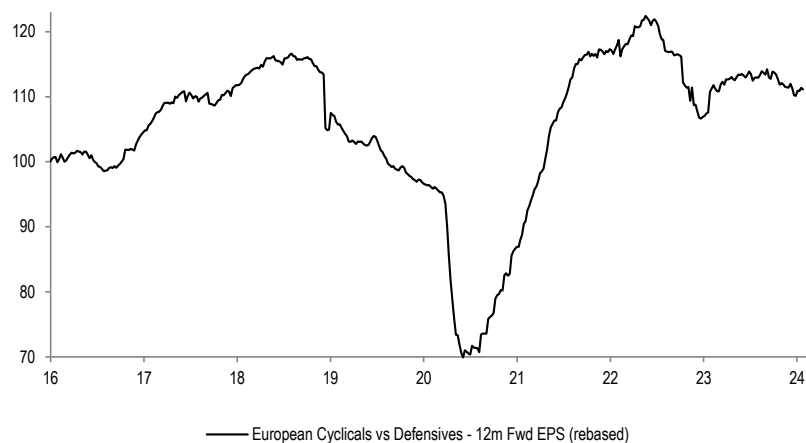
S&P500 Tech relative



Source: Datastream

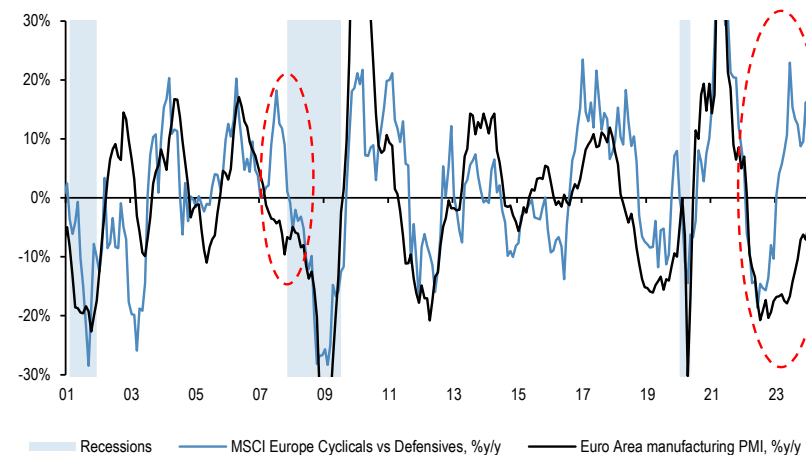
... the earnings of Cyclical are likely to move lower

European Cyclical vs Defensives forward EPS relative



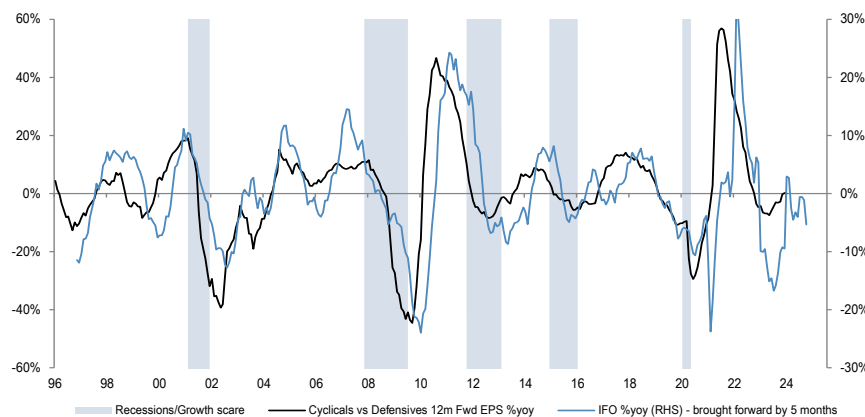
Source: Datastream

European Cyclical vs Defensives and Manufacturing PMI



Source: Datastream, S&PGlobal

Cyclicals EPS relative to Defensives vs IFO



Source: Bloomberg Finance L.P., IBES

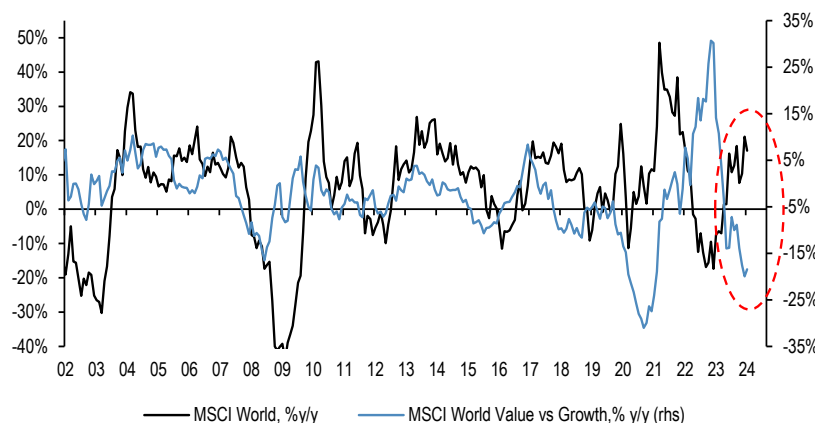
Cyclicals vs Defensives EPS trend in different PMI regimes

Euro Area Manufacturing PMI	European Cyclical vs Defensives 12m Fwd EPS forward change			
	Median		Average	
	+3m	+6m	+3m	+6m
30-35	-13.6%	-14.2%	-14.2%	-13.5%
35-40	-6.2%	3.7%	-9.7%	-5.2%
40-45	-2.9%	-1.8%	-9.6%	-7.6%
45-50	-1.5%	-2.6%	-1.5%	-3.2%
50-55	1.2%	2.1%	1.5%	2.8%
55-60	2.6%	3.6%	2.7%	3.7%
60-65	3.9%	4.9%	5.2%	5.4%

Source: IBES

Growth style is a large part of market cap, but notably market direction and Cyclicals/Value leadership are typically positively correlated

MSCI World and MSCI World Value vs Growth



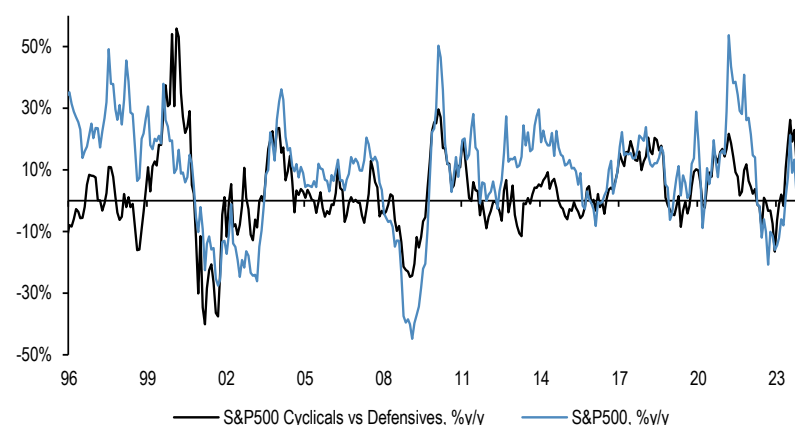
Source: Datastream

Periods of outperformance of US Cyclicals vs Defensives

Trough	Peak	# Months	Move in Cyclicals vs Defensives	Move in SPX
20-Sep-01	08-Jan-02	3.6	36%	18%
09-Oct-02	19-Jan-04	15.3	39%	47%
12-Aug-04	06-Dec-04	3.8	14%	12%
15-Apr-05	19-Apr-06	12.1	13%	15%
27-Jul-06	19-Jul-07	11.7	17%	23%
17-Jan-08	15-May-08	3.9	16%	7%
23-Feb-09	26-Apr-10	14.1	50%	63%
31-Aug-10	14-Feb-11	5.5	19%	27%
03-Oct-11	19-Mar-12	5.5	16%	28%
22-Apr-13	31-Dec-13	8.3	19%	18%
21-Aug-15	06-Nov-15	2.5	10%	7%
05-Jul-16	06-Jun-18	23	51%	33%
21-Dec-18	18-Apr-19	3.9	19%	20%
Average		5.5	19%	20%
Median		8.7	25%	24%

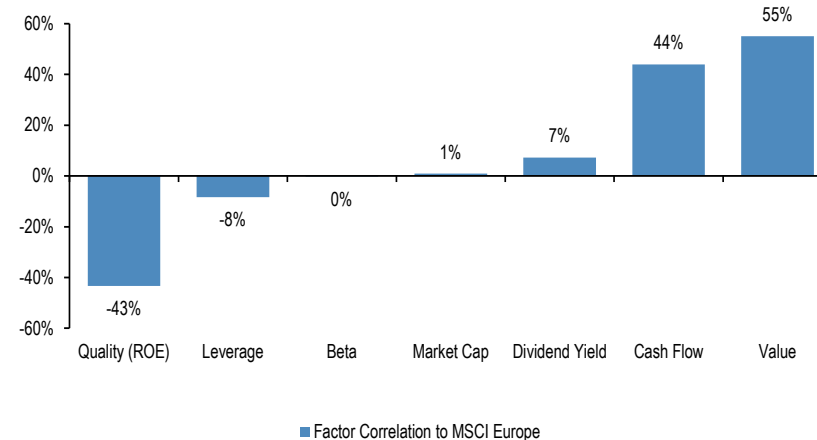
Source: Datastream

S&P500 Cyclicals vs Defensives and market



Source: Datastream

Factor performance correlation to market

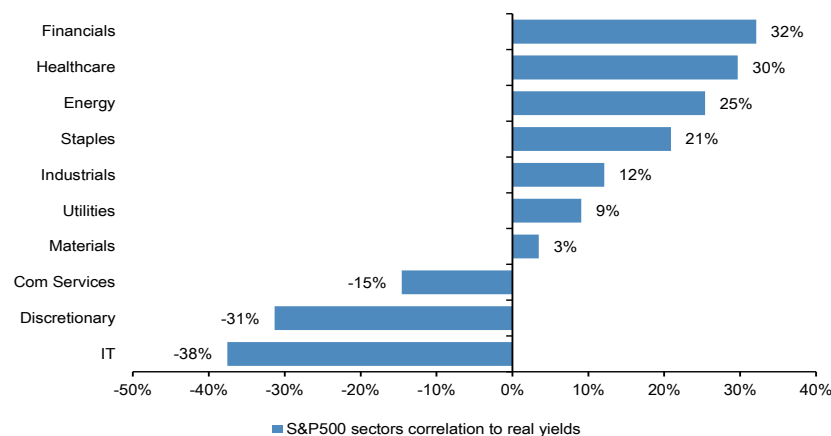


Source: Datastream, J.P. Morgan

The high inflation, low growth backdrop in the '70s saw commodity sectors and Industrials do better; Financials did well outside recessions

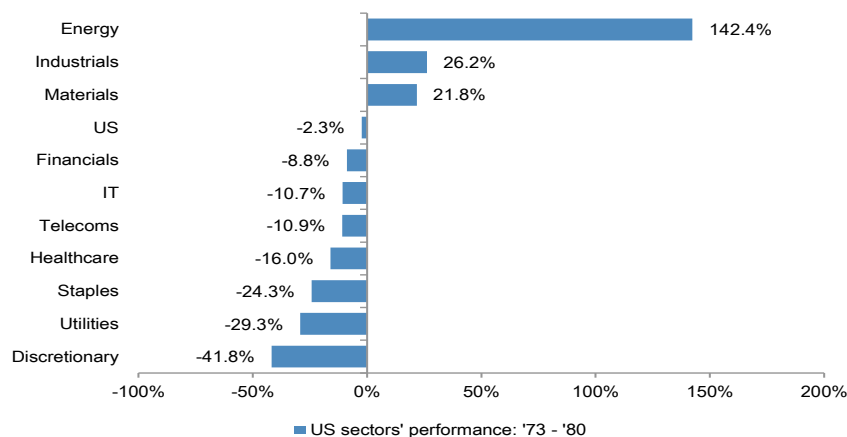
- Financials performed well, outside recessions, in 1970-ies.
- Financials are the most positively correlated to real rates, and Tech the most negatively.

US sectors correlation to real yields, last 7 years



Source: Bloomberg Finance L.P.

US sectors performance in '70s episode



Source: Datastream, JP Morgan

US Banks relative in 70ies



Source: Datastream

2) USD direction matters for regional calls, in particular for EM equities, and for commodities... equities typically preferred falling USD

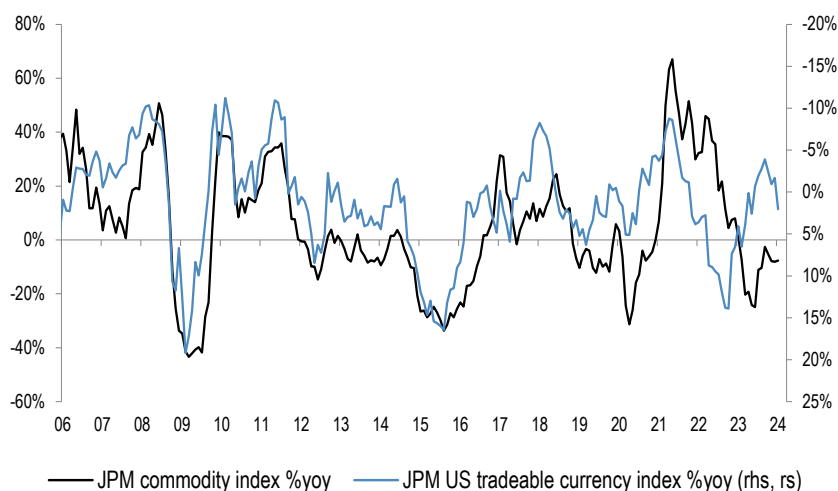
- Historically, equities did better in weaker USD regimes, especially the EMs.
- Commodities are inversely correlated to the USD.

MSCI World performance in different DXY regimes

MSCI World (\$) monthly performance since '10		
	DXY up	DXY down
Average	-1.2%	2.7%
Median	-0.2%	2.5%
% positive	43%	79%

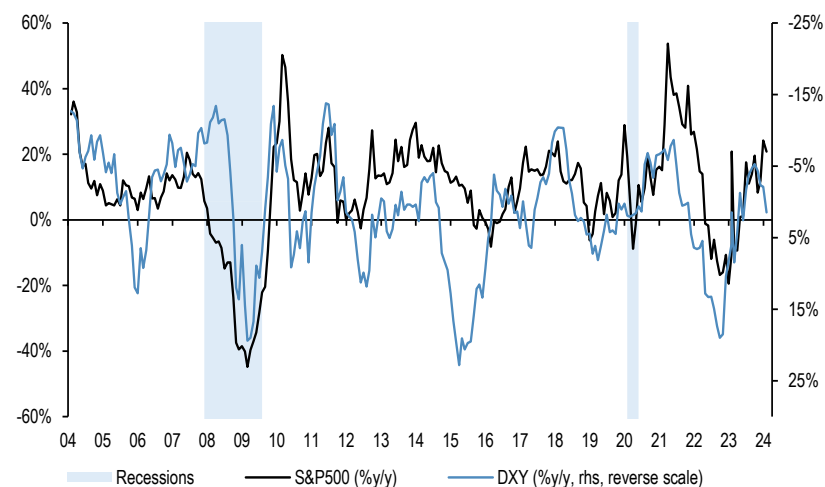
Source: Bloomberg Finance L.P.

Commodity index and trade-weighted USD



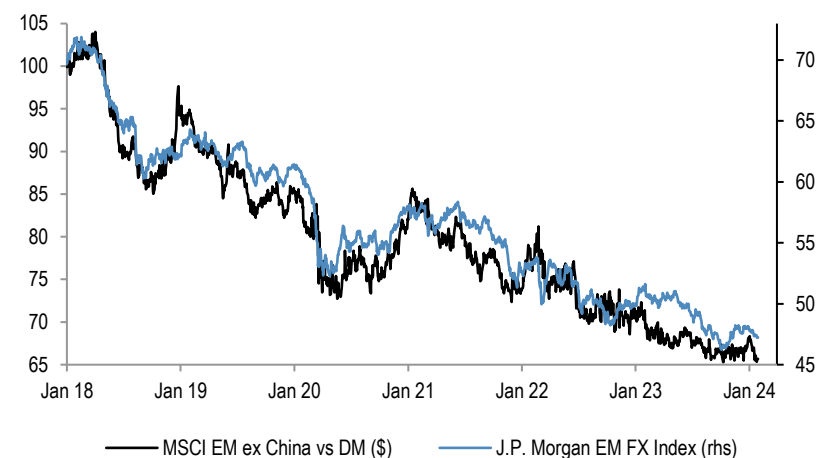
Source: Bloomberg Finance L.P., J.P.Morgan

MSCI World performance and DXY



Source: Bloomberg Finance L.P.

MSCI EM ex China vs DM and EM FX

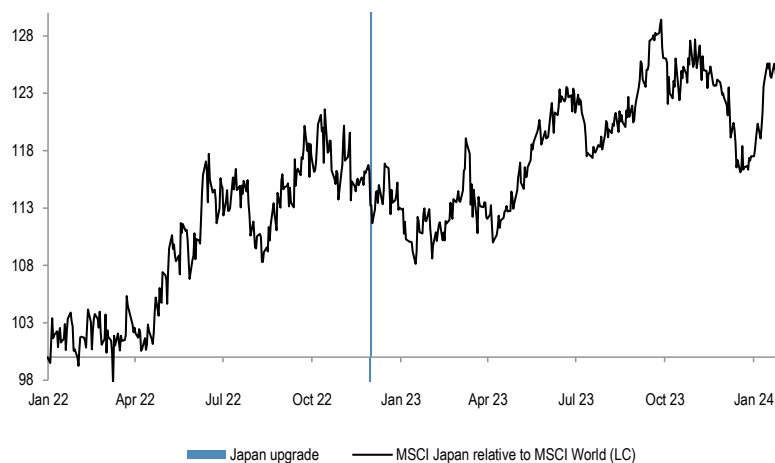


Source: Bloomberg Finance L.P.

Regional Allocation: 1) OW Japan – Diverging policy path to the rest of DM, reflation and rerating could be the tailwinds...

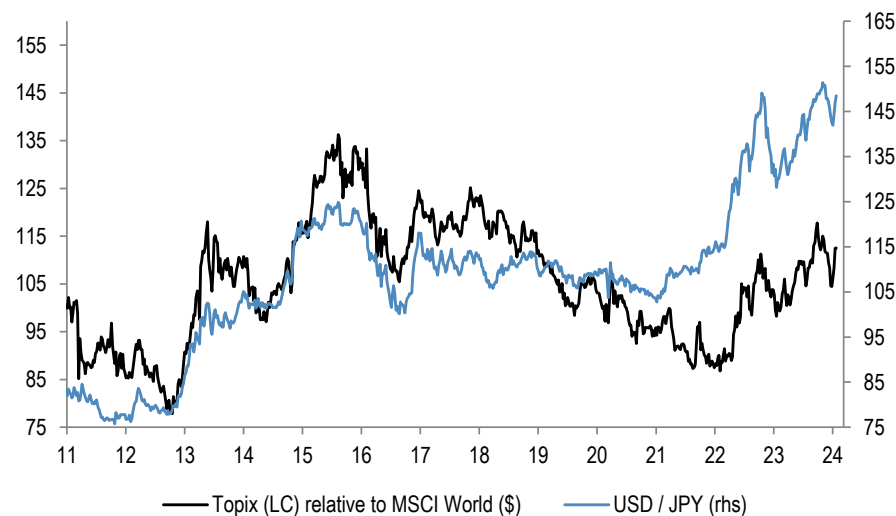
- We have been bullish on Japanese equities last year, upgraded to OW last December, driven by the corporate reform and reflation themes. Our view last year was to hedge the FX, but we think that into 2024 one might not need to do this, anymore.
- The weaker JPY last year has been helpful, given the clear inverse correlation between Topix relative performance and Yen. While FX is likely to firm up this year, in our view, leading to some pressure on earnings, a stronger yen implies global investors would no longer need to hedge currency.

MSCI Japan relative



Source: Datastream

Topix relative and yen

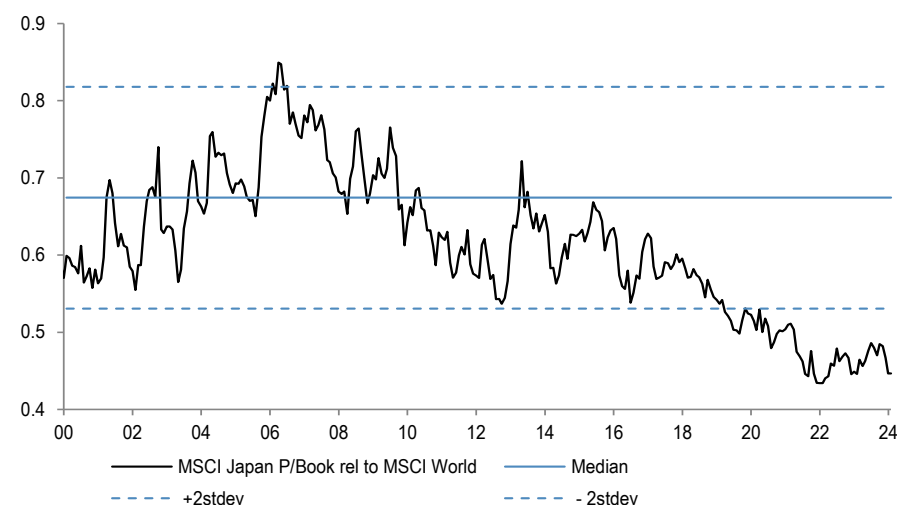


Source: IBES

The region remains underowned and cheap...

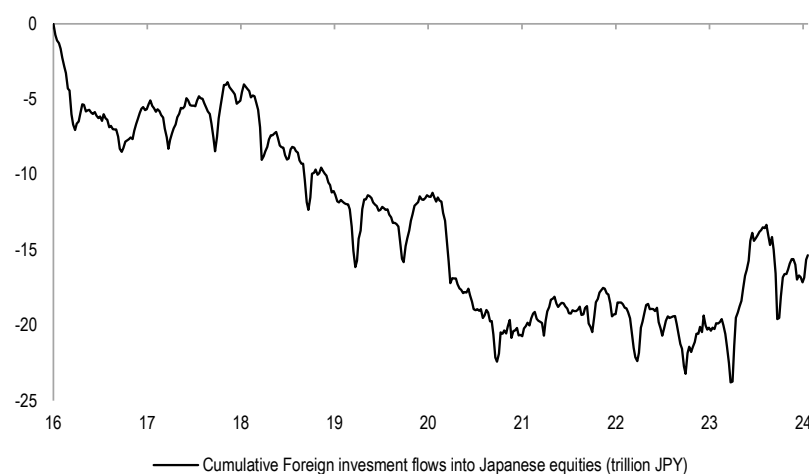
- Despite the strong returns last year, Japan still trades 2.5 standard deviations below its long-term median.
- Foreign investor interest in Japan has increased last year, and the region has seen inflows. Still, positioning is light in a longer-term context.

MSCI Japan Price to Book relative



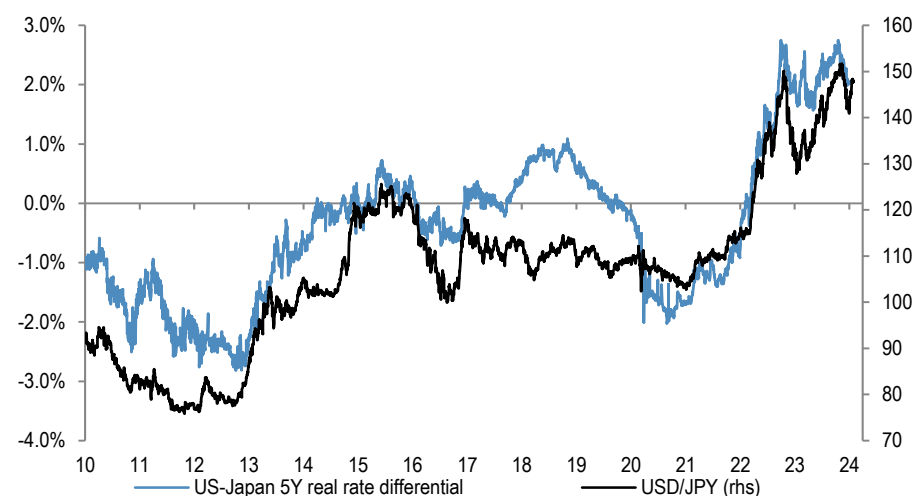
Source: IBES

Foreign investment flows into Japanese equities



Source: JPM Japan Equity Strategy

Topix relative and yen

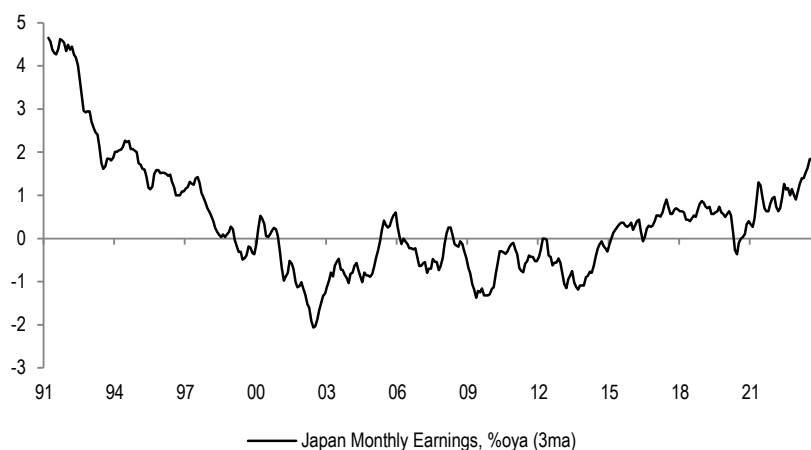


Source: IBES

...hurdle rate is low...

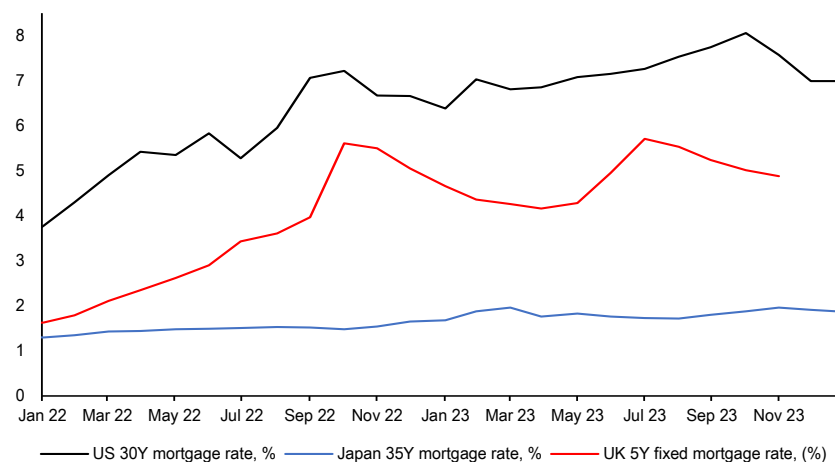
- Japan is typically a global cycle play, with its earnings strongly leveraged to the global macro environment. This time around, however, we think that the Japan outlook is not too dependent on the global cycle view.
- The interest rate cycles have diverged. Mortgage rates, for example, have not increased by the same magnitude in Japan as they have in other countries.
- At the same time, Japan is benefitting from the exit from deflation. Wage growth appears to be improving, after years of stagnation, as are house prices. Earnings are rebounding strongly as well.

Japan monthly earnings



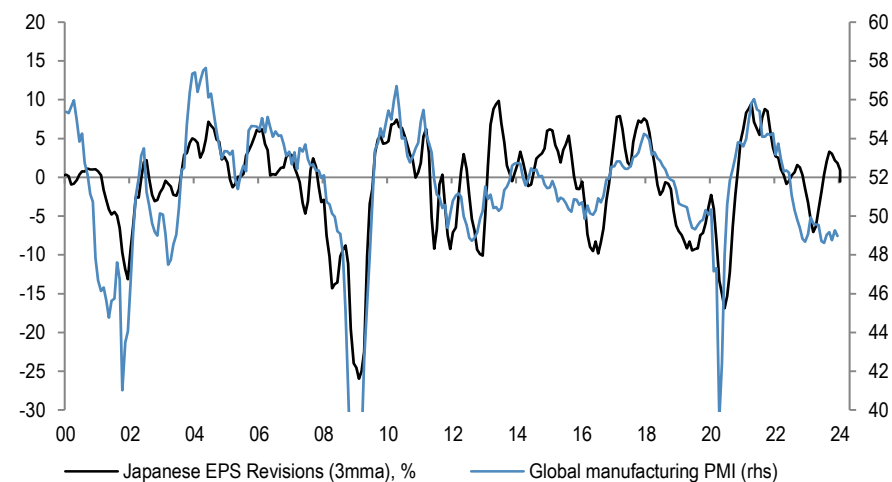
Source: J.P.Morgan Economics

US, UK and Japan mortgage rates



Source: Bloomberg Finance L.P.

Japan EPS revisions and Global manufacturing PMI

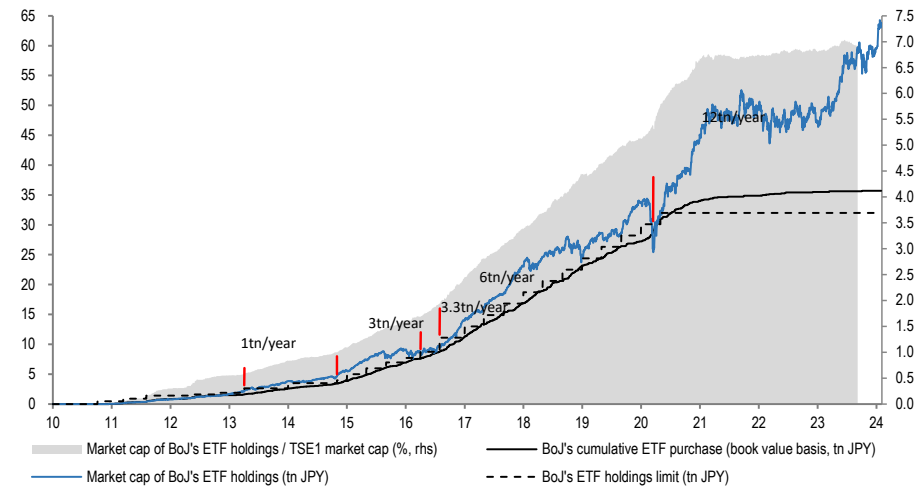


Source: Datastream, J.P. Morgan

...Investor positioning is still subdued...

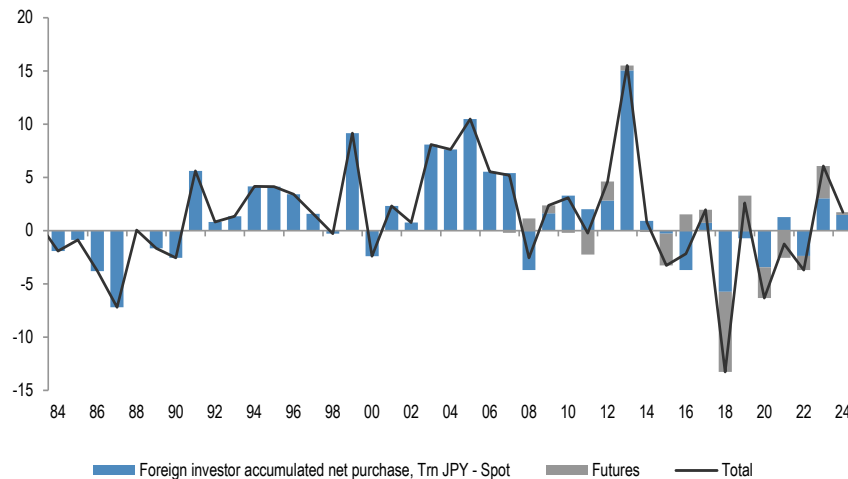
- Until last year, foreign investors had sold over ¥ 3 trillion of Japanese equities since 2020. While this is less than the ¥13 trillion outflows from the region in 2018, we note that positioning in Japanese equities is net short in the average investor portfolio. So far, we have seen strong inflows since Jan'23, a trend we believe will continue.

BoJ ETF ownership



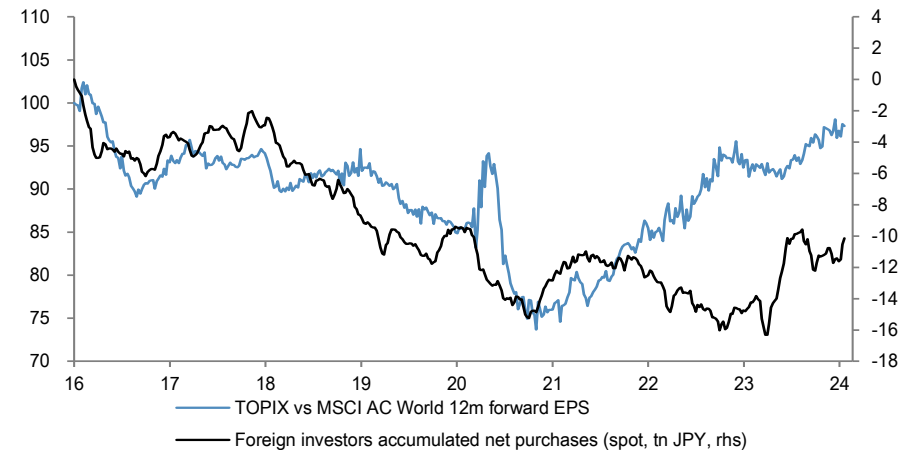
Source: BoJ, J.P. Morgan

Foreign investors accumulated net purchases



Source: Japan Exchange Group (JPX), *24 number is till 19 Jan

Foreign investors accumulated net spot purchases and TOPIX EPS relative

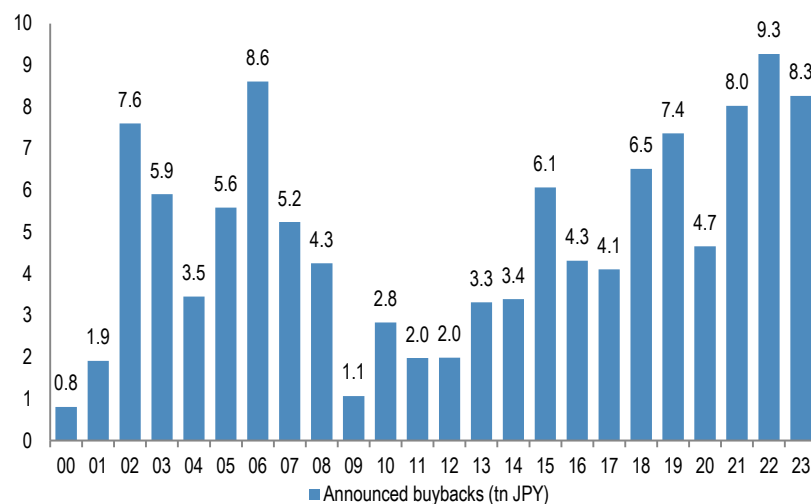


Source: Japan Exchange Group (JPX), IBES

...corporate balance sheets are net cash, TSE initiative is likely to drive rerating

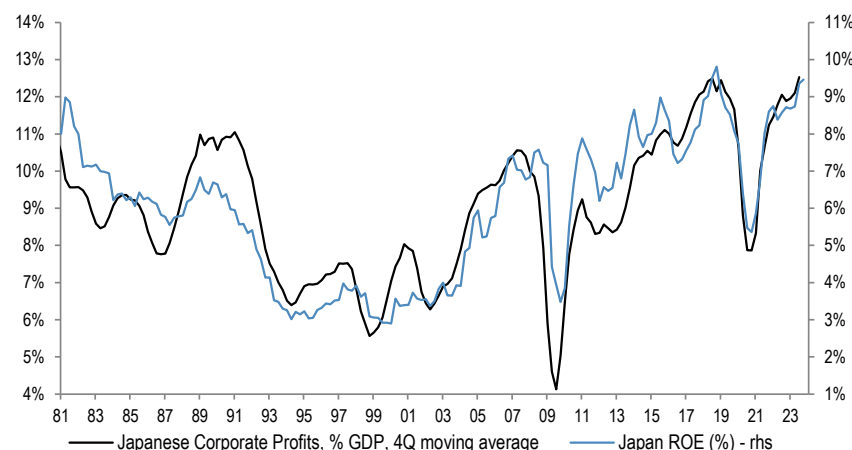
- One of the key drivers of Japanese equities is the TSE directive to better manage cost of capital, which incentivizes companies to raise their RoE. The region has a higher proportion of net cash companies vs others, which can be used towards measures to raise RoE. This in turn is likely to boost corporate profitability.
- Japanese companies are also seeing elevated buyback announcements.

Announced buybacks - TOPIX universe



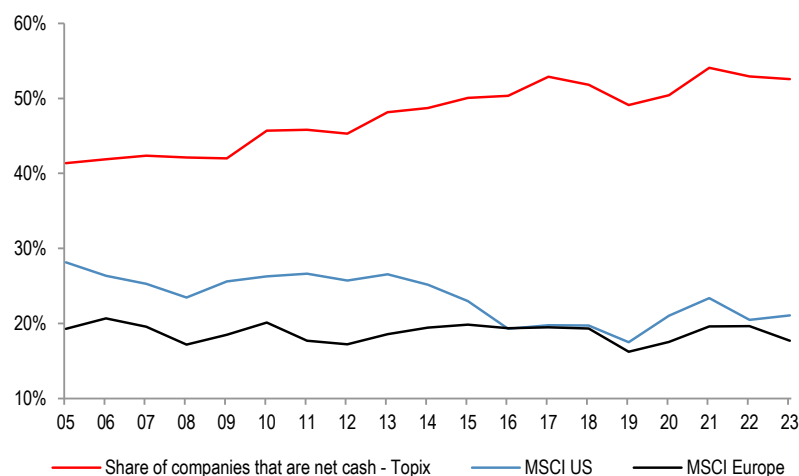
Source: J.P. Morgan

Japanese profit margins and RoE



Source: ESRI, Bloomberg Finance L.P.

Net cash firm weightings



Source: Bloomberg Finance L.P.

Impact of YCC adjustment is likely to be limited

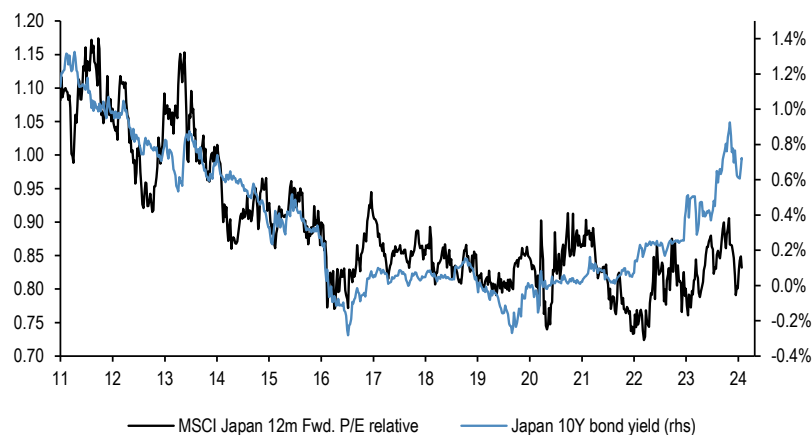
- A final potential positive argument for Japan is that the rising bond yields and/or inflation should not be seen as impediments for the region's performance. Our fixed income team forecasts limited upside for Japanese yields from current levels.
- We keep our regional relative trade of OW Japanese Banks vs global Banks, started in April last year.

JPM forecasts for Japan 10Y bond yield (%)

Forecast for the end of				
Current	Mar 24	Jun 24	Sep 24	Dec 24
0.72	0.60	0.65	0.80	0.80

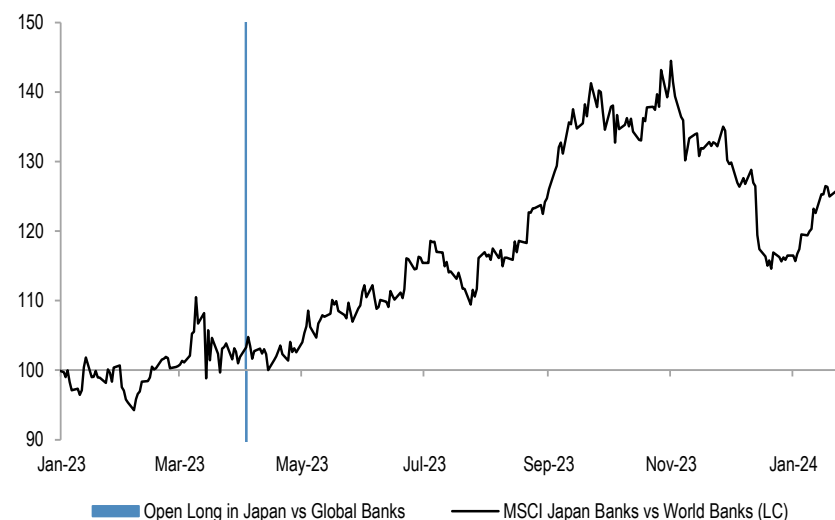
Source: Bloomberg Finance L.P., J.P. Morgan

MSCI Japan 12m forward P/E and bond yields



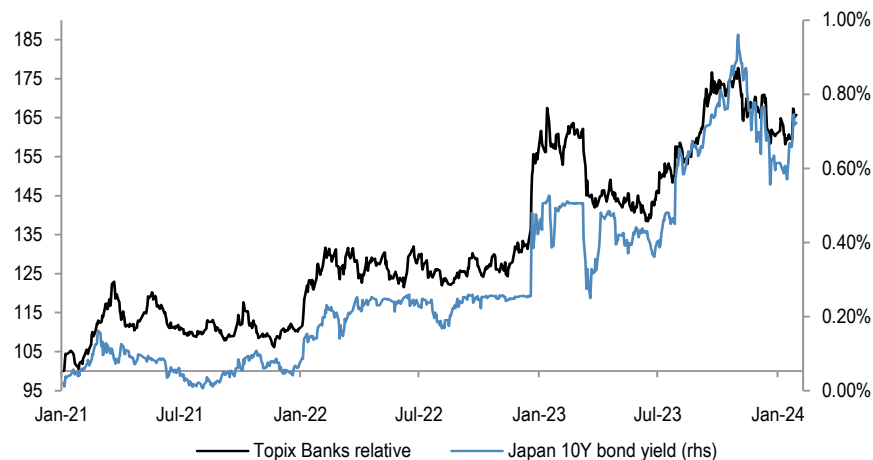
Source: Bloomberg Finance L.P., J.P. Morgan

MSCI Japan Banks relative to Eurozone Banks



Source: Datastream

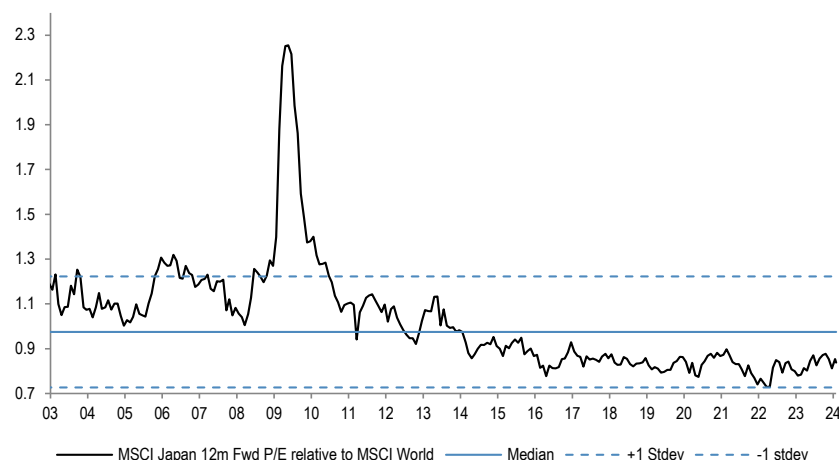
Japan Banks relative to 10Y bond yield



Source: Bloomberg Finance L.P.

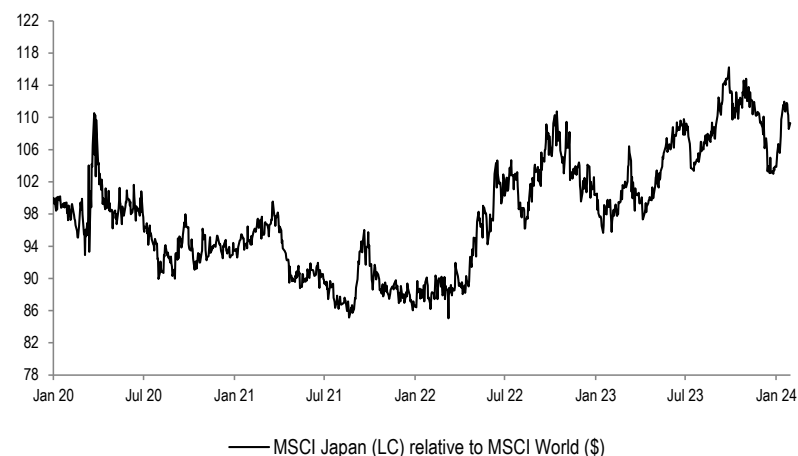
Japan snapshot

MSCI Japan 12m Fwd PE relative to MSCI World



Source: IBES

MSCI Japan performance relative to MSCI World



Source: Datastream

Japan Sector snapshot

	YTD Total Return,		Weight in Index		12m Fwd P/E		EPS growth*, %	
	YTD Perf, %	%	Japan	vs MSCI World	Current	vs Median since '06	2023e	2024e
Japan	7.4%	7.4%	100.0%	0.0%	15.1	7.8%	11.3%	7.2%
Energy	9.2%	9.2%	0.8%	-3.7%	7.5	-20.6%	3.0%	-4.9%
Materials	1.4%	1.4%	5.1%	1.0%	13.1	0.7%	-15.3%	22.9%
Industrials	7.8%	7.8%	22.1%	11.0%	14.7	10.5%	-15.3%	2.1%
Discretionary	9.8%	9.8%	19.0%	8.1%	12.3	-4.2%	46.3%	6.5%
Staples	4.1%	4.1%	5.8%	-1.0%	20.5	-1.5%	0.1%	17.8%
Healthcare	5.9%	5.9%	8.3%	-3.8%	25.9	13.5%	4.6%	6.8%
Financials	10.5%	10.5%	12.2%	-2.9%	11.5	4.7%	30.0%	8.1%
IT	6.5%	6.5%	15.0%	-8.0%	23.4	35.0%	-3.7%	15.6%
Telecoms	8.0%	8.0%	7.2%	0.0%	19.8	50.0%	43.6%	21.9%
Utilities	3.9%	3.9%	1.2%	-1.5%	7.4	-40.0%	389.9%	-29.7%
Real Estate	-2.3%	-2.3%	3.2%	0.8%	14.7	-5.6%	1.7%	4.5%
Cyclicals	7.6%	7.6%	61.3%	12.1%	15.0	8.8%	3.4%	7.5%
Defensives	6.0%	6.0%	22.4%	-6.3%	20.0	15.3%	33.8%	12.5%

Source: IBES, Datastream, *for the year ending March 2024 and 2025

2) OW UK - attractive valuations, high dividend yield, lower than 1 beta and weak GBP to help

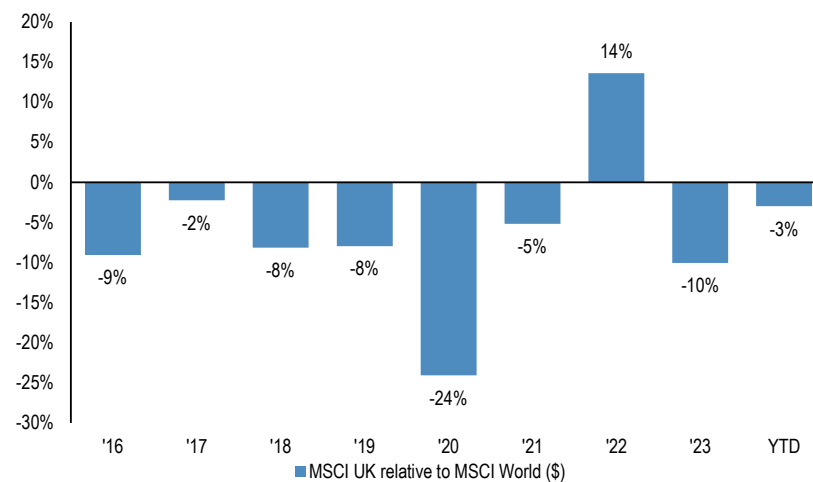
- We held a longstanding cautious call on UK equities, ever since 2016. In July '20, post the particularly brutal spell of underperformance for UKX, as the worst of the COVID-19 crisis and resulting dividend cancellations were priced in, we closed our short, moving the UK to Neutral.
- In November '21, we took a step further, and raised the UK to an OW in a European and in a Global portfolio.

MSCI UK relative to MSCI World



Source: Datastream

UK relative performance since 2016



Source: Bloomberg Finance L.P.

UK is still record cheap

- The UK has de-rated strongly since the 2016 Brexit vote and is trading near the lowest forward P/E level vs global peers in the last three decades. The UK appears extremely cheap even if one were to exclude Banks and Energy from the calculation or adjust for sector bias.

MSCI UK 12m Fwd. P/E relative to MSCI World



Source: Datastream

MSCI UK 12m Fwd P/E relative, ex Energy and Banks



Source: Datastream

MSCI UK sector neutral 12m Fwd. P/E relative

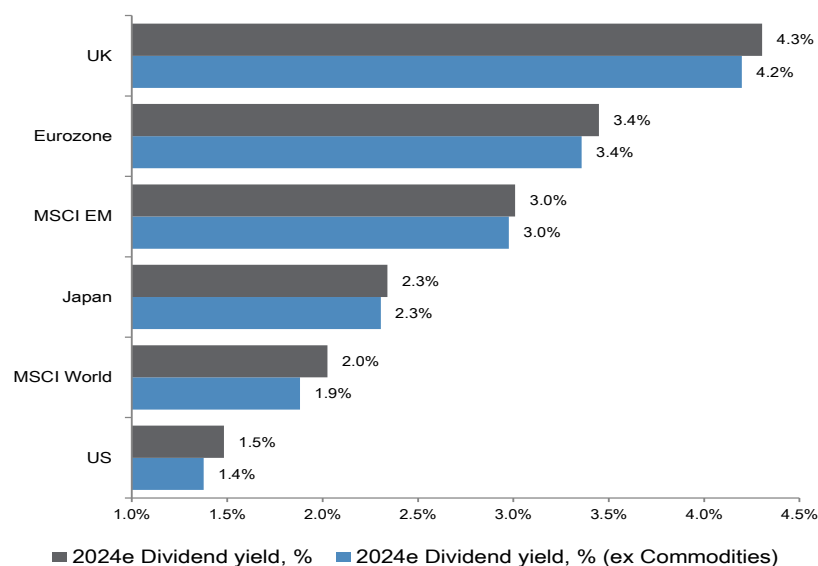


Source: Datastream

The UK offers the highest dividend yield of any of the big DM's

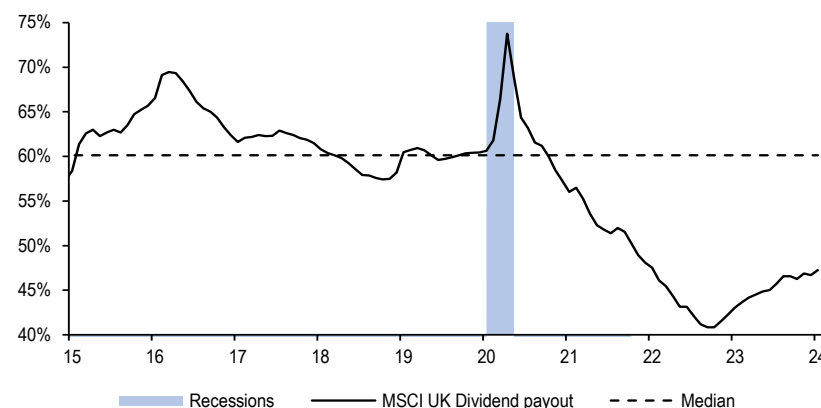
- From a total return perspective, the UK offers a much higher dividend yield compared to other regions, even excluding commodity sectors.
- Even though dividend yield looks attractive, the payout ratio is still meaningfully below average. In addition, dividend strategies are likely to gain traction if our view that bond yields move lower is vindicated.
- The UK, which has a high proportion of income funds, could benefit as investors turn to dividend strategies.

Dividend yield for key regional markets



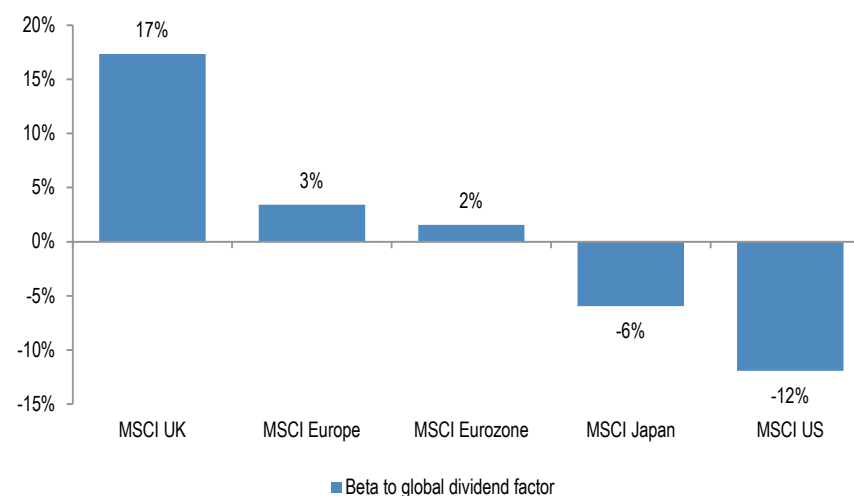
Source: Bloomberg Finance L.P.

UK dividend payout ratio



Source: Datastream

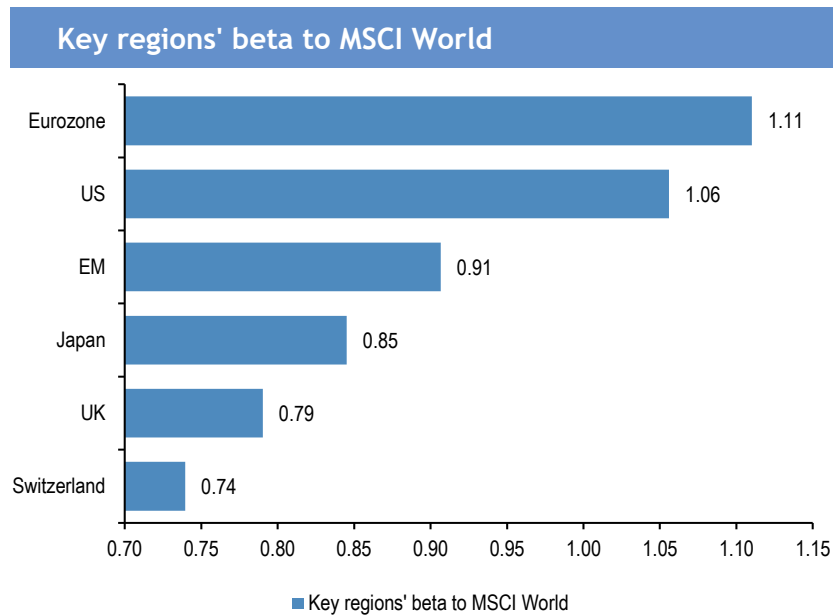
Beta to dividend factor



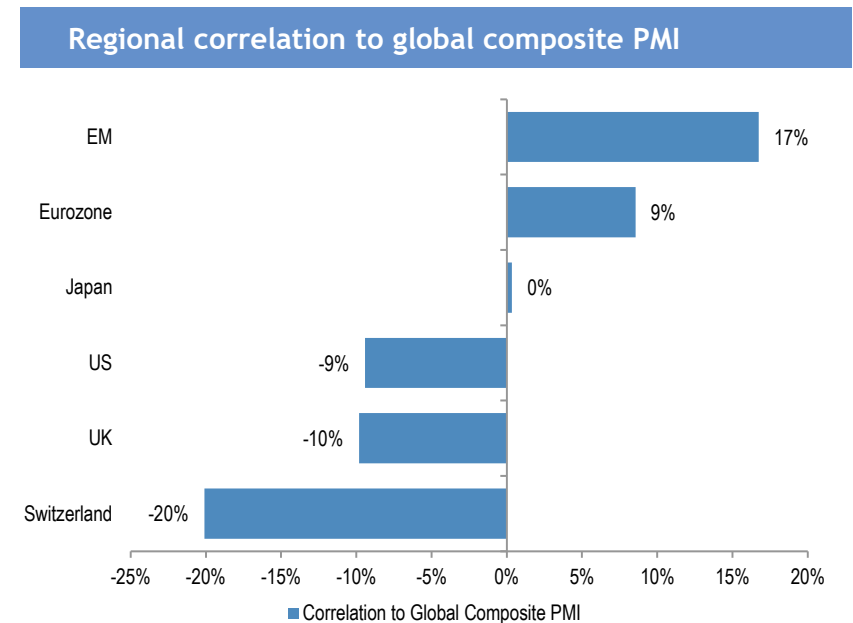
Source: Bloomberg Finance L.P.

UK shows a below 1 beta to global equity direction

- The UK has traditionally been a low beta, Defensive market, which performs well on a relative basis during downturns. If global equities struggle for direction in 1H, as we expect, the UK could be a relative winner.
- UK and Switzerland display the lowest correlation to global PMI momentum, of the main regions, and should fare better if PMIs stay subdued.



Source: Datastream, *MoM relative to MSCI World in LC, since 2000



Source: Datastream, S&P Global, PGlobal. *MoM relative to MSCI World in LC, since 2000

Weaker GBP would be a tailwind for FTSE100

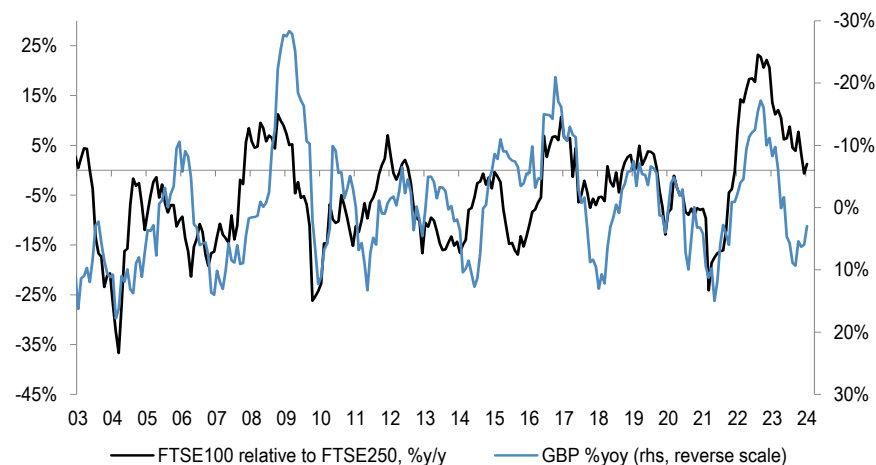
- We note that our economists expect subdued UK growth outturn this year. Our bullish stance is not predicated on a strong domestic economic recovery.
- FTSE100 shows a strong inverse correlation to the GBP, as over 75% of the index revenues are derived from outside the UK. A potentially weaker GBP should help the group this year.

JPM UK GDP and CPI projections

	3Q23	4Q23E	1Q24E	2Q24E	3Q24E	4Q24E
UK Real GDP (% over previous period, saar)	-0.5	0.0	1.0	0.8	0.0	-0.5
UK CPI (% oya)	6.7	4.2	3.6	1.5	1.7	2.3

Source: J.P. Morgan Economics Research

FTSE100 relative to World and GBP



Source: Datastream

Foreign revenue exposure of FTSE100 and FTSE250

	Ex UK Exposure	
	FTSE100	FTSE250
Energy	88%	93%
Healthcare	96%	74%
Materials	97%	80%
Telecoms	66%	48%
Real Estate	20%	58%
Industrials	82%	49%
IT	83%	69%
Utilities	32%	2%
Discretionary	55%	72%
Staples	60%	27%
Financials	46%	46%
Market	76%	57%

Source: Bloomberg Finance L.P.

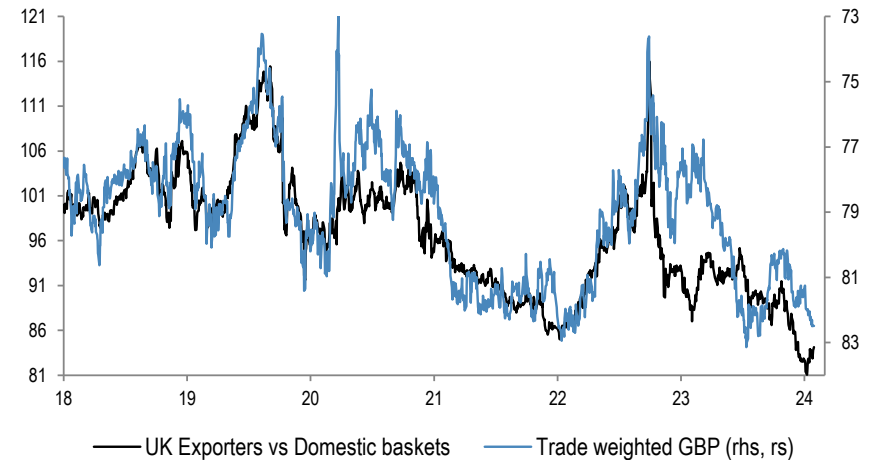
We have been OW FTSE100 vs FTSE250 for almost 2 years and believe there is more to go... UK domestic names to stay under pressure...

FTSE100 vs FTSE250



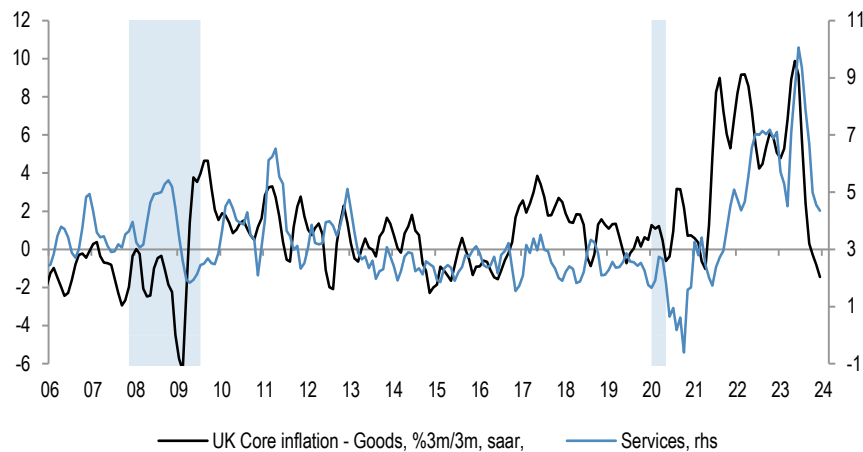
Source: Datastream

UK Exporters vs Domestic vs Trade-Weighted GBP



Source: Bloomberg Finance L.P.

UK Core Inflation



Source: JPM Economics team

Exporters vs Domestic basket composition

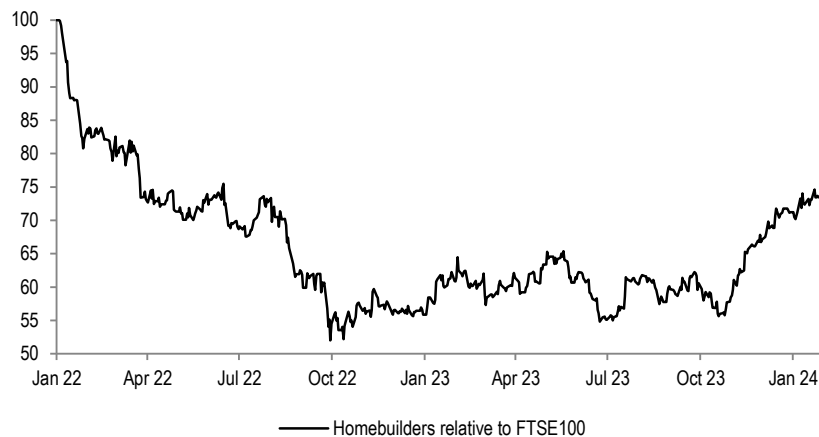
	Domestics weight	Exporters weight	Exporters - Domestic
HEALTH CARE	0%	13%	13%
INDUSTRIALS	10%	13%	2%
ENERGY	0%	0%	0%
STAPLES	0%	0%	0%
MATERIALS	0%	0%	0%
DISCRETIONARY	0%	0%	0%
IT	0%	0%	0%
COMM. SRVCS	0%	0%	0%
UTILITIES	3%	0%	-3%
FINANCIALS	28%	21%	-7%
REAL ESTATE	7%	0%	-7%

Source: J.P. Morgan

...UK domestics tended to rally only after BoE starts cutting rates

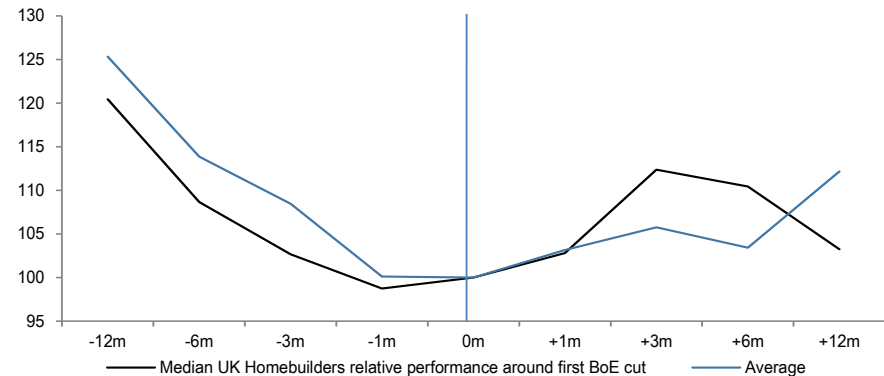
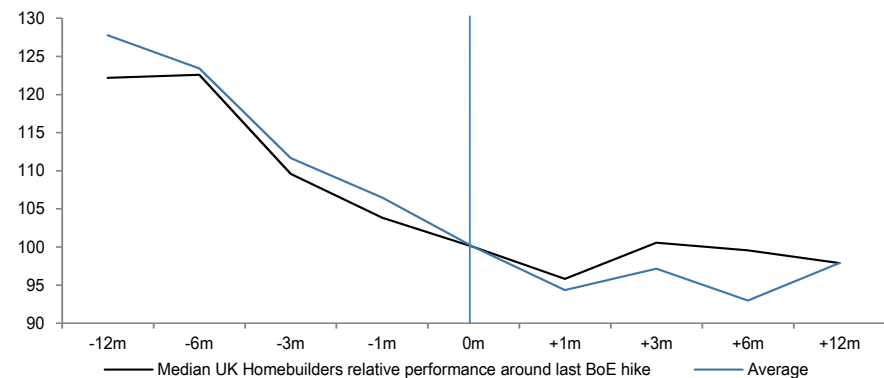
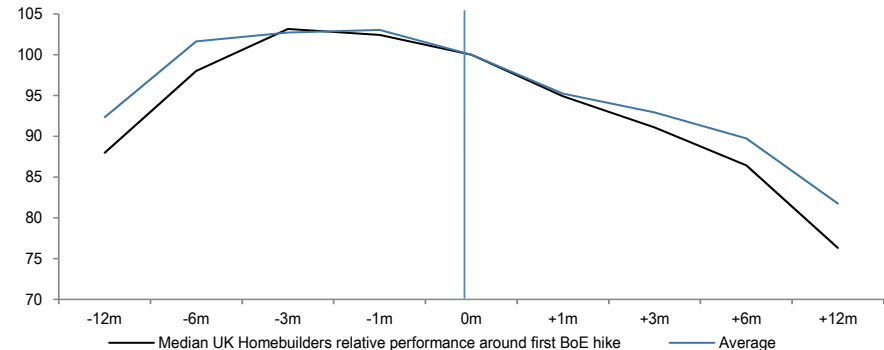
- UK homebuilders have underperformed over the last 1.5 years and have been trying to bounce recently. This underperformance is consistent with how the sector typically performs during a hiking cycle. We think that the time might be coming to be more positive on the space.
- On the other side, post the final BoE hike, Homebuilders stocks do not underperform increasingly more, but still struggle for direction. While there is anticipation that the Bank of England will pause, JPM economists do not expect this to happen. In our view, one needs to see the BoE outright cutting rates for the sector's performance to pick up.

UK Homebuilders relative



Source: Datastream

Median UK Homebuilders relative performance around first BOE hike, last BOE hike and first BOE cut



Source: Datastream

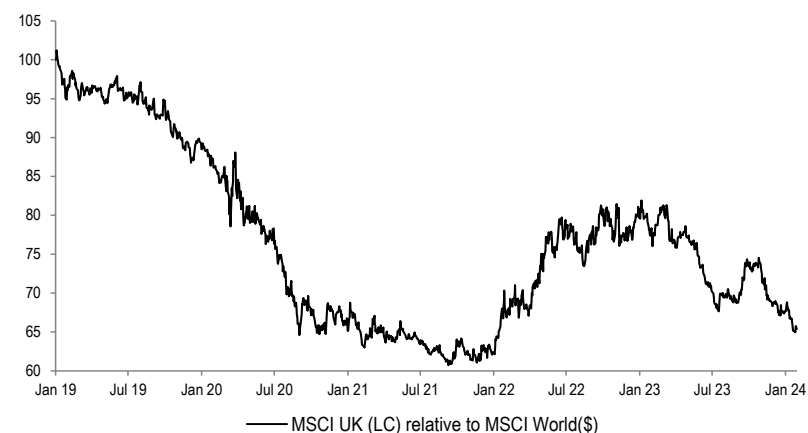
UK snapshot

MSCI UK 12m Fwd PE relative to MSCI World



Source: IBES

MSCI UK performance relative to MSCI World



Source: Datastream

UK Sector snapshot

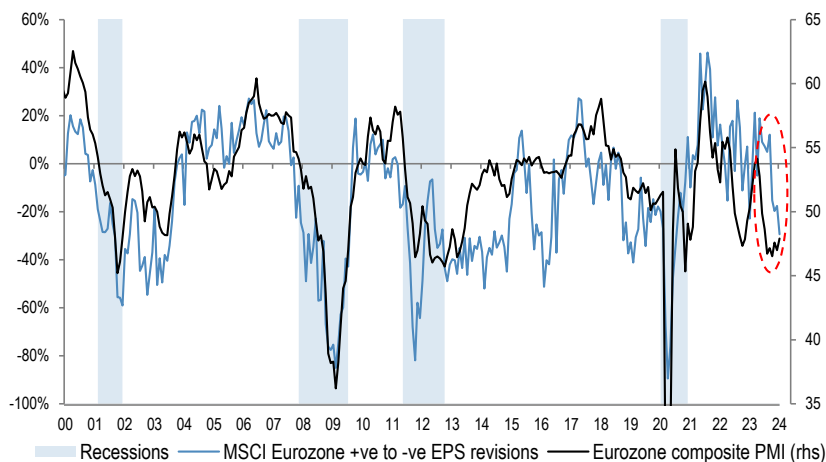
	YTD, %	YTD Total Return, %	Weight in Index		12m Fwd P/E		EPS growth, %	
			UK	vs MSCI World	Current	vs Median since '06	2023e	2024e
UK	-1.3%	-1.3%	100.0%	0.0%	10.8	-9.9%	-13.6%	3.7%
Energy	-3.2%	-3.2%	13.3%	8.9%	7.3	-28.8%	-33.1%	3.5%
Materials	-4.6%	-4.6%	10.8%	6.7%	11.2	0.3%	-41.2%	2.5%
Industrials	1.7%	1.8%	12.1%	1.0%	20.5	61.9%	13.1%	12.0%
Discretionary	-0.3%	0.1%	6.0%	-4.9%	17.1	31.8%	-12.9%	1.2%
Staples	0.9%	0.9%	17.3%	10.4%	12.2	-10.7%	2.3%	3.5%
Healthcare	1.4%	1.4%	12.6%	0.5%	13.5	8.0%	8.8%	9.6%
Financials	-3.8%	-3.8%	18.9%	3.7%	7.4	-30.9%	0.4%	0.7%
IT	-1.9%	-1.3%	1.1%	-21.9%	28.5	54.9%	14.6%	10.8%
Telecoms	-0.7%	-0.6%	2.6%	-4.5%	10.1	-11.3%	-13.6%	7.9%
Utilities	-3.4%	-3.1%	4.3%	1.7%	12.6	3.0%	2.1%	0.1%
Real Estate	-2.4%	-2.4%	0.8%	-1.6%	19.5	-3.4%	0.1%	4.0%
Cyclicals	-1.1%	-1.0%	30.1%	-19.1%	15.4	25.6%	-25.4%	4.3%
Defensives	0.4%	0.5%	36.9%	8.1%	12.5	-2.1%	2.5%	5.3%

Source: IBES, Datastream

3) UW Eurozone – Growth-Policy tradeoff likely to stay unexciting

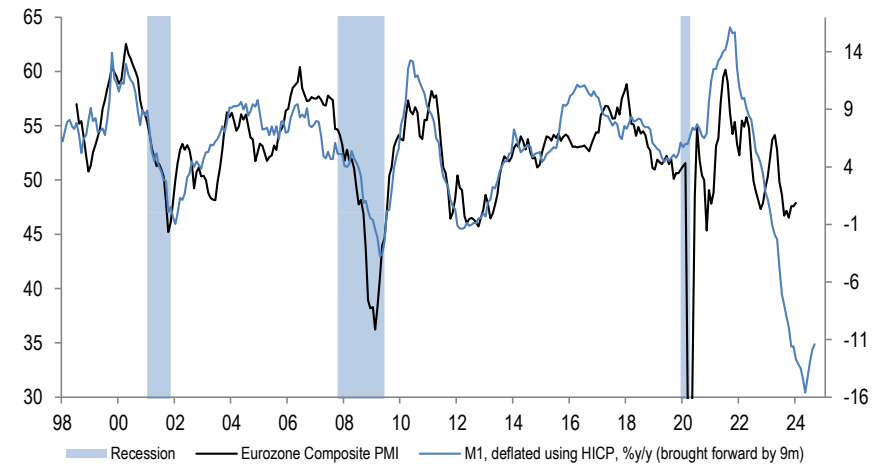
- We had a preference for Eurozone vs US over the past year, but have in May'23 closed the trade, moving Eurozone to outright UW. Despite some lagging performance, we keep our UW rating on Eurozone equities into 2024.
- Crucially, the Growth-Policy trade-off is still challenging in Eurozone, in our view. Continued weakness in lead indicators like the M1 does not appear to bode well for the region's growth outlook.
- EPS revisions tend to closely follow the PMI, which point to further weakness in the region. Softer GDP growth this year is likely to weigh on earnings delivery, as well.

Eurozone EPS revisions and composite PMI



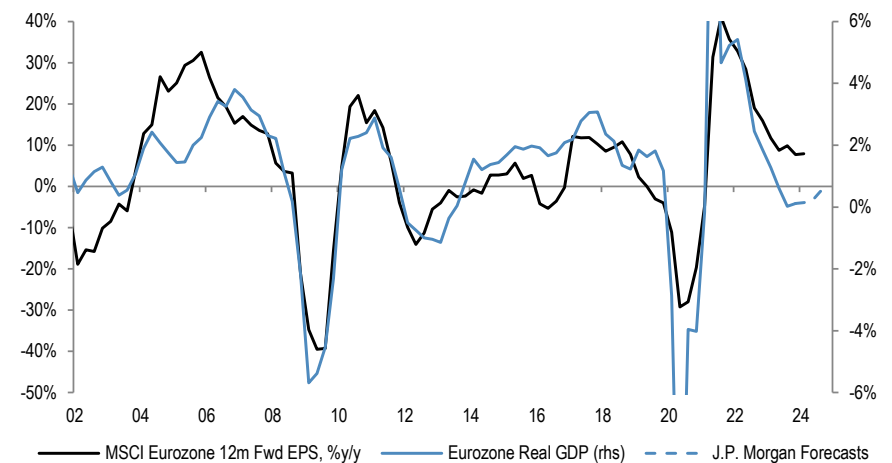
Source: IBES, S&P Global

Eurozone M1 growth (deflated by HICP) vs PMI



Source: Bloomberg Finance L.P. , S&P Global

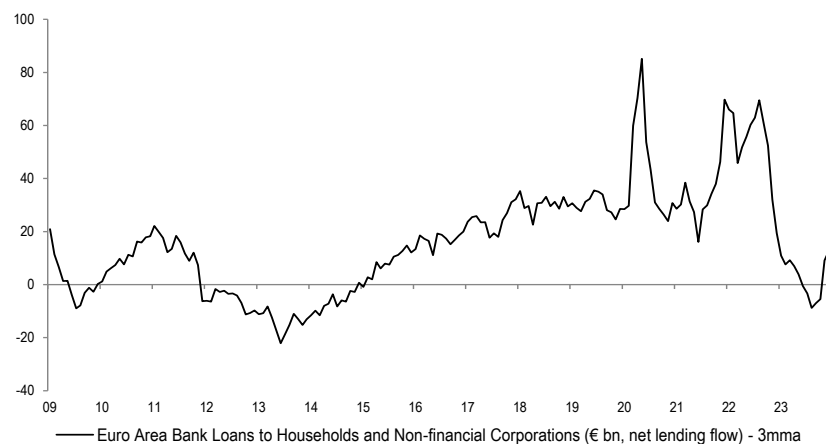
Eurozone earnings vs GDP growth



Source: Datastream

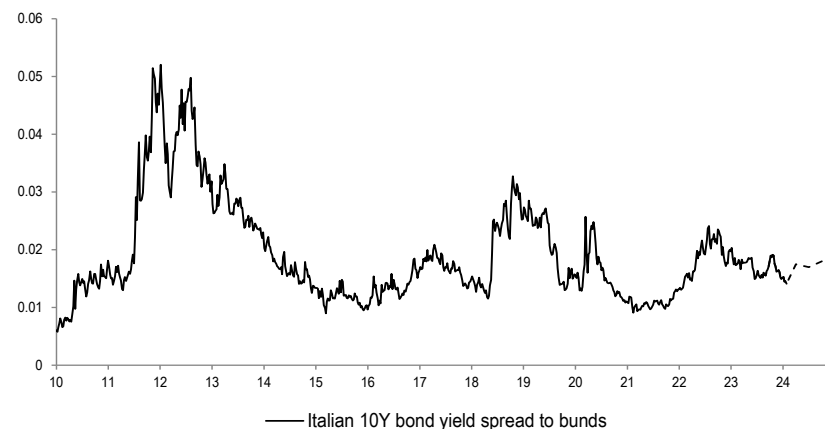
ECB remains a backstop against any material widening in peripheral spreads... however, bank lending standards and credit demand are worsening...

Eurozone bank loans to HH and nonfinancial corporates



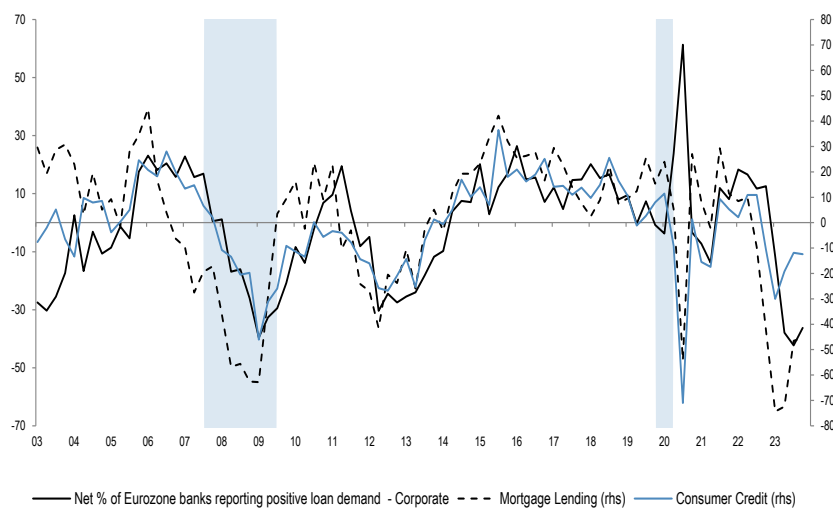
Source: ECB, J.P. Morgan

Peripheral spreads with JPM forecast



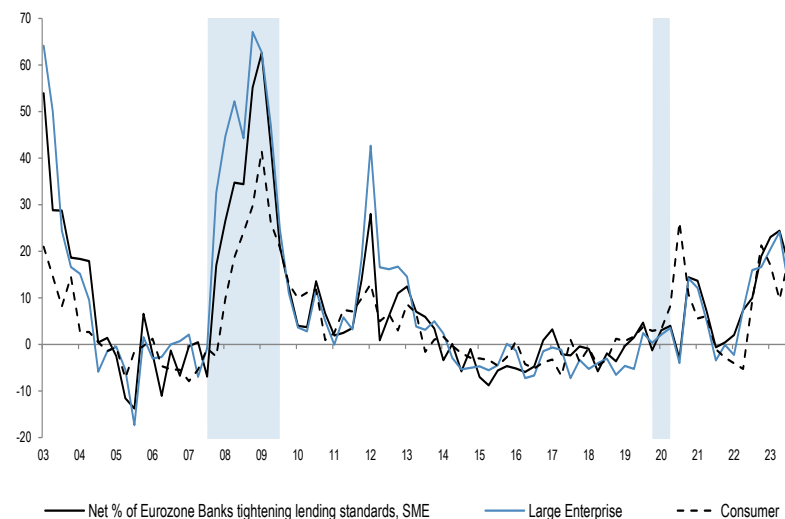
Source: Bloomberg Finance L.P., JPMorgan

% Eurozone banks reporting positive loan demand



Source: ECB

% of Eurozone banks tightening lending standards



Source: ECB

...Eurozone's fiscal position is better than for other regions; Fiscal expansion to support energy independence, defense and infrastructure underway

- From a fiscal standpoint, Eurozone scores better than the US, UK or Japan.

US, EMU, Japan and UK fiscal positions (% of GDP)

	Gross Debt (% of GDP)						Net Debt (% of GDP)						Primary Balance (% of GDP)					
	2021	2022	2023	2024	2025	2026	2021	2022	2023	2024	2025	2026	2021	2022	2023	2024	2025	2026
United States	126.4	121.3	123.3	126.9	130.3	132.9	98.3	95.1	96.7	100.7	104.0	106.6	-9.3	-1.3	-5.5	-4.3	-4.2	-3.5
Euro area	94.8	91.0	89.6	88.3	87.1	86.1	77.7	75.3	74.6	73.9	73.2	72.7	-4.0	-2.1	-1.9	-1.0	-0.5	-0.2
Japan	255.1	260.1	255.2	251.9	250.6	251.1	156.7	161.5	158.5	155.8	154.0	153.5	-5.6	-6.5	-5.5	-3.6	-2.4	-2.5
United Kingdom	105.2	101.9	104.1	105.9	107.3	108.5	94.1	98.9	99.0	99.6	97.2	96.7	-6.1	-2.2	-2.0	-1.9	-1.5	-1.4

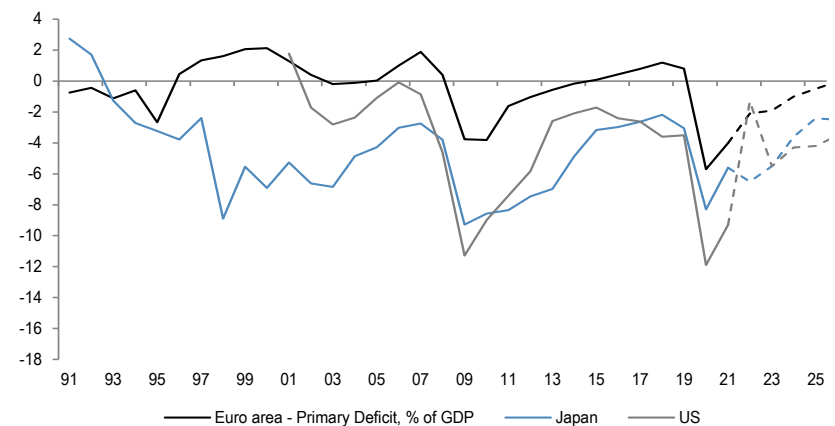
Source: IMF FISCAL MONITOR - October 2023

Fiscal balance, % GDP

	Fiscal balance (% of GDP)						
	US	Japan	Germany	Italy	Spain	France	UK
22	-5.4%	-6.7%	-2.5%	-8.0%	-4.7%	-4.8%	-4.3%
23e	-6.2%	-5.5%	-2.4%	-5.3%	-4.1%	-4.9%	-5.1%
24e	-6.0%	-4.0%	-1.7%	-4.5%	-3.4%	-4.5%	-3.6%
25e	-6.2%	-3.1%	-1.2%	-3.8%	-3.1%	-4.2%	-3.1%

Source: Bloomberg Finance L.P.

US, Eurozone and Japanese primary fiscal balance

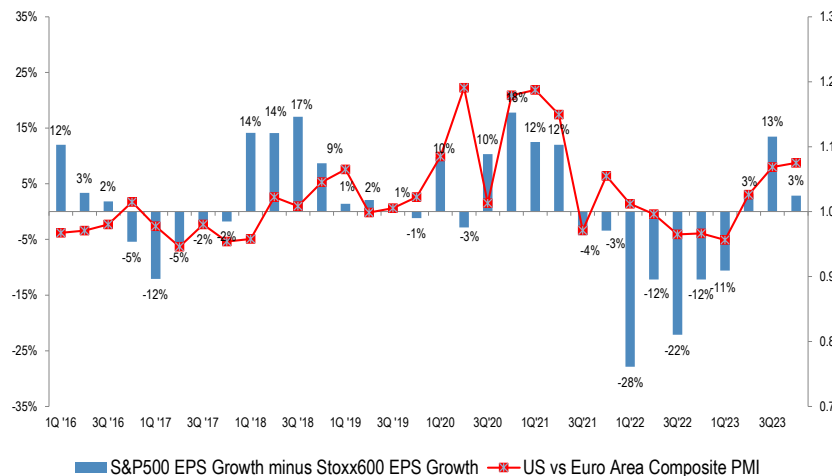


Source: IMF FISCAL MONITOR - October 2023
dotted lines show IMF forecasts

In May we called for the end of the Eurozone vs the US outperformance trade

- We reversed our preference for Eurozone equities over the US in May'23 and believe that the region will likely continue to struggle over the next couple of quarters.
- The relative EPS momentum continues to look more favourable for the US.
- Positioning, however, is skewed towards the US, while investors have largely stayed away from Eurozone and Japan.

S&P500 vs SXXP EPS growth and relative PMI moves



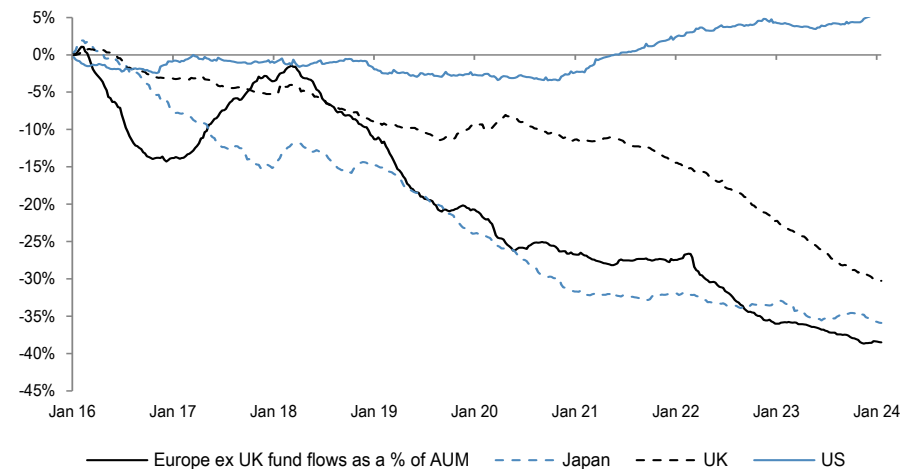
Source: J.P. Morgan, S&P Global

MSCI Eurozone vs US relative performance



Source: Datastream

Cumulative fund flows into regional funds

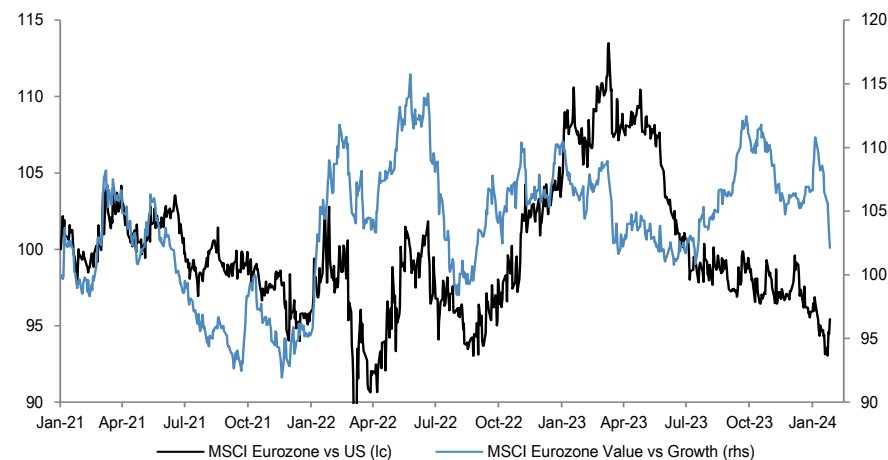


Source: EPFR

Eurozone relative performance has in the past tracked bond yields, Value/Growth style...

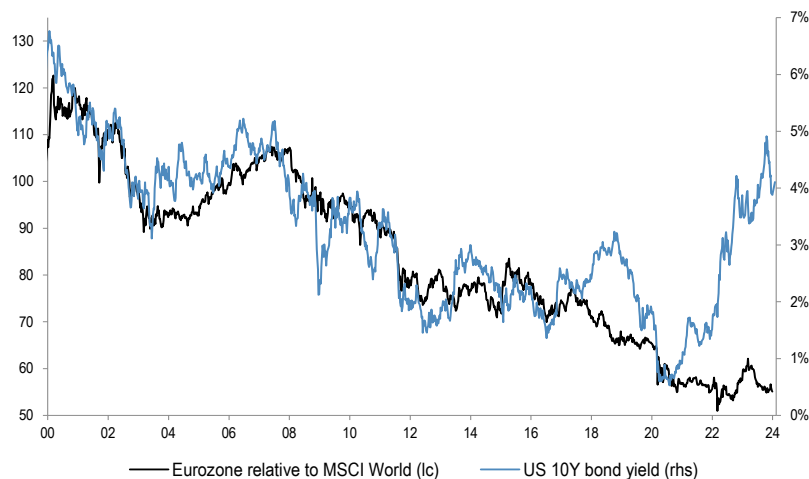
- Eurozone equities are strongly positively correlated to bond yields. The US on the other hand, is more weighted towards Growth/Quality stocks, which could fare better if yields continue to fall.
- Specifically, the Eurozone vs US price differential is leveraged to the relative performance of Tech vs Banks, given the regional sector weight skews.

Eurozone vs US and Value vs Growth



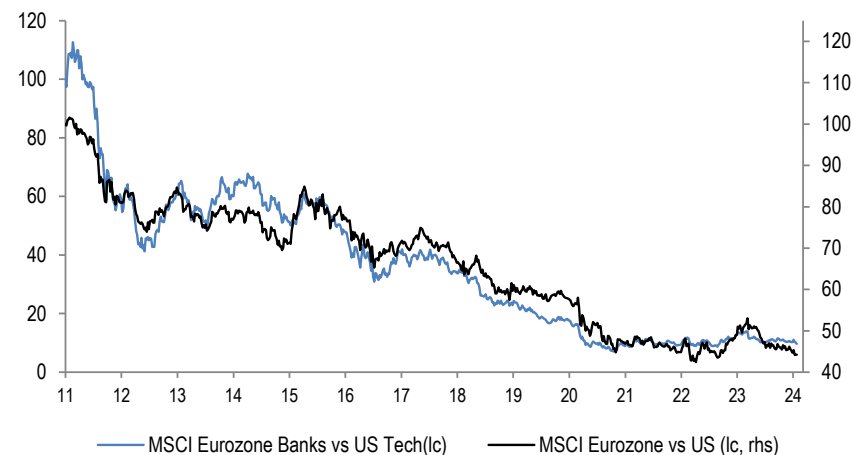
Source: Datastream

Eurozone relative to World and bond yields



Source: Datastream

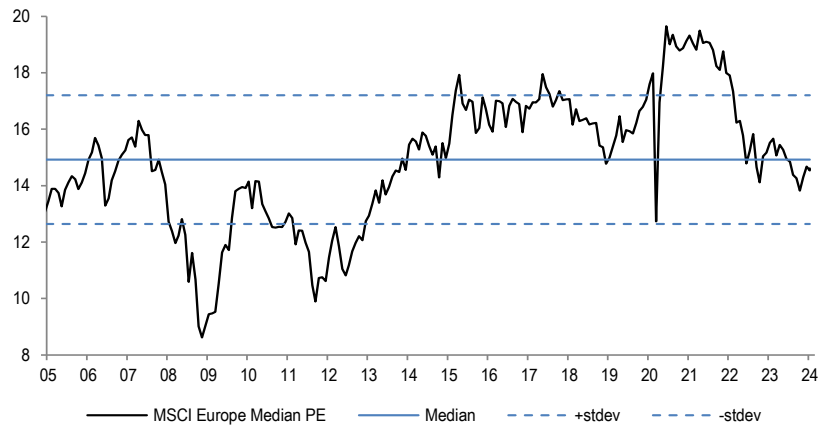
Eurozone vs US and Banks vs Tech



Source: Datastream

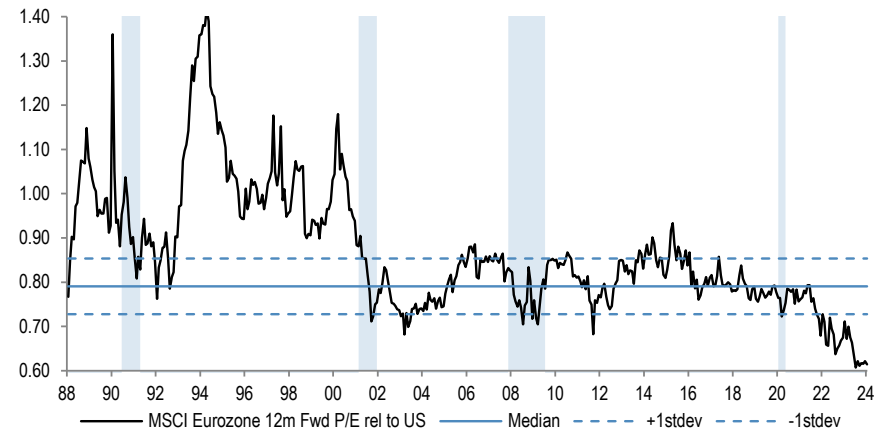
...we accept that Eurozone valuations relative to the US are attractive

MSCI Eurozone median P/E



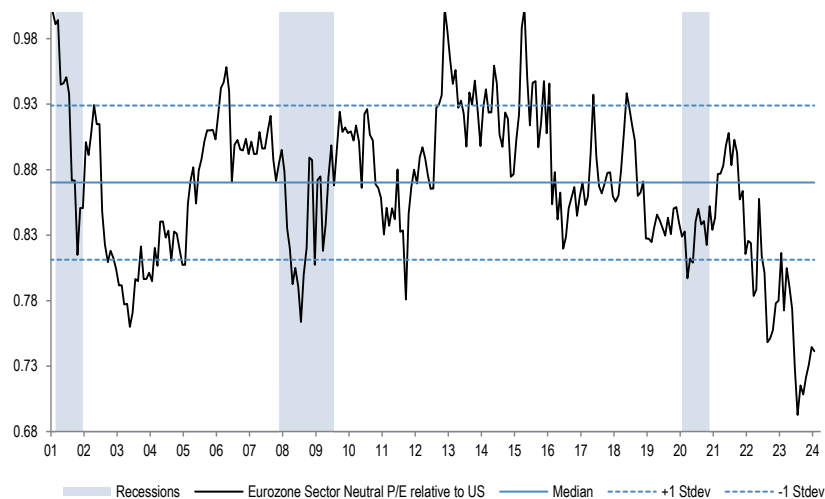
Source: IBES

MSCI Eurozone 12m Fwd PE relative to US



Source: IBES

MSCI Eurozone sector neutral P/E vs US



Source: IBES

MSCI Eurozone vs US P/Book

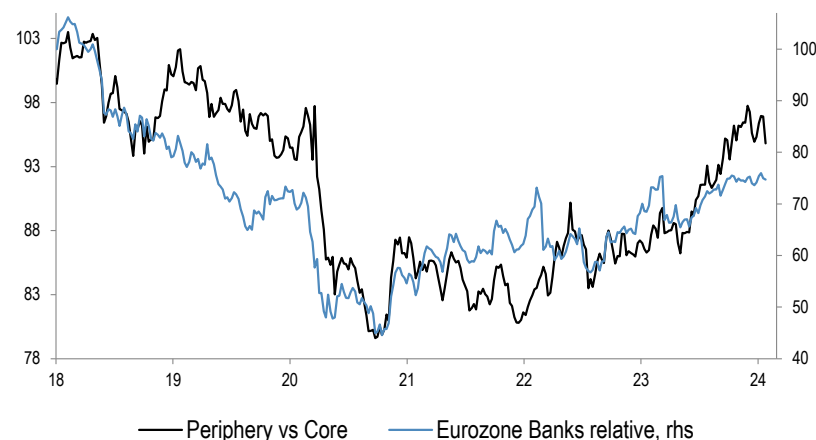


Source: Datastream

Within Eurozone, we now prefer core over periphery

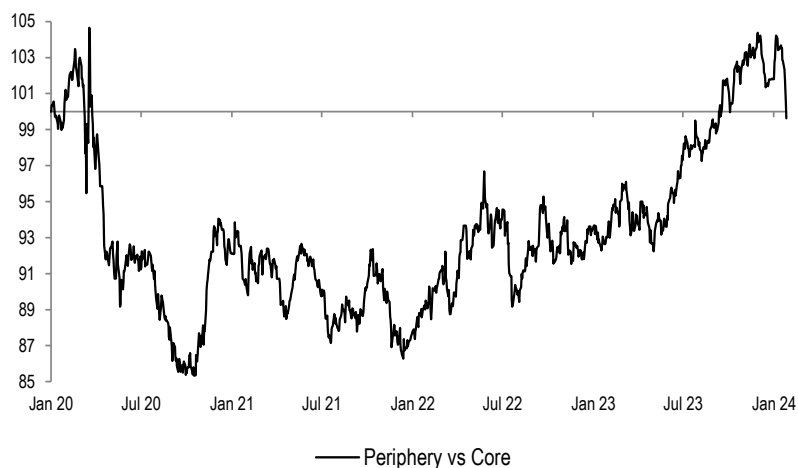
- Given the meaningful weight of Banks in Italy and Spain, performance of Periphery vs Core is closely linked to the performance of Banks relative.
- Periphery has done better than core markets in recent years, but could fall behind if peripheral spreads widen.
- Spanish equities have underperformed Italian equities by around 13% since 2022 summer and could rebound from here given their more defensive nature, and Latam exposure, which we favour.

Periphery vs Core and Banks relative



Source: Datastream

Periphery vs Core performance since Jan 2020



Source: Datastream

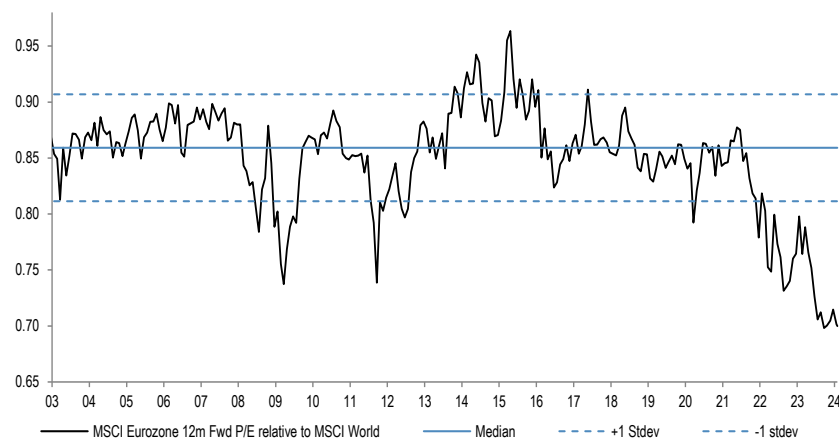
MSCI Spain relative to MSCI Italy



Source: Datastream

Eurozone snapshot

MSCI Eurozone 12m Fwd PE relative to MSCI World



Source: IBES

MSCI Eurozone performance relative to MSCI World



Source: Datastream

Eurozone Sector snapshot

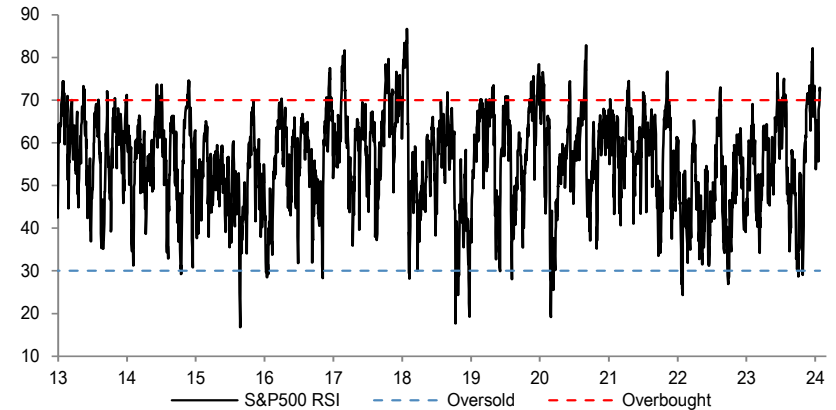
	YTD Performance, %	YTD Total Return, %	Weight in Index		12m Fwd P/E		EPS growth, %	
			Eurozone	vs MSCI World	Current	vs Median since '03	2023e	2024e
Eurozone	1.9%	2.0%	100%	0%	12.5	4.1%	4.0%	4.3%
Energy	-1.5%	-0.5%	5%	0%	6.2	-36.1%	-24.4%	-10.3%
Materials	-3.0%	-3.0%	6%	2%	14.0	15.3%	-41.3%	19.5%
Industrials	1.8%	1.8%	17%	5%	14.8	12.3%	9.7%	15.8%
Discretionary	1.7%	1.7%	16%	5%	10.7	-12.9%	11.2%	1.1%
Staples	-0.6%	-0.6%	8%	1%	17.1	15.5%	-2.4%	8.6%
Healthcare	0.1%	0.1%	7%	-5%	12.9	-9.8%	-8.7%	3.7%
Financials	1.3%	1.3%	18%	3%	7.1	-27.8%	29.0%	7.0%
IT	12.3%	12.3%	13%	-10%	24.5	40.8%	17.2%	2.4%
Telecoms	5.2%	5.2%	4%	-3%	14.3	23.3%	-3.6%	11.4%
Utilities	-5.9%	-5.2%	6%	4%	10.9	-4.8%	10.3%	-7.2%
Real Estate	-3.4%	-3.4%	1%	-1%	12.0	-21.8%	11.0%	-3.4%
Cyclicals	3.8%	3.9%	38%	12%	14.4	8.5%	3.1%	8.4%
Defensives	-0.8%	-0.6%	26%	-3%	13.5	3.8%	-0.9%	2.9%

Source: IBES, Datastream

4) N US – historical safe haven, but appear stretched and P/Es are at highs...

- We like long duration and defensive Growth for 2024. This would naturally favour the US, but post the strong rally, US equities appear stretched on several positioning and technical indicators.
- Relative valuations are a clear challenge, where the region is trading extremely expensive versus peers, on most measures.

S&P500 RSI



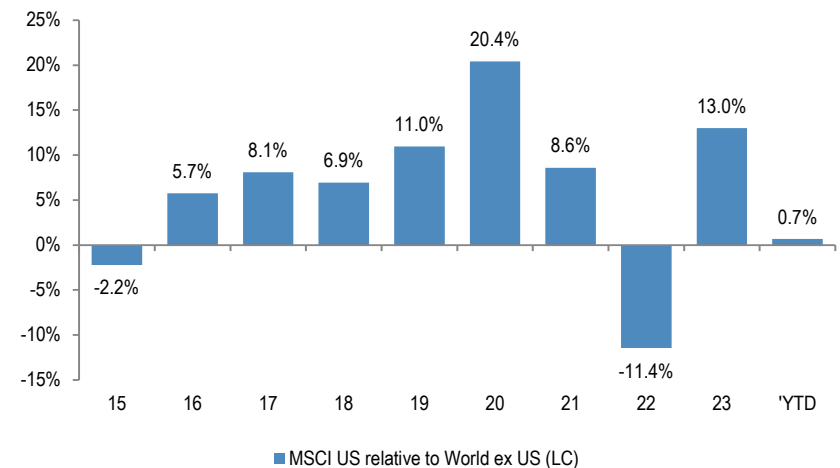
Source: Bloomberg Finance L.P.

MSCI US 12m Fwd. P/E relative



Source: IBES

MSCI US relative to MSCI World ex US

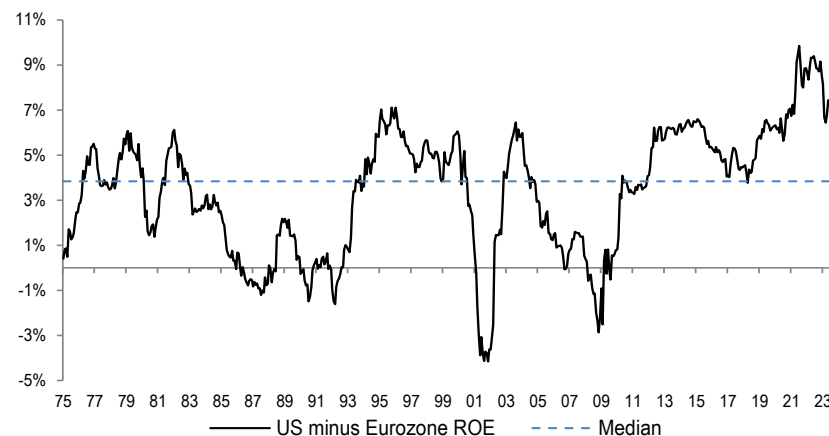


Source: IBES

...relative EPS outperformance is likely peaking...

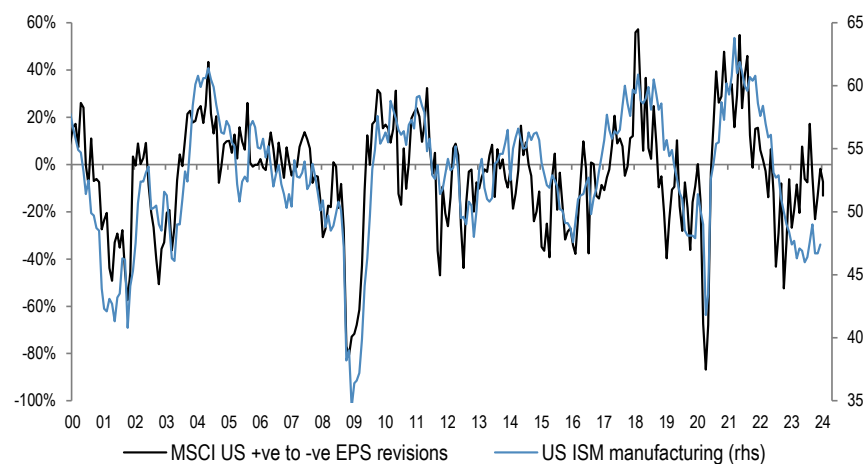
- US profitability vs the rest of the world might be peaking. The earnings base is very extended, too.
- US earnings revisions display a clear correlation to activity momentum, and are likely to keep falling as ISM stays weak.

US relative to Eurozone ROE



Source: Datastream

MSCI US EPS revisions and ISM



Source: IBES, S&P Global

MSCI US 12m Fwd. EPS relative

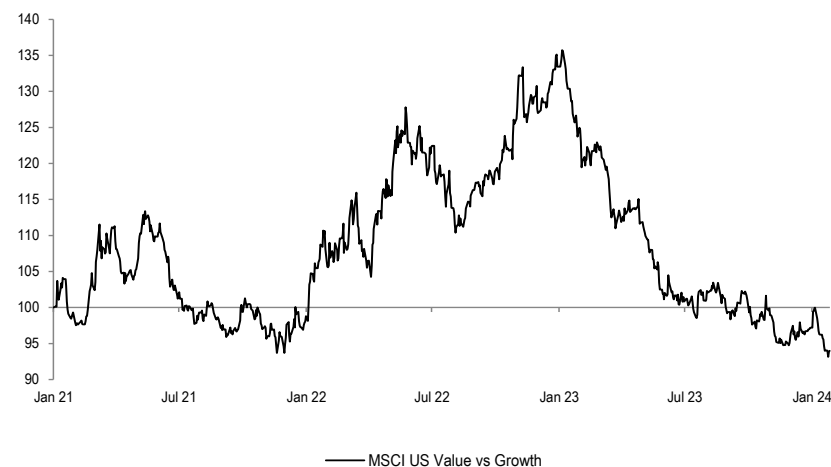


Source: IBES

...US equities exhibit a significant Growth tilt, which helps

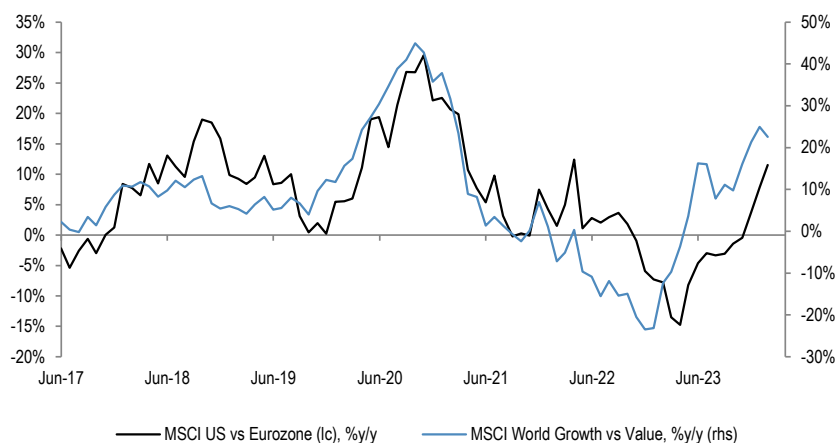
- We keep our preference for the US vs Eurozone, as the US is heavily tilted towards Growth/Quality style, which is likely to do better in a slowdown, but we are not comfortable that US will be a runaway outperformer in a global context, from the starting point such as current levels.

US Value vs Growth



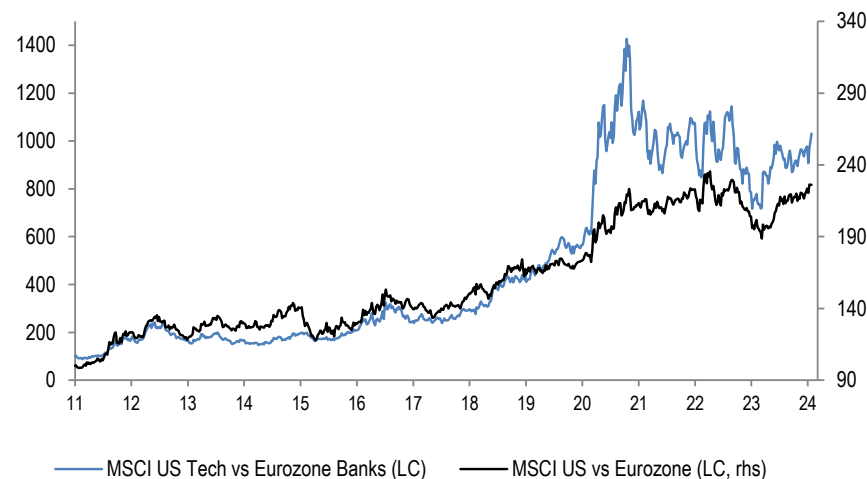
Source: J.P. Morgan

Growth vs Value and US vs Eurozone



Source: Bloomberg Finance L.P.

US vs Eurozone and Tech vs Banks



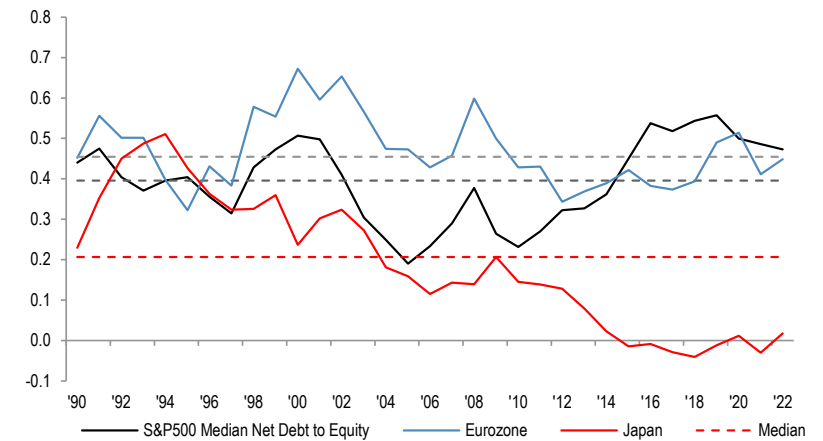
Source: Bloomberg Finance L.P.

J.P.Morgan

Government and corporate leverage is elevated

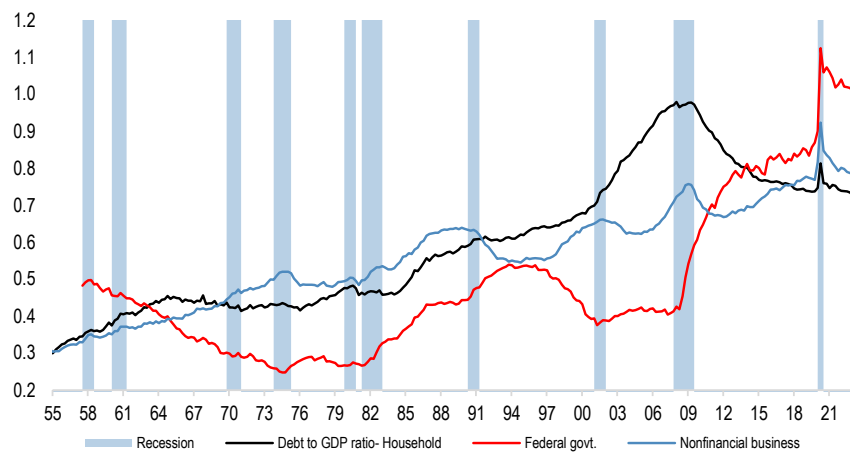
- US corporate and government leverage is elevated.

Median net debt to equity of US, Europe and Japan



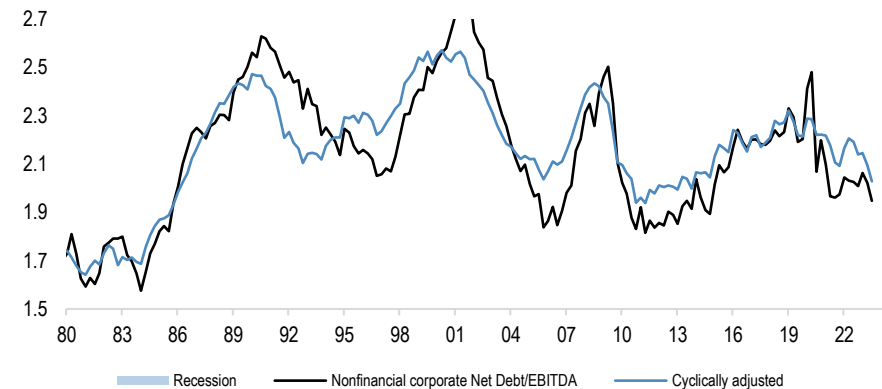
Source: Worldscope

US debt, share of GDP



Source: J.P. Morgan

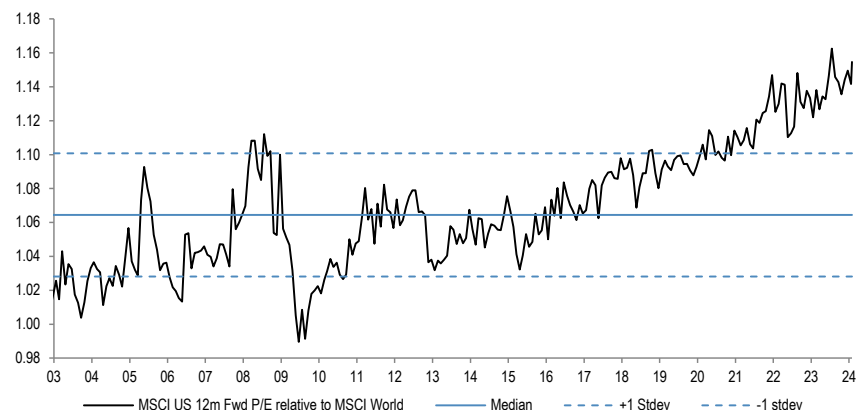
US nonfinancial corporate leverage



Source: J.P. Morgan

US snapshot

MSCI US 12m Fwd PE relative to MSCI World



Source: IBES

MSCI US performance relative to MSCI World



Source: Datastream

US Sector snapshot

	YTD Perf, %	YTD Total Return, %	Weight in Index		12m Fwd P/E		EPS growth, %	
			US	vs MSCI World	Current	vs Median since '06	2023e	2024e
US	3.2%	3.3%	100.0%	0.0%	20.6	30.3%	1.8%	10.6%
Energy	0.3%	0.4%	3.9%	-0.6%	11.4	-11.0%	-22.8%	-6.1%
Materials	-3.1%	-3.0%	2.4%	-1.7%	18.2	17.9%	-23.1%	4.2%
Industrials	0.2%	0.3%	9.0%	-2.1%	20.3	25.4%	16.3%	11.6%
Discretionary	-1.2%	-1.2%	10.8%	0.0%	26.1	38.9%	44.9%	14.1%
Staples	1.4%	1.6%	6.0%	-0.8%	19.3	9.3%	2.2%	4.8%
Healthcare	2.7%	2.8%	12.4%	0.3%	18.4	15.3%	-19.6%	17.4%
Financials	2.6%	2.7%	12.8%	-2.4%	14.9	17.8%	10.6%	7.5%
IT	6.8%	6.8%	29.2%	6.2%	28.5	68.2%	3.3%	15.4%
Telecoms	9.5%	9.7%	8.6%	1.4%	19.4	24.0%	25.0%	16.3%
Utilities	-2.6%	-2.6%	2.3%	-0.4%	15.3	-4.3%	11.3%	7.7%
Real Estate	-3.3%	-3.3%	2.6%	0.1%	36.6	-4.9%	-12.7%	-1.7%
Cyclicals	3.5%	3.5%	22.3%	-3.8%	25.5	49.3%	9.7%	13.3%
Defensives	4.0%	4.2%	29.3%	0.5%	18.5	13.8%	-2.8%	13.9%

Source: IBES, Datastream

5) Neutral EM vs DM: EM has lagged last year and could see near-term respite but will keep struggling medium term if China growth remains challenged...

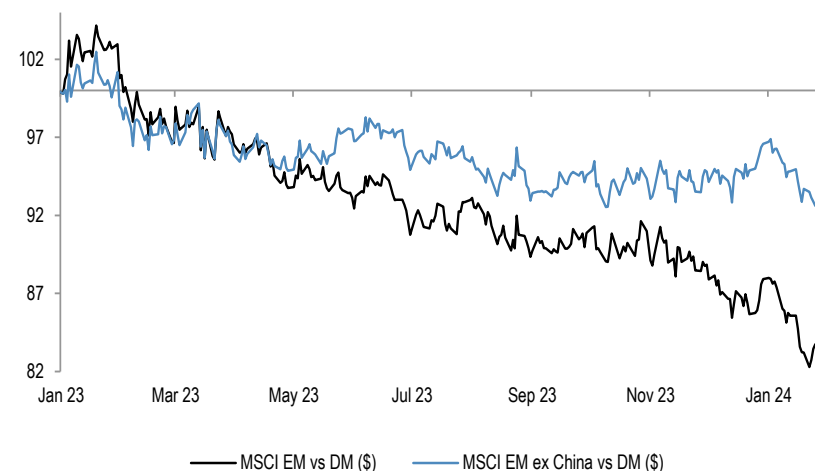
- EM equities have underperformed DM by over 10% last year. Even if one were to take China out of the equation, which is one of the worst EMs, EM has struggled to beat DM equities. A better entry point could be coming up for EM sometime in 2024.
- Historically, Chinese equities and EM shared a strong directional consistency vs DM, even as China was not a big share of the index until a few years ago. Returns delivered by China over DM and EM over DM have diverged only 25% of the time.
- Earnings revisions continue to be negative for EM relative to DM.

EM ex China and China vs DM - historical performance

Scenario	% times	EM ex China vs DM, % average	China vs DM, % average
EM ex China and China outperform DM	38%	3%	5%
EM ex China and China underperform DM	38%	-3%	-5%
EM ex China outperforms DM and China underperform DM	12%	1%	-2%
EM ex China underperforms DM and China outperforms DM	12%	-1%	3%

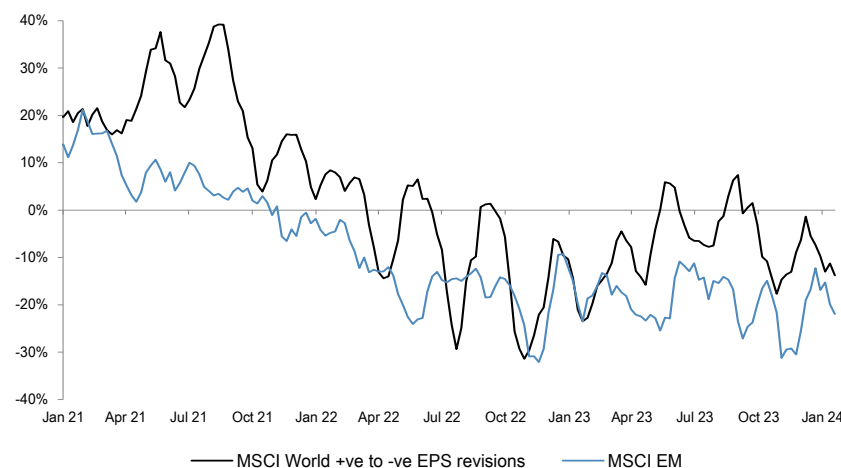
Source: Datastream

EM vs DM and EM ex China vs DM



Source: Datastream

EM vs DM EPS revisions

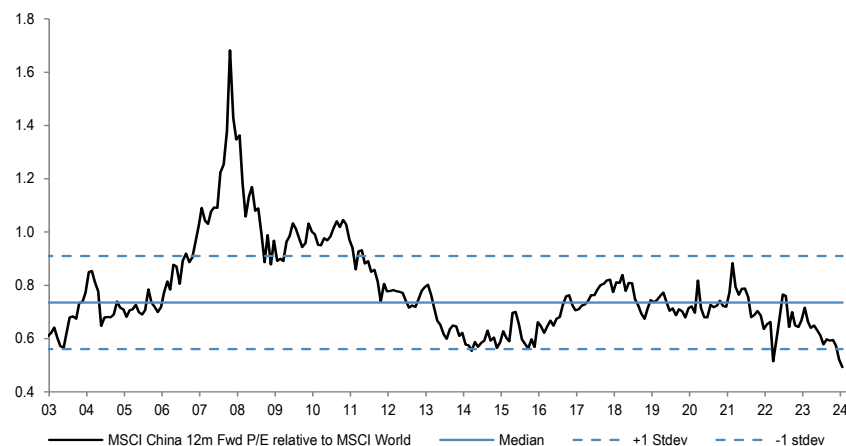


Source: IBES

...we believe China could trade better in the short term, it is cheaper, but structural concerns weigh on the longevity of the China trade...

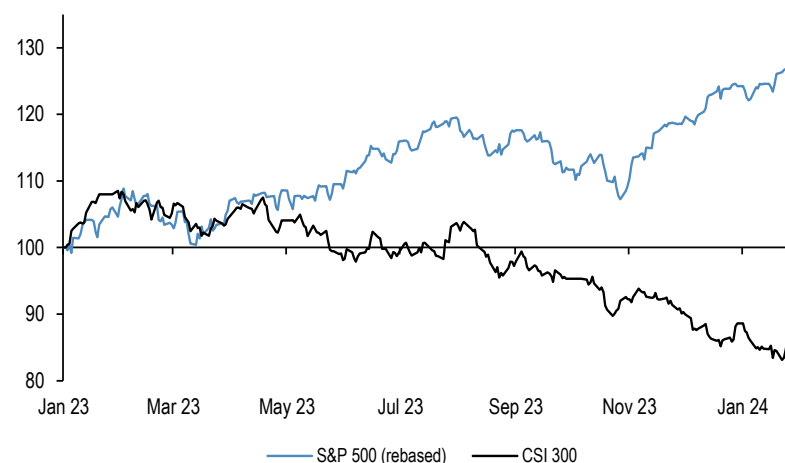
- Tactically, we think China could trade better in the near term given the strong underperformance. The region has underperformed meaningfully, positioning is light, and a number of policy measures have started to come through.
- Chinese equities are looking attractive, and could trade better in the short term.
- Longer term, a number of structural overhangs could remain significant for the region.

MSCI China 12m Fwd PE relative



Source: IBES

SPX vs CSI



Source: Datastream

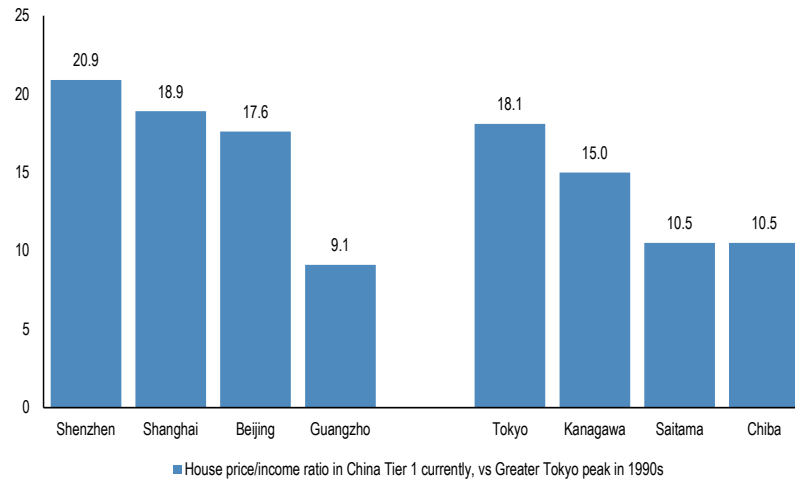
MSCI China



Source: Bloomberg Finance L.P.

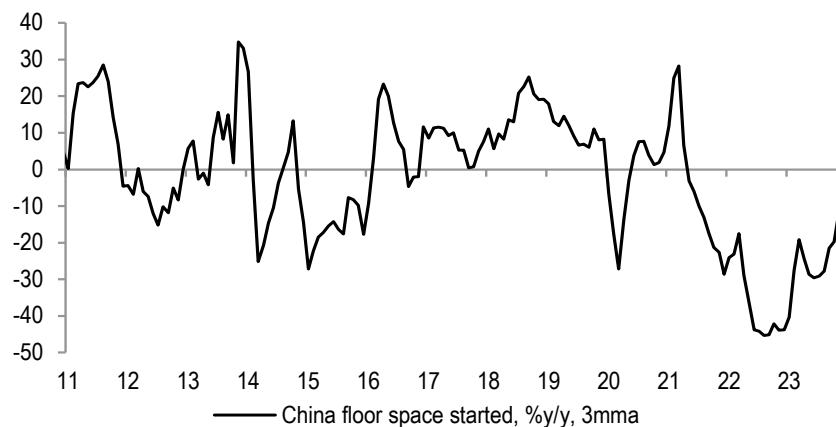
...housing is remaining the key concern

House price to income ratio in China Tier 1 cities, vs Japan in 1990s



Source: J.P. Morgan China Strategy

China floor space started



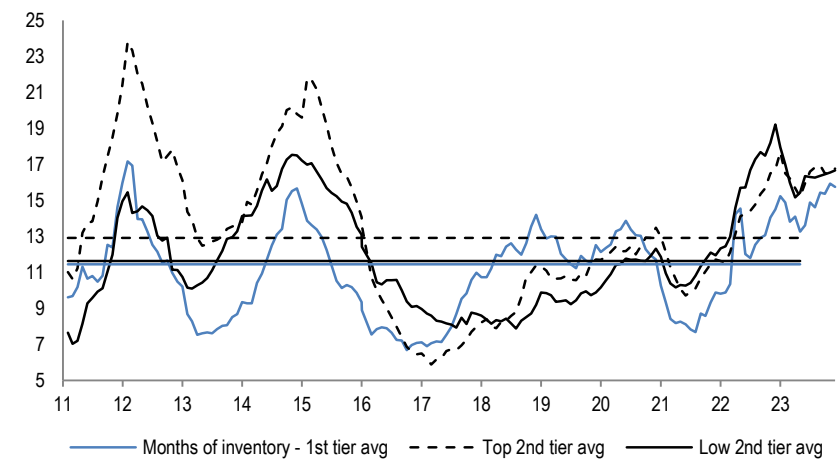
Source: JPM China Economics Research

China CPI



Source: Bloomberg Finance L.P.

China property inventory



Source: Soufun, CREIS

China heat map

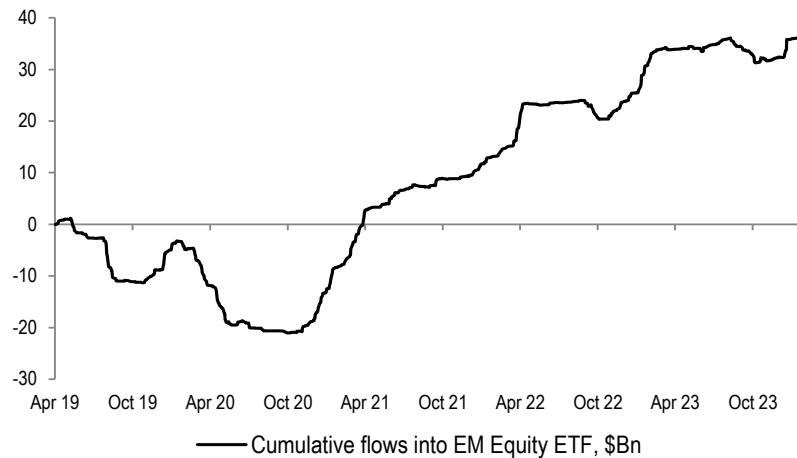
Chinese data watch													
	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24
Manufacturing PMI													
Caixan	49.2	51.6	50.0	49.5	50.9	50.5	49.2	51.0	50.6	49.5	50.7	50.8	50.8
NBS	50.1	52.6	51.9	49.2	48.8	49.0	49.3	49.7	50.2	49.5	49.4	49.0	49.2
Services PMI													
Caixan	52.9	55.0	57.8	56.4	57.1	53.9	54.1	51.8	50.2	50.4	51.5	52.9	
NBS	54.4	56.3	58.2	56.4	54.5	53.2	51.5	51.0	51.7	50.6	50.2	50.4	50.7
Composite PMI - Caixan													
	51.1	54.2	54.5	53.6	55.6	52.5	51.9	51.7	50.9	50.0	51.6	52.6	
Industry													
Electricity Production, %oya	-	-	5.1%	6.1%	5.6%	2.8%	3.6%	1.1%	7.7%	5.2%	8.4%	8.0%	
IP, %oya	-	-	3.9%	5.6%	3.5%	4.4%	3.7%	4.5%	4.5%	4.6%	6.6%	6.8%	
FAI, %oya	-	5.5%	5.1%	4.7%	4.0%	3.8%	3.4%	3.2%	3.1%	2.9%	2.9%	3.0%	
Consumer Activity													
Retail Sales, %oya	-	-	10.6%	18.4%	12.7%	3.1%	2.5%	4.6%	5.5%	7.6%	10.1%	7.4%	
Passenger Car Sales, %yoy	-32.8%	11.1%	8.2%	87.7%	26.4%	2.1%	-3.4%	6.9%	6.7%	11.5%	25.5%		
70-city house price index, %oya	-2.3%	-1.9%	-1.4%	-0.7%	-0.5%	-0.4%	0.6%	-0.6%	-0.6%	-0.6%	-0.7%		
Liquidity & Monetary Conditions													
M2, %oya	12.6%	12.9%	12.7%	12.4%	11.6%	11.3%	10.7%	10.6%	10.3%	10.3%	10.0%	9.7%	
FX Reserves (bln yuan)	3184	3133	3184	3205	3177	3193	3204	3160	3115	3101	3172	3238	
New Loan Creation (bln yuan)	4900	1812	3890	719	1360	3050	346	1358	2312	738	1089	1171	

Source: J.P. Morgan, Bloomberg Finance L.P., S&P Global, NBS

EM valuations look on the cheap side of fair value

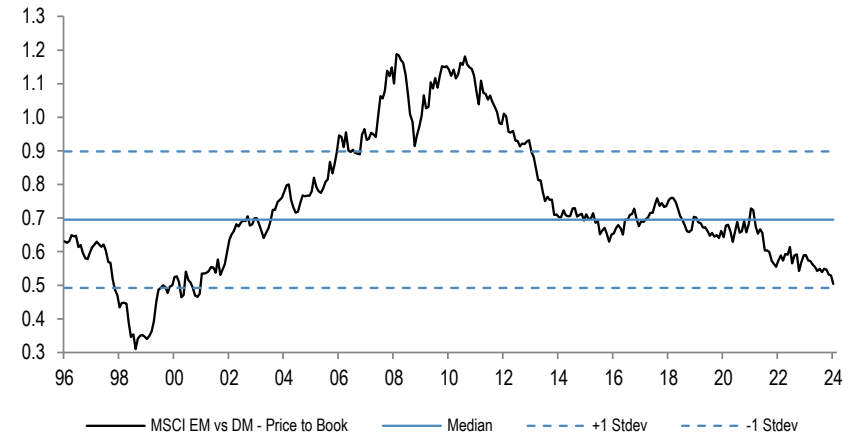
- We note MSCI EM is trading on the cheap side of fair value, relative to DM.
- There has been a steady increase in fund flows into EM over the last three years.

Flows into EM equity ETFs



Source: J.P. Morgan

MSCI EM vs DM Price to Book

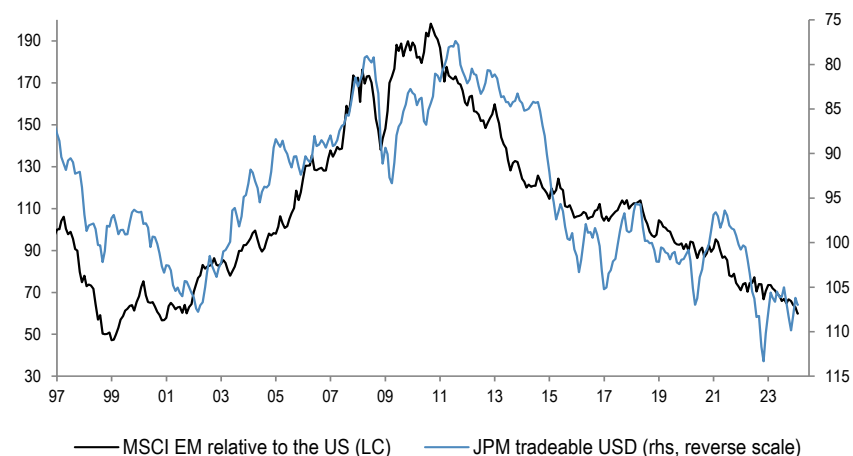


Source: IBES

The one key driver of EM remains the USD... we worry the period of weakening USD is behind us

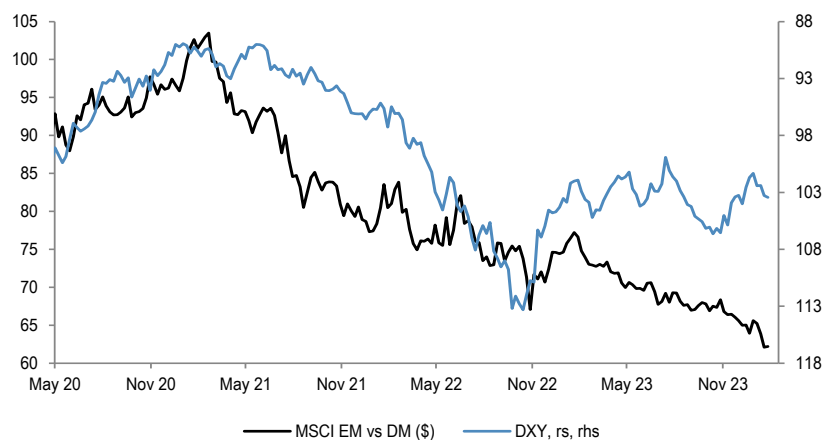
- FX is an important consideration for EM equity performance. One needs USD to fall in order for EM to perform better. Some of these conditions could be coming through this year, particularly when the Fed starts cutting rates.

EM relative performance and USD in the long term



Source: Datastream

MSCI EM vs DM and DXY



Source: Datastream, J.P. Morgan

J.P. Morgan EM FX Index



Source: Bloomberg Finance L.P.

Within EM, our EM strategists are constructive on Brazil, China, India, Saudi, Indonesia, Thailand, and Mexico

- Brazil – Attractive valuations and lower rates forecasted to drive re-rating; Growth should improve post rate-cuts with higher revenue for companies; Rise in commodity prices.
- China – Positioning for tactical rally on policy stimulus, low investor positioning, attractive valuations and likely better US-China relations; Medium term structural concerns linger.
- India – Potential inflows from bond index inclusion; Attractive risk-adjusted returns to DM; Positive historical seasonality to elections; Constructive structural trends.
- Saudi Arabia – USD-pegged currency offering shelter; Significant under-positioning of GEM funds in MENA; Positive earnings revisions from higher oil.
- Indonesia – Structural tailwinds from reform agendas in green energy transition and EV ecosystem; Resilient domestic consumption and strong FDI flows.
- Thailand – Resumption in tourism driven by China to boost economy; Local fiscal stimulus to boost the economy; Positive optionality from 4Q seasonality effects.
- Mexico – Attractive valuations despite strong EPS compounding from stronger US and near-shoring trends; Attractive carry on USD-MXN; Positive optionality on 2024 general election.

EM Countries' Rating and Performance Snapshot

	Weight in MSCI EM	JPM Rating	YTD performance	
			L.C	US\$
CHINA	27%	OW	-7%	-7%
INDIA	17%	OW	2%	2%
TAIWAN (CHINA)	16%	N	2%	1%
KOREA	13%	N	-6%	-9%
BRAZIL	6%	OW	-4%	-5%
SAUDI ARABIA	4%	OW	3%	3%
SOUTH AFRICA	3%	UW	-5%	-7%
MEXICO	3%	OW	-1%	-3%
INDONESIA	2%	OW	-1%	-4%
THAILAND	2%	OW	-4%	-7%
MALAYSIA	1%	UW	3%	0%
POLAND	1%	N	-5%	-8%
TURKEY	1%	N	13%	10%
PHILIPPINES	1%	UW	2%	1%
CHILE	1%	N	-3%	-9%
MSCI EM			4%	3%

Source: Datastream, J.P. Morgan

'23e, '24e EPS growth for key EM countries

	EPS growth	
	23e	24e
CHINA	13%	15%
INDIA	25%	14%
TAIWAN (CHINA)	-19%	18%
KOREA	-35%	70%
BRAZIL	-25%	8%
SAUDI ARABIA	-15%	15%
SOUTH AFRICA	4%	9%
MEXICO	11%	2%
INDONESIA	36%	8%
THAILAND	-22%	16%
MALAYSIA	8%	9%
POLAND	7%	-10%
TURKEY	17%	18%
PHILIPPINES	27%	8%
CHILE	-51%	5%
MSCI EM	-4%	17%

Source: IBES

EM snapshot

MSCI EM countries valuations and performance

	Weight in MSCI EM	YTD Perf		12m Fwd P/E			P/Book			EPS growth	
		L.C	US\$	Current	10Y median	relative	Current	10Y median	relative	23e	24e
CHINA	27%	-7%	-7%	8.5	11.2	-24%	1.1	1.6	-30%	13%	15%
INDIA	17%	2%	2%	22.1	18.2	22%	4.0	3.2	25%	25%	14%
TAIWAN (CHINA)	16%	2%	1%	15.2	13.8	10%	2.4	1.9	27%	-19%	18%
KOREA	13%	-6%	-9%	10.4	10.0	4%	1.0	1.0	0%	-35%	70%
BRAZIL	6%	-4%	-5%	7.8	10.9	-28%	1.6	1.6	-4%	-25%	8%
SAUDI ARABIA	4%	3%	3%	17.6	16.8	5%	2.4	2.0	24%	-15%	15%
SOUTH AFRICA	3%	-5%	-7%	9.1	13.3	-32%	1.5	2.2	-29%	4%	9%
MEXICO	3%	-1%	-3%	12.3	14.9	-17%	2.2	2.2	-1%	11%	2%
INDONESIA	2%	-1%	-4%	14.0	14.7	-5%	2.3	2.7	-15%	36%	8%
THAILAND	2%	-4%	-7%	15.9	15.0	6%	1.7	2.0	-19%	-22%	16%
MALAYSIA	1%	3%	0%	13.5	15.4	-12%	1.4	1.7	-15%	8%	9%
POLAND	1%	-5%	-8%	8.7	11.6	-25%	1.2	1.3	-9%	7%	-10%
PHILIPPINES	1%	2%	1%	12.1	17.0	-29%	1.8	2.2	-19%	27%	8%
TURKEY	1%	13%	10%	4.6	6.5	-28%	2.0	1.3	60%	17%	18%
CHILE	1%	-3%	-9%	7.8	14.7	-47%	1.2	1.6	-25%	-51%	5%

Source: IBES, Datastream

EM Sector snapshot

	Weight in Index				12m Fwd P/E		EPS growth, %	
	YTD Perf, %	YTD Total return, %	EM	vs MSCI World	Current	vs Median since '03	2023e	2024e
EM	-3.4%	-3.3%	100%	0%	11.5	1%	-4%	17%
Energy	5.3%	5.4%	5%	1%	8.5	9%	-20%	-5%
Materials	-8.3%	-8.3%	8%	4%	11.6	11%	-34%	22%
Industrials	-5.4%	-5.4%	7%	-4%	11.4	-6%	-20%	16%
Discretionary	-7.2%	-7.2%	13%	2%	11.6	-7%	59%	17%
Staples	-5.3%	-5.3%	6%	-1%	19.9	0%	4%	17%
Healthcare	-7.2%	-7.2%	4%	-8%	25.8	27%	35%	23%
Financials	-1.1%	-1.1%	22%	7%	7.7	-14%	14%	8%
IT	-2.2%	-2.1%	22%	-1%	16.6	26%	-44%	59%
Telecoms	-2.9%	-2.9%	9%	2%	14.7	6%	32%	15%
Utilities	0.5%	0.6%	3%	0%	11.2	-1%	196%	35%
Real Estate	-7.2%	-7.2%	2%	-1%	9.1	25%	-14%	28%
Cyclicals	-4.9%	-4.9%	50%	0%	13.3	10%	-21%	36%
Defensives	-3.9%	-3.9%	21%	-7%	16.5	7%	37%	18%

Source: IBES, Datastream

Regional and Asset Allocation, with Index targets

Global All country Regional Allocation				
	MSCI Weight	Allocation	Deviation	Recommendation
EM	10.6%	10.0%	-0.6%	Neutral
DM	89.4%	90.0%	0.6%	Neutral
	100.0%	100.0%	0.0%	Balanced

Global Developed Regional Allocation				
	MSCI Weight	Allocation	Deviation	Recommendation
US	70.1%	68.0%	-2.1%	Neutral
Japan	6.1%	8.0%	1.9%	Overweight
Eurozone	8.9%	6.0%	-2.9%	Underweight
UK	4.0%	6.0%	2.0%	Overweight
Others*	10.9%	12.0%	1.1%	Overweight
	100.0%	100.0%	0.0%	Balanced

European Regional Allocation				
	MSCI Weight	Allocation	Deviation	Recommendation
Eurozone	51.1%	47.0%	-4.1%	Underweight
United Kingdom	22.8%	26.0%	3.2%	Overweight
Others**	26.2%	27.0%	0.8%	Overweight
	100.0%	100.0%		Balanced

Asset 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, Datastream. All regional recommendations are currency hedged.

**Others include Denmark, Norway, Sweden and Switzerland

*Others include Australia, Canada, Singapore, Hong Kong SAR, Denmark, Norway, Sweden and Switzerland

Note: Our Overweight/Underweight recommendations reflect our belief that the relevant region will out- / underperform the index over the next 6 to 12 months.

***Targets and growth estimates from our regional strategists

Year end Index Targets		
	Dec '24 Target	% upside*
MSCI Eurozone	256	-7%
FTSE 100	7700	1%

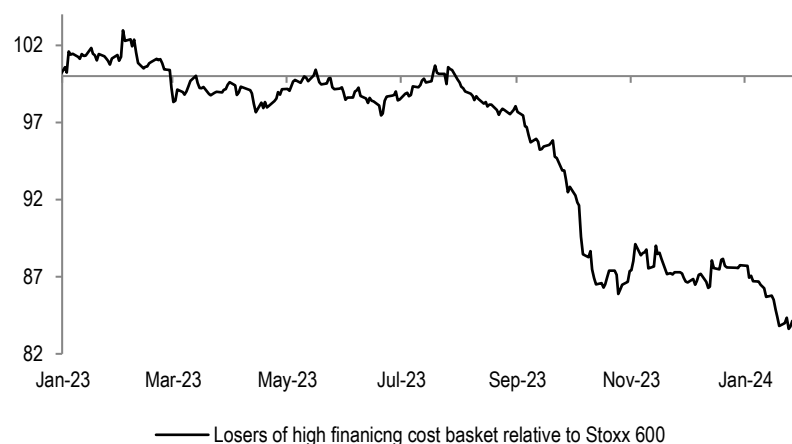
Source: J.P. Morgan, Datastream. *As of COB 01st Feb 2024

Key Global Sector Calls	
Sector	JPM Recommendation
Utilities	Overweight
Healthcare	Overweight
Telecoms	Overweight
Energy	Overweight
Real Estate	Overweight
Food, Beverage & Tobacco	Overweight
Technology	Neutral
Discretionary	Neutral
Mining	Neutral
Transportation	Neutral
Capital Goods ex A&D	Underweight
Food& Drug Retail	Underweight
Autos	Underweight
Banks	Underweight
Semis	Underweight

Themes and Baskets: 1) Losers of Higher financing costs

- Our basket of European companies sensitive to increasing financing costs is set to stay under pressure as higher interest rates bite. These stocks have a larger than typical share of revenue growth tied to the availability of cheap financing and have elevated leverage ratios.

JPM European losers of high financing costs basket relative



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

JPM European losers of higher financing costs - JPDEHFCL

Name	Ticker	Sector	ND/EBITD A 2024e
Ocado Group PLC	OCDO LN	Staples	9.5
United Utilities Group PLC	UU/ LN	Utilities	8.8
Severn Trent PLC	SVT LN	Utilities	7.4
National Grid PLC	NG/ LN	Utilities	6.5
Cellnex Telecom SA	CLNX SM	Comm. Svcs	6.2
Snam SpA	SRG IM	Utilities	6.1
Enagas SA	ENG SM	Utilities	5.1
Infrastrutture Wireless Italia	INW IM	Comm. Svcs	4.6
Grifols SA	GRF SM	Health care	4.1
Redeia Corp SA	RED SM	Utilities	4.0
Fresenius SE & Co KGaA	FRE GR	Health care	3.6
LANXESS AG	LXS GR	Materials	3.3
Wizz Air Holdings Plc	WIZZ LN	Industrials	3.0
Fresenius Medical Care AG & Co	FME GR	Health care	2.9
Bayer AG	BAYN GR	Health care	2.8
Fluidra SA	FDR SM	Industrials	2.8
Nexi SpA	NEXI IM	Financials	2.8
Diageo PLC	DGE LN	Staples	2.7
Pernod Ricard SA	RI FP	Staples	2.7
Anheuser-Busch InBev SA/NV	ABI BB	Staples	2.7
Coca-Cola HBC AG	CCH LN	Staples	2.7
Akzo Nobel NV	AKZA NA	Materials	2.5
ams-OSRAM AG	AMS SW	IT	2.5
Givaudan SA	GIVN SW	Materials	2.5
British American Tobacco	BATS LN	Staples	2.4
Electrolux AB	ELUXB SS	Discretionary	2.4
Alstom SA	ALO FP	Industrials	2.3
Ashtead Group PLC	AHT LN	Industrials	2.2
BASF SE	BAS GR	Materials	2.2
Koninklijke Philips NV	PHIA NA	Health care	2.0
Eurofins Scientific SE	ERF FP	Health care	2.0
Symrise AG	SY1 GR	Materials	1.7
RELX PLC	REL LN	Industrials	1.6
DSV A/S	DSV DC	Industrials	1.4
Valeo SE	FR FP	Discretionary	1.2

Source: Bloomberg Finance L.P., J.P. Morgan, all stocks are liquidity weighted in the basket

2) Winners of higher rates

- Stocks in our winners of higher rates basket tend to be cash rich, and earn more interest than they pay as interest expense, thereby benefitting in an environment of higher yields.

JPM European beneficiaries of higher rates basket relative



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

JPM European net beneficiaries of higher rates- JPDEHFCW

Name	Ticker	Sector
Publicis Groupe SA	PUB FP	Comm. Svcs
Renault SA	RNO FP	Discretionary
Mercedes-Benz Group AG	MBG GR	Discretionary
Stellantis NV	STLAM IM	Discretionary
Industria de Diseno Textil SA	ITX SM	Discretionary
Whitbread PLC	WTB LN	Discretionary
Volkswagen AG	VOW GR	Discretionary
Beiersdorf AG	BEI GR	Staples
KONE AG	KNEBV FH	Financials
Banco BPM SpA	BAMI IM	Financials
Banco Bilbao Vizcaya Argentari	BBVA SM	Financials
Bank of Ireland Group PLC	BIRG ID	Financials
Bankinter SA	BKT SM	Financials
CaixaBank SA	CABK SM	Financials
Intesa Sanpaolo SpA	ISP IM	Financials
UniCredit SpA	UCG IM	Financials
AIB Group PLC	AIBG ID	Financials
Banco de Sabadell SA	SAB SM	Financials
Schindler Holding AG	SCHP SW	Industrials
Epiroc AB	EPIA SS	Industrials
Airbus SE	AIR FP	Industrials
Dassault Aviation SA	AM FP	Industrials
Ryanair Holdings PLC	RYA ID	Industrials
Spectris PLC	SXS LN	IT
Dassault Systemes SE	DSY FP	IT
SAP SE	SAP GR	IT
Centrica PLC	CNA LN	Utilities

Source: Bloomberg Finance L.P., J.P. Morgan, all stocks are liquidity weighted in the basket

3) Companies sensitive to low-end consumer

- The low-end consumer has been disproportionately hurt by the cost-of-living crisis. Our basket comprises of stocks with meaningful exposure to the low-end consumer, and at risk of underperforming as the consumer comes under further pressure.

JPM European consumer weakness basket relative



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

JPM European consumer weakness basket - JPDEEUCW

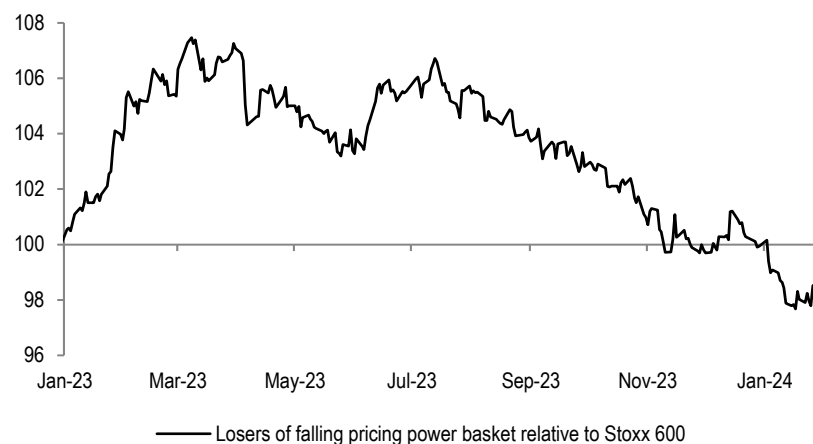
Name	Ticker	Sector
Publicis Groupe SA	PUB FP	Comm. Svcs
WPP PLC	WPP LN	Comm. Svcs
Ubisoft Entertainment SA	UBI FP	Comm. Svcs
ITV PLC	ITV LN	Comm. Svcs
Electrolux AB	ELUXB SS	Discretionary
Amadeus IT Group SA	AMS SM	Discretionary
Renault SA	RNO FP	Discretionary
Stellantis NV	STLAM IM	Discretionary
H & M Hennes & Mauritz AB	HMB SS	Discretionary
adidas AG	ADS GR	Discretionary
JD Sports Fashion PLC	JD/ LN	Discretionary
Pandora A/S	PNDORA DC	Discretionary
Puma SE	PUM GR	Discretionary
Accor SA	AC FP	Discretionary
InterContinental Hotels Group	IHG LN	Discretionary
Volkswagen AG	VOW GR	Discretionary
Straumann Holding AG	STMN SW	Health care
Koninklijke Philips NV	PHIA NA	Health care
EssilorLuxottica SA	EL FP	Health care
easyJet PLC	EZJ LN	Industrials
HelloFresh SE	HFG GR	Staples
Associated British Foods PLC	ABF LN	Staples
Unilever PLC	ULVR LN	Staples
Coca-Cola HBC AG	CCH LN	Staples
Anheuser-Busch InBev SA/NV	ABI BB	Staples
Remy Cointreau SA	RCO FP	Staples

Source: Bloomberg Finance L.P., J.P. Morgan, all stocks are liquidity weighted in the basket

4) Companies with margins at risk of contracting as pricing deteriorates

- The basket comprises of stocks that have seen significant margin expansion since 2019, on the back of stronger pricing power. Margins for these companies now appear too stretched, and are at risk of contracting as pricing deteriorates.

JPM European losers of falling pricing power basket relative



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

JPM European losers of falling pricing power- JPDEEUPP

Name	Ticker	Sector
WPP PLC	WPP LN	Comm. Svcs
Publicis Groupe SA	PUB FP	Comm. Svcs
Cie Generale des Etablissement	ML FP	Discretionary
Swatch Group AG/The	UHR SW	Discretionary
Mercedes-Benz Group AG	MBG GR	Discretionary
Ferrari NV	RACE IM	Discretionary
Bayerische Motoren Werke AG	BMW GR	Discretionary
Cie Financiere Richemont SA	CFR SW	Discretionary
LVMH Moet Hennessy Louis Vuitt	MC FP	Discretionary
Hermes International SCA	RMS FP	Discretionary
Burberry Group PLC	BRBY LN	Discretionary
Kering SA	KER FP	Discretionary
Moncler SpA	MONC IM	Discretionary
Whitbread PLC	WTB LN	Discretionary
BP PLC	BP/ LN	Energy
Shell PLC	SHEL LN	Energy
TotalEnergies SE	TTE FP	Energy
Eni SpA	ENI IM	Energy
Mediobanca Banca di Credito Fi	MB IM	Financials
Rheinmetall AG	RHM GR	Industrials
DSV A/S	DSV DC	Industrials
VAT Group AG	VACN SW	Industrials
Daimler Truck Holding AG	DTG GR	Industrials
Volvo AB	VOLVB SS	Industrials
STMicroelectronics NV	STMPA FP	IT
Infineon Technologies AG	IFX GR	IT
ArcelorMittal SA	MT NA	Materials
Svenska Cellulosa AB SCA	SCAB SS	Materials
British American Tobacco PLC	BATS LN	Staples
Coca-Cola HBC AG	CCH LN	Staples
Beiersdorf AG	BEI GR	Staples
Imperial Brands PLC	IMB LN	Staples
SSE PLC	SSE LN	Utilities

Source: Bloomberg Finance L.P., J.P. Morgan, all stocks are liquidity weighted in the basket

5) High wage costs losers

- The basket comprises of stocks that have an elevated proportion of wage costs, that can't be passed on to their customers, and can see a margin impact going forward.

JPM European high wage costs losers basket relative



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

JPM European losers of high wage costs -JPDEHWCL

Name	Ticker	Sector
Publicis Groupe SA	PUB FP	Comm. Svcs
WPP PLC	WPP LN	Comm. Svcs
Ubisoft Entertainment SA	UBI FP	Comm. Svcs
Stellantis NV	STLAM IM	Discretionary
Fresenius Medical Care AG & Co	FME GR	Health care
EssilorLuxottica SA	EL FP	Health care
Indra Sistemas SA	IDR SM	IT
Capgemini SE	CAP FP	IT
Chr Hansen Holding A/S	CHR DC	Materials
Givaudan SA	GIVN SW	Materials
Associated British Foods PLC	ABF LN	Staples
Remy Cointreau SA	RCO FP	Staples

Source: Bloomberg Finance L.P., J.P. Morgan, all stocks are liquidity weighted in the basket

6) Winners and losers from AI theme

- Our basket of winners from AI theme includes companies that are set to gain from Artificial Intelligence to improve products or gain a strategic edge over their competitors.
- Our basket of losers from AI theme includes companies that are set to lose from Artificial Intelligence and cannot adapt to disruptive innovations.

JPM European Winners of AI theme - JPDEEAIW

Name	Ticker	Sector
Schneider Electric SE	SU FP	Industrials
Legrand SA	LR FP	Industrials
ABB Ltd	ABBN SW	Industrials
Siemens AG	SIE GR	Industrials
RELX PLC	REL LN	Industrials
Sage Group PLC/The	SGE LN	IT
Capgemini SE	CAP FP	IT
SAP SE	SAP GR	IT

Source: Bloomberg Finance L.P., J.P. Morgan, all stocks are liquidity weighted in the basket

JPM European Losers of AI theme - JPDEEAIL

Name	Ticker	Sector
Publicis Groupe SA	PUB FP	Comm. Svcs
WPP PLC	WPP LN	Comm. Svcs
Wolters Kluwer NV	WKL NA	Industrials

Source: Bloomberg Finance L.P., J.P. Morgan, all stocks are liquidity weighted in the basket

7) Defense champions basket

- The basket comprises of stocks exposed to the European Defense space, which are likely to be long-term winners as countries reverse decades of under-investment in Defense. In addition, these stocks are a hedge against geopolitical risk.

JPM European defense champions

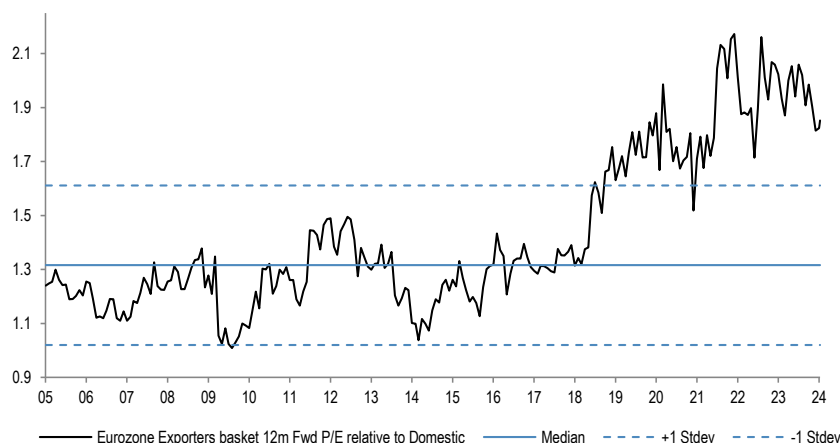
Name	Ticker	Sector
BAE Systems PLC	BA/ LN	Industrials
Dassault Aviation SA	AM FP	Industrials
Saab Automobile AB	SAABA SS	Industrials
Thales SA	HO FP	Industrials
Rheinmetall AG	RHM GY	Industrials
QinetiQ Group PLC	QQ/ LN	Industrials
Hensoldt AG	HAG GY	Industrials
Babcock International Group PL	BAB LN	Industrials

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

8) FX exposure: a) for Eurozone... valuations of the Exporters appear increasingly stretched

- Exporters continue to screen expensive on most valuation measures when compared to our Eurozone domestic basket.
- Our basket of Eurozone Exporters comprises of stocks with the highest international revenue exposure and could be hurt if Euro strengthens from here.

Eurozone Exporters 12m fwd. P/E relative to Domestic



Source: IBES, J.P.Morgan

JPM Eurozone Exporters - JPDEEZEX

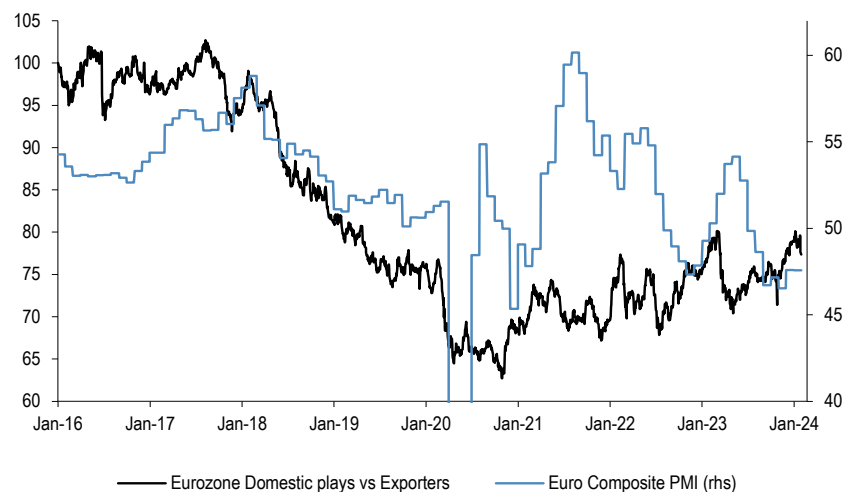
Name	Ticker	Sector	Ex-W.E. exposure
Hannover Rueck SE	HNR1 GR	Financials	88%
Sampo Oyj	SAMPO FH	Financials	85%
Fresenius Medical Care AG & Co	FME GR	Health care	85%
SCOR SE	SCR FP	Financials	80%
Pernod Ricard SA	RI FP	Staples	80%
L'Oreal SA	OR FP	Staples	79%
LVMH Moët Hennessy Louis Vuit	MC FP	Discretionary	77%
Wolters Kluwer NV	WKL NA	Industrials	77%
Hermes International SCA	RMS FP	Discretionary	77%
Publicis Groupe SA	PUB FP	Comm. Svcs	76%
Sanofi SA	SAN FP	Health care	76%
HelloFresh SE	HFG GR	Staples	75%
Remy Cointreau SA	RCO FP	Staples	75%
Kering SA	KER FP	Discretionary	73%
UCB SA	UCB BB	Health care	72%
Merck KGaA	MRK GR	Health care	71%
MTU Aero Engines AG	MTX GR	Industrials	70%
Bayer AG	BAYN GR	Health care	70%
Airbus SE	AIR FP	Industrials	68%
Moncler SpA	MONC IM	Discretionary	65%
Puma SE	PUM GR	Discretionary	65%
Dassault Systemes SE	DSY FP	IT	65%
Ubisoft Entertainment SA	UBI FP	Comm. Svcs	64%
EssilorLuxottica SA	EL FP	Health care	64%
Koninklijke Ahold Delhaize NV	AD NA	Staples	64%
adidas AG	ADS GR	Discretionary	63%
Acerinox SA	ACX SM	Materials	62%
Heidelberg Materials AG	HEI GR	Materials	61%
Accor SA	AC FP	Discretionary	61%
Volkswagen AG	VOW GR	Discretionary	60%
Sodexo SA	SW FP	Discretionary	60%
SAP SE	SAP GR	IT	60%
Davide Campari-Milano NV	CPR IM	Staples	60%
Iberdrola SA	IBE SM	Utilities	60%
Safran SA	SAF FP	Industrials	59%
Bayerische Motoren Werke AG	BMW GR	Discretionary	59%
GEA Group AG	G1A GR	Industrials	55%
Muenchener Rueckversicherungs-	MUV2 GR	Financials	43%
Edenred SE	EDEN FP	Financials	40%

Source: Bloomberg Finance L.P., J.P. Morgan, all stocks are liquidity weighted in the basket

b) Eurozone domestic exposure

- Domestic plays are likely to come under renewed pressure as Eurozone composite PMI rolls over.

Eurozone Domestic vs Exporters vs Euro Composite PMI



Source: Bloomberg Finance L.P., J.P. Morgan, S&P Global

JPM Eurozone Domestic - JPDEEZDR

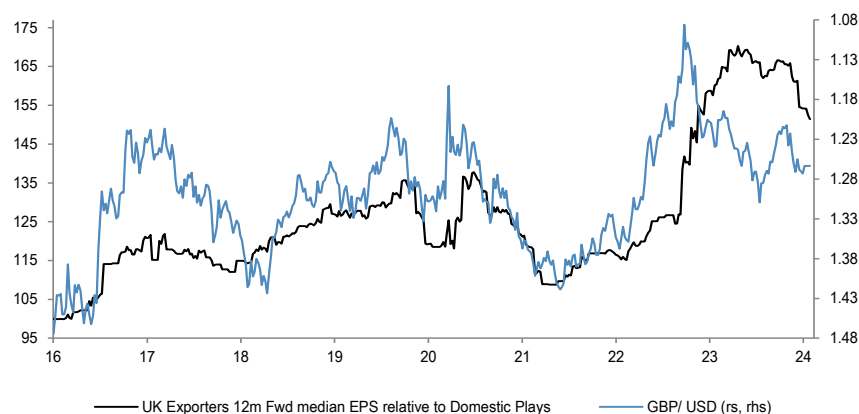
Name	Ticker	Sector	W.E. exposure
CaixaBank SA	CABK SM	Financials	100%
Zalando SE	ZAL GR	Discretionary	100%
Poste Italiane SpA	PST IM	Financials	100%
Gecina SA	GFC FP	Real Estate	100%
Koninklijke KPN NV	KPN NA	Comm. Svcs	100%
Intesa Sanpaolo SpA	ISP IM	Financials	95%
Eiffage SA	FGR FP	Industrials	95%
AIB Group PLC	AIBG ID	Financials	90%
Worldline SA/France	WLN FP	Financials	88%
NN Group NV	NN NA	Financials	86%
Banco de Sabadell SA	SAB SM	Financials	85%
UniCredit SpA	UCG IM	Financials	85%
Vinci SA	DG FP	Industrials	82%
Assicurazioni Generali SpA	G IM	Financials	79%
Allianz SE	ALV GR	Financials	76%
Commerzbank AG	CBK GR	Financials	75%
Carrefour SA	CA FP	Staples	74%
AXA SA	CS FP	Financials	73%
Indra Sistemas SA	IDR SM	IT	70%
Renault SA	RNO FP	Discretionary	69%
Cie de Saint-Gobain SA	SGO FP	Industrials	66%
Industria de Diseno Textil SA	ITX SM	Discretionary	63%
Alstom SA	ALO FP	Industrials	60%
Capgemini SE	CAP FP	IT	60%
ArcelorMittal SA	MT NA	Materials	57%
Ipsen SA	IPN FP	Health care	52%
Deutsche Bank AG	DBK GR	Financials	50%
Prysmian SpA	PRY IM	Industrials	50%
Rexel SA	RXL FP	Industrials	50%
Siemens AG	SIE GR	Industrials	50%
K+S AG	SDF GY	Materials	49%
Evonik Industries AG	EVK GR	Materials	48%
Banco Santander SA	SAN SM	Financials	35%
Legrand SA	LR FP	Industrials	30%
Signify NV	LIGHT NA	Industrials	30%
Nordea Bank Abp	NDA SS	Financials	20%

Source: Bloomberg Finance L.P., J.P. Morgan, all stocks are liquidity weighted in the basket

c) UK Exporters

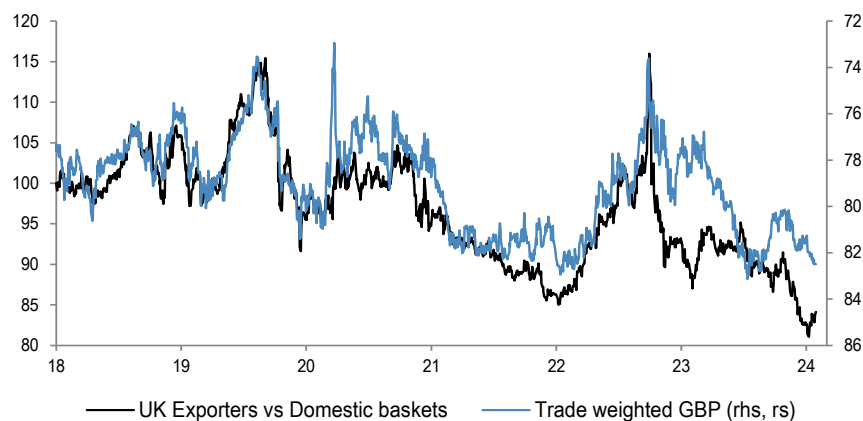
- UK exporters display a clear negative correlation with FX and should be helped by a weaker GBP.

UK Exporters vs Domestic earnings and GBP



Source: Datastream, J.P. Morgan

UK Exporters vs Domestic baskets vs trade-weighted GBP



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

JPM UK Exporters - JPDEUKEX

Name	Ticker	Sector	ex-UK exposure
Prudential PLC	PRU LN	Financials	100%
British American Tobacco PLC	BATS LN	Staples	99%
Spirax-Sarco Engineering PLC	SPX LN	Industrials	95%
Beazley PLC	BEZ LN	Financials	95%
GSK PLC	GSK LN	Health care	95%
Diageo PLC	DGE LN	Staples	95%
Unilever PLC	ULVR LN	Staples	95%
Reckitt Benckiser Group PLC	RKT LN	Staples	95%
AstraZeneca PLC	AZN LN	Health care	95%
Standard Chartered PLC	STAN LN	Financials	94%
RELX PLC	REL LN	Industrials	94%
ConvaTec Group PLC	CTEC LN	Health care	93%
Smith & Nephew PLC	SN/ LN	Health care	92%
Informa PLC	INF LN	Comm. Svcs	92%
Imperial Brands PLC	IMB LN	Staples	92%
Rolls-Royce Holdings PLC	RR/ LN	Industrials	90%
Burberry Group PLC	BRBY LN	Discretionary	90%
Pearson PLC	PERSON LN	Discretionary	89%
WPP PLC	WPP LN	Comm. Svcs	87%
Halma PLC	HLMA LN	IT	84%
Hiscox Ltd	HSX LN	Financials	80%
Sage Group PLC/The	SGE LN	IT	80%
HSBC Holdings PLC	HSBA LN	Financials	67%
JD Sports Fashion PLC	JD/ LN	Discretionary	60%

Source: Bloomberg Finance L.P., J.P. Morgan, all tocks are liquidity weighted in the basket

d) UK domestic plays

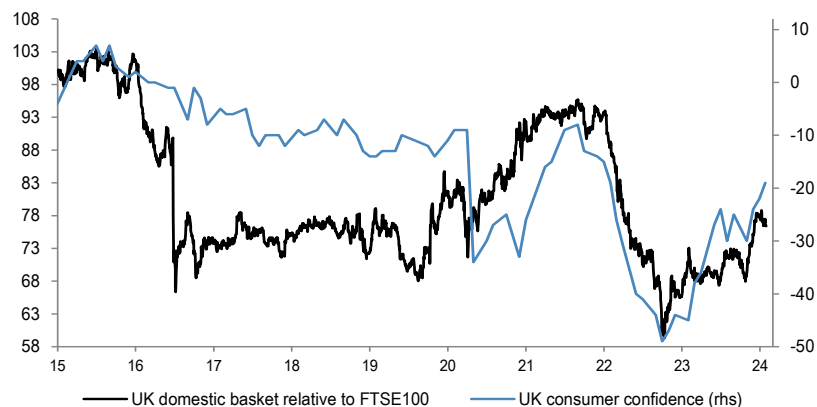
- Domestic stocks benefitted from the domestic reopening. However, we didn't like them last year, and they should stay under pressure.

UK Domestic basket relative to Exporters



Source: Datastream

UK Domestic basket relative and confidence



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

JPM UK Domestic - JPDEUKDM

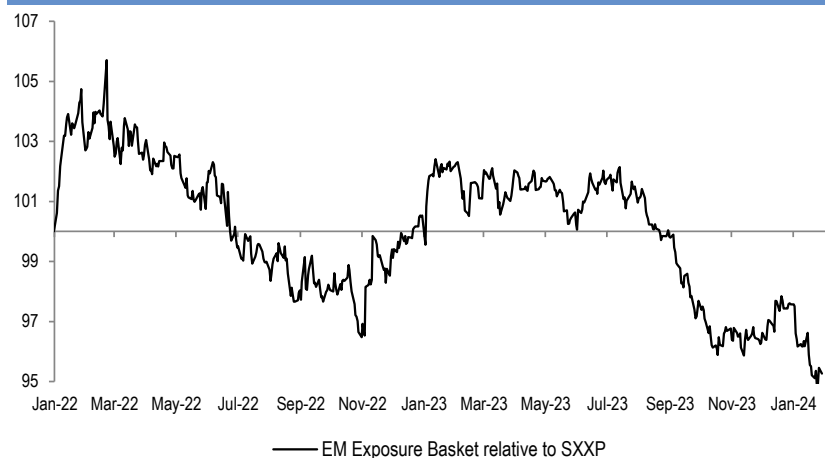
Name	Ticker	GICS Sector	UK exposure
Barratt Developments PLC	BDEV LN	Discretionary	100%
Berkeley Group Holdings PLC	BKG LN	Discretionary	100%
Persimmon PLC	PSN LN	Discretionary	100%
J Sainsbury PLC	SBRY LN	Staples	100%
Rightmove PLC	RMV LN	Comm. Svcs	100%
British Land Co PLC/The	BLND LN	Real Estate	100%
Land Securities Group PLC	LAND LN	Real Estate	100%
Auto Trader Group PLC	AUTO LN	Comm. Svcs	100%
M&G PLC	MNG LN	Financials	99%
Taylor Wimpey PLC	TW/ LN	Discretionary	97%
Whitbread PLC	WTB LN	Discretionary	96%
Lloyds Banking Group PLC	LLOY LN	Financials	95%
NatWest Group PLC	NWG LN	Financials	95%
Phoenix Group Holdings PLC	PHNX LN	Financials	95%
BT Group PLC	BT/A LN	Comm. Svcs	95%
Tesco PLC	TSCO LN	Staples	92%
B&M European Value Retail SA	BME LN	Discretionary	91%
Marks & Spencer Group PLC	MKS LN	Staples	91%
Legal & General Group PLC	LGEN LN	Financials	90%
Centrica PLC	CNA LN	Utilities	90%
Next PLC	NXT LN	Discretionary	84%
Ocado Group PLC	OCDO LN	Staples	80%
Admiral Group PLC	ADM LN	Financials	76%
Aviva PLC	AV/ LN	Financials	70%
ITV PLC	ITV LN	Comm. Svcs	64%
Barclays PLC	BARC LN	Financials	51%
Entain PLC	ENT LN	Discretionary	45%
easyJet PLC	EZJ LN	Industrials	44%

Source: Bloomberg Finance L.P., J.P. Morgan, all stocks are liquidity weighted in the basket

9) EM exposure

- Our EM exposure basket comprises of stocks with the highest exposure to the region, and most geared to EM growth.

EM exposure basket price relative



Source: Bloomberg Finance L.P.

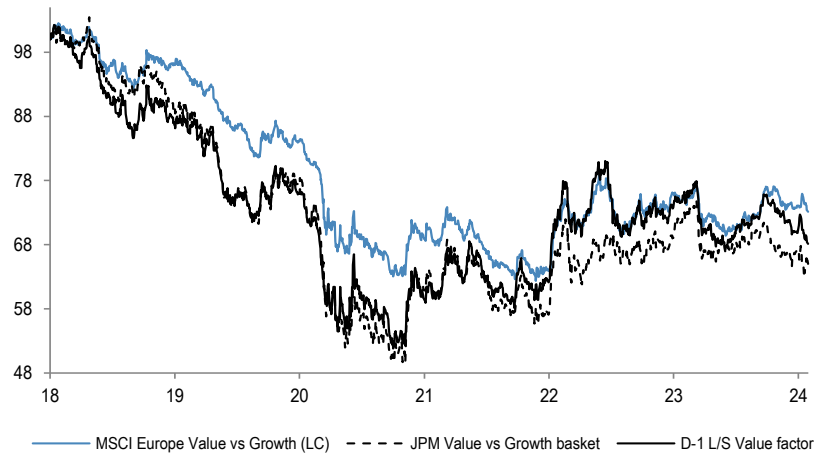
JPM EM exposure - JPDEEMEX

Name	Ticker	Sector	EM exposure
Prudential PLC	PRU LN	Financials	100%
OPAP SA	OPAP GA	Discretionary	100%
Anglo American PLC	AAL LN	Materials	70%
Coca-Cola HBC AG	CCH LN	Staples	65%
Anheuser-Busch InBev SA/NV	ABI BB	Staples	62%
Pernod Ricard SA	RI FP	Staples	60%
Rio Tinto PLC	RIO LN	Materials	60%
Unilever PLC	ULVR LN	Staples	58%
Swatch Group AG/The	UHR SW	Discretionary	58%
Wartsila OYJ Abp	WRT1V FH	Industrials	56%
MTU Aero Engines AG	MTX GR	Industrials	55%
Cie Financiere Richemont SA	CFR SW	Discretionary	50%
Carlsberg AS	CARLB DC	Staples	50%
Heineken NV	HEIA NA	Staples	50%
Antofagasta PLC	ANTO LN	Materials	50%
Ageas SA/NV	AGS BB	Financials	50%
Hermes International SCA	RMS FP	Discretionary	49%
Epiroc AB	EPIA SS	Industrials	46%
LVMH Moet Hennessy Louis Vuitt	MC FP	Discretionary	46%
Airbus SE	AIR FP	Industrials	45%
Accor SA	AC FP	Discretionary	45%
Kering SA	KER FP	Discretionary	44%
DSM-Firmenich AG	DSFIR NA	Materials	44%
Akzo Nobel NV	AKZA NA	Materials	43%
Umicore SA	UMI BB	Materials	43%
Engie SA	ENGI FP	Utilities	43%
Burberry Group PLC	BRBY LN	Discretionary	42%
Nokia Oyj	NOKIA FH	IT	42%
Givaudan SA	GIVN SW	Materials	42%
Banco Santander SA	SAN SM	Financials	40%
ABB Ltd	ABBN SW	Industrials	40%
Spirax-Sarco Engineering PLC	SPX LN	Industrials	40%
Remy Cointreau SA	RCO FP	Staples	40%
Atlas Copco AB	ATCOA SS	Industrials	39%
Covestro AG	1COV GR	Materials	38%
adidas AG	ADS GR	Discretionary	36%
KBC Group NV	KBC BB	Financials	36%
Telefonaktiebolaget LM Ericsson	ERICB SS	IT	36%
Heidelberg Materials AG	HEI GR	Materials	35%
BASF SE	BAS GR	Materials	33%
Hikma Pharmaceuticals PLC	HIK LN	Health care	33%
Signify NV	LIGHT NA	Industrials	31%
Sanofi SA	SAN FP	Health care	30%
Siemens AG	SIE GR	Industrials	28%
Edenred SE	EDEN FP	Financials	28%
AstraZeneca PLC	AZN LN	Health care	27%
Carrefour SA	CA FP	Staples	26%
Moncler SpA	MONC IM	Discretionary	25%
Legrand SA	LR FP	Industrials	25%
InterContinental Hotels Group	IHG LN	Discretionary	25%
Sodexo SA	SW FP	Discretionary	25%
Puma SE	PUM GR	Discretionary	25%
Halma PLC	HLMA LN	IT	24%
Allianz SE	ALV GR	Financials	24%
Sika AG	SIKA SW	Materials	22%
Vodafone Group PLC	VOD LN	Comm. Svcs	20%
Zurich Insurance Group AG	ZURN SW	Financials	12%

Source: Bloomberg Finance L.P., J.P. Morgan, all the stocks are liquidity weighed in the basket

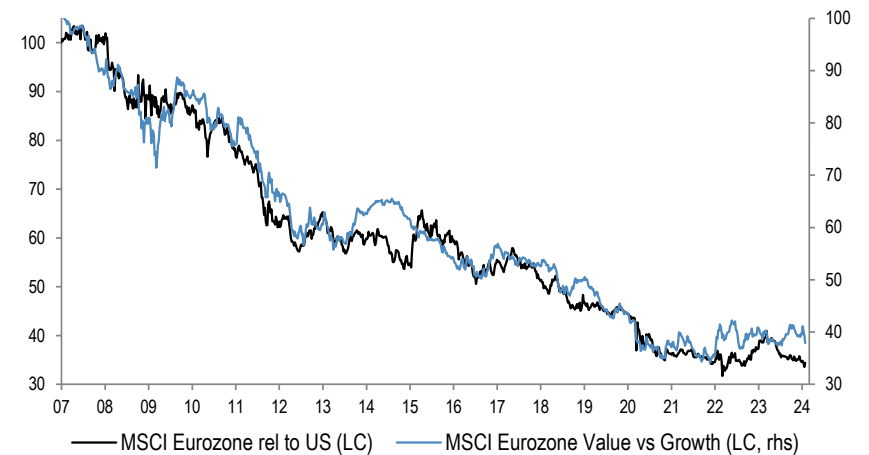
10) Value vs Growth: Style leadership is closely linked to the direction of bond yields...

Value style performance vs Growth



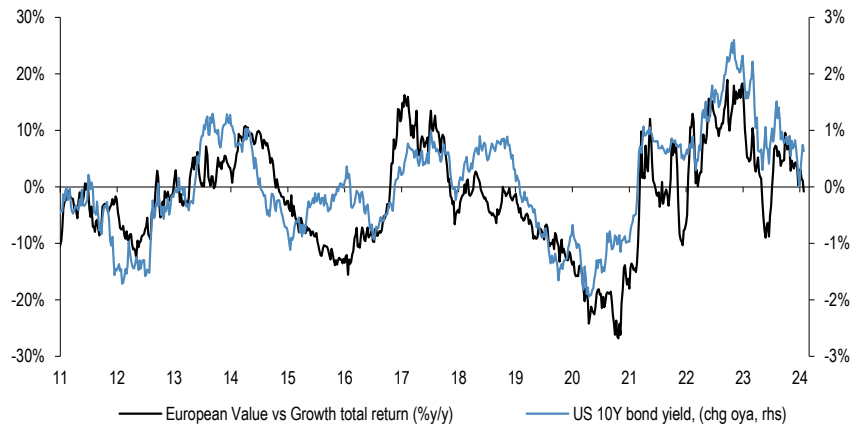
Source: Bloomberg Finance L.P., J.P. Morgan

Eurozone vs US and Value vs Growth



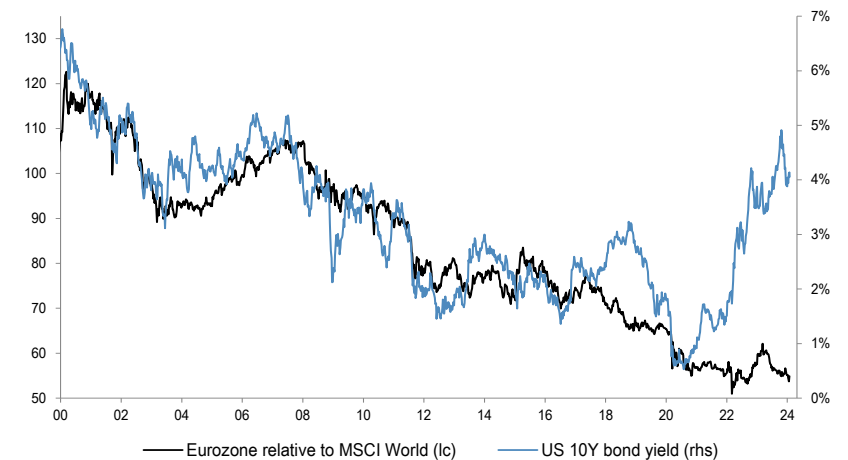
Source: Datastream

MSCI Europe Value vs Growth and US bond yields



Source: Datastream

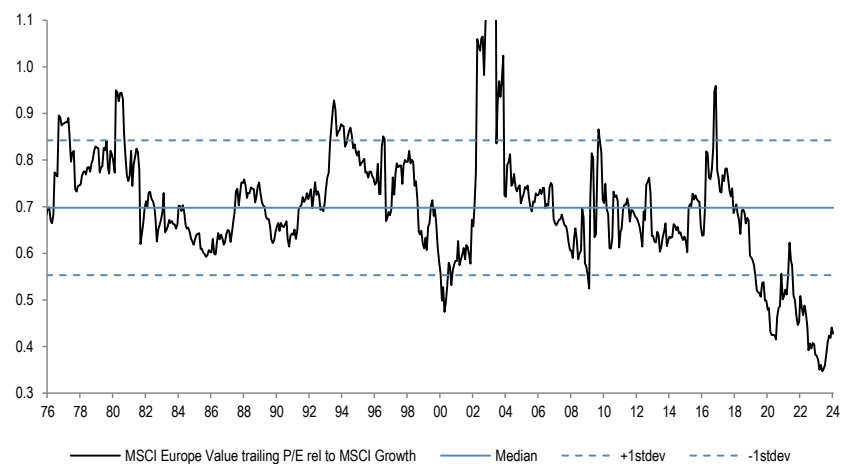
Eurozone relative to World and US 10Y bond yield



Source: Datastream

...Value valuations remain attractive

European Value vs Growth trailing P/E



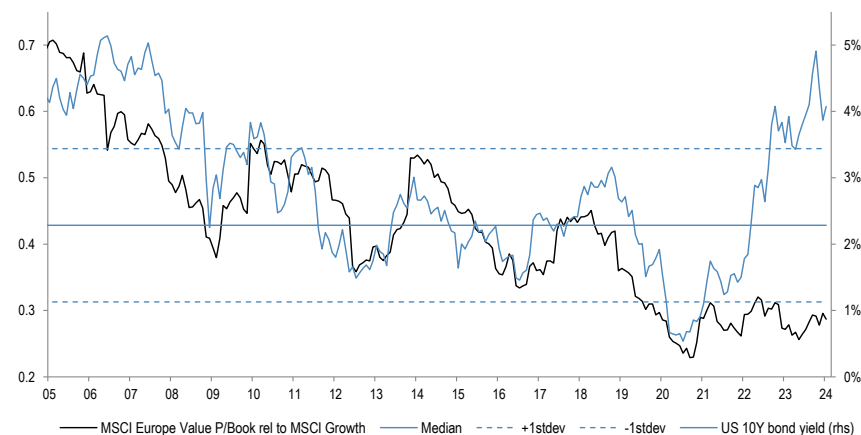
Source: Datastream

MSCI Europe - Value and Growth sectoral composition

	Sector Weights			
	MSCI Europe	Value	Growth	Value vs Growth
Financials	17.7%	28.9%	6.3%	22.6%
Energy	6.5%	12.5%	0.5%	12.0%
Utilities	4.3%	7.7%	0.9%	6.9%
Real Estate	7.1%	9.2%	4.9%	4.4%
Com. Services	3.2%	4.8%	1.6%	3.2%
Materials	0.8%	1.4%	0.1%	1.3%
Industrials	16.0%	12.0%	20.0%	-8.1%
Staples	12.4%	8.0%	16.8%	-8.8%
Discretionary	10.5%	5.4%	15.7%	-10.2%
IT	14.8%	9.2%	20.5%	-11.2%
Healthcare	6.7%	0.8%	12.8%	-12.0%

Source: Datastream

European Value vs Growth P/Book and US 10Y bond yields



Source: Datastream

MSCI World Value vs Growth EPS momentum



Source: Datastream

a) European Value and Growth baskets

JPM European Value - JPDEVALU

Name	Ticker	Sector	Price/ Book
VODAFONE GROUP	VOD LN	Comm. Svcs	0.3
PORSCHE AML.HLDG. (XET) PREF.	PAH3 GR	Discretionary	0.3
SOCIETE GENERALE	GLE FP	Financials	0.3
STANDARD CHARTERED	STAN LN	Financials	0.3
RENAULT	RNO FP	Discretionary	0.3
DEUTSCHE BANK (XET)	DBK GR	Financials	0.4
WORLDLINE	WLN FP	Financials	0.4
BARCLAYS	BARC LN	Financials	0.4
SIEMENS ENERGY N (XET)	ENR GR	Industrials	0.4
SMITH & NEPHEW	SN/ LN	Health care	0.4
NATWEST GROUP	NWG LN	Financials	0.5
COMMERZBANK (XET)	CBK GR	Financials	0.5
LEG IMMOBILIEN (XET)	LEG GR	Real Estate	0.5
ALSTOM	ALO FP	Industrials	0.6
BMW PREF. (XET)	BMW GR	Discretionary	0.6
KINGFISHER	KGF LN	Discretionary	0.7
FRESENIUS MED.CARE (XET)	FME GR	Health care	0.7
FRESENIUS (XET)	FRE GR	Health care	0.7
REPSOL YPF	REP SM	Energy	0.7
STORA ENSO R	STERV FH	Materials	0.7
BRITISH AMERICAN TOBACCO	BATS LN	Staples	0.8
EVONIK INDUSTRIES (XET)	EVK GR	Materials	0.8
ANGLO AMERICAN	AAL LN	Materials	0.8
OMV	OMV AV	Energy	0.8
SAINSBURY J	SBRY LN	Staples	0.9
RWE (XET)	RWE GR	Utilities	0.9
BAYER (XET)	BAYN GR	Health care	1.0
DEUTSCHE LUFTHANSA (XET)	LHA GR	Industrials	1.1
NATIONAL GRID	NG/ LN	Utilities	1.1
CARREFOUR	CA FP	Staples	1.1
SKANSKA B	SKAB SS	Industrials	1.2
DAIMLER TRUCK (XET) HOLDING E	DTG GR	Industrials	1.2
SAINT GOBAIN	SGO FP	Industrials	1.2
ERICSSON B	ERICB SS	IT	1.2
GRIFOLS ORD CL A	GRF SM	Health care	1.3
PHILIPS ELTN.KONINKLIJKE	PHIA NA	Health care	1.3
HENKEL (XET)	HEN3 GR	Staples	1.3
TESCO	TSCO LN	Staples	1.3
HEXAGON B	HEXAB SS	IT	2.3
STMICROELECTRONICS	STMPA FP	IT	2.8

Source: Datastream, J.P. Morgan, all stocks are equally weighted in the baskets

JPM European Growth - JPDEGROW

Name	Ticker	Sector	Price/ Book
NOVO NORDISK 'B'	NOVOB DC	Health care	37.4
FERRARI (MIL)	RACE IM	Discretionary	30.4
UNILEVER (UK)	ULVR LN	Staples	27.6
ASML HOLDING	ASML NA	IT	21.4
JD SPORTS FASHION	JD/ LN	Discretionary	16.4
HERMES INTL.	RMS FP	Discretionary	15.8
RELX	REL LN	Industrials	15.0
BE SEMICONDUCTOR INDUSTRIES	BESI NA	IT	14.3
VAT GROUP	VACN SW	Industrials	13.8
WOLTERS KLUWER	WKL NA	Industrials	13.2
ADYEN	ADYEN NA	Financials	12.7
PARTNERS GROUP HOLDING	PGHN SW	Financials	11.3
PANDORA	PNDORA DC	Discretionary	11.0
GEBERIT 'R'	GBN SW	Industrials	10.3
TEMENOS N	TEMN SW	IT	9.4
ATLAS COPCO A	ATCOA SS	Industrials	9.3
COLOPLAST B	COLOB DC	Health care	9.2
CENTRICA	CNA LN	Utilities	8.8
DIAGEO	DGE LN	Staples	8.3
L'OREAL	OR FP	Staples	8.2
AIRBUS	AIR FP	Industrials	7.9
ROCHE HOLDINGS 'B'	ROG SW	Health care	7.2
SIKA	SIKA SW	Materials	7.0
NOVOZYMES B	NZYMB DC	Materials	7.0
GIVAUDAN 'N'	GIVN SW	Materials	6.9
DEMANT	DEMANT DC	Health care	6.9
SEVERN TRENT	SVT LN	Utilities	6.8
DAVIDE CAMPARI MILANO	CPR IM	Staples	6.7
ADMIRAL GROUP	ADM LN	Financials	6.7
RECORDATI INDUA.CHIMICA	REC IM	Health care	6.7
NESTLE 'N'	NESN SW	Staples	6.3
SONOVA N	SOON SW	Health care	6.1
KPN KON	KPN NA	Comm. Svcs	4.9
HARGREAVES LANSDOWN	HL/ LN	Financials	4.8
FINECOBANK SPA	FBK IM	Financials	3.8
DEUTSCHE BOERSE (XET)	DB1 GR	Financials	3.6
NESTLE	NESTE FH	Energy	3.1
ST.JAMES'S PLACE ORD	STJ LN	Financials	2.8
EQUINOR	EQNR NO	Energy	2.2
SWISS PRIME SITE	SPSN SW	Real Estate	1.0

b) Beneficiaries vs Losers of rising bond yields

JPM Rising bond yield beneficiaries - JPDERBYB

Name	Ticker	Sector	10Y Correlation to BY
BNP PARIBAS	BNP FP	Financials	32%
SOCIETE GENERALE	GLE FP	Financials	32%
ABN AMRO BANK	ABN NA	Financials	31%
COMMERZBANK (XET)	CBK GR	Financials	29%
CREDIT AGRICOLE	ACA FP	Financials	29%
UNICREDIT	UCG IM	Financials	28%
BANCO SANTANDER	SAN SM	Financials	27%
ING GROEP	INGA NA	Financials	26%
ARCELORMITTAL	MT NA	Materials	25%
AXA	CS FP	Financials	25%
RENAULT	RNO FP	Discretionary	25%
ERSTE GROUP BANK	EBS AV	Financials	24%
KBC GROUP	KBC BB	Financials	24%
BBV.ARGENTARIA	BBVA SM	Financials	23%
NN GROUP	NN NA	Financials	23%
UBS GROUP	UBSG SW	Financials	22%
HSBC HOLDINGS	HSBA LN	Financials	22%
CNH INDUSTRIAL	CNHI IM	Industrials	22%
INTESA SANPAOLO	ISP IM	Financials	22%
PORSCHE AML.HLDG. (XET) PREF.	PAH3 GR	Discretionary	21%
STANDARD CHARTERED	STAN LN	Financials	20%
TENARIS	TEN IM	Energy	20%
JULIUS BAER GRUPPE	BAER SW	Financials	20%
METSO CORPORATION	METSO FH	Industrials	20%
DNB BANK	DNB NO	Financials	19%
BARCLAYS	BARC LN	Financials	19%
AVIVA	AVI LN	Financials	19%
CAIXABANK	CABK SM	Financials	19%
MERCEDES-BENZ GROUP(XET) N	MBG GR	Discretionary	19%
BANK OF IRELAND GROUP	BIRG ID	Financials	18%
BASF (XET)	BAS GR	Materials	17%
ARKEMA	AKE FP	Materials	17%
NATWEST GROUP	NWG LN	Financials	17%
AIB GROUP	AIBG ID	Financials	17%
REPSOL YPF	REP SM	Energy	17%
VOLVO A	VOLVB SS	Industrials	17%
BMW PREF. (XET)	BMW GR	Discretionary	16%
HEIDELBERG (XET) MATERIALS	HEI GR	Materials	16%
ABB LTD N	ABBN SW	Industrials	16%
MEDIOBANCA BC.FIN	MB IM	Financials	16%

JPM Rising bond yield losers - JPDERBYL

Name	Ticker	Sector	10Y Correlation to BY
VONOVIA (XET)	VNA GR	Real Estate	-34%
NATIONAL GRID	NGI LN	Utilities	-34%
LEG IMMOBILIE (XET)	LEG GR	Real Estate	-34%
CELLNEX TELECOM	CLNX SM	Comm. Svcs	-32%
NESTLE 'N'	NESN SW	Staples	-31%
SWISS PRIME SITE	SPSN SW	Real Estate	-30%
UNITED UTILITIES GROUP	UUJ LN	Utilities	-30%
INFRASTRUTTURE WIRELESS	INW IM	Comm. Svcs	-29%
UNILEVER (UK)	ULVR LN	Staples	-28%
SEVERN TRENT	SVT LN	Utilities	-27%
TERNA RETE ELETTRICA NAZ	TRN IM	Utilities	-27%
SNAM	SRG IM	Utilities	-26%
GIVAUDAN 'N'	GIVN SW	Materials	-26%
SSE	SSE LN	Utilities	-25%
RECKITT BENCKISER GROUP	RKT LN	Staples	-25%
BARRY CALLEBAUT	BARN SW	Staples	-24%
FASTIGHETS BALDER B	BALDB SS	Real Estate	-24%
L'OREAL	OR FP	Staples	-24%
ESSITY B	ESSITYB SS	Staples	-23%
RELX	REL LN	Industrials	-23%
DIAGEO	DGE LN	Staples	-22%
ASTRAZENECA	AZN LN	Health care	-22%
RECORDATI INDUA.CHIMICA	REC IM	Health care	-22%
BEIERSDORF (XET)	BEI GR	Staples	-22%
GLAXOSMITHKLINE	GSK LN	Health care	-22%
CHRISTIAN HANSEN HOLDING	CHR DC	Materials	-22%
SWISSCOM 'R'	SCMN SW	Comm. Svcs	-22%
ROCHE HOLDINGS 'B'	ROG SW	Health care	-22%
CARL ZEISS MEDITEC (XET)	AFX GR	Health care	-21%
SYMRISE (XET)	SY1 GR	Materials	-21%
COLOPLAST B	COLOB DC	Health care	-20%
NOVO NORDISK 'B'	NOVOB DC	Health care	-20%
TELENOR	TEL NO	Comm. Svcs	-20%
ORSTED	ORSTED DC	Utilities	-19%
HERMES INTL.	RMS FP	Discretionary	-19%
ESSILORLUXOTTICA	EL FP	Health care	-19%
ENDESA	ELE SM	Utilities	-19%
DAVIDE CAMPARI MILANO	CPR IM	Staples	-18%
ENAGAS	ENG SM	Utilities	-18%
IMPERIAL BRANDS	IMB LN	Staples	-18%

Source: Datastream, J.P. Morgan, all stocks are liquidity weighted in the baskets

c) Beneficiaries vs Losers of rising oil prices

JPM Rising oil prices beneficiaries - JPDEOILW

Name	Ticker	Sector	Correlation to Oil
ARCELORMITTAL	MT NA	Materials	63%
TENARIS	TEN IM	Energy	60%
REPSOL YPF	REP SM	Energy	57%
CNH INDUSTRIAL	CNHI IM	Industrials	55%
ANGLO AMERICAN	AAL LN	Materials	52%
PORSCHE AML.HLDG. (XET) PREF.	PAH3 GR	Discretionary	49%
EQUINOR	EQNR NO	Energy	48%
ENI	ENI IM	Energy	48%
STANDARD CHARTERED	STAN LN	Financials	47%
SHELL (LON)	SHEL LN	Energy	47%
OCI	OCI NA	Materials	45%
OMV	OMV AV	Energy	44%
METSO CORPORATION	METSO FH	Industrials	44%
A P MOLLER MAERSK A	MAERSKB DC	Industrials	42%
AVIVA	AV/ LN	Financials	40%
SAINT GOBAIN	SGO FP	Industrials	40%
BANCO SANTANDER	SAN SM	Financials	37%
RIO TINTO	RIO LN	Materials	37%
NORSK HYDRO	NHY NO	Materials	36%
TOTALENERGIES	TTE FP	Energy	35%
COVESTRO (XET)	1COV GR	Materials	35%
RICHEMONT N	CFR SW	Discretionary	35%
NATWEST GROUP	NWG LN	Financials	34%
DASSAULT AVIATION	AM FP	Industrials	34%
BP	BP/ LN	Energy	33%
MERCEDES-BENZ GROUP(XET) N	MBG GR	Discretionary	33%
AIRBUS	AIR FP	Industrials	33%
BBV.ARGENTARIA	BBVA SM	Financials	32%
ANTOFAGASTA	ANTO LN	Materials	32%
AIB GROUP	AIBG ID	Financials	32%
BNP PARIBAS	BNP FP	Financials	32%
BASF (XET)	BAS GR	Materials	31%
BANK OF IRELAND GROUP	BIRG ID	Financials	31%
DNB BANK	DNB NO	Financials	30%
THE SWATCH GROUP	UHR SW	Discretionary	30%
BARCLAYS	BARC LN	Financials	30%
CAIXABANK	CABK SM	Financials	30%
ING GROEP	INGA NA	Financials	29%
SOLVAY	SOLB BB	Materials	29%
ARKEMA	AKE FP	Materials	28%

JPM Rising oil prices losers - JPDEOILL

Name	Ticker	Sector	Correlation to Oil
ESSITY B	ESSITYB SS	Staples	-69%
HANNOVER RUECK (XET)	HNR1 GR	Financials	-50%
COLOPLAST B	COLOB DC	Health care	-49%
KONE B	KNEBV FH	Industrials	-48%
INFRASTRUTTURE WIRELESS	INW IM	Comm. Svcs	-47%
BIOMERIEUX	BIM FP	Health care	-44%
SYMRISE (XET)	SY1 GR	Materials	-44%
KONINKLIJKE AHOLD DELHAIZE	AD NA	Staples	-43%
RECKITT BENCKISER GROUP	RKT LN	Staples	-43%
GENMAB	GMAB DC	Health care	-43%
CELLNEX TELECOM	CLNX SM	Comm. Svcs	-42%
EURONEXT	ENX FP	Financials	-41%
DELIVERY HERO (XET)	DHER GR	Discretionary	-40%
CHRISTIAN HANSEN HOLDING	CHR DC	Materials	-40%
GIVAUDAN 'N'	GIVN SW	Materials	-39%
FERROVIAL	FER SM	Industrials	-39%
SAGE GROUP	SGE LN	IT	-39%
CHOC.LINDT &SPRUENGLI PAR	LISN SW	Staples	-39%
UNITED UTILITIES GROUP	UU/ LN	Utilities	-39%
ROCHE HOLDING	ROG SW	Health care	-38%
MUENCHENER RUCK. (XET)	MUV2 GR	Financials	-38%
UCB	UCB BB	Health care	-37%
RECORDATI INDUA.CHIMICA	REC IM	Health care	-37%
RELX	REL LN	Industrials	-37%
SWISSCOM 'R'	SCMN SW	Comm. Svcs	-37%
SMITH & NEPHEW	SN/ LN	Health care	-37%
LONDON STOCK EXCHANGE GROUP	LSEG LN	Financials	-36%
AUTO TRADER GROUP	AUTO LN	Comm. Svcs	-36%
NESTLE 'N'	NESN SW	Staples	-36%
L'OREAL	OR FP	Staples	-35%
SAP (XET)	SAP GR	IT	-35%
SEVERN TRENT	SVT LN	Utilities	-35%
HEINEKEN HOLDING	HEIO NA	Staples	-35%
HENKEL PREF. (XET)	HEN3 GR	Staples	-35%
HALMA	HLMA LN	IT	-34%
UNILEVER (UK)	ULVR LN	Staples	-34%
BEIERSDORF (XET)	BEI GR	Staples	-34%
DIASORIN	DIA IM	Health care	-34%
LEG IMMOBILIEN (XET)	LEG GR	Real Estate	-34%
WOLTERS KLUWER	WKL NA	Industrials	-33%

Source: Datastream, J.P. Morgan, all stocks are liquidity weighted in the baskets

d) Beneficiaries vs Losers of rising inflation

JPM Rising inflation beneficiaries - JPDEINFW

Name	Ticker	Sector	Correlation to				Average correlation
			Yield Curve	US Inflation forwards	EUR Inflation Forwards	S&P GSCI	
ARCELMITTAL	MT NA	Materials	17%	18%	21%	38%	23%
TENARIS	TEN IM	Energy	11%	16%	21%	42%	22%
ING GROEP	INGA NA	Financials	15%	21%	22%	18%	19%
SOCIETE GENERALE	GLE FP	Financials	20%	21%	24%	11%	19%
BNP PARIBAS	BNP FP	Financials	21%	24%	20%	11%	19%
KBC GROUP	KBC BB	Financials	16%	27%	14%	16%	18%
ABN AMRO BANK	ABN NA	Financials	18%	22%	21%	11%	18%
ANGLO AMERICAN	AAL LN	Materials	11%	12%	11%	38%	18%
ENI	ENI IM	Energy	13%	7%	12%	38%	17%
METSO CORPORATION	METSO FH	Industrials	11%	19%	17%	20%	17%
CREDIT AGRICOLE	ACA FP	Financials	20%	22%	17%	8%	17%
REPSOL YPF	REP SM	Energy	11%	3%	16%	36%	16%
DEUTSCHE BANK (XET)	DBK GR	Financials	14%	22%	15%	14%	16%
AXA	CS FP	Financials	13%	18%	18%	17%	16%
NORSK HYDRO	NHY NO	Materials	8%	10%	15%	32%	16%
BANCO SANTANDER	SAN SM	Financials	15%	20%	15%	14%	16%
ANTOFAGASTA	ANTO LN	Materials	14%	8%	9%	32%	16%
TOTALENERGIES	TTE FP	Energy	6%	9%	12%	35%	15%
DNB BANK	DNB NO	Financials	11%	19%	9%	22%	15%
NATWEST GROUP	NWG LN	Financials	10%	26%	16%	8%	15%
LEGAL & GENERAL	LGEN LN	Financials	9%	22%	16%	12%	15%
AVIVA	AV/ LN	Financials	13%	21%	8%	17%	15%
BARCLAYS	BARC LN	Financials	12%	23%	14%	8%	14%
SAINT GOBAIN	SGO FP	Industrials	10%	12%	18%	17%	14%
JULIUS BAER GRUPPE	BAER SW	Financials	12%	17%	17%	10%	14%
ALLIANZ (XET)	ALV GR	Financials	3%	21%	19%	13%	14%
ERSTE GROUP BANK	EBS AV	Financials	9%	18%	11%	16%	14%
BBV.ARGENTARIA	BBVA SM	Financials	13%	16%	16%	10%	14%
SANDVIK	SAND SS	Industrials	14%	14%	9%	17%	14%
OMV	OMV AV	Energy	7%	10%	6%	30%	13%
ARKEMA	AKE FP	Materials	12%	12%	14%	15%	13%
BASF (XET)	BAS GR	Materials	16%	10%	8%	20%	13%
UNICREDIT	UCG IM	Financials	15%	15%	13%	9%	13%
AERCAP HOLDINGS N V	AER US	Industrials	7%	10%	14%	21%	13%
RIO TINTO	RIO LN	Materials	17%	-6%	7%	33%	13%
OCI	OCI NA	Materials	2%	14%	10%	24%	13%
COMMERZBANK (XET)	CBK GR	Financials	11%	15%	18%	7%	12%
HEIDELBERG (XET) MATERIALS	HEI GR	Materials	16%	7%	11%	14%	12%
DANSKE BANK	DANSKE DC	Financials	4%	18%	19%	7%	12%
INTESA SANPAOLO	ISP IM	Financials	15%	13%	13%	6%	12%

JPM Rising inflation losers - JPDEINFL

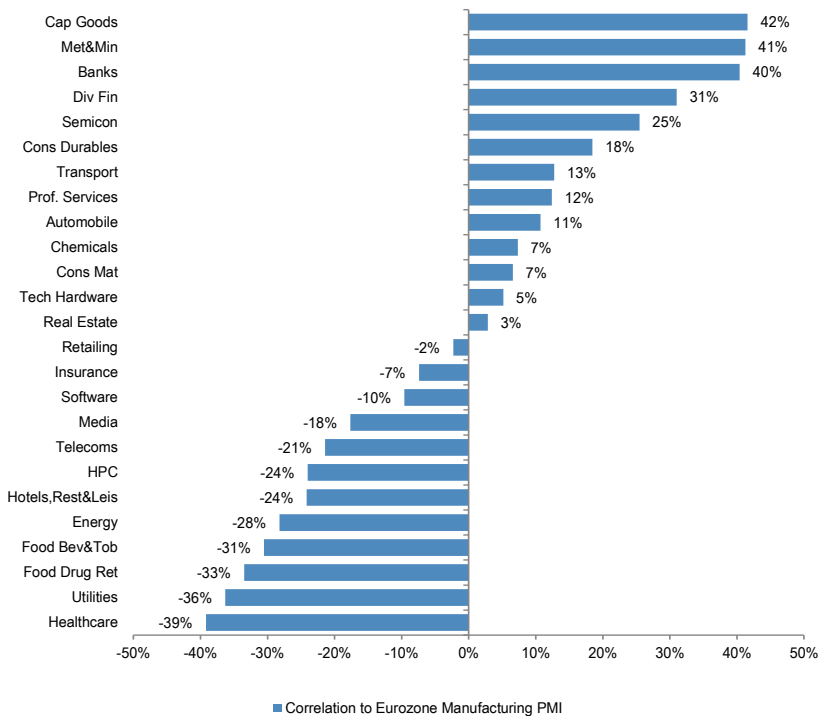
Name	Ticker	Sector	Correlation to				Average correlation
			Yield Curve	US Inflation forwards	EUR Inflation Forwards	S&P GSCI	
NESTLE 'N'	NESN SW	Staples	-16%	-20%	-20%	-30%	-22%
UNILEVER (UK)	ULVR LN	Staples	-18%	-21%	-18%	-28%	-21%
RECKITT BENCKISER GROUP	RKT LN	Staples	-16%	-15%	-18%	-36%	-21%
NATIONAL GRID	NG/ LN	Utilities	-21%	-15%	-21%	-27%	-21%
SWISSCOM 'R'	SCMN SW	Comm. Svcs	-15%	-19%	-14%	-34%	-21%
ESSITY B	ESSITYB SS	Staples	-8%	-17%	-26%	-29%	-20%
GLAXOSMITHKLINE	GSK LN	Health care	-17%	-14%	-15%	-32%	-19%
NOVARTIS 'R'	NOVN SW	Health care	-12%	-16%	-20%	-25%	-18%
DANONE	BN FP	Staples	-11%	-20%	-16%	-26%	-18%
RECORDATI INDUA.CHIMICA	REC IM	Health care	-10%	-22%	-11%	-25%	-17%
TERNA RETE ELETTRICA NAZ	TRN IM	Utilities	-12%	-21%	-14%	-21%	-17%
DIAGEO	DGE LN	Staples	-12%	-16%	-16%	-24%	-17%
SWISS PRIME SITE	SPSN SW	Real Estate	-13%	-15%	-17%	-23%	-17%
ROCHE HOLDINGS 'B'	ROG SW	Health care	-13%	-15%	-12%	-27%	-17%
UNITED UTILITIES GROUP	UU/ LN	Utilities	-19%	-12%	-14%	-22%	-17%
SEVERN TRENT	SVT LN	Utilities	-14%	-15%	-20%	-18%	-16%
ASTRAZENECA	AZN LN	Health care	-18%	-9%	-15%	-24%	-16%
BEIERSDORF (XET)	BEI GR	Staples	-12%	-15%	-14%	-23%	-16%
BARRY CALLEBAUT	BARN SW	Staples	-15%	-15%	-17%	-18%	-16%
SNAM	SRG IM	Utilities	-12%	-17%	-10%	-23%	-16%
INFRASTRUTTURA WIRELESS	INW IM	Comm. Svcs	-15%	-18%	-13%	-15%	-15%
COLOPLAST B	COLOB DC	Health care	-10%	-11%	-17%	-21%	-15%
L'OREAL	OR FP	Staples	-10%	-17%	-8%	-24%	-15%
IMPERIAL BRANDS	IMB LN	Staples	-15%	-10%	-16%	-17%	-14%
DIASORIN	DIA IM	Health care	-4%	-18%	-15%	-20%	-14%
FRESENIUS MED.CARE (XET)	FME GR	Health care	-7%	-15%	-11%	-24%	-14%
BIOMERIEUX	BIM FP	Health care	-9%	-9%	-15%	-22%	-14%
VONOVIA (XET)	VNA GR	Real Estate	-16%	-16%	-13%	-9%	-14%
CHOCOLADEFABRIKEN LINDT	LISN SW	Staples	-5%	-18%	-13%	-17%	-13%
ESSILORLUXOTTICA	EL FP	Health care	-10%	-13%	-10%	-20%	-13%
BRITISH AMERICAN TOBACCO	BATS LN	Staples	-13%	-10%	-13%	-16%	-13%
KONINKLIJKE AHOLD	AD NA	Staples	-10%	-11%	-3%	-27%	-13%
TELENOR	TEL NO	Comm. Svcs	-13%	-15%	-6%	-15%	-12%
SSE	SSE LN	Utilities	-15%	-9%	-12%	-14%	-12%
HEINEKEN	HEIA NA	Staples	-6%	-17%	-14%	-10%	-12%
DAVIDE CAMPARI MILANO	CPR IM	Staples	-9%	-10%	-14%	-14%	-12%
ASSOCIATED BRIT.FOODS	ABF LN	Staples	-10%	-10%	-10%	-17%	-12%
VODAFONE GROUP	VOD LN	Comm. Svcs	-10%	-9%	-15%	-12%	-11%
HIKMA PHARMACEUTICALS	HIK LN	Health care	-9%	-11%	-9%	-17%	-11%
ORION B	ORNBV FH	Health care	-6%	-9%	-11%	-18%	-11%

Source: Datastream, J.P. Morgan, all stocks are liquidity weighted in the baskets

6) European Cyclical vs Defensives: closely linked to the PMI momentum

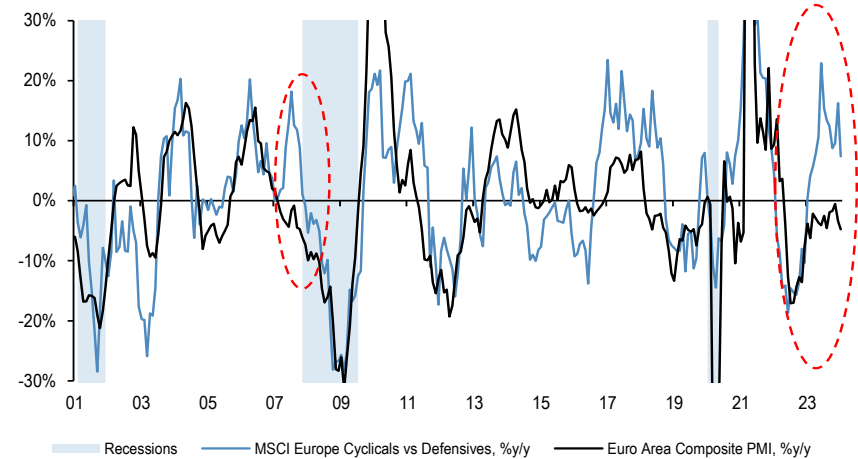
- Cyclical sectors are starting to unwind some of the rally that pushed them away from the PMIs, but the gaps are still significant. Given that, we think that the Defensive sectors look likely to catch a bid in 2024.
- At a sector level, Industrials & Financials display the highest positive correlation to PMIs.

European sectors correlation to Eurozone composite PMI



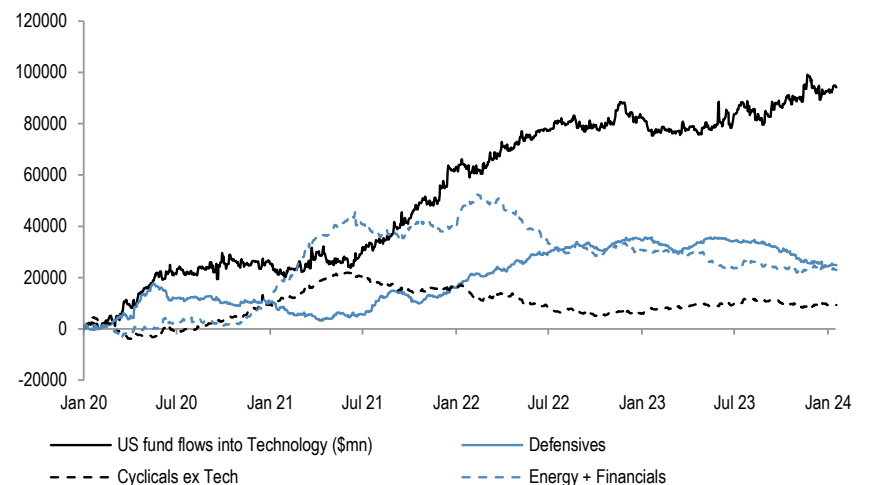
Source: S&P Global, Datastream

European Cyclical vs Defensives and PMI



Source: Datastream

Flows: US Cyclical vs Defensives



Source: Flows & Liquidity team, J.P. Morgan

Baskets of European Cyclical and Defensive

JPM European Cyclical - JPDEECYC

Name	Ticker	Sector
RIO TINTO	RIO LN	Materials
BASF (XET)	BAS GR	Materials
CRH PLC	CRH LN	Materials
HOLCIM	HOLN SW	Materials
ANGLO AMERICAN	AAL LN	Materials
GIVAUDAN 'N'	GIVN SW	Materials
EMS-CHEMIE 'N'	EMSN SW	Materials
ANTOFAGASTA	ANTO LN	Materials
SIEMENS (XET)	SIE GR	Industrials
AIRBUS	AIR FP	Industrials
SAFRAN	SAF FP	Industrials
VINCI	DG FP	Industrials
ABB LTD N	ABBN SW	Industrials
DEUTSCHE POST (XET)	DHL GR	Industrials
DSV	DSV DC	Industrials
VOLVO B	VOLVB SS	Industrials
SAINT GOBAIN	SGO FP	Industrials
ASSA ABLOY B	ASSAB SS	Industrials
SANDVIK	SAND SS	Industrials
KONE B	KNEBV FH	Industrials
AERCAP HOLDINGS N V	AER US	Industrials
A P MOLLER MAERSK A	MAERSKB DC	Industrials
HERMES INTL.	RMS FP	Discretionary
MERCEDES-BENZ GROUP(XET) N	MBG GR	Discretionary
STELLANTIS NV	STLAM IM	Discretionary
RICHEMONT N	CFR SW	Discretionary
BMW (XET)	BMW GR	Discretionary
NEXT	NXT LN	Discretionary
PANDORA	PNDORA DC	Discretionary
RENAULT	RNO FP	Discretionary
PUMA (XET)	PUM GR	Discretionary
JD SPORTS FASHION	JD/ LN	Discretionary
DELIVERY HERO (XET)	DHER GR	Discretionary
BURBERRY GROUP	BRBY LN	Discretionary
PORSCHE AML.HLDG. (XET) PREF.	PAH3 GR	Discretionary
ZALANDO (XET)	ZAL GR	Discretionary
ASML HOLDING	ASML NA	IT
INFINEON TECHS. (XET)	IFX GR	IT
CAPGEMINI	CAP FP	IT
ASM INTERNATIONAL	ASM NA	IT

Source: Datastream, J.P. Morgan, all stocks are equally weighted in the baskets

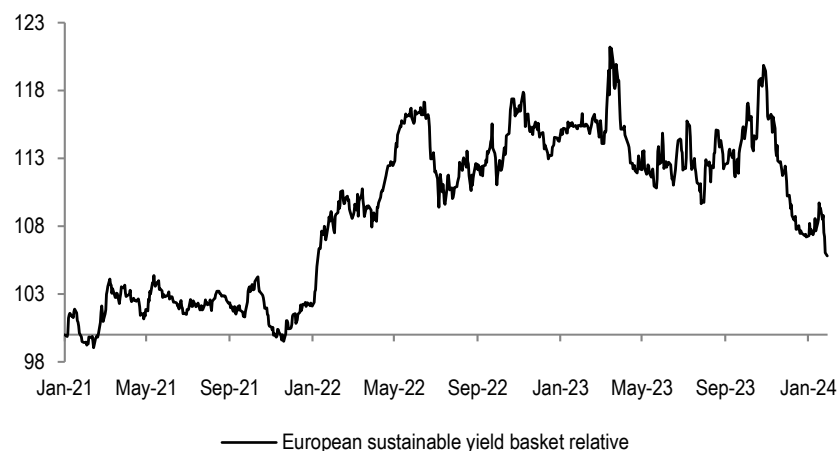
JPM European Defensive - JPDEEDEF

Name	Ticker	Sector
L'OREAL	OR FP	Staples
UNILEVER (UK)	ULVR LN	Staples
ANHEUSER-BUSCH INBEV	ABI BB	Staples
BRITISH AMERICAN TOBACCO	BATS LN	Staples
PERNOD-RICARD	RI FP	Staples
BEIERSDORF (XET)	BEI GR	Staples
COCA COLA HBC	CCH LN	Staples
KONINKLIJKE AHOLD DELHAIZE	AD NA	Staples
ASSOCIATED BRIT.FOODS	ABF LN	Staples
IMPERIAL BRANDS	IMB LN	Staples
CHOCOLADEFABRIKEN LINDT & SPRUENGLI	LISN SW	Staples
HENKEL PREF. (XET)	HEN3 GR	Staples
NOVO NORDISK 'B'	NOVOB DC	Health care
NOVARTIS 'R'	NOVN SW	Health care
SANOFI	SAN FP	Health care
GLAXOSMITHKLINE	GSK LN	Health care
BAYER (XET)	BAYN GR	Health care
ROCHE HOLDINGS 'B'	ROG SW	Health care
SWISSCOM 'R'	SCMN SW	Comm. Svcs
CELLNEX TELECOM	CLNX SM	Comm. Svcs
PUBLICIS GROUPE	PUB FP	Comm. Svcs
BT GROUP	BT/A LN	Comm. Svcs
TELENOR	TEL NO	Comm. Svcs
KPN KON	KPN NA	Comm. Svcs
INFORMA	INF LN	Comm. Svcs
INFRASTRUTTURE WIRELESS	INW IM	Comm. Svcs
VIVENDI	VIV FP	Comm. Svcs
TELIA COMPANY	TELIA SS	Comm. Svcs
TELE2 B	TEL2B SS	Comm. Svcs
IBERDROLA	IBE SM	Utilities
ENEL	ENEL IM	Utilities
NATIONAL GRID	NG/ LN	Utilities
SSE	SSE LN	Utilities
ENDESA	ELE SM	Utilities
VEOLIA ENVIRON	VIE FP	Utilities
OERSTED	ORSTED DC	Utilities
TERNA RETE ELETTRICA NAZ	TRN IM	Utilities
SEVERN TRENT	SVT LN	Utilities
UNITED UTILITIES GROUP	UU/ LN	Utilities
ACCIONA	ANA SM	Utilities

11) Sustainable yield basket

- A sector neutral list of 40 high- and sustainable-yielding European stocks, with safe and higher than sector median dividends, FCF yield higher than sector median, FCF yield greater than dividend yield and dividend cover greater than 1 and strong balance sheets.

JPM Sustainable yield basket price relative



Source: Bloomberg Finance L.P.

JPM European Sustainable yield basket - JPDESDIV

Name	Ticker	Sector	DY
Intesa Sanpaolo SpA	ISP IM	Financials	11.7%
OMV AG	OMV AV	Energy	11.0%
HSBC Holdings PLC	HSBA LN	Financials	10.3%
NN Group NV	NN NA	Financials	9.7%
British American Tobacco PLC	BATS LN	Consumer Staples	9.7%
Svenska Handelsbanken AB	SHBA SS	Financials	9.6%
Swedbank AB	SWEDA SS	Financials	9.5%
Nordea Bank Abp	NDA SS	Financials	9.3%
Legal & General Group PLC	LGEN LN	Financials	9.2%
Mercedes-Benz Group AG	MBG GR	Consumer Discretionary	8.9%
Imperial Brands PLC	IMB LN	Consumer Staples	8.6%
Klepierre SA	LI FP	Real Estate	8.1%
ArcelorMittal SA	MT NA	Materials	8.0%
Fortum Oyj	FORTUM FH	Utilities	7.4%
BT Group PLC	BT/A LN	Communication Services	7.0%
Evonik Industries AG	EVK GR	Materials	6.6%
Daimler Truck Holding AG	DTG GR	Industrials	6.1%
ACS Actividades de Construcción	ACS SM	Industrials	6.0%
WPP PLC	WPP LN	Communication Services	5.9%
Bayer AG	BAYN GR	Health Care	5.9%
Bayerische Motoren Werke AG	BMW GR	Consumer Discretionary	5.9%
Renault SA	RNO FP	Consumer Discretionary	5.7%
Valeo SE	FR FP	Consumer Discretionary	5.6%
Johnson Matthey PLC	JMAT LN	Materials	5.5%
Veolia Environnement SA	VIE FP	Utilities	5.5%
Telefonaktiebolaget LM Ericsson	ERICB SS	Information Technology	5.5%
Volvo AB	VOLVB SS	Industrials	5.2%
Kingfisher PLC	KGF LN	Consumer Discretionary	5.1%
Infrastrutture Wireless Italia	INW IM	Communication Services	5.0%
Kone Oyj	KNEBV FH	Industrials	4.9%
Eiffage SA	FGR FP	Industrials	4.8%
Deutsche Post AG	DHL GR	Industrials	4.7%
J Sainsbury PLC	SBRY LN	Consumer Staples	4.7%
Mowi ASA	MOWI NO	Consumer Staples	4.5%
Vinci SA	DG FP	Industrials	4.5%
Sanofi SA	SAN FP	Health Care	4.4%
Nokia Oyj	NOKIA FH	Information Technology	4.3%
GSK PLC	GSK LN	Health Care	4.3%
Siemens AG	SIE GR	Industrials	3.5%
EssilorLuxottica SA	EL FP	Health Care	2.4%

Source: Bloomberg Finance L.P., stocks equally weighed in the basket

12) European Buybacks basket

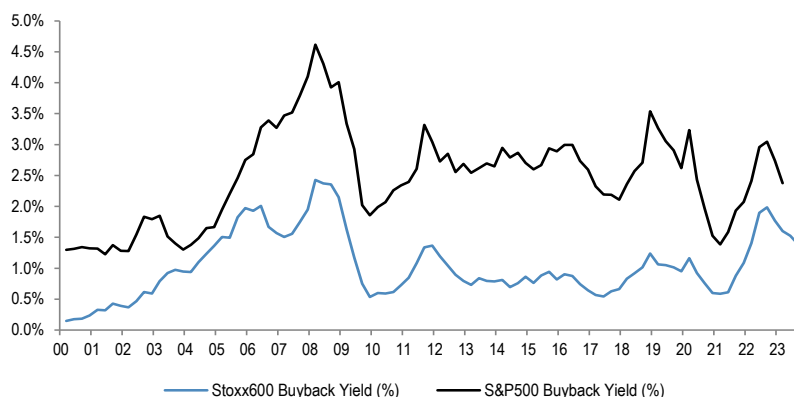
- We believe stocks engaging in buybacks will be rewarded by the market.
- We compile a list of stocks that are currently doing a buyback/are expected to do one in 2024-25.

European buybacks price relative



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

European and US buybacks yield



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

JPM European Buybacks basket - JPDEEUBB

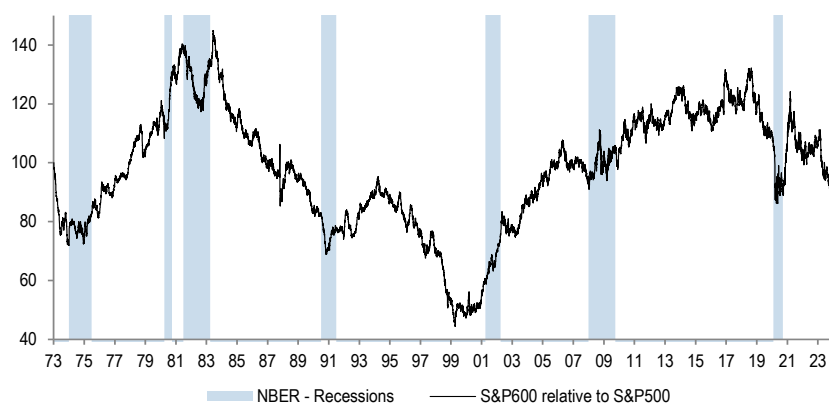
Name	Ticker	Sector	Buyback yield
UniCredit SpA	UCG IM	Financials	9.6%
ING Groep NV	INGA NA	Financials	9.1%
Rexel SA	RXL FP	Industrials	9.0%
Daimler Truck Holding AG	DTG GR	Industrials	8.3%
Scout24 SE	G24 GR	Comm. Svcs	8.0%
DSV A/S	DSV DC	Industrials	7.8%
Commerzbank AG	CBK GR	Financials	7.4%
AIB Group PLC	AIBG ID	Financials	7.3%
Bank of Ireland Group PLC	BIRG ID	Financials	7.2%
Burberry Group PLC	BRBY LN	Discretionary	7.1%
Kingfisher PLC	KGF LN	Discretionary	6.9%
Cie de Saint-Gobain SA	SGO FP	Industrials	6.9%
Imperial Brands PLC	IMB LN	Staples	6.8%
Repsol SA	REP SM	Energy	6.8%
Standard Chartered PLC	STAN LN	Financials	6.8%
Shell PLC	SHEL LN	Energy	6.7%
Mercedes-Benz Group AG	MBG GR	Discretionary	6.6%
HSBC Holdings PLC	HSBA LN	Financials	6.0%
Barclays PLC	BARC LN	Financials	5.8%
BP PLC	BP/ LN	Energy	5.6%
Lloyds Banking Group PLC	LLOY LN	Financials	5.5%
TotalEnergies SE	TTE FP	Energy	5.2%
BAWAG Group AG	BG AV	Financials	5.2%
Pearson PLC	PSON LN	Discretionary	5.0%
Centrica PLC	CNA LN	Utilities	5.0%
NatWest Group PLC	NWGLN	Financials	4.9%
Banco Santander SA	SAN SM	Financials	4.5%
Julius Baer Group Ltd	BAER SW	Financials	4.5%
Carrefour SA	CA FP	Staples	4.2%
Tesco PLC	TSCO LN	Staples	4.0%
Societe Generale SA	GLE FP	Financials	3.9%
Koninklijke Ahold Delhaize NV	AD NA	Staples	3.9%
Banco BPM SpA	BAMI IM	Financials	3.9%
Pandora A/S	PNDORA DC	Discretionary	3.7%
Skandinaviska Enskilda Banken	SEBA SS	Financials	3.7%
Bayerische Motoren Werke AG	BMW GR	Discretionary	3.3%
Stellantis NV	STLAM IM	Discretionary	3.3%
Danske Bank A/S	DANSKE DC	Financials	3.3%
Intesa Sanpaolo SpA	ISP IM	Financials	3.2%
Berkeley Group Holdings PLC	BKG LN	Discretionary	3.1%
Associated British Foods PLC	ABF LN	Staples	3.1%
Muenchener Rueckversicherungs-	MUV2 GR	Financials	3.1%
Swiss Re AG	SREN SW	Financials	3.1%
Informa PLC	INF LN	Comm. Svcs	3.0%
Novo Nordisk A/S	NOVOB DC	Health care	3.0%
Banco Bilbao Vizcaya Argentari	BBVA SM	Financials	2.9%
NN Group NV	NN NA	Financials	2.9%
Nordea Bank Abp	NDA SS	Financials	2.7%
Banco de Sabadell SA	SAB SM	Financials	2.7%
Aviva PLC	AV/ LN	Financials	2.7%
Novartis AG	NOVN SW	Health care	2.7%
Deutsche Bank AG	DBK GR	Financials	2.6%
CaixaBank SA	CABK SM	Financials	2.4%
Heidelberg Materials AG	HEI GR	Materials	2.3%
Carlsberg AS	CARLB DC	Staples	2.3%
Kerry Group PLC	KYGA ID	Staples	2.3%
Brenntag SE	BNR GY	Industrials	2.2%
AXA SA	CS FP	Financials	2.2%
Coca-Cola HBC AG	CCH LN	Staples	2.1%
OPAP SA	OPAP GA	Discretionary	2.0%

Source: Bloomberg Finance L.P., J.P. Morgan,
all stocks are liquidity weighted in the basket

13) US small-cap valuations look cheap, but we continue to prefer large caps

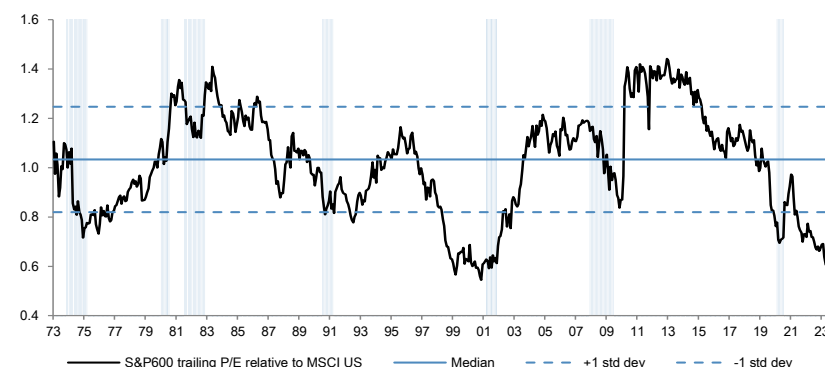
- US small-cap valuations are trading outright cheap relative to large caps.

S&P600 relative to S&P500



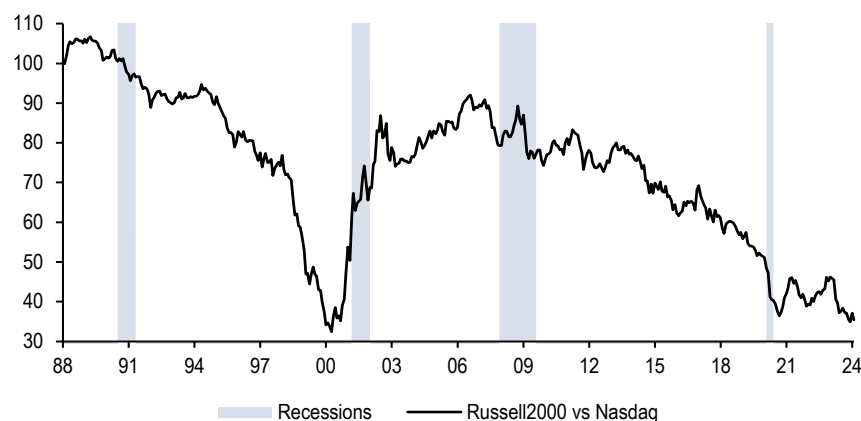
Source: Datastream

S&P600 small caps trailing P/E relative to MSCI US



Source: Datastream, shaded bars denote recession

Russell2000 relative to Nasdaq



Source: Datastream

European Sector Allocation

European sector allocation

		MSCI Europe Weights	Allocation	Deviation	Recommendation
Energy		6.1%	8.0%	1.9%	OW
Materials		7.1%	6.0%	-1.1%	N
	Chemicals				UW
	Construction Materials				N
	Metals & Mining				N
Industrials		15.3%	14.0%	-1.3%	N
	Capital Goods ex Aerospace & Defence				UW
	Aerospace & Defence				OW
	Transport				N
	Business Services				N
Consumer Discretionary		9.4%	7.0%	-2.4%	UW
	Automobile				UW
	Consumer Durables				N
	Consumer Svcs				UW
	Speciality Retail				UW
	Internet Retail				UW
Consumer Staples		11.9%	13.0%	1.1%	OW
	Food & Drug Retailing				UW
	Beverages				OW
	Food & Tobacco				OW
	Household Products				OW
Healthcare		15.5%	18.0%	2.5%	OW
Financials		17.9%	14.0%	-3.9%	UW
	Banks				UW
	Insurance				N
Real Estate		0.8%	2.0%	1.2%	OW
Information Technology		7.2%	7.0%	-0.2%	N
	Software and Services				N
	Technology Hardware				N
	Semicon & Semicon Equip				UW
Communication Services		4.5%	5.0%	0.5%	OW
	Telecommunication Services				OW
	Media				N
Utilities		4.3%	6.0%	1.7%	OW

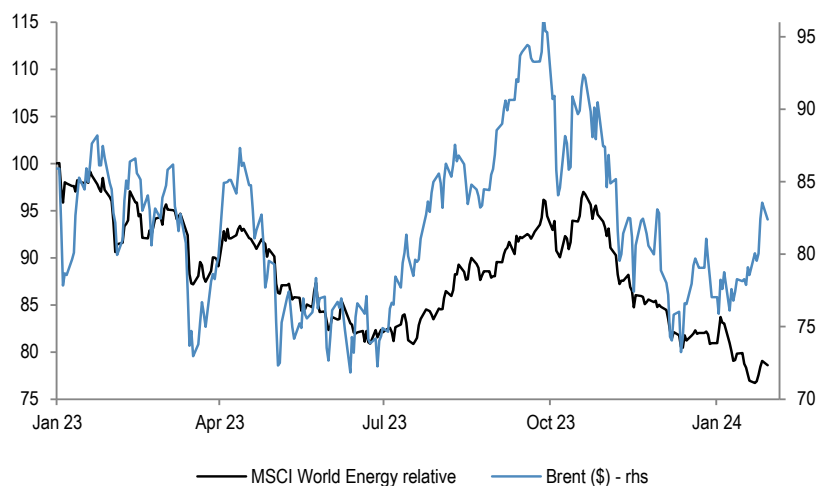
Source: MSCI, J.P. Morgan, Datastream

ENERGY: OVERWEIGHT

Energy sector has lagged the move in oil prices and is a hedge on geopolitics...

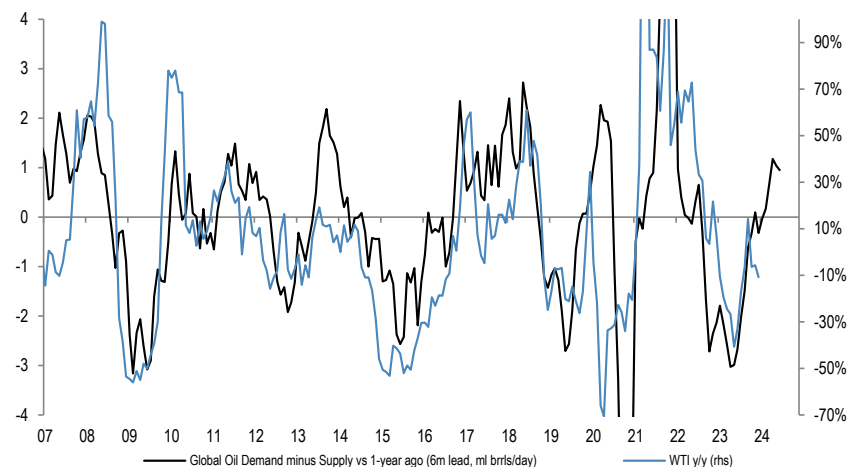
- We upgraded the Energy sector to OW in August 2021, and believe the sector still screens attractive, despite a strong run.
- Underlying oil prices remain well supported by current supply-demand dynamics that is aiding the sector. We believe the sector offers attractive risk-reward into 2024 and will continue to work.
- The sector has lagged the move in oil prices.
- European Energy tended to trade more as a Defensive during the phases of weak PMI prints, rather than as a Cyclical.

Energy sector relative performance vs oil price



Source: Datastream

Global oil demand less supply vs WTI



Source: Bloomberg Finance L.P.

Europe Energy relative performance around peak/trough in PMI

Energy relative performance around trough in PMI

-6m	-3m	-1m	1m	3m	6m
5%	2%	-1%	-5%	-8%	-12%

Energy relative performance around peak in PMI

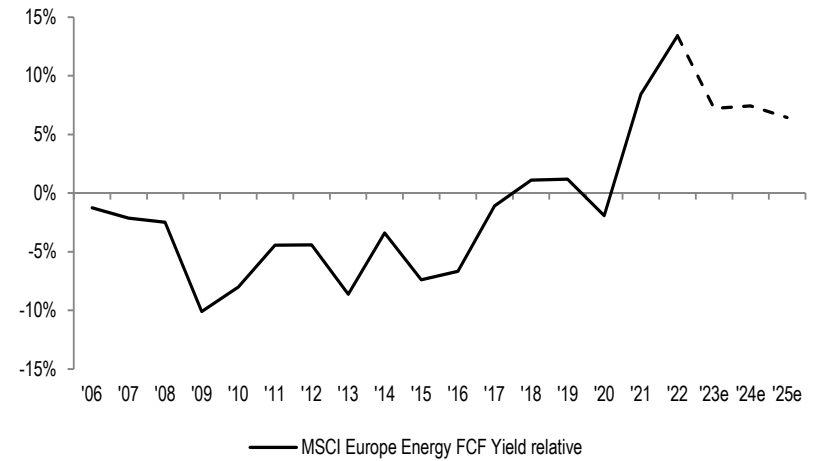
-6m	-3m	-1m	1m	3m	6m
0%	2%	-1%	2%	3%	7%

Source: Datastream

....the sector still shows record cheap valuations and high FCF yield

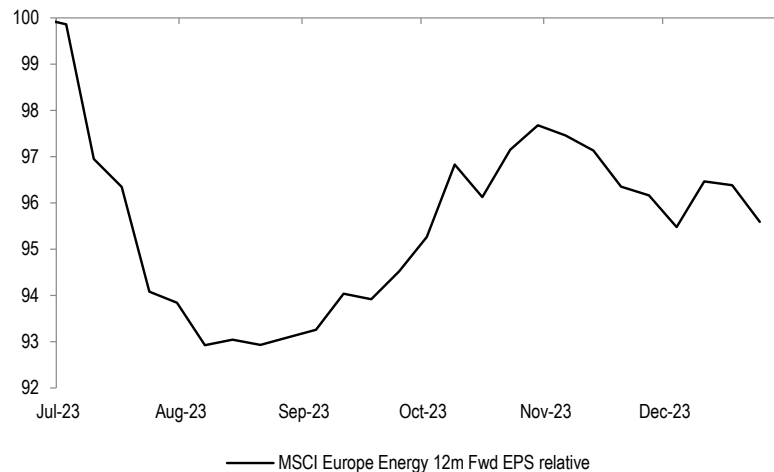
- The sector offers strong free cash flow generation and appears cheap, in our view. The sector is currently trading close to 2 standard deviations below the historical P/E relative to the market.

European Energy FCF yield relative



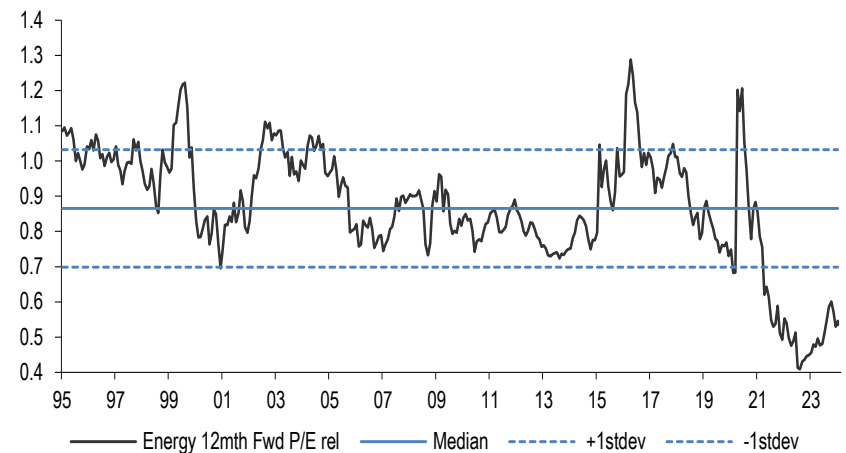
Source: IBES

European Energy 12m Fwd. EPS relative



Source: IBES

European Energy 12m Fwd. P/E relative



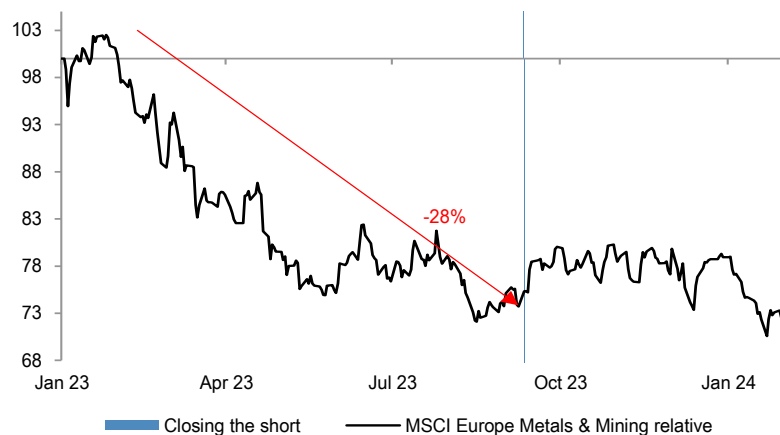
Source: IBES

MATERIALS: NEUTRAL

N Mining – in September we advised to close the shorts, tactically, given the poor prior run...

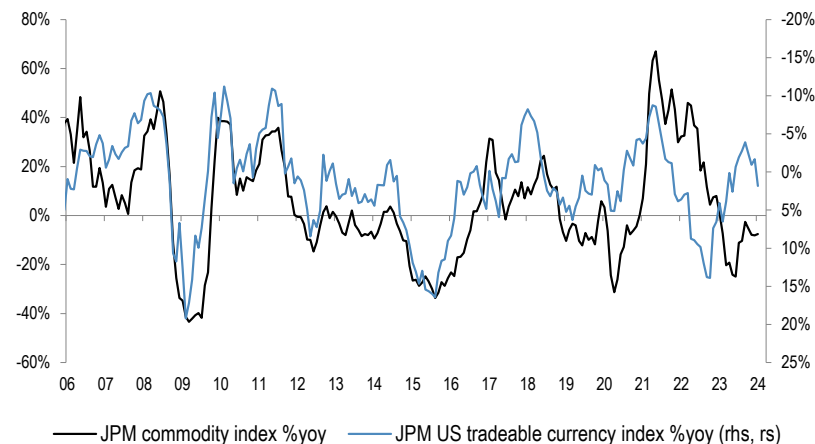
- We were cautious on Miners last year, which was derived from our bearish China view, but have argued in Sep' 23 that Miners could trade better tactically. They have done poorly since Jan' 23 highs, down almost 25%.
- At the same time, we fear that the structural issues in China are unlikely to be resolved in a hurry, and would therefore advise against staying in the sector beyond this quarter.
- Key drivers include divergence opening between the sector performance and underlying commodity prices, where iron ore at present is at the highest level in over a year.

European Mining relative



Source: JPM Metals&Mining Research

JPM tradeable USD and Commodity prices



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

Iron Ore



Source: J.P. Morgan

...the sector offers high levels of cash return and earnings could see upgrades

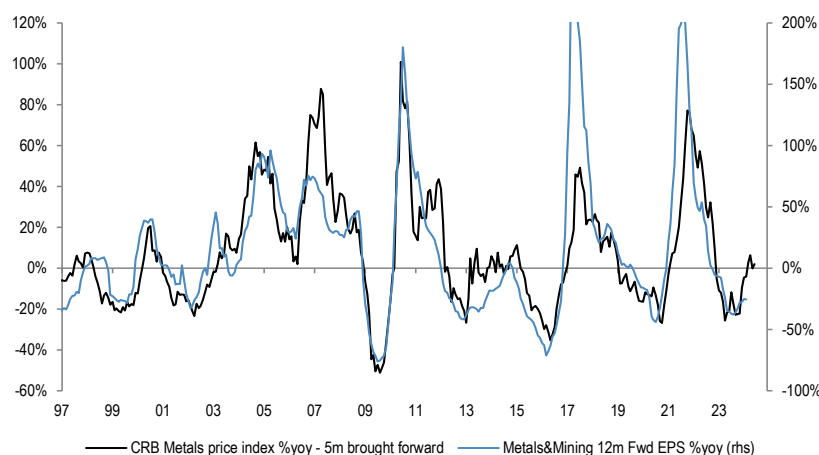
- A number of Miners offer attractive dividends and are also engaging in buybacks.
- We also believe that Mining is likely to see mark-to-market earnings upgrades if spot prices hold around current levels.
- Valuations look less supportive.

2023e and 2024e DY of key big miners

Name	Ticker	23e DY	24e DY
RIO TINTO	RIO LN	6.0%	6.8%
NORSK HYDRO	NHY NO	4.3%	5.6%
ENDEAVOUR MINING (LON)	EDV CN	4.4%	4.7%
GLENCORE	GLEN LN	6.4%	4.1%
ANGLO AMERICAN	AAL LN	4.0%	3.9%
VOESTALPINE	VOE AV	-	3.7%
BOLIDEN ORD SHS	BOL SS	2.6%	3.1%
ARCELORMITTAL	MT NA	1.7%	1.9%
ANTOFAGASTA	ANTO LN	1.8%	1.6%
MSCI Europe Metal and Mining		4.0%	3.8%
MSCI Europe		3.5%	3.7%

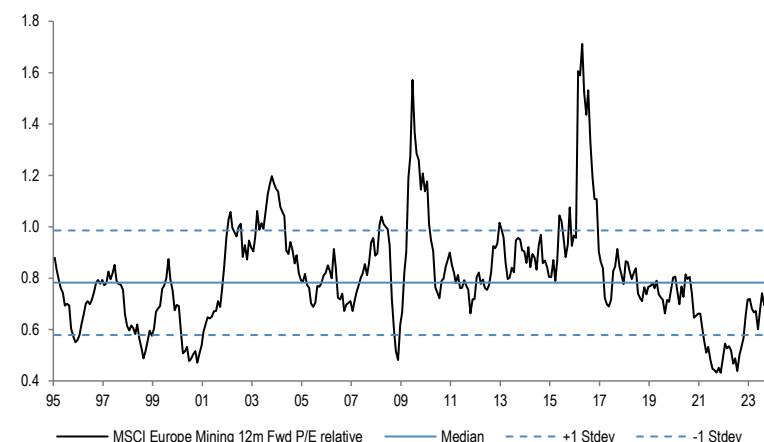
Source: Datastream

Metal prices and Mining EPS



Source: Bloomberg Finance L.P., IBES

European Mining 12m Fwd. P/E relative

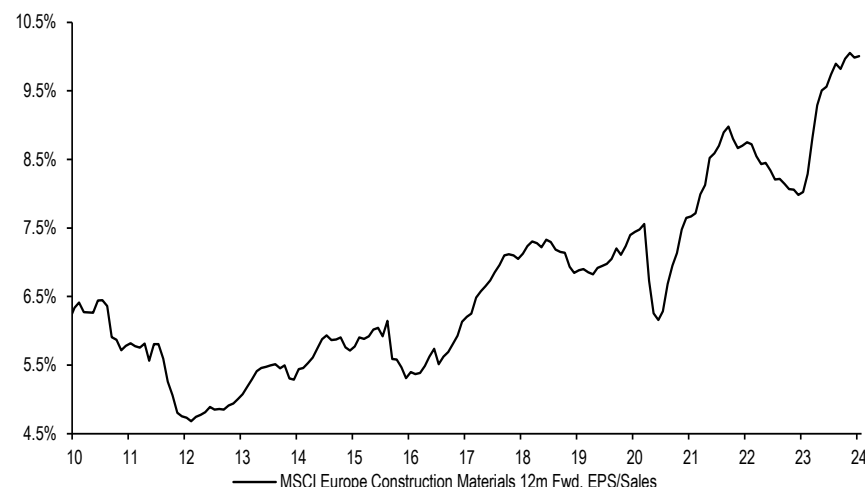


Source: IBES

Neutral Construction Materials – margins may be peaking, the sector faces disappointment from weaker construction activity and lower fiscal spending

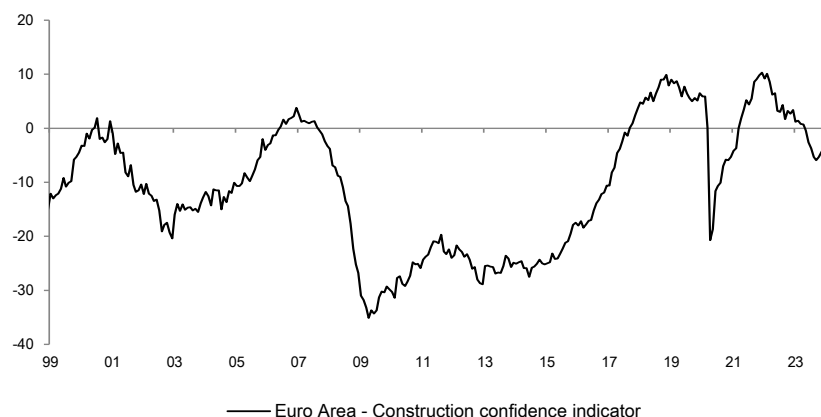
- Construction Materials sector had a very strong run since Jan' 23, up almost 40% relative to the market.
- Cement names have done well on the back of strong pricing. US fiscal spend has also aided sentiment on the sector.
- Base effects will likely become more challenging, especially as numerous countries start to exhibit more fiscal restraint.
- Construction activity has already been rolling over in Europe. Margins which are at record highs can deteriorate.

MSCI Europe Construction Materials 12m Fwd. EPS/Sales



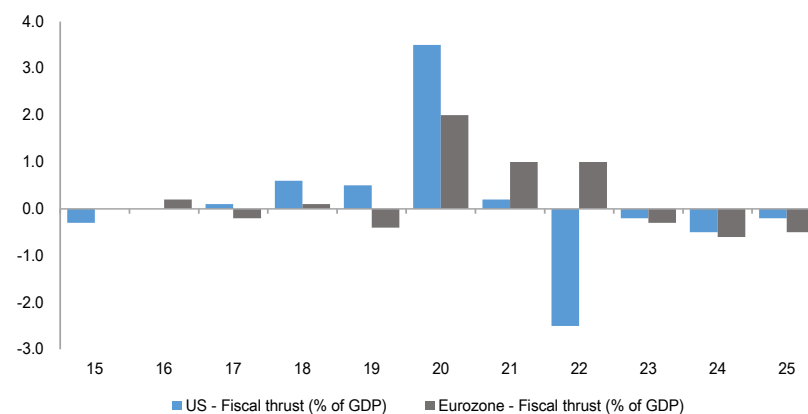
Source: Datastream

Euro area Construction confidence indicator



Source: J.P. Morgan

US and Eurozone Fiscal Thrust

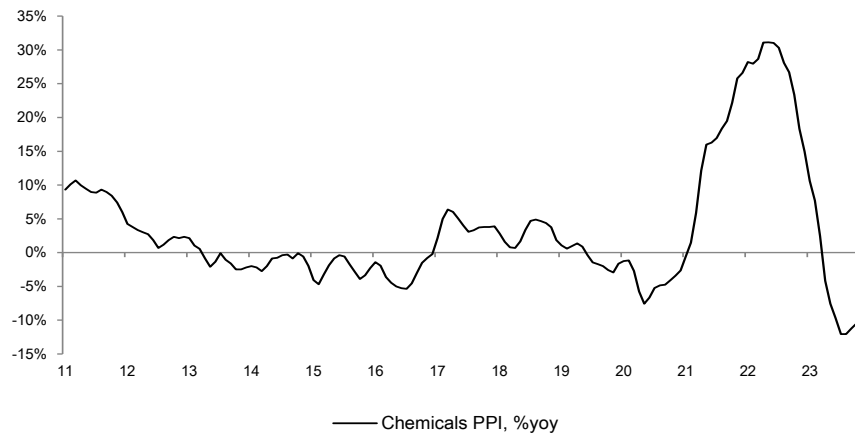


Source: Bloomberg Finance L.P.

UW Chemicals – The sector is still trading expensive

- The sector is down roughly 20% since Jan' 22 relative to the market. While some more Cyclical parts of the sector appear cheap, overall Chemicals trade at a 70% premium to the broader market, well above the historical norm.
- Pricing continues to deteriorate.
- Our analysts project that sales growth for the sector will improve significantly. Topline growth improvement for the sector may not sustain, though. Any improvement is contingent on continued macro recovery, which we note is far from guaranteed. We see downside risks to current earnings and margin projections.

Chemicals PPI %yoy



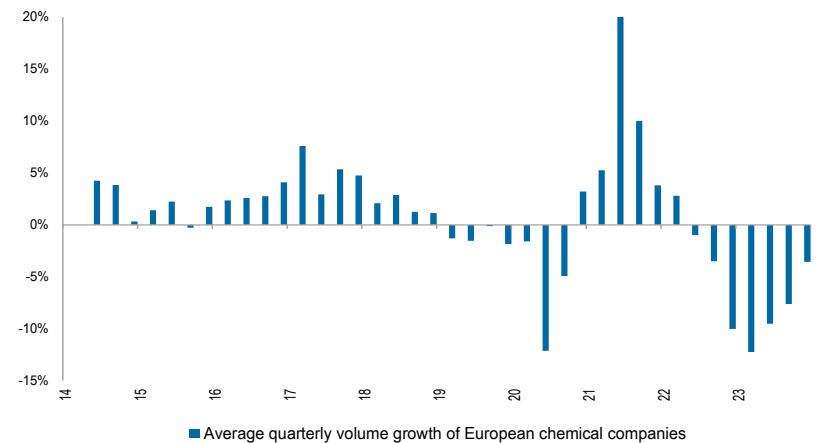
Source: Bloomberg Finance L.P.

European Chemicals 12m fwd P/E relative



Source: IBES

European Chemicals volume growth



Source: J.P. Morgan Chemicals Research, *23Q4 is forecast

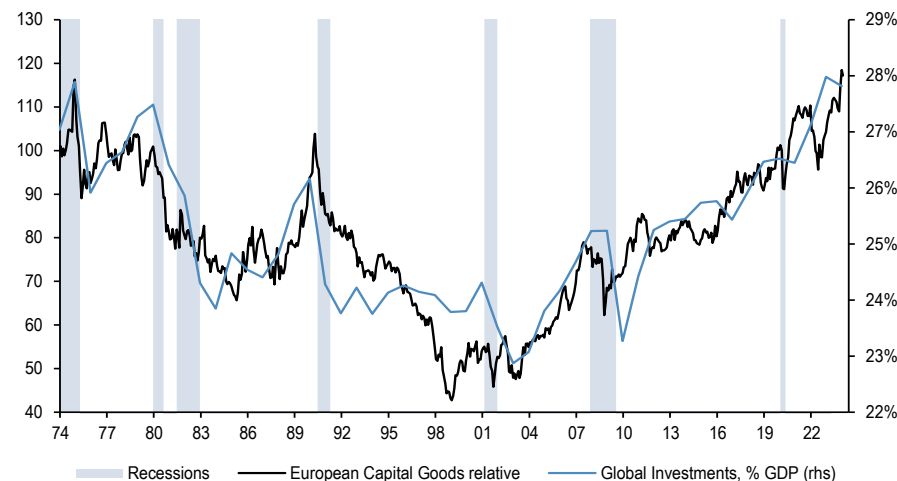
J.P.Morgan

INDUSTRIALS: NEUTRAL

UW Capital Goods ex A&D – trading at multi-year price relative highs and valuations look expensive...

- The European Capital Goods sector has seen strong outperformance last year and is trading at multi-year price relative highs. This could start to reverse as we are already seeing signs of weakness in short-cycle demand.
- This has pushed the sector's relative valuations to record levels. Capital Goods are trading at a roughly 40% P/E premium to the market.
- Not only are the sector's valuations at peak levels, but margins also appear toppish.

European Capital Goods relative and global investments as a share of GDP



Source: Datastream

MSCI Europe Capital Goods 12m trailing EBIT margin



Source: IBES

European Capital Goods 12m forward P/E relative

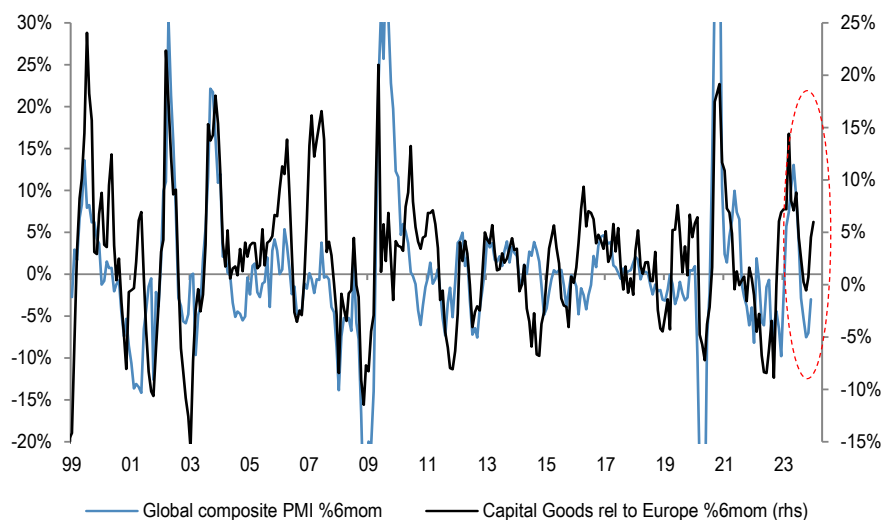


Source: IBES

...Cap Goods could come under pressure if activity momentum doesn't accelerate sustainably, Capex is at risk

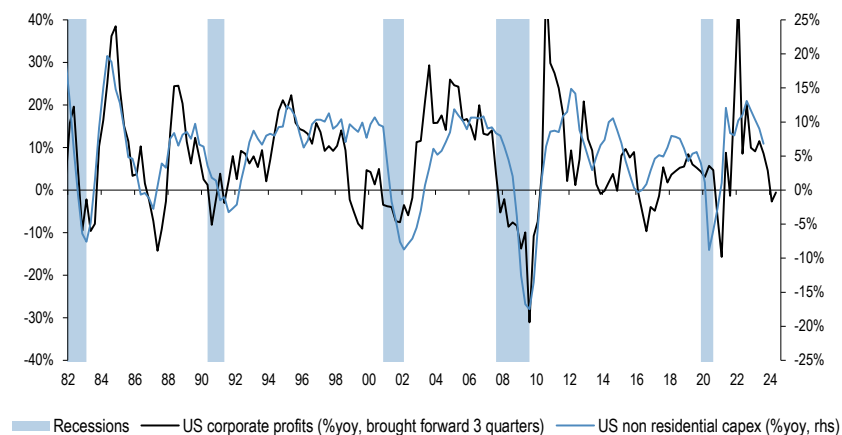
- The sector benefitted hugely from the significant upmove in global capex over the last couple of decades. Our sector analysts now see a more challenged capex outlook for this year.
- In the past, the sector's relative performance has been closely aligned to the trajectory of composite PMIs and to IP. The recent divergence is notable.
- We believe one should start to fade the recent bounce in the sector as earnings, margins and multiples could all come under pressure if activity momentum doesn't accelerate sustainably.

European Capital Goods rel and global composite PMI



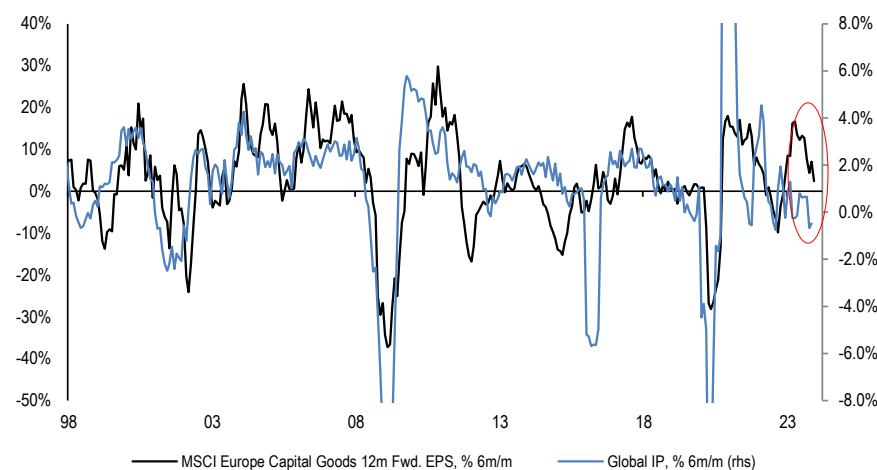
Source: IBES

US Non-residential capex and NIPA corporate profits



Source: J.P. Morgan, BEA

European Capital Goods and Global IP

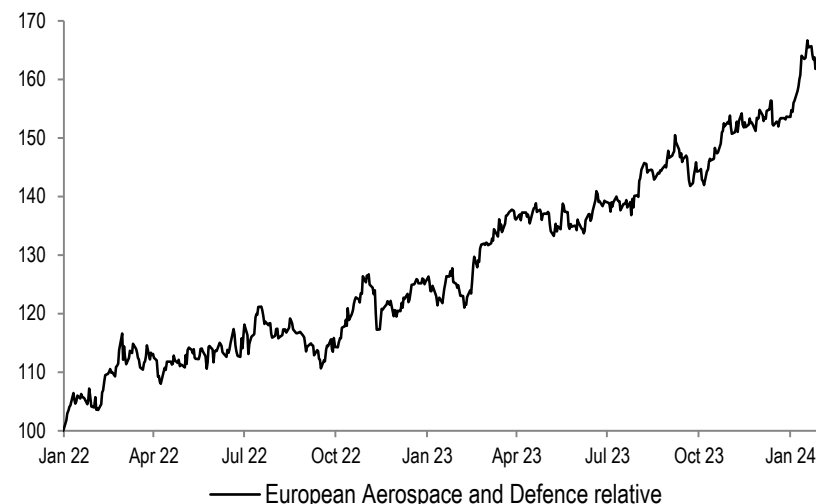


Source: Datastream

We stay OW Aerospace & Defense

- Aerospace & Defense has outperformed the market by more than 60% since Jan'22.
- Our sector analysts see continued support for orderbooks over the next few years as countries look to reverse decades of underspending on Defence.
- On the Civil Aviation side, IATA forecasts that 2024 global air traffic will reach 105% of 2019 levels, a 9% improvement versus 2023. The sector displays a strong order backlog, in addition to sticky pricing.

European Aerospace and Defensives relative



Source: Datastream

NATO - defence budgets by country

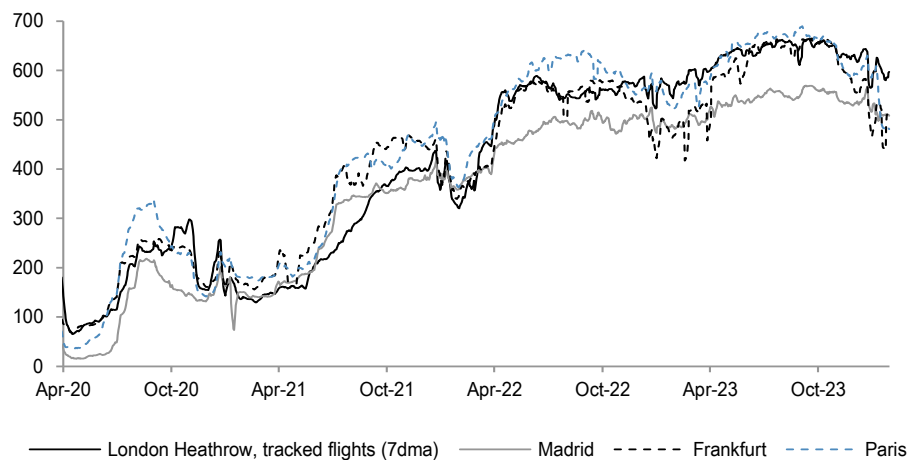
Country	Defence Budget (Govt defined) % of GDP 2023E	Defence Budget (NATO defined) % of GDP 2023E	Defence spending pledge since Feb- 22	Year when spending increase begins	Year when spending target achieved	Current status
Germany	1.6%	1.6%	EUR 100bn extra spending	From 2023	72	Feb 2022: €100bn special defence fund to be spent from 2023 to 2027 / 28
France	1.9%	1.9%	7% pa growth to 2030	From 2024	Est. 2030	Jul 2023: Govt approves defence spending growth of 7% pa from 2024 to 2030
Italy		1.5%	2.0% of GDP		2028	Sep 2022: New govt confirmed support for 2% of GDP by 2028
Netherlands		1.7%	2.0% of GDP		2024 / 25	Jun 2022: Govt approved 2% of GDP in 2024 & 2025
Spain		1.3%	2.0% of GDP	From 2023	2029	Nov 2022: Parliament approved significant increase in 2023 defence spending
Poland		3.9%	4.0% of GDP	From 2023	2023	Aug 2023: PM says defence spending will be over 4% of GDP in 2024
Norway		1.7%	2.0% of GDP	From 2022	2026	May 2023: PM announced intention of at least 2% of GDP by 2026
Czech Rep.		1.5%	2.0% of GDP		2024	Jun 2023: Govt approved law on defence spending of at least 2% of GDP from 2024
Portugal		1.5%	1.89% of GDP		2024	Commitment to reach 1.89% of GDP in 2024 if Portugal gets necessary EU funds
Lithuania / Estonia / Latvia		2.5%	All 3 nations: 2.5% of GDP	From 2022	2025	Estonia and Lithuania by 2022; Latvia by 2025
Sweden	1.3%		2.1% of GDP		2024	
Finland	2.5%		EUR 2bn extra spending		2022- 26	
Austria	0.8%		1.5% of GDP		2027	

Source: JPM European Aerospace and Defense Research

Neutral Transport

- A combination of higher oil prices and more downbeat demand expectations have weighed on the Airlines stocks. We believe these will continue to disappoint.
- The easy base effects for the sector are largely behind us.
- Passenger capacity has been ramping up and is expected to grow another 5-10% this year. Unless demand remains exceptionally strong, higher capacity will likely further cannibalize pricing.

Flights tracked - Europe Airports



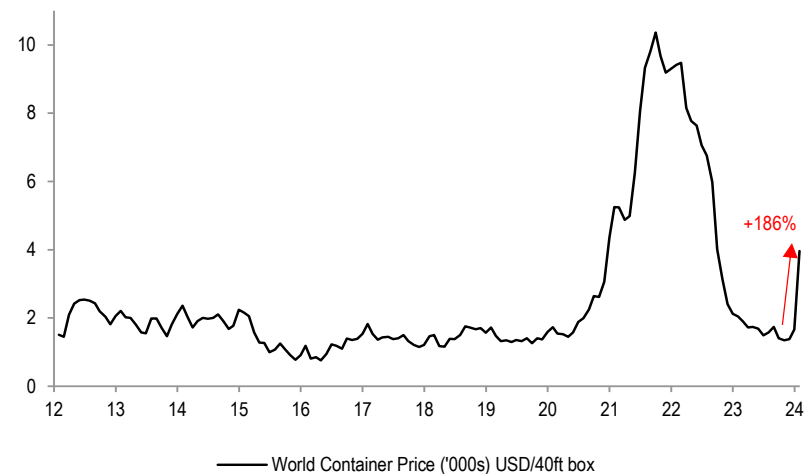
Source: FlightRadar24

MSCI Europe Airlines relative



Source: Datastream

World Container price



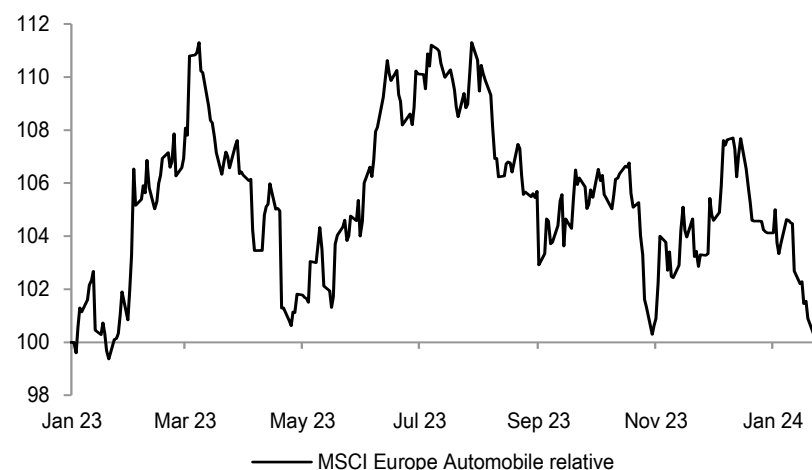
Source: Bloomberg Finance L.P.

CONSUMER DISCRETIONARY: NEUTRAL

UW Autos – cheap, but vulnerable to potential slowing in consumer...

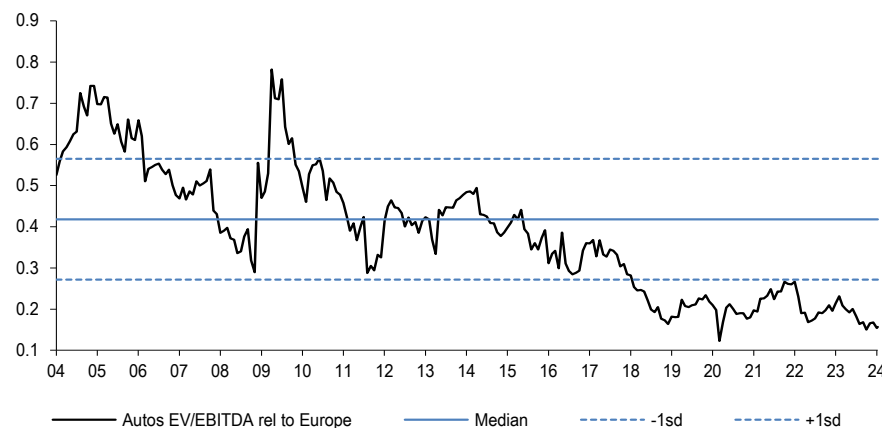
- We remain UW the Autos sector, expecting Autos to continue struggling, especially if the pricing and the consumer outlook deteriorate.
- Autos look cheap on a range of valuation measures, such as Price to Book, as well as on EV/EBITDA. However, the sector is strongly correlated to activity momentum, and could be hurt as PMIs stay subdued.
- We note the disconnect between the sector EPS and the weak macro and believe that the earnings trends will soften, to catch up with the weakness in PMIs.

European Autos relative



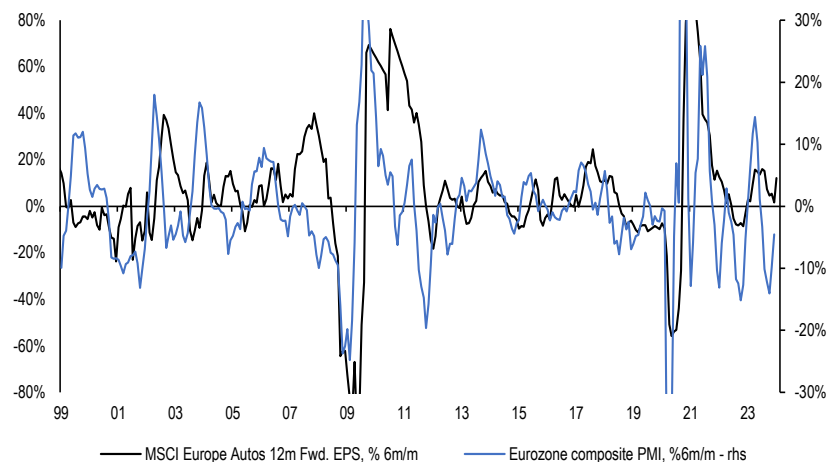
Source: Datastream

Autos EV/EBITDA relative



Source: Datastream

European Autos EPS and Euro composite PMI

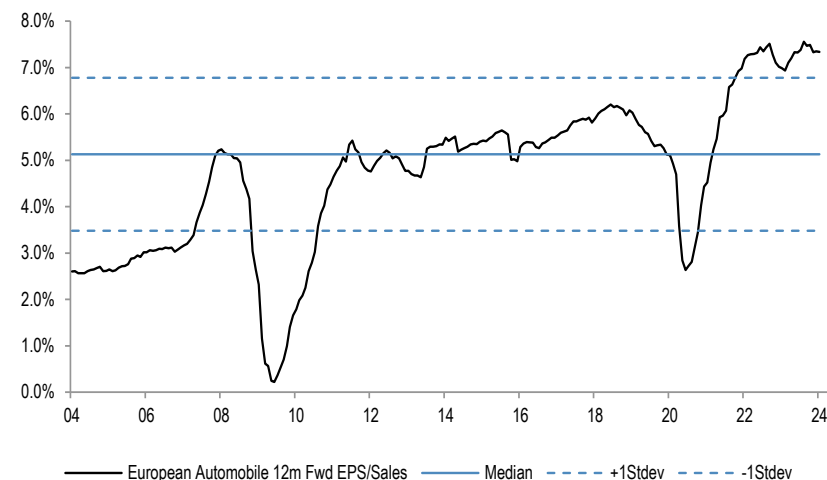


Source: Datastream

...softening demand could become a headwind, and pricing could come under pressure

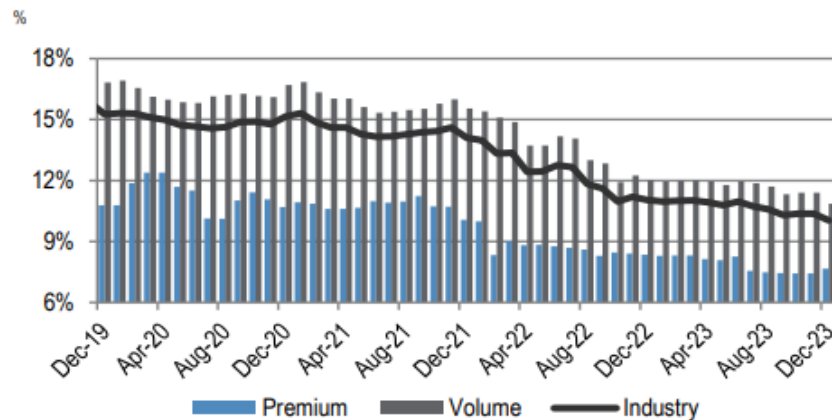
- Strong pricing and better mix drove the sector margins to record highs, but we think margins are peaking, as a combination of rising inventory and weaker demand could hurt pricing.
- We are already seeing higher discounts and incentives in the pivotal Chinese car market. We believe this could prove ominous for other regions, including Europe and the US. Our bottom-up analysts have a more benign outlook for the sector and believe pricing may hold up.

European Autos EPS/Sales



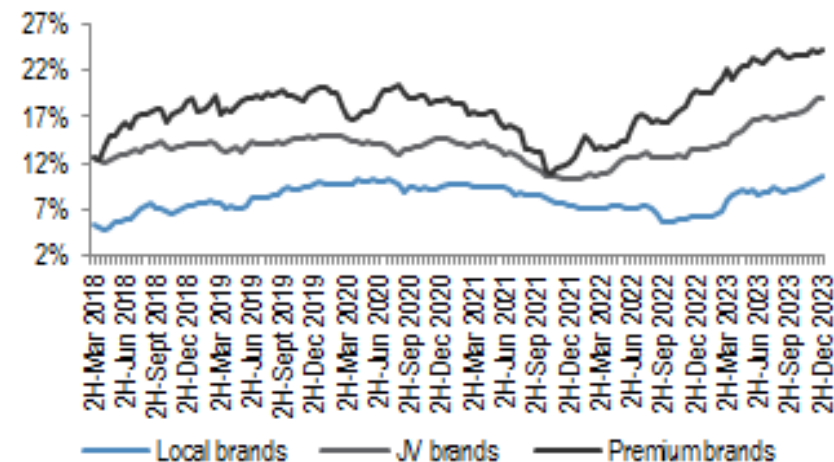
Source: IBES

Weighted average discounts across Europe



Source: JPM European Autos Research Team

Incentives levels in China (%)

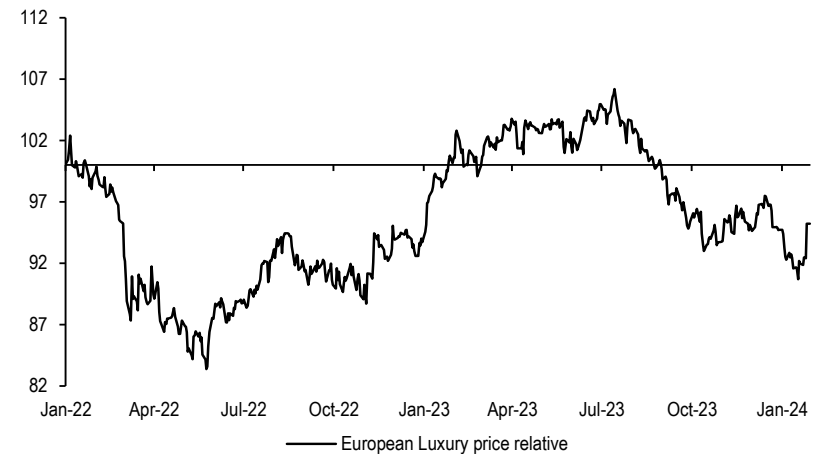


Source: JPM European Autos Research Team

N Consumer Durables – China play, but still expensive despite recent underperformance

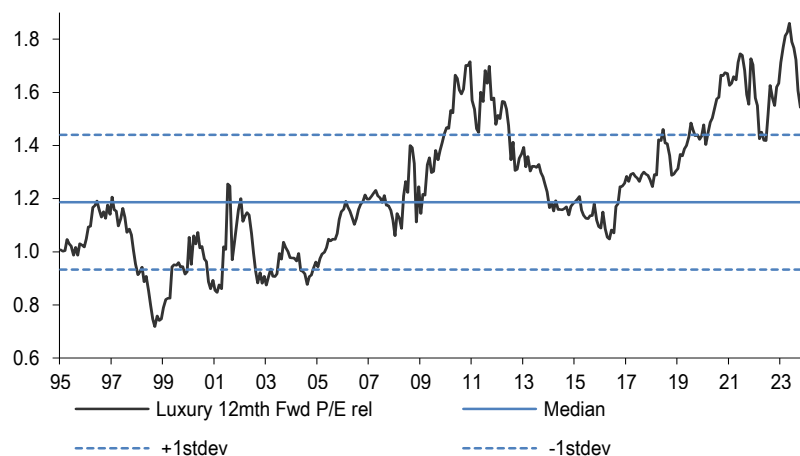
- The European Consumer Durables (Luxury) sector has underperformed the market by close to 10% since the highs seen in July last year.
- Even post this underperformance, the sector still looks expensive.
- The sector is heavily exposed to the Chinese economy. where we have a structural negative view. We think the sector could tactically trade better post the period of underperformance, as stimulus measures start to come through, but we don't see a case for sustained outperformance of Luxury names.

European Luxury price relative



Source: Datastream

European Luxury 12m Fwd P/E relative



Source: IBES

HK SAR Jewelry watches sales vs Durables 12m Fwd EPS

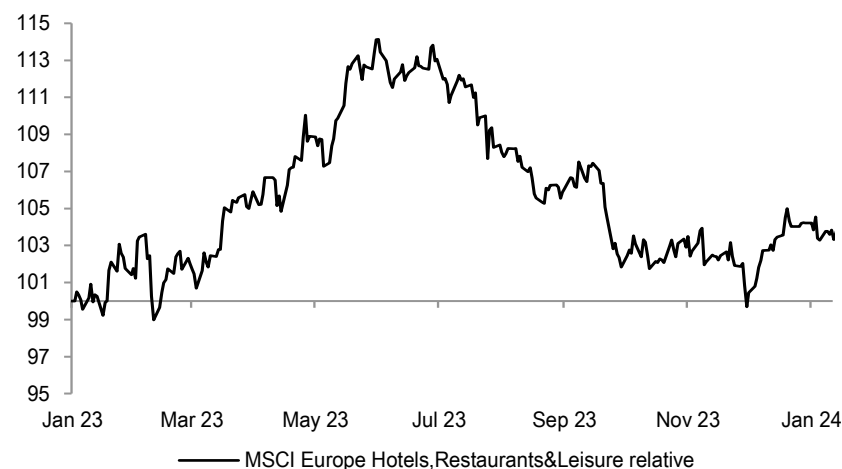


Source: IBES, Bloomberg Finance L.P.

UW Consumer services – easy base effects are behind us

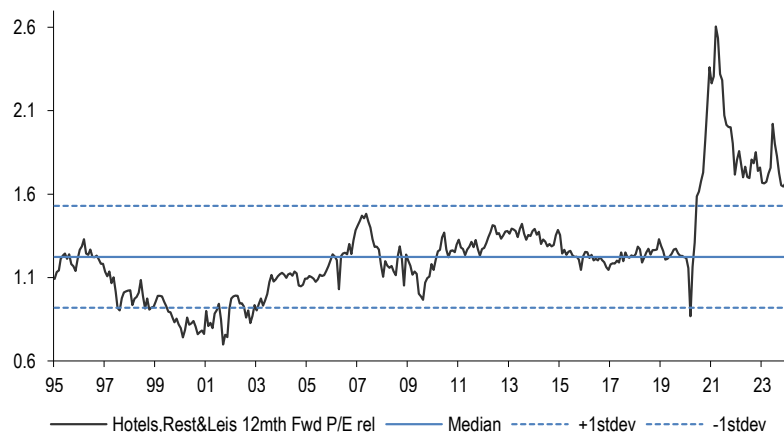
- The consumer services sector had a very strong run in the 1H of last year, but has rolled over since. We believe the headwinds will keep increasing. Earnings trends for the sector have also been relatively strong, driven by strong pricing and occupancy rates, and should see normalization soon.
- RevPAR trends are starting to roll over. We believe that the sector will likely struggle as the trend of “revenge travel” winds down.
- The sector does not have a clear valuation support, in our view.

European Hotels, Restaurants & Leisure price relative



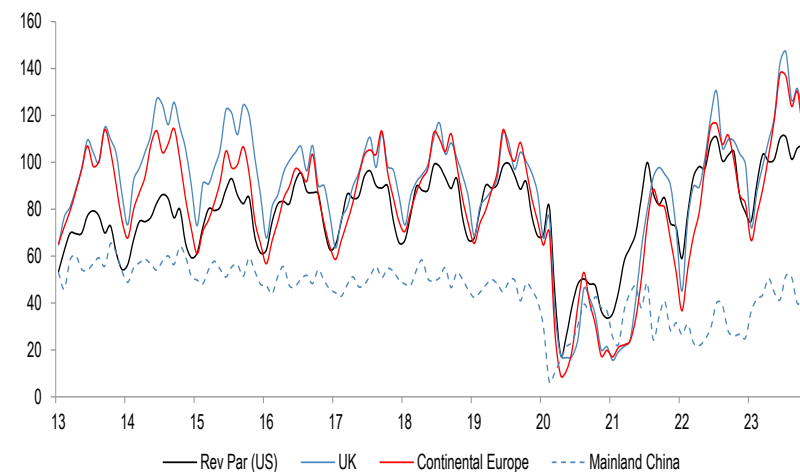
Source: Datastream

European Hotels, Rest & Leisure 12m Fwd P/E relative



Source: IBES

Absolute RevPar for key regions

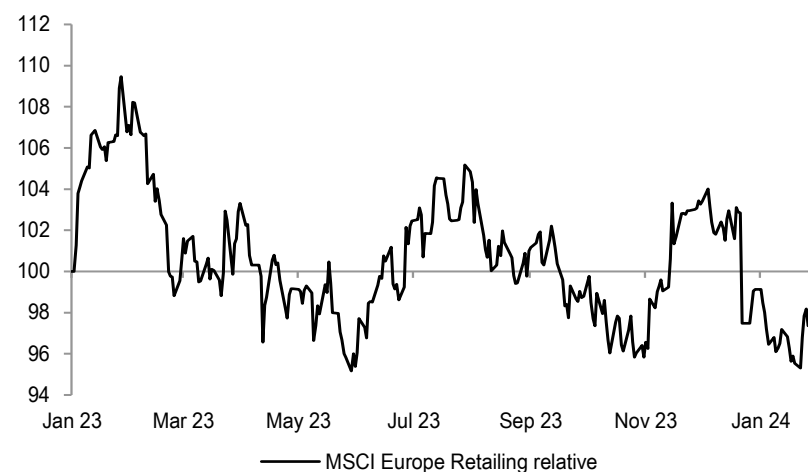


Source: J.P. Morgan European Leisure, Hotels and Gaming research

UW Retail – consumer outlook still remains challenged

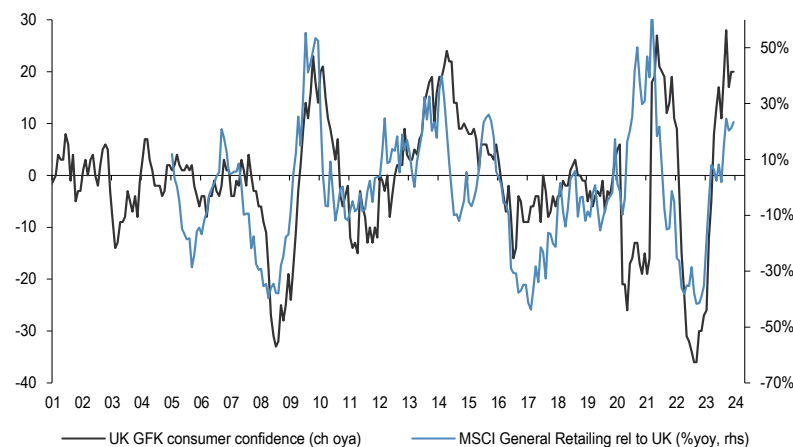
- The General retail sector has had a mixed 2023 and could struggle going forward. The consumer outlook could remain challenged, especially if we start to see meaningful labour market weakness.
- We note that valuations have derated and the sector no longer screens expensive.

European Retailing price relative



Source: Datastream

UK Retailing relative performance vs consumer Confidence



Source: Bloomberg Finance L.P., Datastream

European Retailing 12m Fwd P/E relative



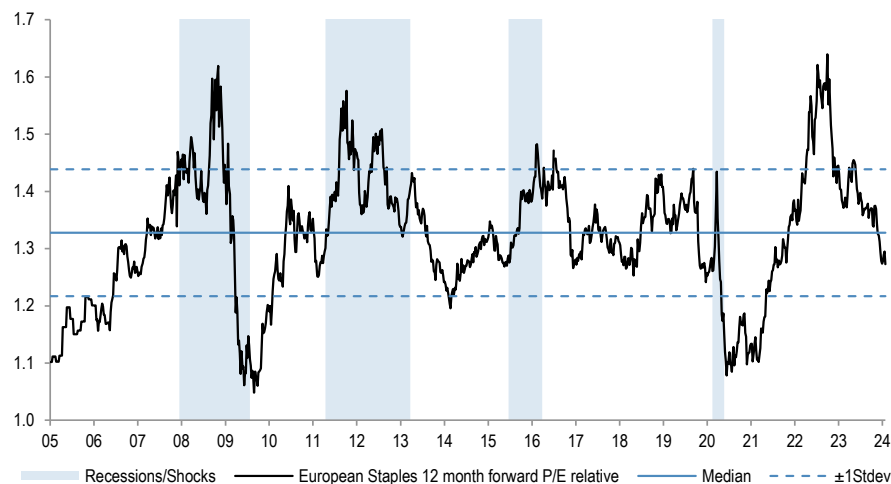
Source: IBES

CONSUMER STAPLES: OVERWEIGHT

The sector typically did well at this stage of the cycle... valuations have improved

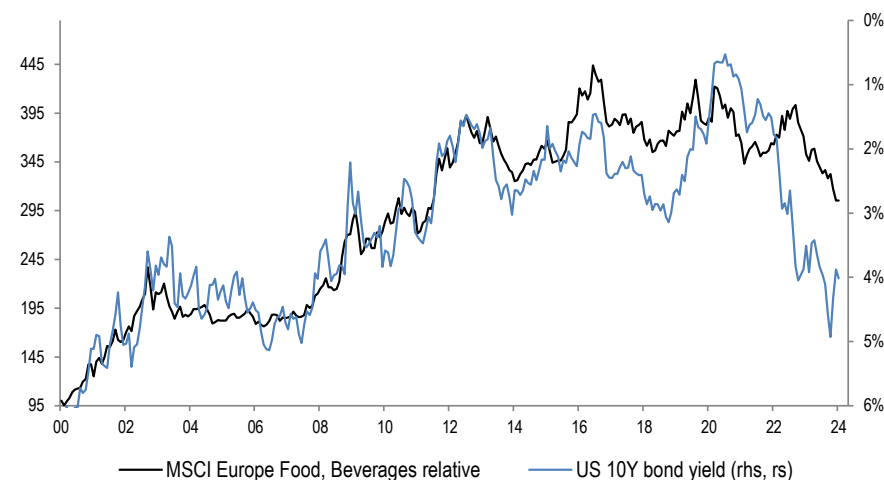
- European Staples had a poor run last year, as rising bond yields weighed on the sector. However, the sector should trade better going forward: the sector typically outperforms around the final Fed hike in the cycle. Also, we expect bond yields to move lower, which should help the sector.
- Valuations of the sector are not expensive anymore, they have derated, and are now on the cheap side of fair value.
- The gold to copper ratio - which symbolizes economic stress - has been rising in recent weeks and has in the past been a good proxy for the sector's relative performance. The recent divergence is notable, and should not last, in our view.

MSCI Europe Staples 12m Fwd PE relative



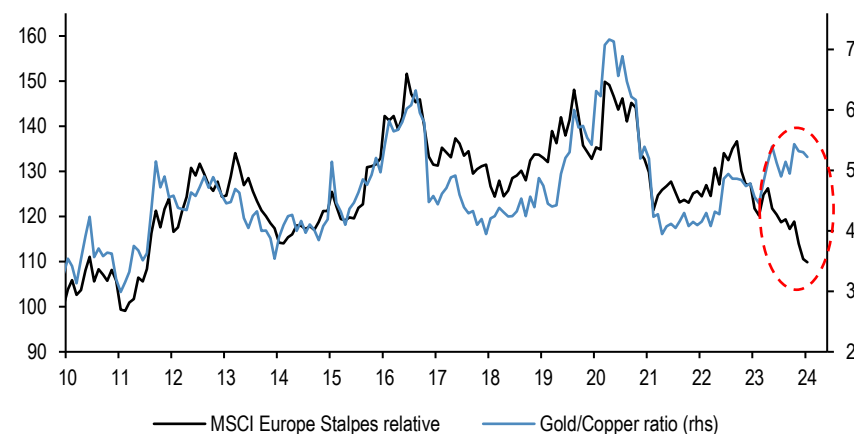
Source: IBES

MSCI Europe Food & Beverages vs US 10Y bond yield



Source: Datastream

European Staples relative and gold-copper ratio



Source: Datastream, Bloomberg Finance L.P.

J.P.Morgan

UW Food & Drug Retail – falling Food CPI and PPIs, and increased price competition are a problem

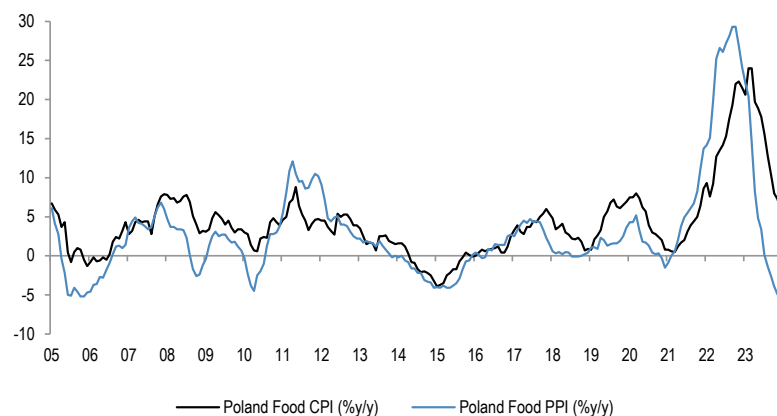
- Food Retail is likely to see increased price competition and our analysts project that margins for most companies will contract in 2024, with flat to low-single-digit volume growth.
- Falling PPIs and CPIs add to the pricing concerns. Food inflation is coming down at a rapid pace and is already in negative territory for some regions.
- JPM Agricultural commodity index has been weakening, suggesting further downside for the sector earnings.

European Food Retail companies' margins

	Earnings metric	Earnings margin y/y			
		1H23	2H23E*	2023E*	2024E*
Tesco UK	Adj. EBIT, IFRS 16	47	29	38	(5)
Sainsbury's	Adj. EBIT, IFRS 16	(4)	(16)	(10)	(6)
B&M UK	Adj. EBITDA, IAS 17	82	61	68	(127)
Ahold Europe	Adj. EBIT, IFRS 16	(43)	4	(19)	23
Carrefour Europe	Adj. EBIT, IFRS 16	(8)	(9)	(10)	(8)
B&M France	Adj. EBITDA, IAS 17	15	(23)	(11)	10
Carrefour France	Adj. EBIT, IFRS 16	36	17	25	4
Colruyt	Adj. EBITDA, IAS 17	264	42	150	45
Jeronimo Portugal	Adj. EBITDA, IAS 17	1	13	8	(18)
Tesco CE	Adj. EBIT, IFRS 16	(163)	(218)	(171)	28
Jeronimo Poland	Adj. EBITDA, IAS 17	(10)	(27)	(19)	(14)
Ahold US	Adj. EBIT, IFRS 16	13	(59)	(24)	(32)
Average		19	(15)	2	(8)

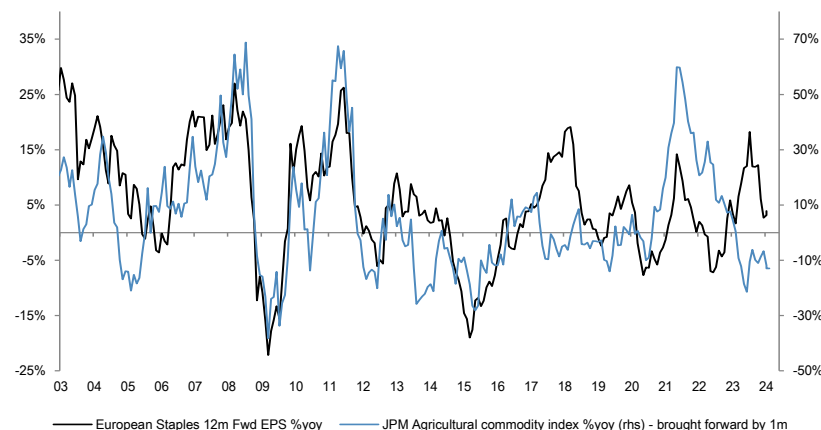
Source: J.P. Morgan European Food retail research

Poland Food CPI vs PPI



Source: Bloomberg Finance L.P.

European Food retail 12m Fwd EPS vs JPM Agriculture commodity index

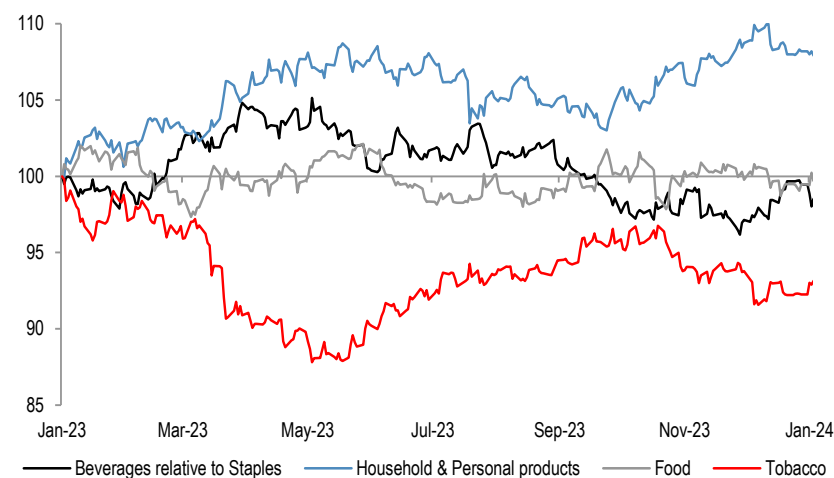


Source: IBES, J.P. Morgan

OW Food, Beverage and Tobacco – underperformance could be an opportunity to add to the sector

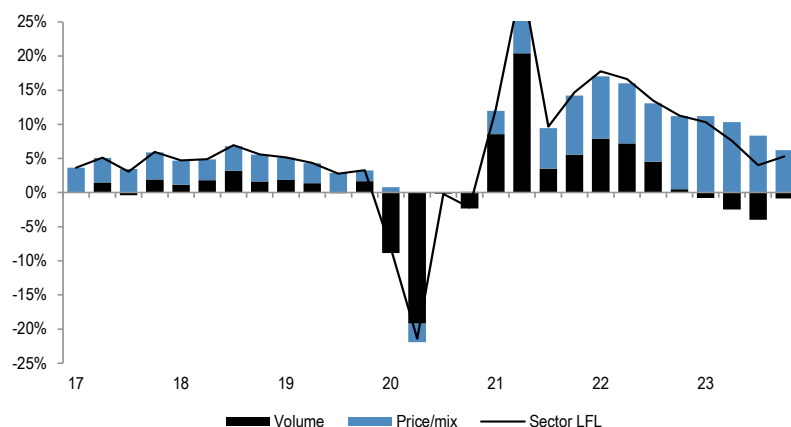
- Within Staples, Tobacco stocks have struggled the most last year. Regulatory issues in the US weighed on the sector, but the outlook from here might be less concerning.
- Beverages have fared relatively better. Volumes for the sub-sector have been weak last year, but are projected to inflect higher from here.
- For the Beverage sub-sector, volumes and margins are expected to improve as COGS (energy and grain prices) recede. Our sector analysts expect pricing to soften but are overall less bearish on the pricing / mix.

MSCI Europe Staples sub-sector performance relative



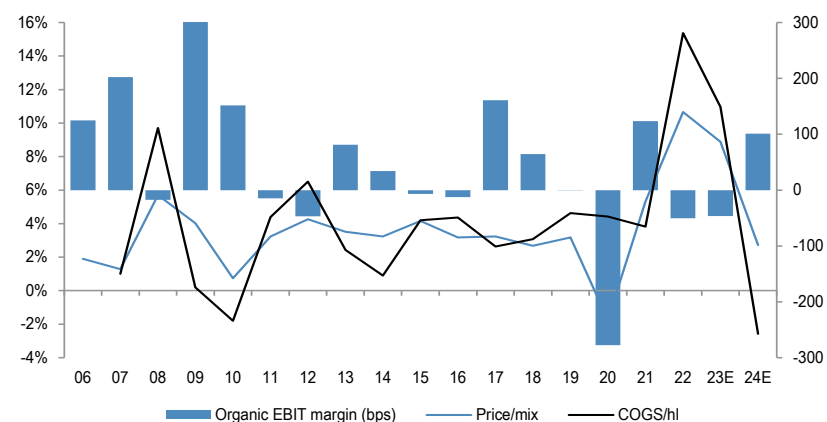
Source: Datastream

European Beverages top-line LFL, volume vs pricing



Source: J.P. Morgan European Staples Research, *2023Q4 is forecast

European brewer average organic price/mix, COGS/hl and margin change

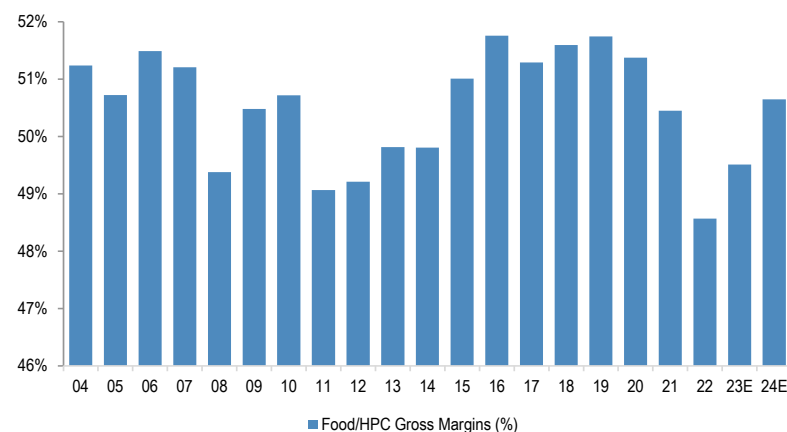


Source: J.P. Morgan European Staples Research

OW Household and Personal products – declining COGS could drive margin recovery

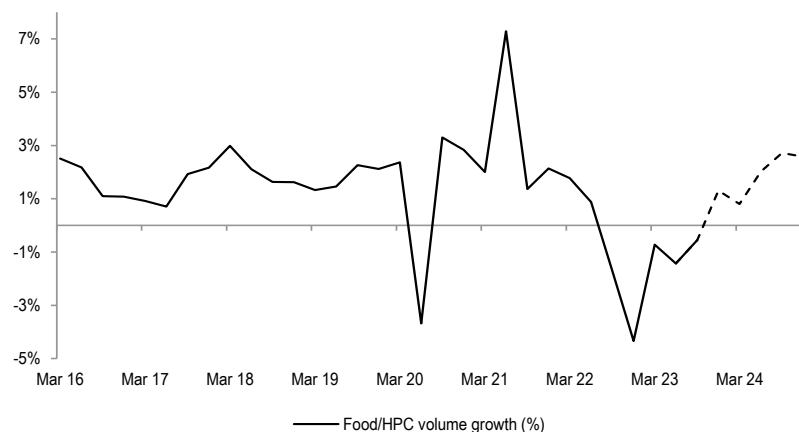
- Volume growth for the food / HPC subsector is expected to rebound over the coming quarters.
- Our sector analysts are also calling for margins to improve as somewhat softer pricing is more than offset by declining COGS. Falling commodity prices should be a significant tailwind for the sector in 2024.
- Valuations looked stretched at the start of last year, but we note now are on the cheap side of fair value.

European Food & HPC Adj. Gross margins



Source: J.P. Morgan European Staples research

European Food/HPC volume growth



Source: J.P. Morgan European Staples research

European HPC 12m Fwd. P/E relative



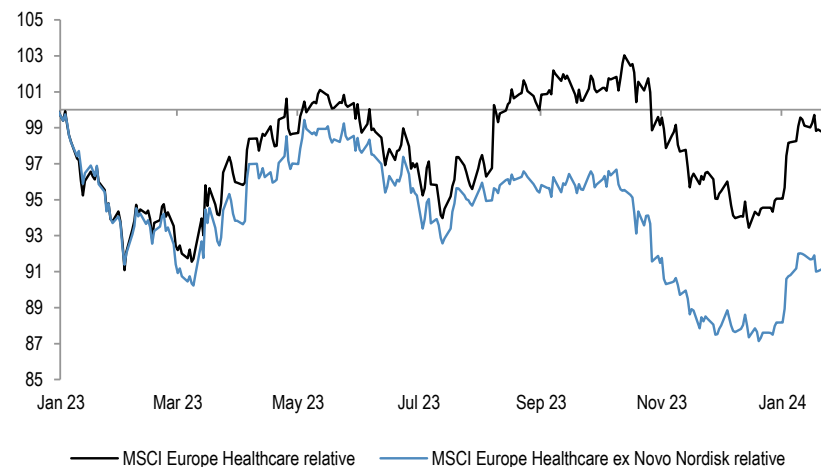
Source: IBES

HEALTHCARE: OVERWEIGHT

Potential for lower yields and stronger dollar remain near term supports...

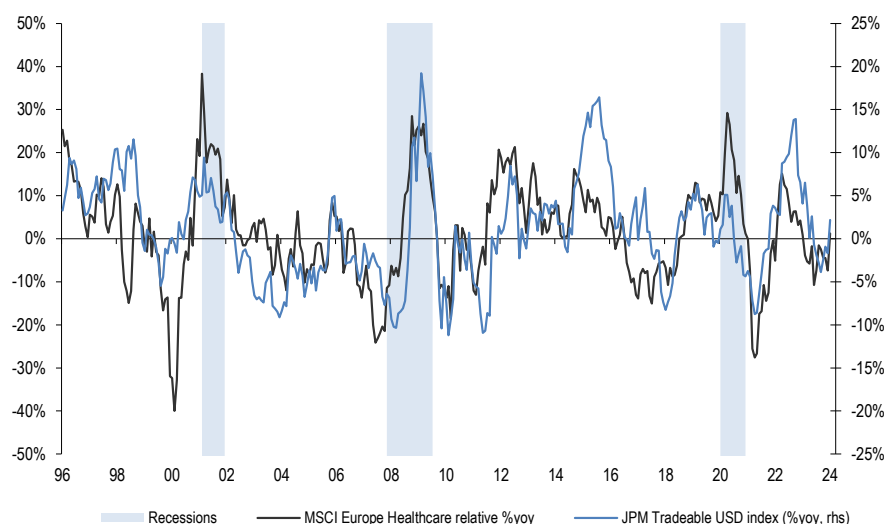
- Most of the sector performance can be attributed to a single stock, Novo Nordisk. Excluding Novo, Healthcare is down 11% relative to the market since 2023, which was supported by its GLP-1 drug.
- The sector has meaningful USD revenue exposure and tends to do better against a stronger dollar backdrop.
- However, valuations remain in expensive territory.

European Healthcare relative



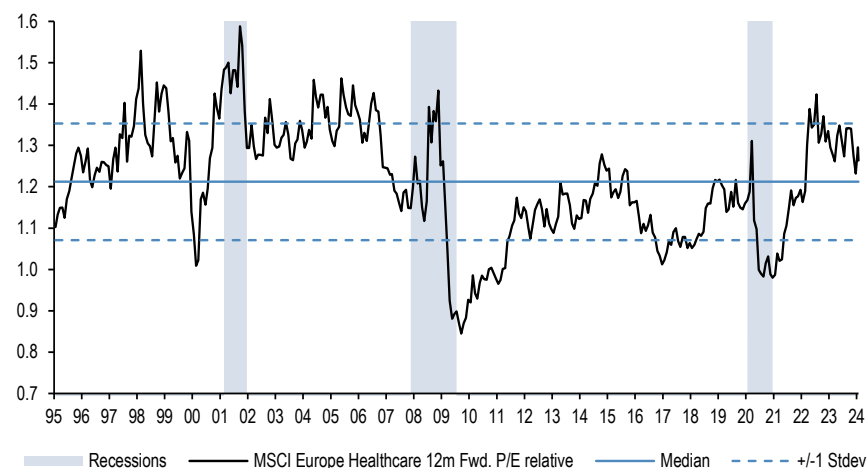
Source: Datastream

MSCI Europe Healthcare relative and tradeable USD



Source: Bloomberg Finance L.P.

European Healthcare 12m Fwd PE relative

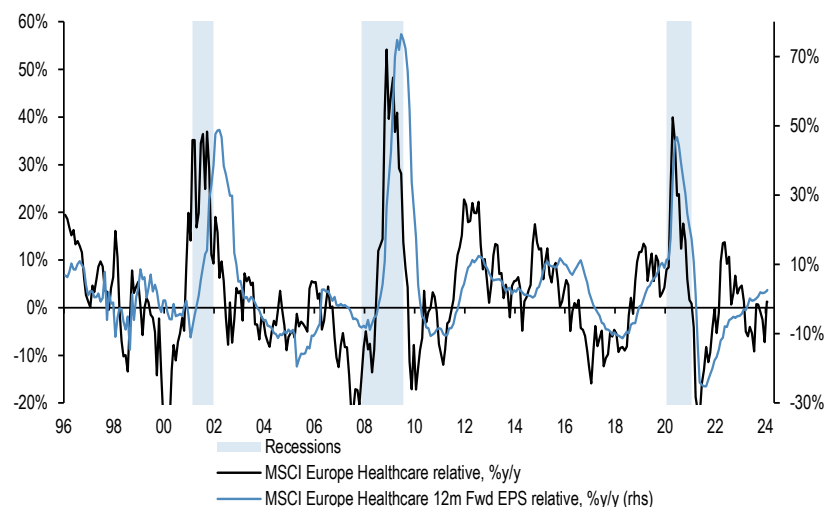


Source: IBES

...earnings are holding up, risk from patent expiry is limited in the near term

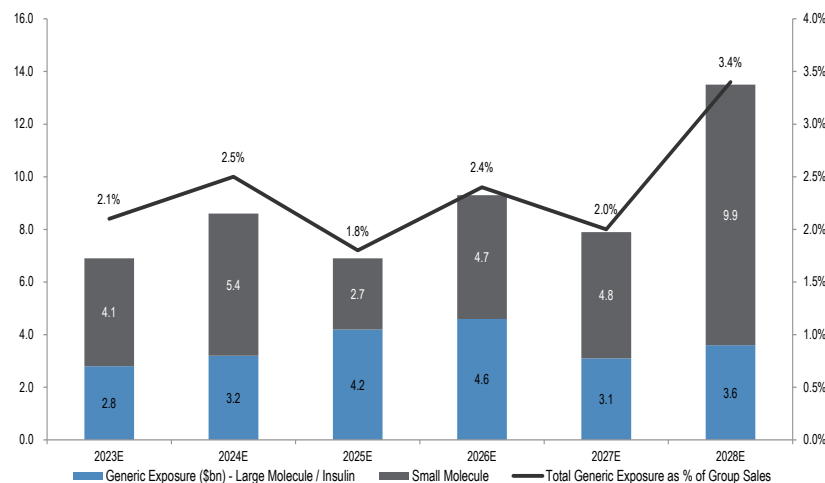
- Our sector analysts see upside potential to earnings, with new drugs pipeline, and patent expiry risk only at the end of the decade.
- Being a defensive sector, earnings are better insulated than the overall market during periods of economic weakness.
- The sector is also a traditional bond-proxy and should be helped if bond yields move lower.

European Healthcare 12m Fwd EPS and price relative



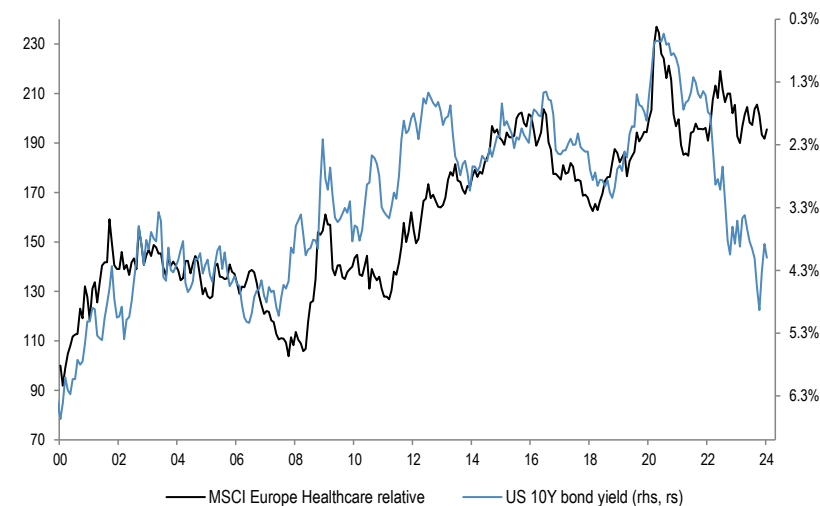
Source: IBES

Pharma Generics erosion timeline



Source: JPM European Healthcare Research

Healthcare price relative and 10Y bond yield



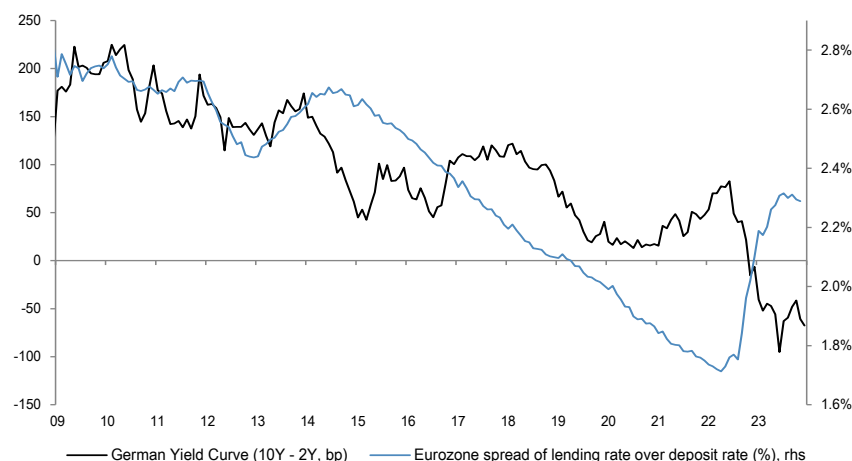
Source: Datastream

FINANCIALS: UNDERWEIGHT

UW Banks – downgraded to UW in October after strong performance...

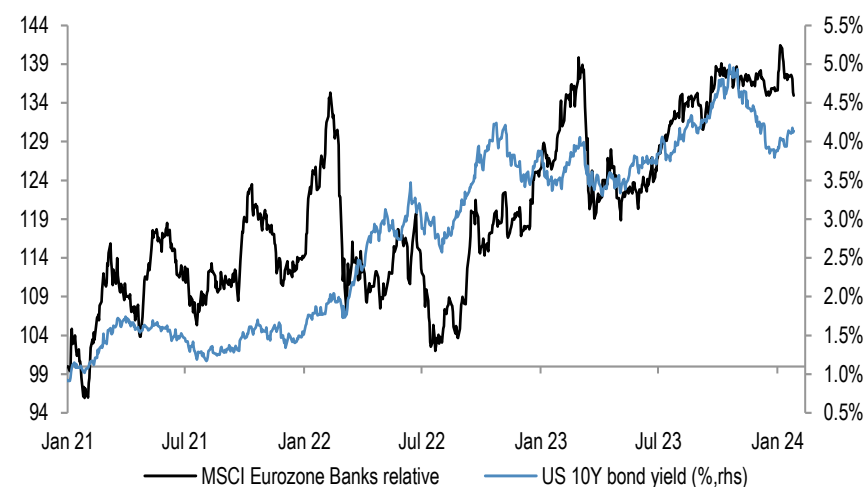
- European Banks were amongst the best performing sectors last year, building on the already strong returns from the sector since Q4 '20.
- The advantage of higher rates is now behind us, and NII for Banks is likely to peak out, as deposit betas rise, Euribor curve falls and risk from new bank taxes increase. We have cut the sector to UW in October 2023, believing that the tailwinds will turn.
- At 20x, leverage ratio for Banks is the highest among all sectors, putting them at risk if the macro environment weakens.
- However, valuations still remain supportive.

German yield curve and Eurozone Banks NIMs



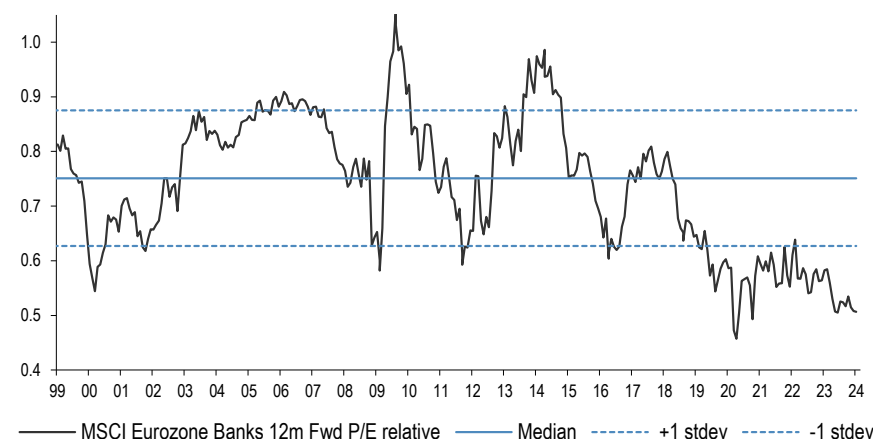
Source: J.P. Morgan

MSCI Eurozone banks relative and US10Y bond yield



Source: Datastream

Eurozone Banks 12m Fwd P/E relative

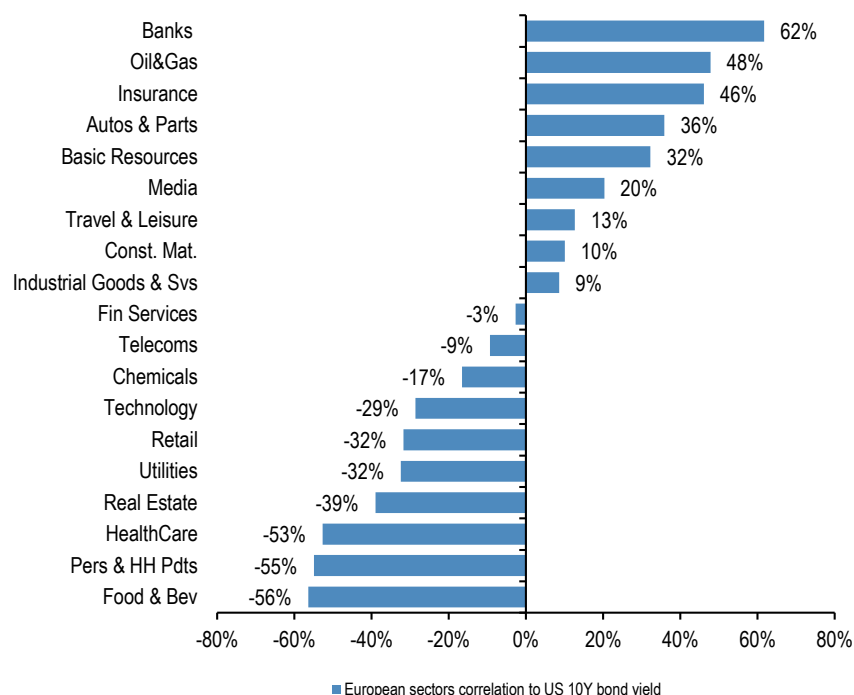


Source: IBES

...bond yields and PMIs direction is the key for the potential P/E re-rating of the sector... we think both will move lower...

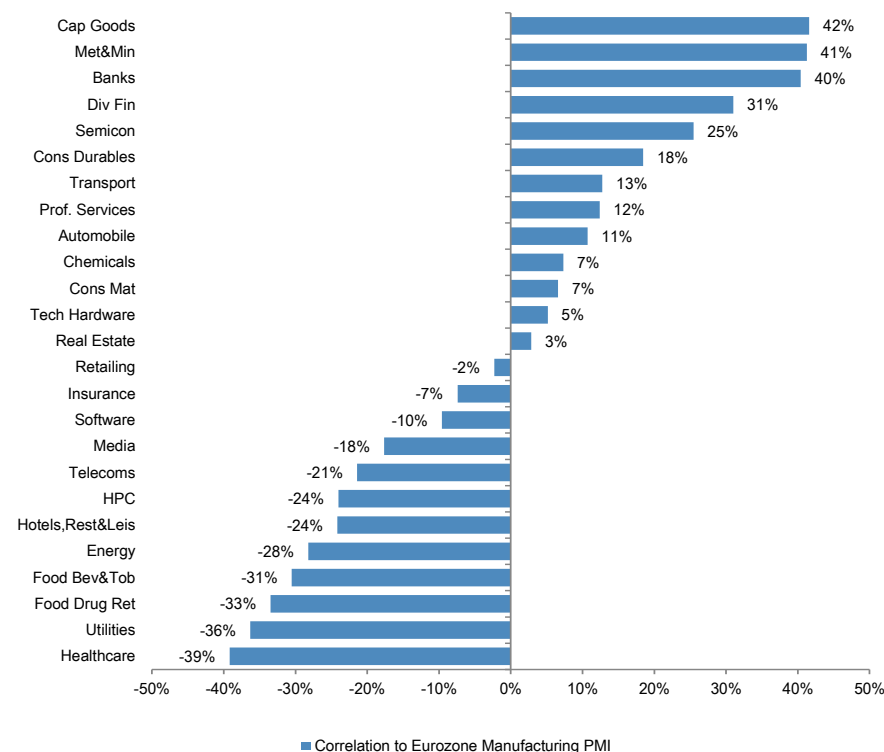
- Banks exhibit the highest sensitivity to the direction of bond yields, out of all sectors. If yields move lower, as we expect, that will be a problem for Banks.
- Similarly, Banks are unlikely to work if PMIs are weakening.

European sectors correlation to bond yields



Source: Bloomberg Finance L.P.

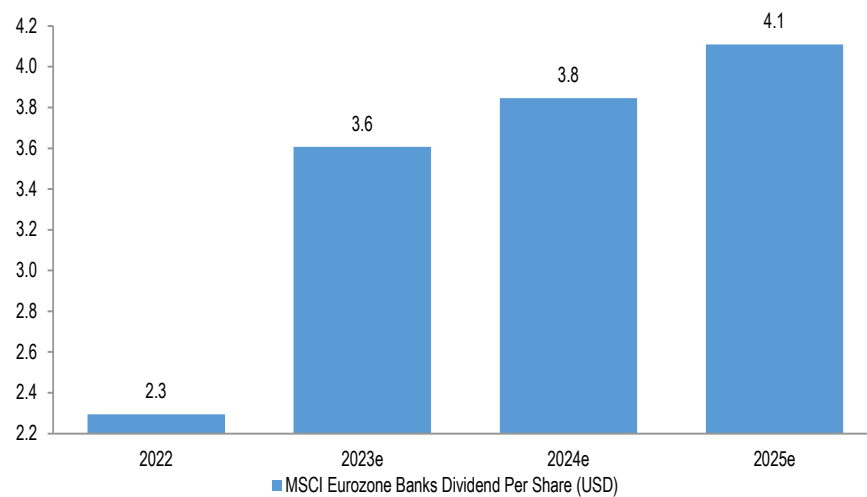
European sectors correlation to Eurozone manufacturing PMI



Source: Bloomberg Finance L.P.

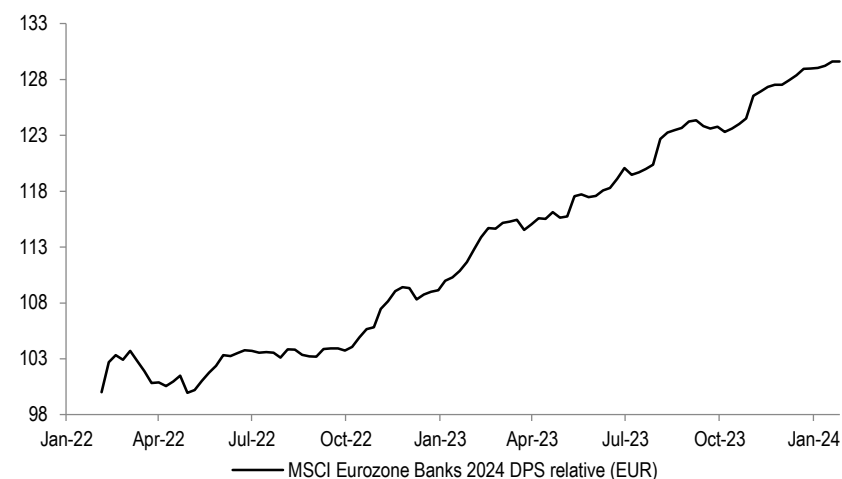
...this could imperil dividends outlook, which was the bright spot over the past two years

Eurozone Banks dividends projections



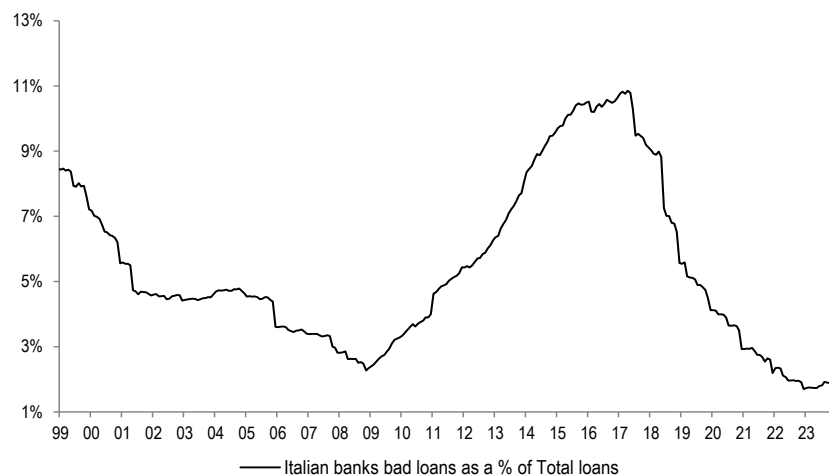
Source: IBES

MSCI Eurozone Banks 2024 DPS forecast relative



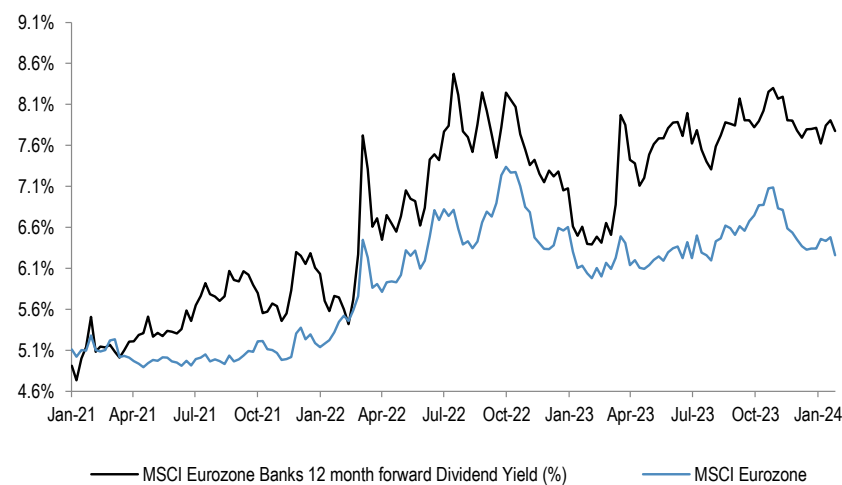
Source: IBES

Italian bad loans as a % of total loans



Source: Banca d'Italia

MSCI Eurozone Banks 12-month forward Dividend yield

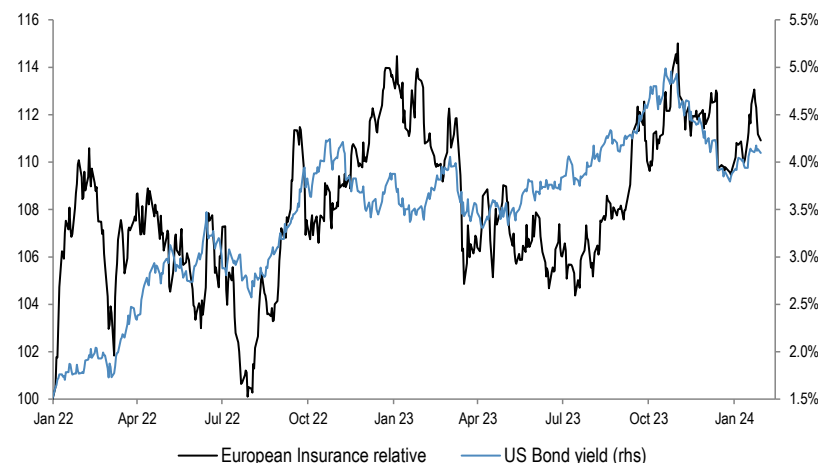


Source: IBES

N Insurance – closely linked to bond yields and credit spreads, strong capital position and pricing is a support

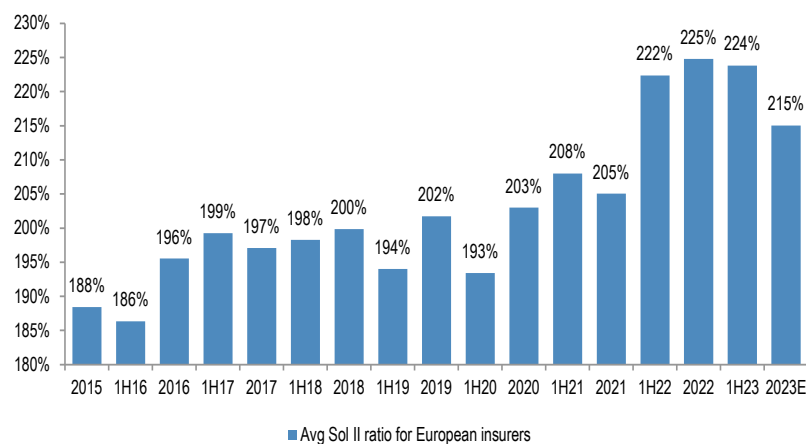
- The sector has a strong positive correlation with bond yields and will likely struggle if bond yields roll over.
- Global and US Property catastrophe rates are at their highest levels since 2006 and our analysts don't think they will be coming down any time soon. This underpins the case for strong pricing for the sector.
- Earnings for the sector remain well supported by strong growth in premiums, and pricing power is likely to remain high.

European Insurance relative and US 10Y bond yield



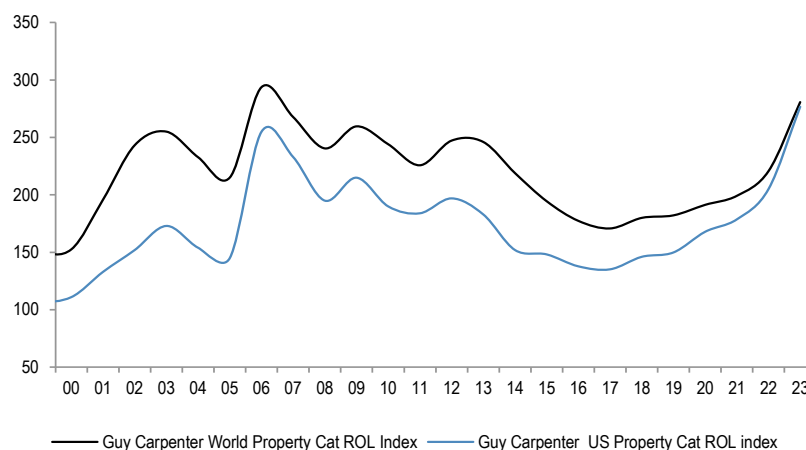
Source: Bloomberg Finance L.P.

Avg Sol II ratio for European Insurers



Source: JPM European Insurance Research

Guy Carpenter US and World Property Cat ROL Index



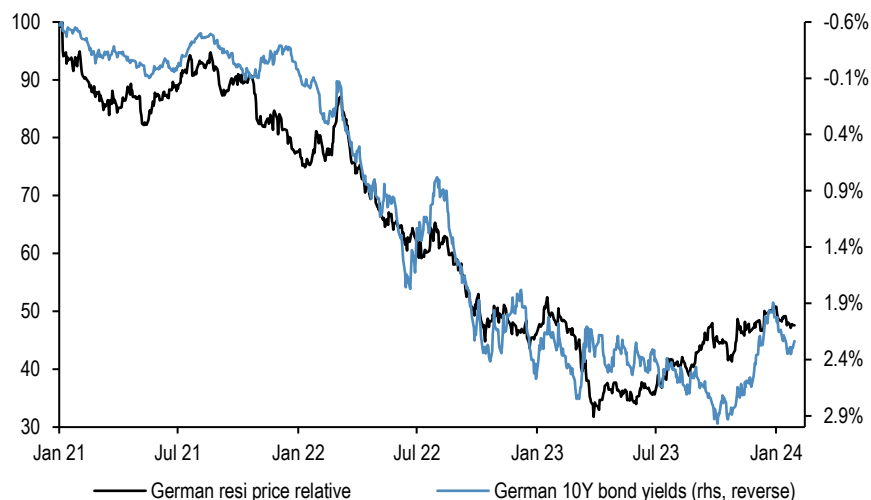
Source: JPM European Insurance Research

REAL ESTATE: OVERWEIGHT

Bond proxy; we upgrade the sector to OW after the sizeable underperformance

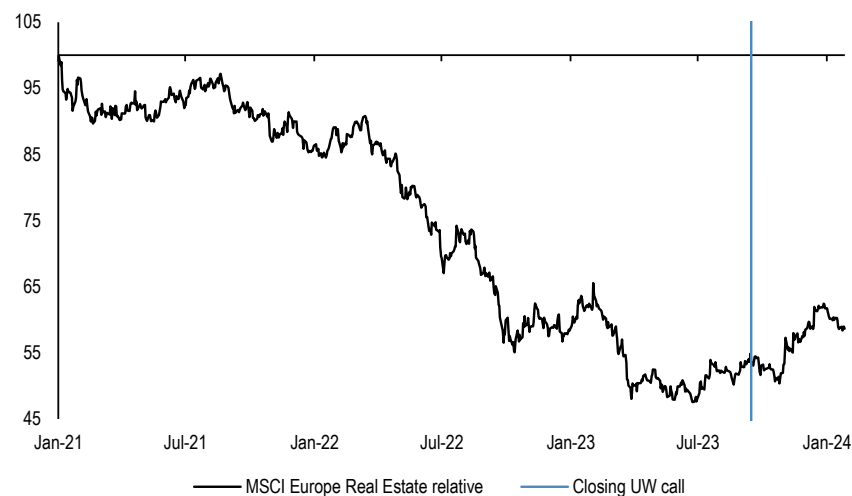
- The Real Estate sector has lost nearly half of its market capitalization relative to the market since Jan '21. Given the weak underperformance, we upgraded the sector to OW in November.
- The sector is a bond proxy and does well when yields are moving lower.
- We also note that Real Estate companies are starting to get more comfortable with the growth outlook. The London office market has seen the highest volume of new office starts on record – with 5.1 million square feet (sq. ft.) of new construction starting across 43 schemes – according to Deloitte's Winter 2023 London Office Crane Survey. This is an almost a 16% jump versus 2022.

German Real Estate price relative and German bond yields



Source: Bloomberg Finance L.P.

European Real Estate price relative



Source: Datastream

MSCI Europe Real Estate 12m Fwd P/E relative



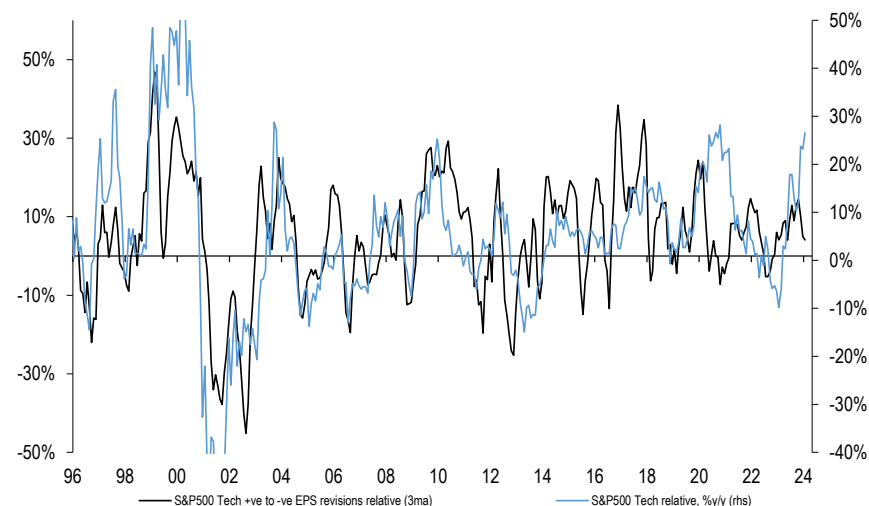
Source: Datastream

TECHNOLOGY: NEUTRAL

We were constructive on Tech since October '22... it is still supported, but the sector is looking stretched, post a strong run...

- We have argued in October '22 that one should be buying back the Technology sector, following the sharp bout of prior underperformance.
- While we believe in bond yields to move lower, and advise a structural Growth exposure, we are uncomfortable to chase the Tech sector, post the strong run last year.

US Tech +ve to -ve EPS revisions and performance



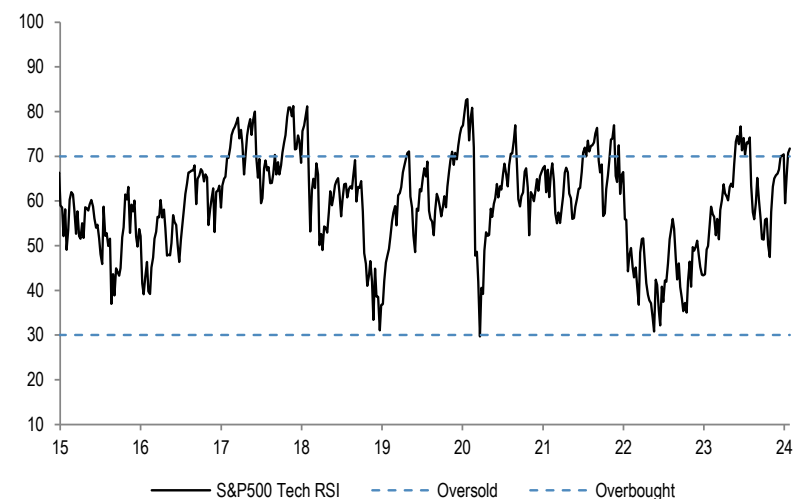
Source: IBES

S&P500 Tech relative



Source: Datastream

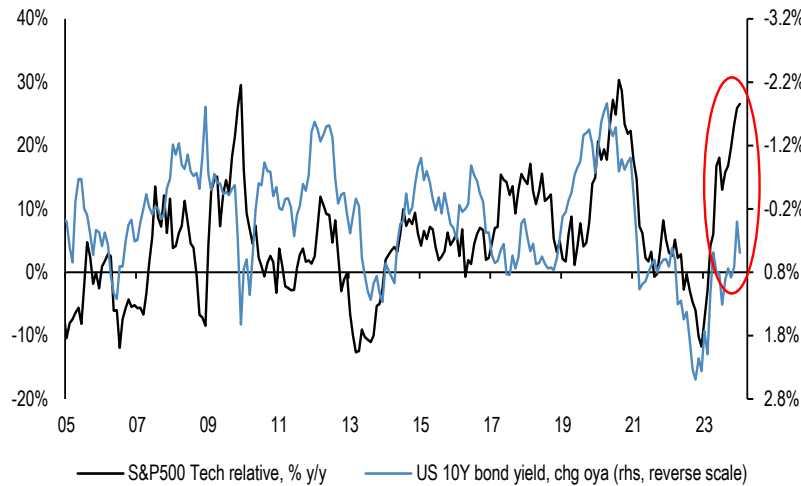
S&P500 Tech RSI



Source: Bloomberg Finance L.P.

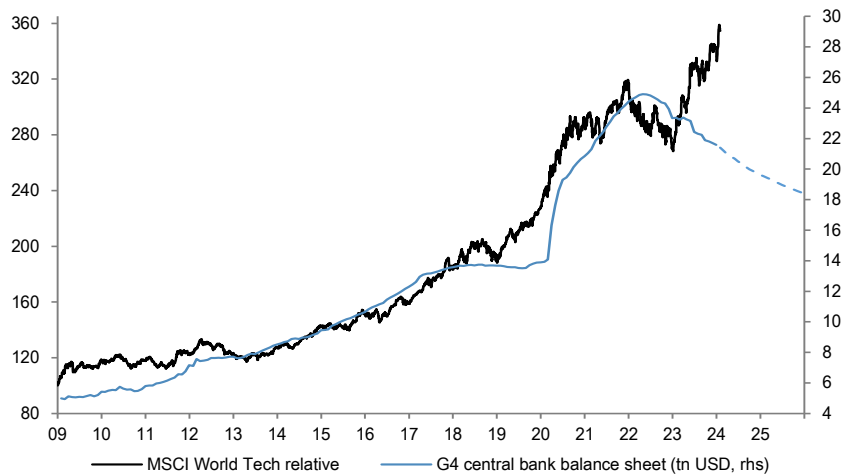
...Tech bounce appears to have over-discounted the fall in yields and valuations look elevated

S&P500 Tech relative and US 10Y bond yield



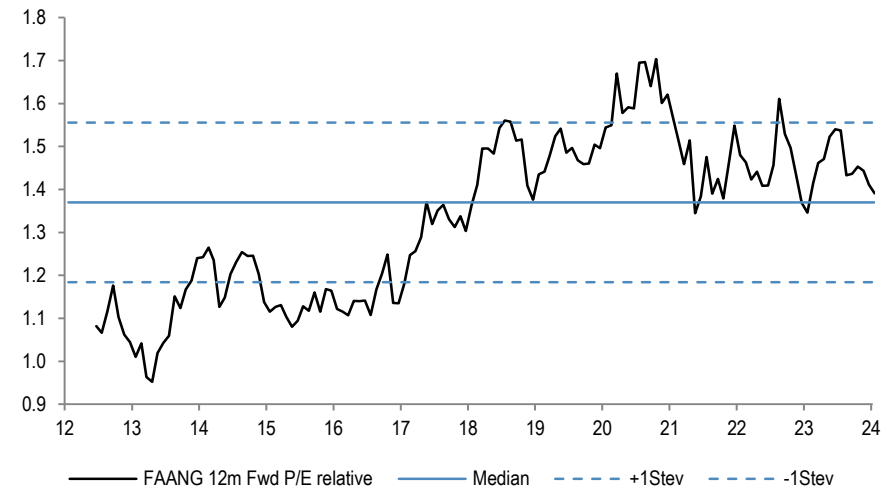
Source: Datastream

MSCI World Tech relative and G4 central bank balance sheet



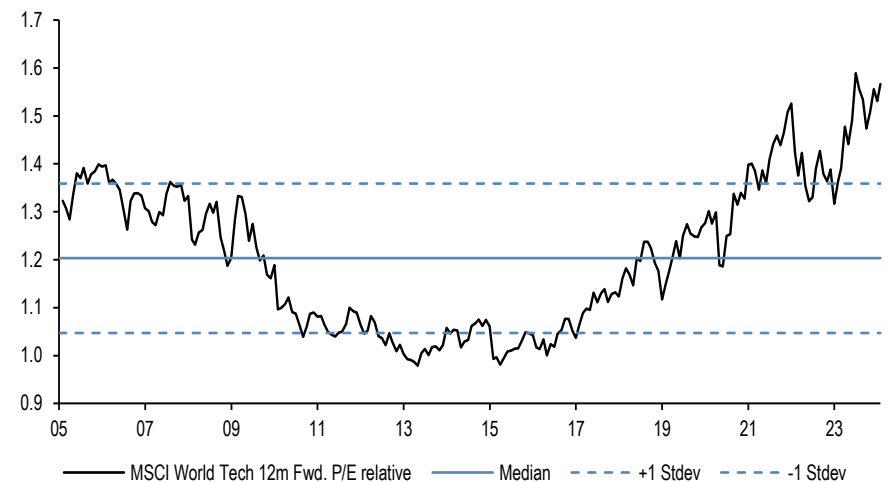
Source: Datastream

FAANG 12m Fwd. P/E relative



Source: IBES

MSCI World Tech 12m Fwd. P/E relative

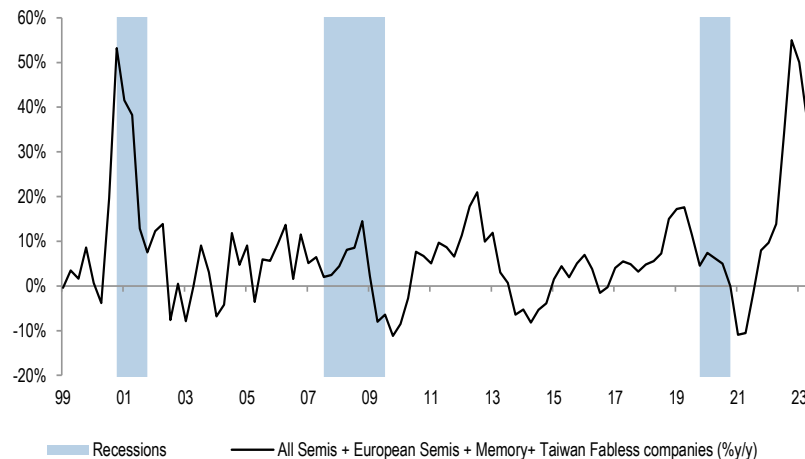


Source: IBES

UW Semis – inventory and pricing could be headwinds

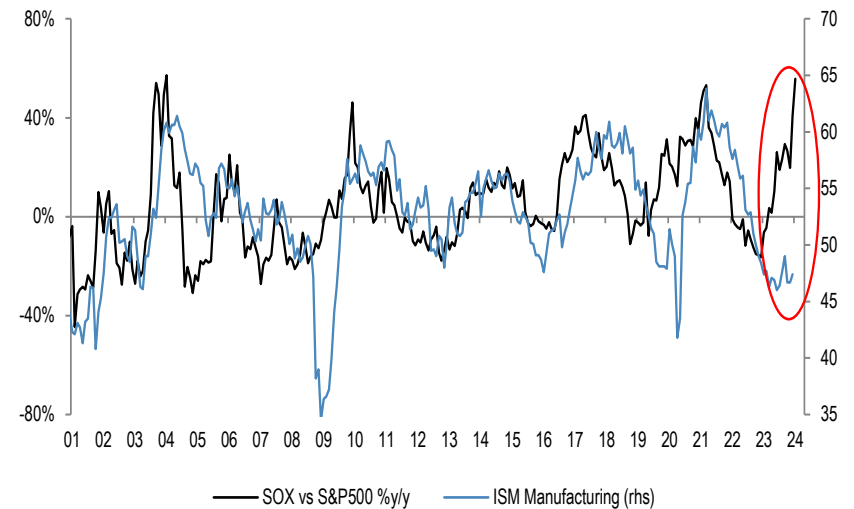
- Semis had a very strong run last year. We took advantage of this and downgraded Semis to Underweight in our Year Ahead. US Semis index is already discounting a rebound in ISM manufacturing, which may not come through into first half of this year.
- Inventory levels remain extreme, and we could see some destocking over the coming quarters, putting pressure on demand. This is likely to translate into weaker pricing and margins for the sector.
- Valuations look expensive.

Global semiconductor inventory %y/y



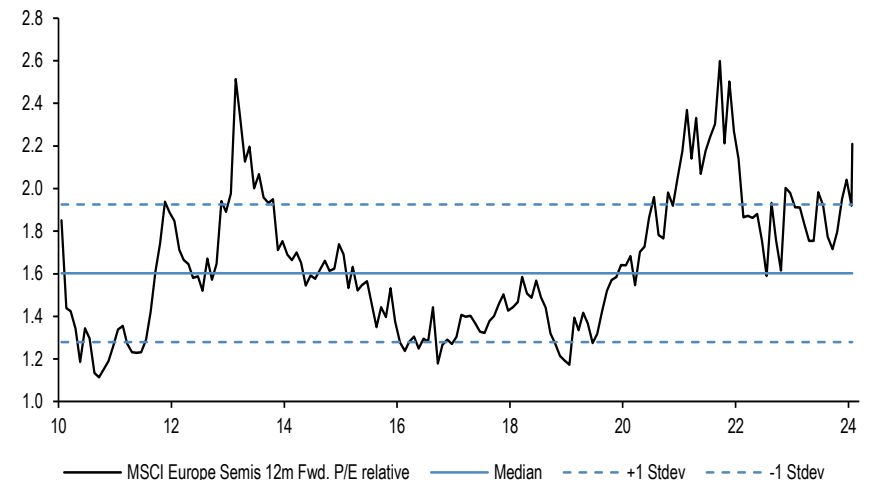
Source: JPM European Technology Research

SOX relative and ISM



Source: IBES

MSCI Europe Semis 12m Fwd PE relative



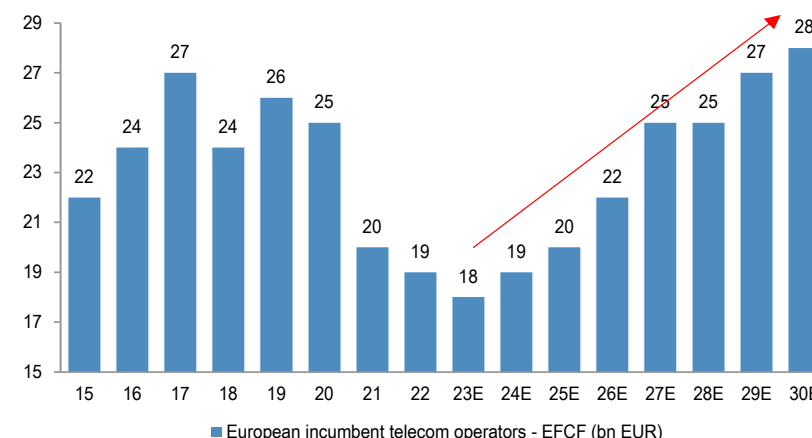
Source: IBES

COMMUNICATION SERVICES: OVERWEIGHT

OW Telecoms - price hikes should drive revenue inflection; N Media

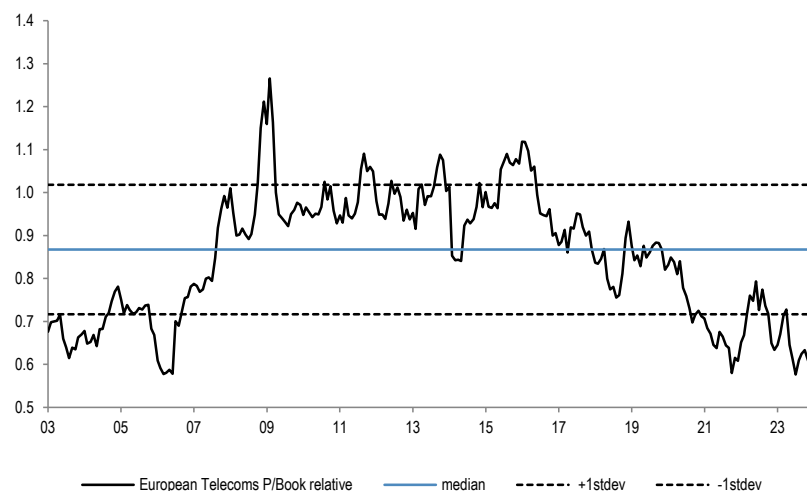
- Telecoms balance sheets have improved materially in the past few years. The sector offers close to 13% FCF yield, well above the overall market, and the companies offer attractive dividends that are well covered.
- A combination of better pricing and lower capex is helping the sector generate significantly better cash flow, underpinning the case for improving shareholder returns going forward.
- We view the sector as a cheap Defensive play and could continue to stabilize this year.

European incumbent Telecom operators - FCF



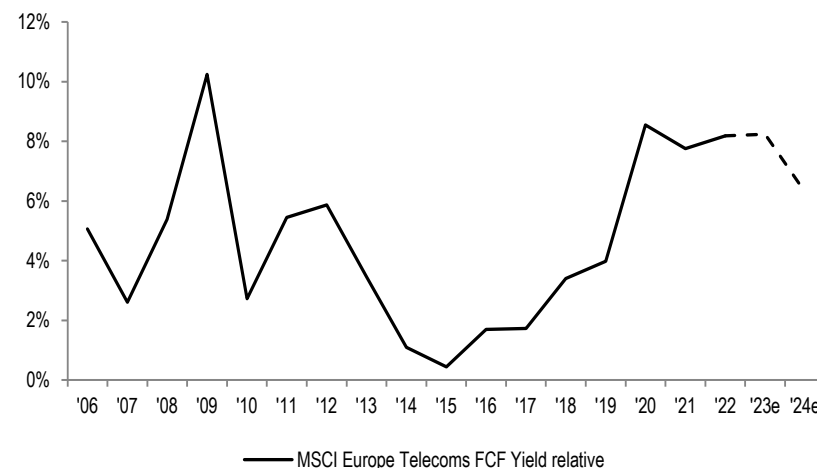
Source: J.P. Morgan Telecoms Research

European Telecoms Price to Book relative



Source: Datastream

European Telecoms FCF yield relative



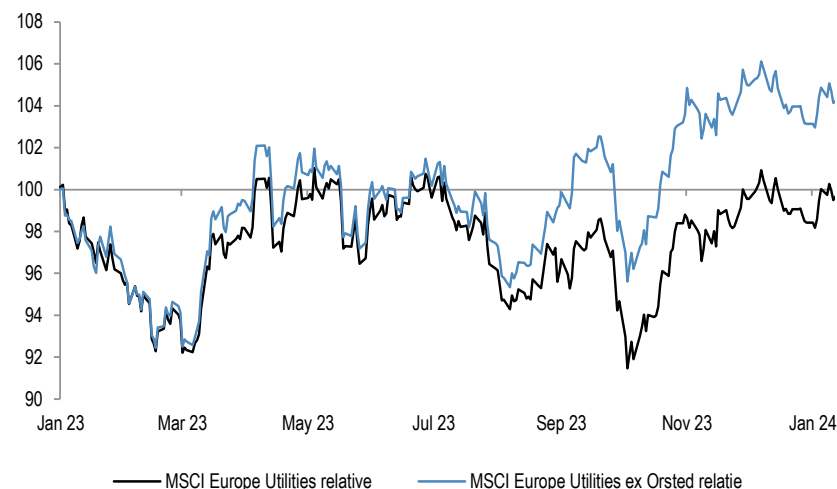
Source: Datastream

UTILITIES: OVERWEIGHT

An opportunity to add, less regulatory uncertainty ahead, have strong pricing and likely more resilient earnings than the rest of the market...

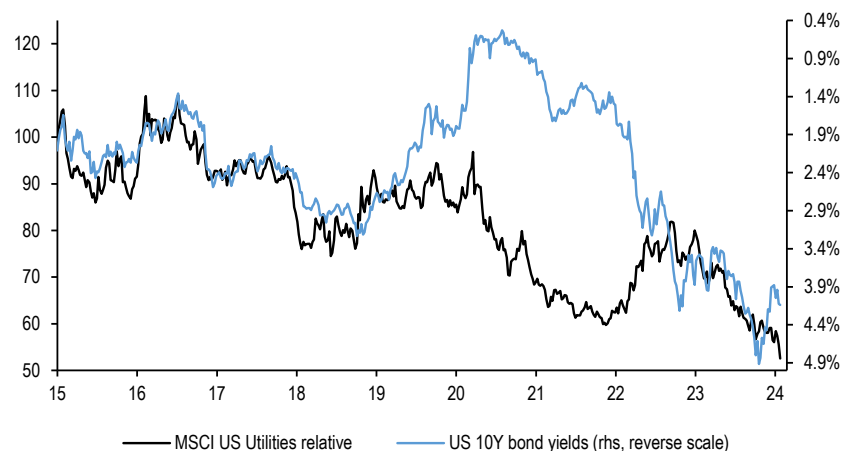
- The Utilities sector performance last year has been weighed down by the rise in bond yields and some stock specific issues.
- The correlation between sector performance and bond yields remains negative, and lower yields would help improve investor sentiment towards the sector.
- Valuations of the sector have come off the highs and are close to fair value now.

European Utilities relative



Source: Datastream

Utilities price relative vs bond yields



Source: Bloomberg Finance L.P.

European Utilities P/E relative

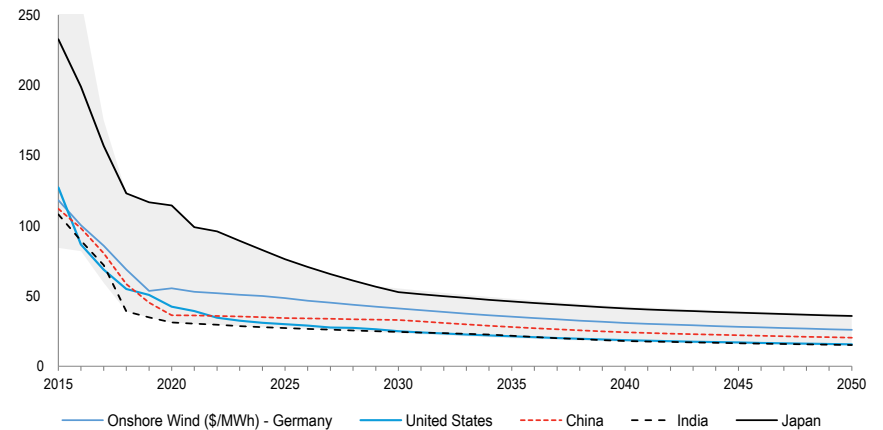


Source: IBES

...switch to renewables is likely to drive the sector in the medium term

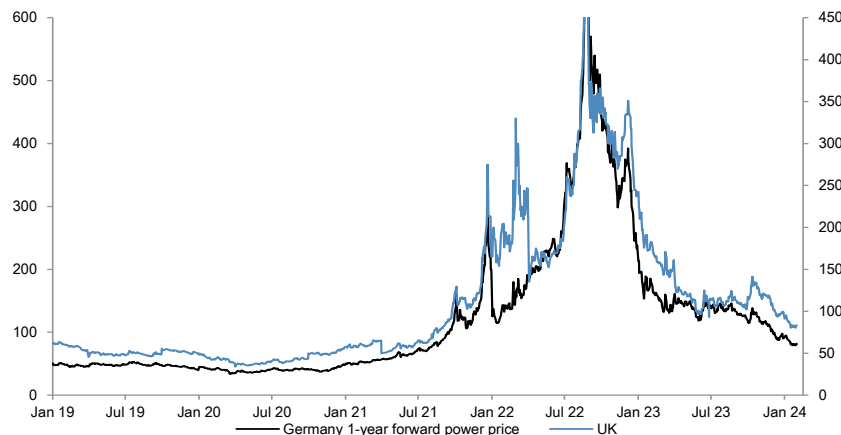
- The key argument that continues to drive the structural opportunity for the sector is the move towards renewables as they are more leveraged to real rates.
- Sector earnings have been holding up quite well so far, and are likely to continue to do so, especially given that power prices remain elevated. On average, Utility companies sell their power on 3-year forward contracts, which means that 2024 will likely see the final leg of power price increases.

Cost of Onshore wind (\$/MWh)



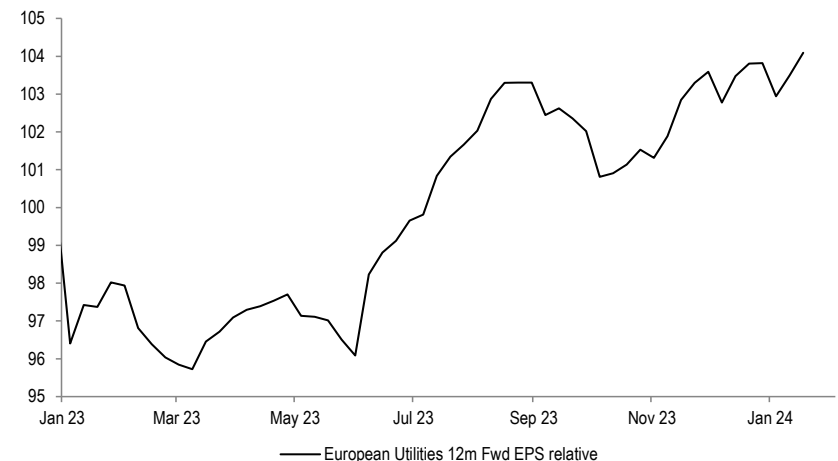
Source: Bloomberg Finance L.P., NEF

UK and Germany 1-year power forward



Source: JPM European Utilities Research team

European Utilities 12m Fwd EPS relative

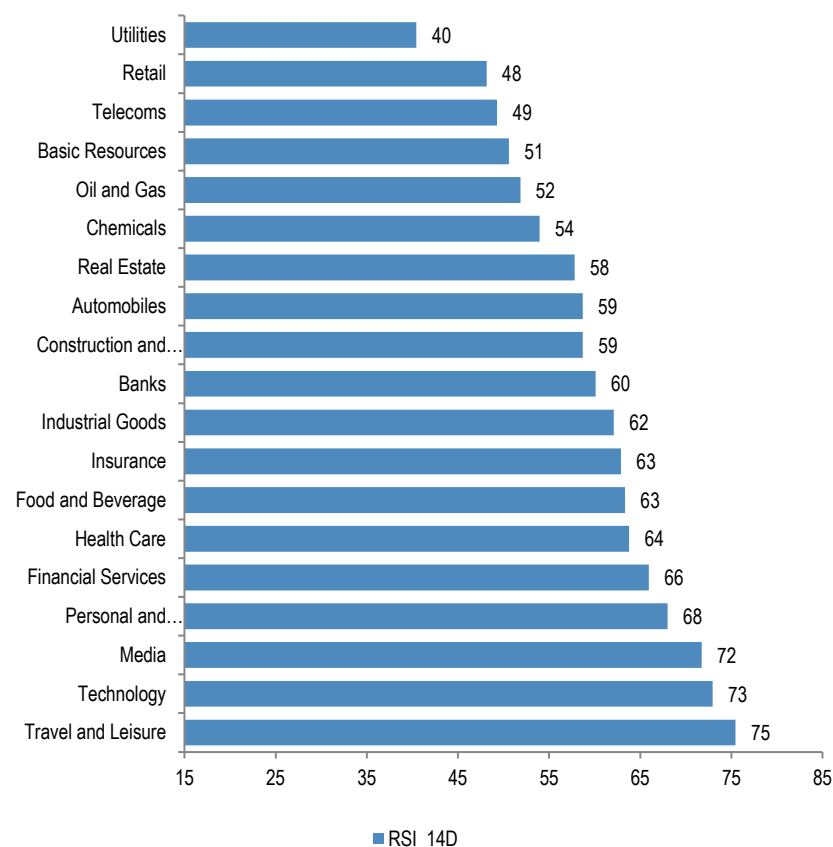


Source: IBES

Technical

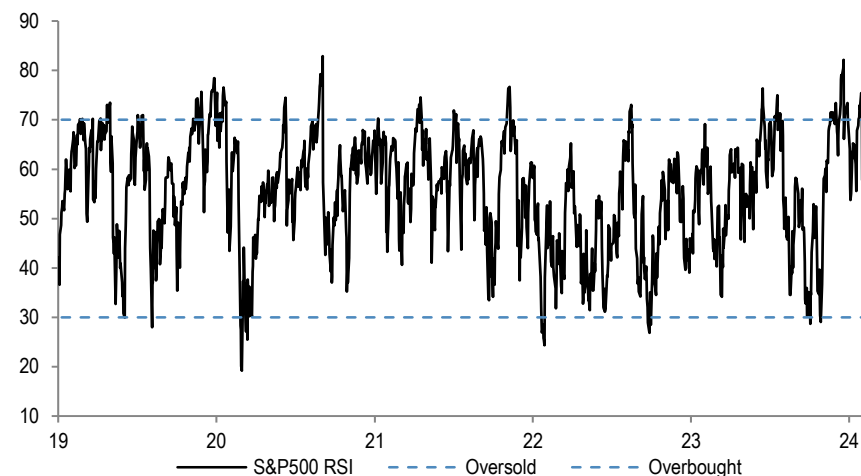
Equities look overbought on RSIs

SXXP sectors RSI



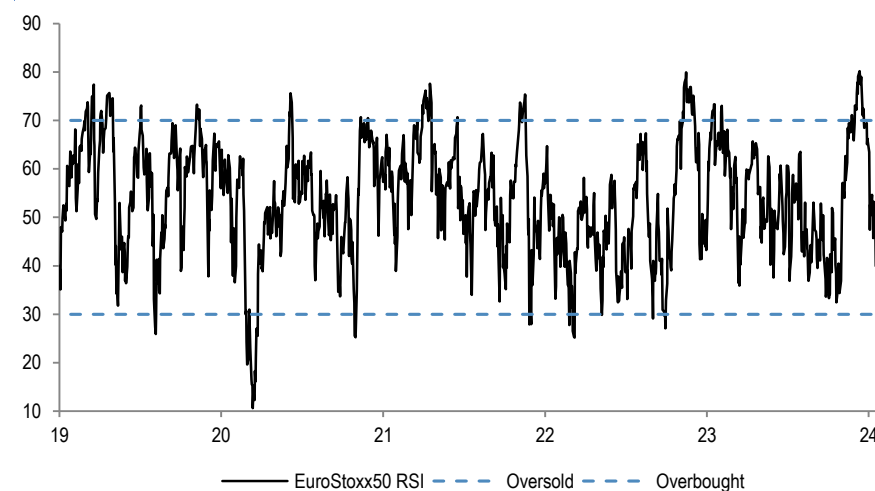
Source: Bloomberg Finance L.P

S&P500 RSI



Source: Bloomberg Finance L.P

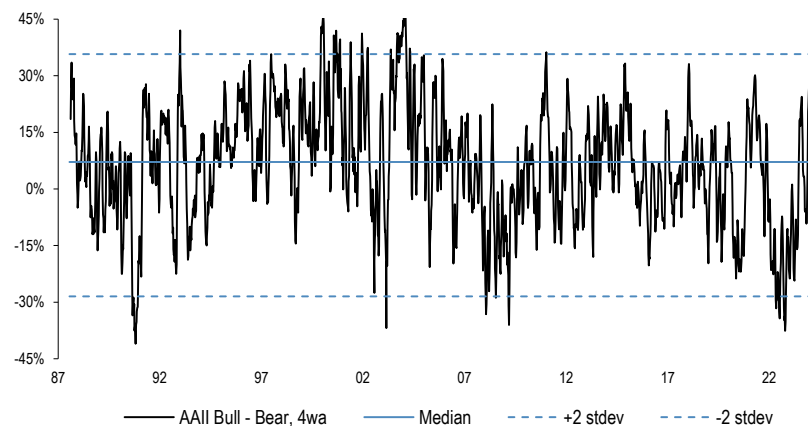
SX5E RSI



Source: Bloomberg Finance L.P

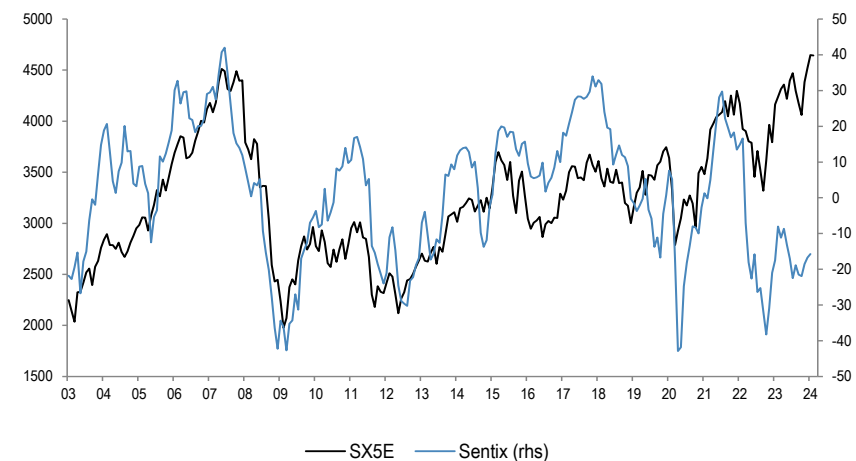
Flows into International equities are still weak

AAll Bull-Bear



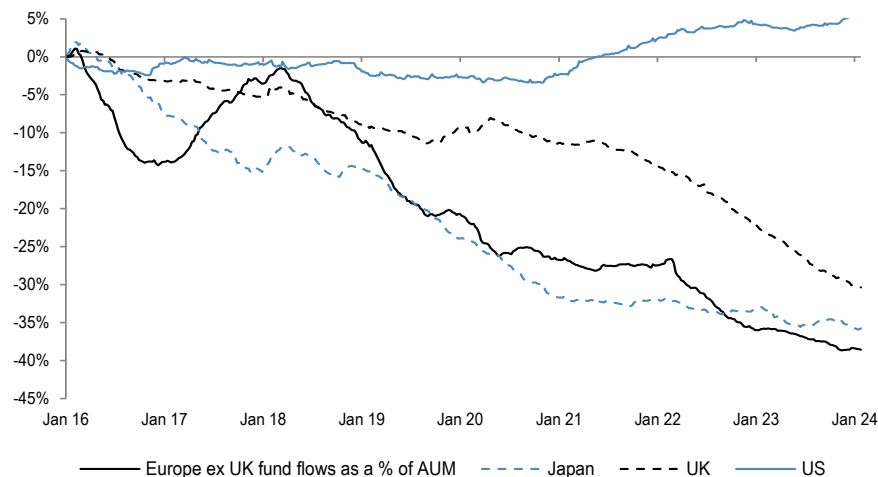
Source: Bloomberg Finance L.P

Sentix sentiment index vs SX5E



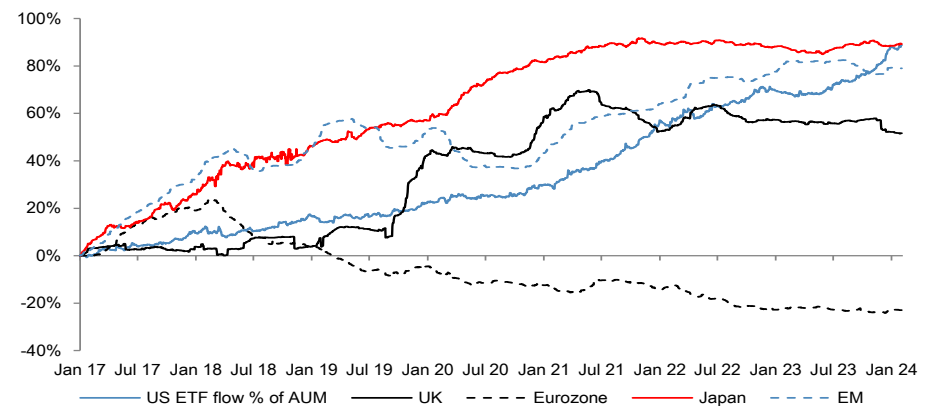
Source: Bloomberg Finance L.P

Cumulative fund flows into regional funds as % of AUM



Source: EPFR, as of 24th Jan, 2023. Japan includes Non-ETF purchases only

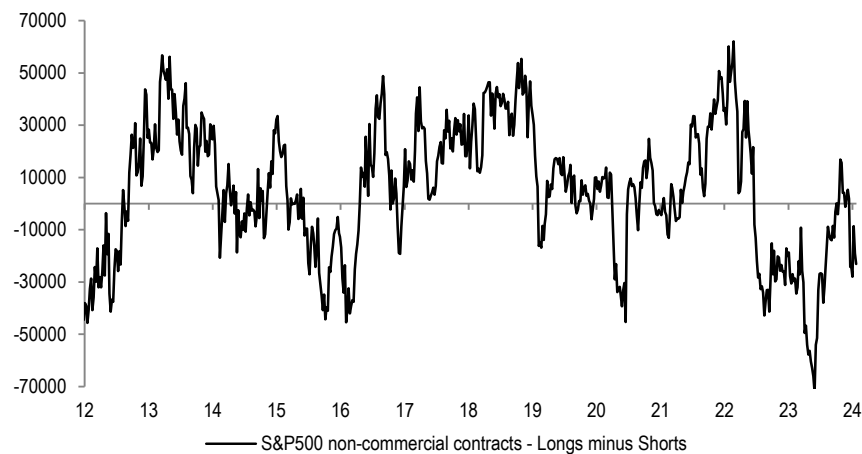
Cumulative fund flows into regional equity ETFs as % of AUM



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

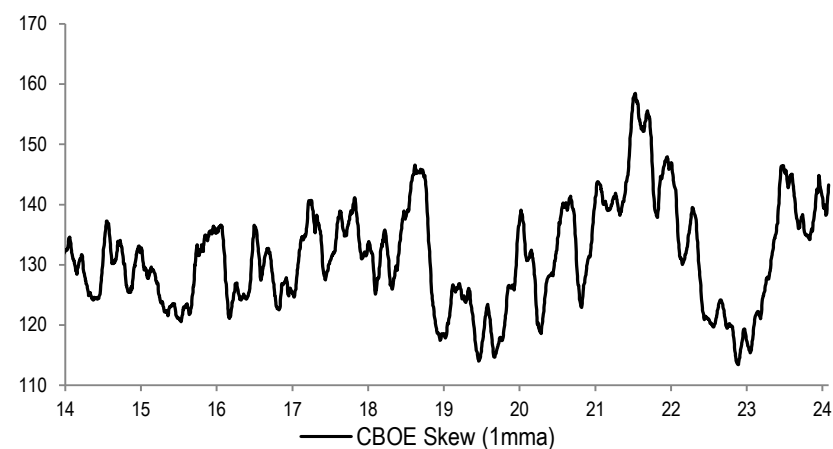
Seasonals are better in Jan-April

Speculative positions on S&P500 futures contracts



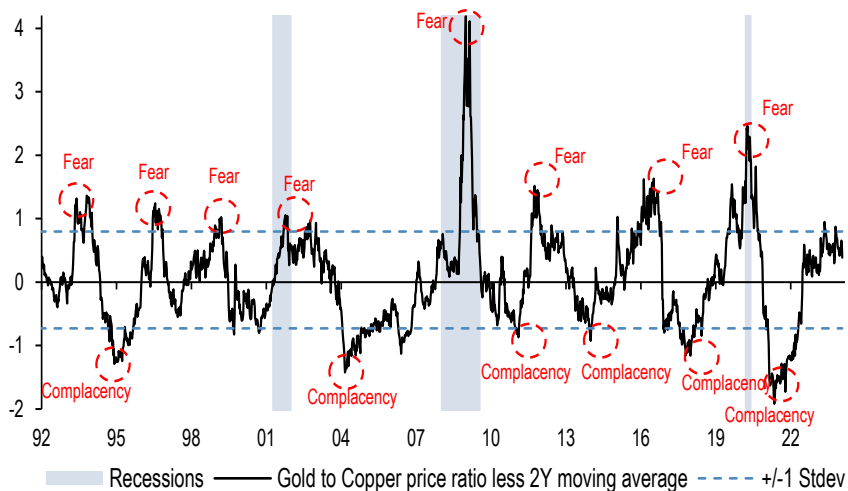
Source: Bloomberg Finance L.P.

Equity skew



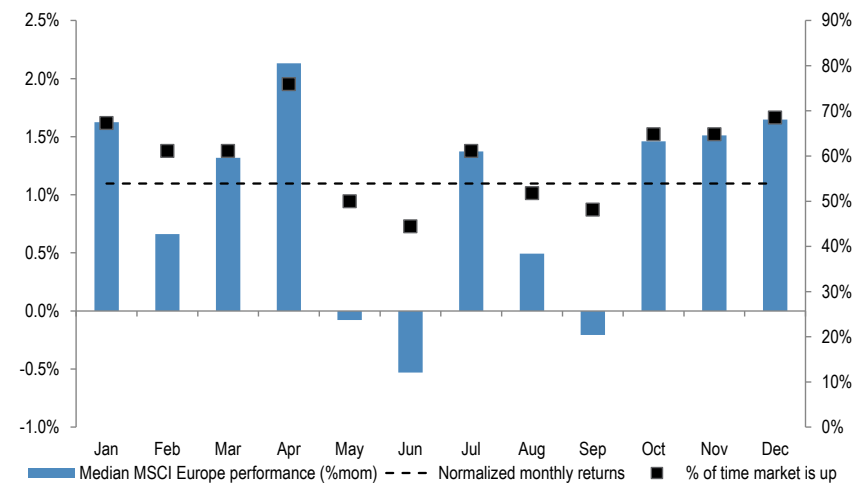
Source: Bloomberg Finance L.P.

Gold-to-Copper price ratio



Source: Bloomberg Finance L.P.

Seasonality* of MSCI Europe performance



Source: Datastream, *Median since 1970

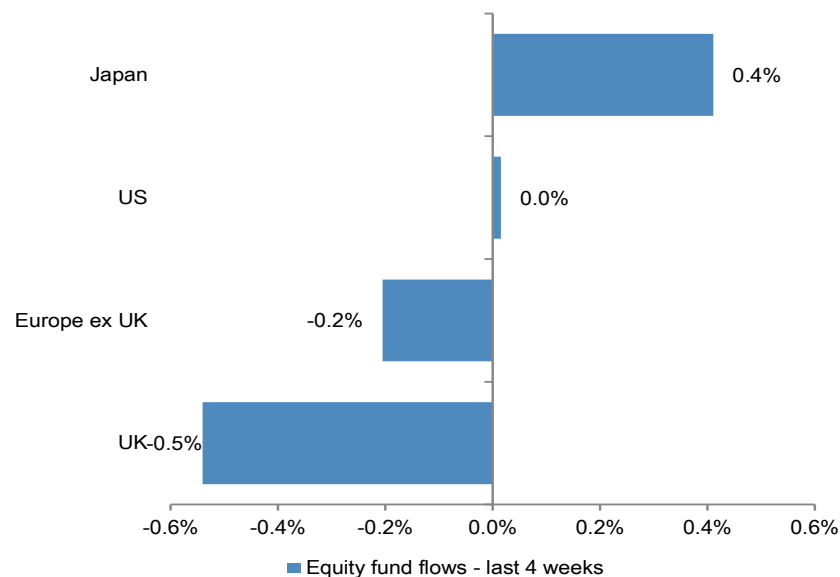
Equity Flows Snapshot

DM Equity Fund Flows Summary

Regional equity fund flows										
	<u>\$mn</u>					% AUM				
	1w	1m	3m	ytd	12m	1w	1m	3m	ytd	12m
Europe ex UK	122	-660	-1,654	-960	-13,093	0.1%	0.2%	-0.1%	0.2%	0.6%
UK	-463	-1,457	-4,948	-1,502	-27,900	0.0%	-0.2%	-0.6%	-0.3%	-4.3%
US	9,261	1,439	101,804	5,356	121,307	-0.2%	-0.5%	-2.0%	-0.5%	-9.9%
Japan	1,225	3,086	-3,827	3,170	10,338	0.1%	0.0%	1.2%	0.1%	1.5%

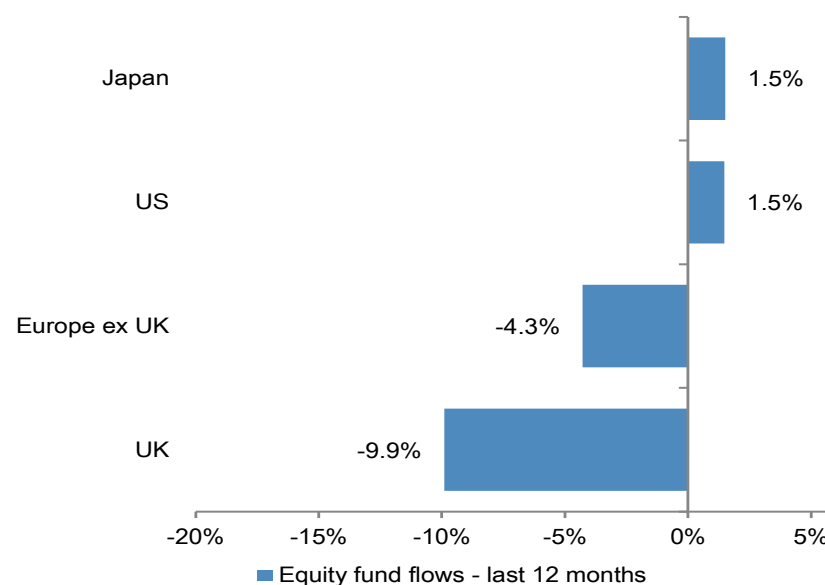
Source: EPFR

DM Equity Fund flows - last month



Source: EPFR

DM Equity Fund flows - last 12 months



Source: EPFR

Global sector valuations

	12m Fwd P/E			P/book			Cycle-adj P/E			12m Fwd P/Sales		
	Last	Median	% to median	Last	Median	% to median	Last	Median	% to median	Last	Median	% to median
World	17.8	15.8	-12%	3.1	2.3	-28%	29.6	24.6	-17%	2.1	1.4	-33%
Energy	10.3	14.3	39%	1.6	1.7	8%	15.7	16.8	7%	1.0	0.9	-9%
Chemicals	18.6	15.8	-15%	2.0	1.9	-5%	18.8	24.1	28%	1.7	1.3	-23%
Const Mat	15.3	14.1	-8%	2.3	1.7	-26%	24.4	20.1	-18%	1.7	1.0	-41%
Metals&Mining	12.2	13.1	7%	1.6	1.6	1%	17.1	19.7	15%	1.1	0.9	-16%
Capital Goods	17.6	16.1	-8%	2.1	2.0	-6%	19.6	20.0	2%	1.5	1.0	-38%
Transport	19.1	16.0	-16%	2.2	2.1	-3%	20.8	26.4	27%	1.7	1.2	-28%
Business Services	24.4	18.8	-23%	-	-	-	-	-	-	2.9	1.3	-55%
Automobile	11.4	11.7	2%	1.5	1.5	0%	15.2	18.9	24%	0.8	0.5	-34%
Cons Dur	18.4	17.5	-5%	6.0	2.8	-54%	42.4	34.0	-20%	2.0	1.2	-41%
Media	21.0	20.0	-5%	2.6	2.5	-7%	25.3	28.9	14%	3.5	1.8	-49%
Retailing	28.0	20.7	-26%	6.0	3.5	-42%	37.3	32.9	-12%	2.1	1.2	-42%
Hot,Rest&Leis	26.0	19.1	-27%	6.1	2.5	-60%	25.9	32.1	24%	3.3	2.1	-35%
Food&Drug Retailing	20.4	17.5	-14%	3.7	3.2	-14%	25.3	30.3	19%	0.6	0.4	-19%
Food Bev & Tob	16.2	17.3	7%	2.8	2.8	1%	23.6	28.1	19%	2.1	1.9	-6%
HPC	21.7	20.6	-5%	3.9	2.2	-44%	29.2	29.1	0%	2.9	2.2	-22%
Healthcare	18.3	17.2	-6%	4.8	3.3	-32%	34.3	32.3	-6%	1.9	1.9	-2%
Banks	9.4	11.7	24%	1.1	1.2	16%	12.4	19.6	58%	2.4	2.4	-1%
Div Fin	17.8	21.1	18%	-	-	-	-	-	-	3.2	1.9	-40%
Insurance	11.5	11.5	0%	1.7	1.6	-4%	18.4	21.8	18%	1.0	0.9	-16%
Real Estate	25.0	21.1	-16%	1.2	1.4	12%	13.7	20.0	46%	4.5	14.8	226%
Software&Svs	32.1	23.2	-28%	7.4	4.0	-46%	53.0	44.8	-15%	7.3	3.4	-53%
Tech Hardware	23.6	17.8	-25%	2.3	2.3	-3%	25.0	31.2	24%	4.0	1.5	-62%
Semicon	26.8	16.7	-38%	6.4	2.7	-57%	56.1	30.4	-46%	8.2	3.0	-63%
Telecoms	18.4	15.4	-16%	1.9	2.3	16%	15.8	20.3	28%	2.6	1.4	-48%
Utilities	13.8	15.0	9%	1.8	1.6	-10%	19.3	18.9	-2%	1.3	1.1	-12%
Cyclicals	22.9	17.3	-24%	4.8	2.3	-52%	27.6	28.9	5%	3.8	1.5	-61%
Defensives	17.9	17.2	-4%	3.6	2.9	-20%	26.2	27.2	4%	1.9	1.5	-20%
Cyc. Vs. Def.	1.3	1.0	 -21%	1.3	0.8	 -40%	1.1	1.1	 1%	2.0	1.0	-51%

Source: Datastream, MSCI, IBES. At 31st Jan 2024. 12m Fwd P/E since 1995, Cycle-adjusted P/E since 1983, P/Book since 1980, P/Sales since 2000

European sector valuations

	12m Fwd P/E			P/book			Cycle-adj P/E			12m Fwd P/Sales		
	Last	Median	% to median	Last	Median	% to median	Last	Median	% to median	Last	Median	% to median
Europe	13.2	14.0	6%	2.0	1.8	-8%	21.0	19.8	-6%	1.4	1.3	-8%
Energy	7.2	12.6	75%	0.5	1.3	159%	12.9	14.3	11%	0.5	0.7	47%
Chemicals	21.1	15.1	-28%	2.0	1.9	-7%	18.8	18.7	0%	1.1	0.9	-17%
Const Mat	12.4	12.8	3%	2.1	1.7	-21%	23.9	17.1	-29%	0.5	0.9	70%
Metals&Mining	9.6	10.9	13%	1.1	1.3	22%	13.6	15.2	12%	0.9	0.7	-20%
Capital Goods	17.8	15.1	-15%	2.4	1.9	-18%	21.8	21.2	-3%	1.2	0.7	-38%
Business Services	18.4	14.4	-22%	-	-	-	-	-	-	1.5	1.2	-18%
Transport	21.1	17.3	-18%	1.7	1.4	-17%	16.8	21.1	25%	1.4	0.8	-42%
Automobile	5.8	9.7	67%	0.8	1.1	41%	8.7	12.5	43%	0.4	0.4	15%
Cons Dur	21.9	16.7	-24%	6.3	2.8	-56%	48.1	35.4	-26%	1.5	1.5	-4%
Media	16.5	16.1	-2%	2.8	2.4	-14%	19.4	23.4	21%	1.8	1.7	-6%
Retailing	14.5	17.6	21%	3.9	3.4	-13%	22.3	23.0	3%	1.8	1.1	-37%
Hot,Rest&Leis	22.6	17.3	-24%	3.6	1.7	-52%	16.9	19.5	15%	1.4	0.7	-47%
Food&Drug Retailing	11.6	14.4	24%	3.3	3.0	-12%	20.4	26.5	30%	0.3	0.3	4%
Food Bev&Tob	16.5	16.9	2%	2.3	2.4	4%	22.5	24.3	8%	1.7	1.2	-27%
HPC	19.7	20.6	4%	4.5	2.4	-47%	33.6	24.1	-28%	2.7	2.2	-20%
Healthcare	16.7	16.8	0%	5.5	3.0	-45%	29.0	26.3	-9%	3.0	3.0	-2%
Banks	6.3	10.9	71%	0.8	0.9	15%	11.9	12.7	6%	1.5	2.2	48%
Diversified Financials	13.3	11.9	-11%	-	-	-	-	-	-	2.0	2.3	18%
Insurance	9.9	10.4	6%	1.5	1.5	3%	14.6	21.2	45%	0.8	0.6	-25%
Real Estate	14.2	18.7	32%	0.8	1.0	27%	8.7	23.9	174%	11.1	9.0	-19%
Software&Svs	27.3	21.7	-21%	3.9	3.8	-3%	30.0	33.8	13%	6.9	2.7	-61%
Tech Hardware	15.3	17.9	17%	1.0	2.2	127%	15.7	22.2	41%	3.3	1.6	-53%
Semicon	30.0	21.5	-28%	2.7	2.4	-11%	41.2	38.8	-6%	11.5	3.5	-70%
Telecoms	14.1	14.3	1%	1.5	2.2	53%	13.5	19.7	46%	1.4	1.4	0%
Utilities	12.2	13.9	14%	1.7	1.5	-11%	16.8	19.0	13%	1.1	1.2	9%
Cyclicals	15.4	15.2	-1%	2.8	1.9	-30%	23.5	20.5	-13%	1.4	0.9	-35%
Defensives	16.3	16.1	-1%	3.6	2.6	-29%	23.1	23.2	0%	1.8	1.5	-17%
Cyc. vs Def.	0.9	0.9	-1%	0.8	0.8	-1%	1.0	0.9	-13%	0.7	0.6	-22%

Source: Datastream, MSCI, IBES. At 01st Feb 2024. 12m Fwd P/E since 1995, Cycle-adjusted P/E since 1983, P/Book since 1980, P/Sales since 2000

UK sector valuations

	12m Fwd P/E			P/book			Cycle-adj P/E			12m Fwd P/Sales		
	Last	Median	% to median	Last	Median	% to median	Last	Median	% to median	Last	Median	% to median
UK	10.8	13.1	21%	1.8	1.8	5%	16.7	17.4	4%	1.2	1.1	-7%
Energy	7.3	12.8	75%	0.2	1.2	464%	21.4	16.4	-23%	0.6	0.6	4%
Chemicals	29.0	16.0	-45%	1.4	2.6	78%	13.1	19.1	46%	3.8	0.8	-80%
Const Mat	-	-	-	1.3	2.0	52%	17.3	17.0	-2%	-	1.3	-
Metals&Mining	10.0	11.4	14%	1.3	1.7	37%	15.9	17.0	7%	0.7	0.9	32%
Capital Goods	17.9	14.0	-22%	1.9	2.6	36%	19.1	17.7	-8%	1.3	0.8	-38%
Transport	-	-	-	3.4	2.7	-18%	18.3	19.2	5%	-	-	-
Business Services	24.4	16.6	-32%	-	-	-	-	-	-	4.4	1.3	-70%
Automobile	-	-	-	-	-	-	4.6	15.8	242%	-	-	-
Cons Dur	15.8	10.8	-32%	2.9	4.8	66%	13.1	28.3	116%	1.6	1.9	20%
Media	12.9	15.4	19%	2.5	2.2	-12%	23.8	23.0	-3%	1.5	1.5	-3%
Retailing	11.5	13.7	20%	2.8	2.4	-14%	16.0	19.6	23%	0.7	0.7	-3%
Hot,Rest&Leis	20.8	16.2	-22%	5.8	1.8	-69%	15.6	20.3	30%	1.5	0.8	-48%
Food&Drug Retailing	14.1	14.4	2%	4.6	3.0	-35%	18.9	23.4	24%	0.3	0.4	36%
Food Bev&Tob	9.4	14.2	51%	1.6	2.7	64%	17.9	22.7	26%	2.1	1.9	-9%
HPC	16.3	18.3	12%	2.2	1.5	-33%	13.1	19.9	52%	2.1	2.8	35%
Healthcare	13.8	15.8	15%	2.9	5.1	74%	28.9	23.0	-20%	3.1	2.8	-9%
Banks	5.9	10.5	78%	0.6	0.9	59%	13.3	12.3	-8%	1.7	2.2	29%
Div Fin	11.7	13.3	14%	-	-	-	-	-	-	5.1	3.0	-41%
Insurance	10.4	10.6	2%	1.5	1.9	25%	12.8	15.1	18%	0.7	0.8	17%
Real Estate	19.6	21.0	7%	0.9	0.9	-3%	13.0	24.7	90%	11.9	26.5	123%
Software&Svs	31.2	18.6	-41%	6.0	4.6	-23%	30.5	31.1	2%	4.9	3.1	-37%
Tech Hardware	-	-	-	1.9	3.1	69%	11.4	25.9	128%	-	1.1	-
Semicon	-	-	-	-	-	-	59.5	-	-	-	13.1	-
Telecoms	10.0	13.3	34%	0.9	2.2	147%	6.9	19.3	179%	0.8	1.5	97%
Utilities	12.7	13.4	6%	1.6	2.4	47%	16.0	16.1	0%	1.2	0.9	-25%
Cyclicals	13.0	14.1	9%	2.8	2.4	-16%	26.5	20.8	-21%	1.5	1.2	-20%
Defensives	9.5	14.3	50%	2.4	3.6	47%	20.2	20.9	3%	1.9	1.8	-6%
Cyc. Vs. Def.	1.4	0.9	-32%	1.1	0.7	-42%	1.3	1.0	-24%	0.8	0.7	-11%

Source: Datastream, MSCI, IBES. At 31st Jan 2024. 12m Fwd P/E since 1995, Cycle-adjusted P/E since 1983, P/Book since 1980, P/Sales since 2000

Regional GDP, CPI, Interest Rate and Exchange Outlook

	Real GDP			Real GDP						Consumer prices			
	% oya			% over previous period, saar						% oya			
	2023E	2024E	2025E	3Q23	4Q23E	1Q24E	2Q24E	3Q24E	4Q24E	3Q23	1Q24E	3Q24E	1Q25E
United States	2.5	2.0	1.5	4.9	3.3	1.7	0.5	0.5	0.7	3.6	2.8	2.5	2.5
Eurozone	0.5	0.4	1.0	-0.5	0.1	0.5	0.7	0.7	0.7	5.0	2.5	1.8	1.8
United Kingdom	0.3	0.3	0.1	-0.5	0.0	1.0	0.8	0.0	-0.5	6.7	3.6	1.7	2.3
Japan	2.0	0.7	0.7	-2.9	0.0	1.3	1.6	0.7	0.7	3.1	4.0	4.0	2.5
Emerging markets	4.1	3.8	3.6	5.8	4.0	3.9	3.6	3.7	3.6	3.8	3.8	3.5	3.5
Global	2.7	2.3	2.2	3.6	2.7	2.4	2.0	1.9	2.0	4.0	3.3	2.9	2.8

Official interest rate	Forecast	Forecast for				
	next change	Current	Mar 24	Jun 24	Sep 24	Dec 24
Federal funds rate	Jun 24 (-25bp)	5.50	5.25	4.75	4.25	5.50
Depo rate	Jun 24 (-25bp)	4.00	3.75	3.50	3.00	4.00
Bank Rate	Aug 24 (-25bp)	5.25	5.25	5.00	4.50	5.25
Pol rate IOER	3Q24 (+10bp)	-0.10	-0.10	0.00	0.00	-0.10

10 Yr Govt BY	Forecast for end of				
	1-Feb-24	Mar 24	Jun 24	Sep 24	Dec 24
US	3.93	3.95	3.80	3.75	3.65
Euro Area	2.19	2.15	2.00	1.85	1.75
United Kingdom	3.82	3.80	3.65	3.55	3.45
Japan	0.71	0.60	0.65	0.80	0.80

Exchange rates vs US\$	Forecast for end of				
	31-Jan-24	Mar 24	Jun 24	Sep 24	Dec 24
EUR	1.09	1.03	1.05	1.10	1.13
GBP	1.27	1.18	1.19	1.24	1.26
CHF	0.86	0.92	0.90	0.86	0.85
JPY	147	150	148	146	144
DXV	103.3	108.3	106.6	102.6	100.2

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

European countries' valuations and EPS growth metrics

Fwd P/E					P/Book				Div Yield (%)		Perf		EPS Growth				GDP Growth		
											2023	YTD							
	Current	LT Median	% Disc	% Disc Rel to EMU	Current	LT Median	% Disc	% Disc Rel to EMU	Current	LT Median			2023e	2024e	2025e	YTD 12m Fwd EPS	2023e	2024e	2025e
Austria	7.3	11.5	-37%	-28%	0.9	1.2	-22%	-17%	6.0	2.4	9%	2%	-11%	-8%	-1%	-4.0%	-0.6	0.3	1.5
Belgium	16.1	14.0	16%	24%	1.6	1.9	-17%	-21%	2.4	3.0	1%	-1%	30%	4%	12%	0.8%	1.5	0.8	1.3
Finland	14.4	15.4	-6%	0%	1.7	2.3	-25%	-37%	4.8	3.5	-11%	1%	-27%	14%	9%	1.1%	-0.4	0.5	1.7
France	13.7	13.9	-2%	5%	2.0	1.7	14%	11%	2.7	3.1	15%	2%	-1%	4%	9%	-0.4%	0.9	0.5	1.0
Germany	11.4	13.1	-13%	-6%	1.4	1.7	-13%	-15%	3.2	2.7	16%	1%	2%	5%	12%	-0.2%	-0.1	0.1	0.8
Greece	9.7	12.8	-25%	-18%	1.1	1.5	-26%	-25%	2.6	2.6	39%	8%	7%	-3%	4%	3.3%	2.1	1.5	2.3
Ireland	13.8	14.8	-7%	0%	1.5	1.9	-22%	-28%	1.9	2.0	19%	7%	42%	2%	7%	0.8%	-1.7	2.5	3.7
Italy	8.4	13.1	-36%	-30%	1.2	1.2	4%	1%	4.7	3.7	27%	2%	10%	-1%	2%	-0.7%	0.7	0.5	0.8
Netherlands	18.8	14.4	30%	41%	3.1	2.2	40%	48%	1.8	2.7	20%	8%	24%	5%	20%	0.5%	0.2	0.6	1.5
Portugal	14.6	15.1	-4%	3%	1.9	2.0	-4%	-8%	3.6	3.7	1%	-7%	32%	6%	7%	-1.7%	2.3	1.1	2.1
Spain	10.2	12.8	-20%	-14%	1.3	1.5	-13%	-13%	4.1	4.0	24%	0%	12%	3%	4%	-0.1%	2.5	1.5	1.2
EMU	12.7	13.5	-6%		1.7	1.7	3%		3.1	3.1	16%	2%	4%	3%	9%	60.3%	0.5	0.5	1.4
Norway	10.1	11.7	-13%		1.7	1.7	2%		5.8	3.6	3%	-3%	-39%	8%	0%	-2.9%	1.1	0.7	1.3
Sweden	14.5	15.1	-4%		2.2	2.2	0%		3.0	3.0	17%	-2%	20%	-1%	8%	-0.5%	-0.4	0.2	1.9
Switzerland	17.4	16.2	7%		3.5	2.8	28%		3.0	2.8	3%	2%	1%	9%	13%	0.2%	0.8	1.1	1.5
Denmark	27.9	16.6	68%		6.2	3.2	91%		1.5	1.7	26%	7%	-33%	19%	24%	2.1%	1.1	1.4	1.7
United Kingdom	10.8	13.1	-17%		1.8	1.9	-6%		3.6	3.6	3%	-1%	-14%	4%	7%	-1.3%	0.3	0.3	0.1
Europe	13.3	14.0	-6%		2.0	1.9	6%		3.1	3.2	11%	1%	-3%	4%	9%	49.4%	0.5	0.4	1.0
US	20.3	16.5	23%		4.6	2.9	56%		1.4	1.8	25%	1%	2%	10%	13%	0.5%	2.5	2.0	1.5

Source: Datastream, IBES, J.P. Morgan Economics Research, consensus forecast in italics, 31st Jan 2024

Global Equities Performance & Valuations

3M Performance	Market	Energy	Materials	Industrials	Discretionary	Staples	Healthcare	Financials	IT	Telecom	Utilities
US	15.9%	-2.5%	8.6%	16.0%	13.8%	7.3%	12.7%	20.8%	21.9%	18.3%	3.5%
Europe	10.4%	-6.7%	7.3%	18.2%	12.9%	1.9%	7.8%	11.7%	30.1%	9.6%	5.0%
UK	4.1%	-7.7%	5.1%	16.4%	11.1%	-1.0%	4.4%	7.8%	20.3%	1.3%	2.9%
Euro	13.6%	-3.6%	7.8%	19.7%	13.0%	5.6%	3.9%	13.8%	31.6%	13.0%	5.5%
Switzerland	8.5%	-	13.1%	18.7%	15.6%	1.0%	8.4%	9.9%	-	-5.1%	-
Japan	14.2%	2.7%	16.7%	16.9%	13.9%	4.4%	11.5%	9.7%	23.8%	12.6%	8.0%
World	14.5%	-3.0%	8.3%	16.3%	13.6%	5.4%	11.8%	16.8%	22.7%	17.1%	4.3%
12M Performance											
US	19.2%	-7.7%	-2.6%	13.4%	18.2%	0.7%	5.2%	6.9%	46.1%	40.3%	-10.8%
Europe	5.3%	0.4%	-5.3%	14.9%	0.3%	-5.1%	7.3%	4.6%	27.9%	4.8%	2.7%
UK	-1.9%	0.1%	-19.7%	25.1%	4.3%	-9.5%	2.1%	-5.2%	26.6%	-11.8%	2.3%
Euro	8.1%	1.0%	2.7%	14.3%	0.6%	4.9%	-6.4%	6.9%	29.9%	11.3%	4.9%
Switzerland	-0.6%	-	6.4%	12.8%	-12.7%	-10.8%	-1.6%	8.3%	-	-4.4%	-
Japan	30.5%	34.9%	28.9%	35.4%	36.9%	10.1%	10.5%	35.5%	40.0%	20.0%	45.7%
World	15.8%	-4.7%	-2.7%	15.9%	16.1%	-0.6%	5.8%	6.2%	44.6%	33.9%	-5.8%
P/Book (-1M)											
US	4.5	2.1	2.9	5.8	9.6	5.8	4.7	2.1	11.1	3.9	1.9
Europe	2.0	1.2	1.8	3.5	2.0	3.0	3.9	1.0	5.0	1.3	1.7
UK	1.9	1.3	2.5	6.7	3.0	2.5	6.8	1.0	11.1	0.6	2.4
Euro	1.7	1.2	1.5	2.9	1.8	2.7	1.8	0.9	5.3	1.6	1.7
Switzerland	3.0	-	3.2	6.3	2.9	4.8	4.9	1.2	-	3.9	-
Japan	2.2	1.1	1.8	2.5	2.4	3.0	3.8	1.2	4.2	3.1	1.1
World	3.1	1.7	2.1	3.5	4.0	4.1	4.3	1.5	9.2	3.1	1.7
12m Fw P/E											
US	20.4	11.3	18.1	20.0	26.0	18.9	18.2	14.7	28.4	18.8	14.9
Europe	12.8	6.9	13.8	17.9	11.9	16.3	16.4	8.2	24.8	14.1	12.3
UK	10.6	7.1	10.7	20.1	16.9	11.9	13.7	7.3	28.1	10.0	12.6
Euro	12.3	6.6	14.9	15.9	10.9	18.1	13.9	7.7	25.5	15.5	12.0
Switzerland	17.1	-	19.4	22.1	15.8	22.4	15.0	13.5	24.6	15.4	-
Japan	15.0	7.5	12.9	14.7	12.2	20.4	26.4	11.1	23.4	19.6	7.4
World	17.8	10.0	15.0	18.5	19.4	18.0	18.2	12.2	28.1	18.5	13.7
12m fw EPS Gr											
US	10.8	-6.6	4.1	11.5	13.5	5.6	16.9	7.6	17.1	15.7	7.2
Europe	4.8	-3.2	10.9	8.1	3.4	5.6	8.5	6.0	-3.4	9.9	0.0
UK	4.3	3.5	3.5	11.6	4.9	4.5	9.6	1.8	10.9	3.9	0.5
Euro	4.0	-10.0	18.6	13.9	2.5	8.8	4.6	6.8	-5.3	12.2	-6.7
Switzerland	9.0	-	9.1	2.9	8.3	3.6	7.2	23.0	8.6	0.5	-
Japan	8.1	-1.4	15.0	-1.0	11.3	16.1	7.3	10.8	12.2	27.6	-11.7
World	8.8	-4.4	6.8	8.5	10.3	6.2	14.5	6.6	15.4	15.6	3.7
Dividend Yield											
US	1.9	3.3	2.0	1.7	2.0	2.8	2.1	2.1	0.9	3.4	3.7
Europe	3.3	5.3	4.2	2.3	2.8	3.1	2.5	4.8	1.1	4.0	5.1
UK	4.0	4.4	5.7	1.7	2.8	4.6	2.6	4.8	1.4	6.1	4.9
Euro	3.2	5.7	3.6	2.3	2.9	2.2	3.2	5.0	1.0	3.2	5.2
Switzerland	3.0	-	2.5	2.9	2.9	2.5	3.1	4.0	-	4.3	-
Japan	2.1	3.5	2.6	2.0	1.8	2.2	1.8	3.2	1.2	2.4	1.9
World	2.3	4.1	3.1	2.0	2.2	2.8	2.1	3.1	0.9	3.4	4.1

Source: IBES, MSCI, Datastream, At 31st Jan 2024, * Discount to MSCI World

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Cash Merger: The divisor is adjusted and we remove the target company from the basket on the day of merger and redistribute gains into remaining companies according to recalculated market cap weights of surviving constituents in the basket.

Stock Merger: If the acquirer is a member of the basket, then the weight allocated to the acquired will transfer to the surviving entity on the close of the last day it trades. If the acquirer is not a part of the basket, then proceeds (losses) from the acquired company will be redistributed to the surviving basket constituents based on the recalculated weighting on the close of its last trading day.

Spinoffs: The spinoff company and parent will be included in the basket and both the spinoff and parent company weights will be readjusted according to new market capitalizations after the spinoff date.

Tender Offers & Share Buybacks: The stock will remain in the basket and its weight will be adjusted according to the impact the tender/buyback has on the stock's market value.

Delisting/Insolvency/Bankruptcy: The stock will be removed from the basket as of the close of the last trading day, and the proceeds (losses) will be redistributed among remaining companies according to re-calculated weights of remaining stocks in the basket. If a stock trades on "pink sheets" it will not be included in the basket.

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