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Asset Class Views

Global Equity Views 3Q 2025

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In brief

- Since our last Global Equity Investors Quarterly in mid-April, markets have recovered at a record pace, in a retreat from the tariff abyss. Q2 was the biggest "risk on" quarter since the post COVID pandemic recovery in Q4 2020.
- We make little change to our profits outlook since the downgrades that followed the initial U.S. tariff announcements. We still expect solid growth this year and some acceleration into 2026.
- Despite higher prices, our investors remain modestly optimistic on balance, with more enthusiasm for markets in Europe and Asia than in the U.S. After a dramatic recovery in growth stocks, value themes stand out in both our quantitative and fundamental research.

Taking stock

Yet again, a triumph for the optimists. Markets have recovered to new record highs faster than ever before from the sharp declines and extreme volatility that followed the initial U.S. tariff announcements on April 2. A series of revisions to the initial tariff proposals combined with reassuring profits news spurred this rapid change in market sentiment, and equity investors quickly found confidence again. The beta factor in the U.S. market recorded one of the best quarterly performers ever, delivering a 24% return on a Q1-Q5 (first quintile-fifth quintile) basis, indicating a strong preference for high-risk stocks. All in all, a remarkable turnaround from the April lows.

Profit growth rumbles on

We downgraded our expectations for this year's corporate profits by around 5%-6% in the immediate aftermath of the tariff announcements, assuming that some but not all the measures would be enacted, and that companies would do all they could to deflect the damage by raising prices and adjusting supply chains. Since then, our forecasts are little changed, with companies remaining cautiously optimistic about the outlook for the most part through the second quarter.

Meanwhile the passage of the One Big Beautiful Bill Act (OBBBA) will likely lead to some earnings upgrades in the U.S. Confidence in the all-important U.S. technology sector has been boosted by reassuring first quarter reports signaling the artificial intelligence (AI) investment boom is

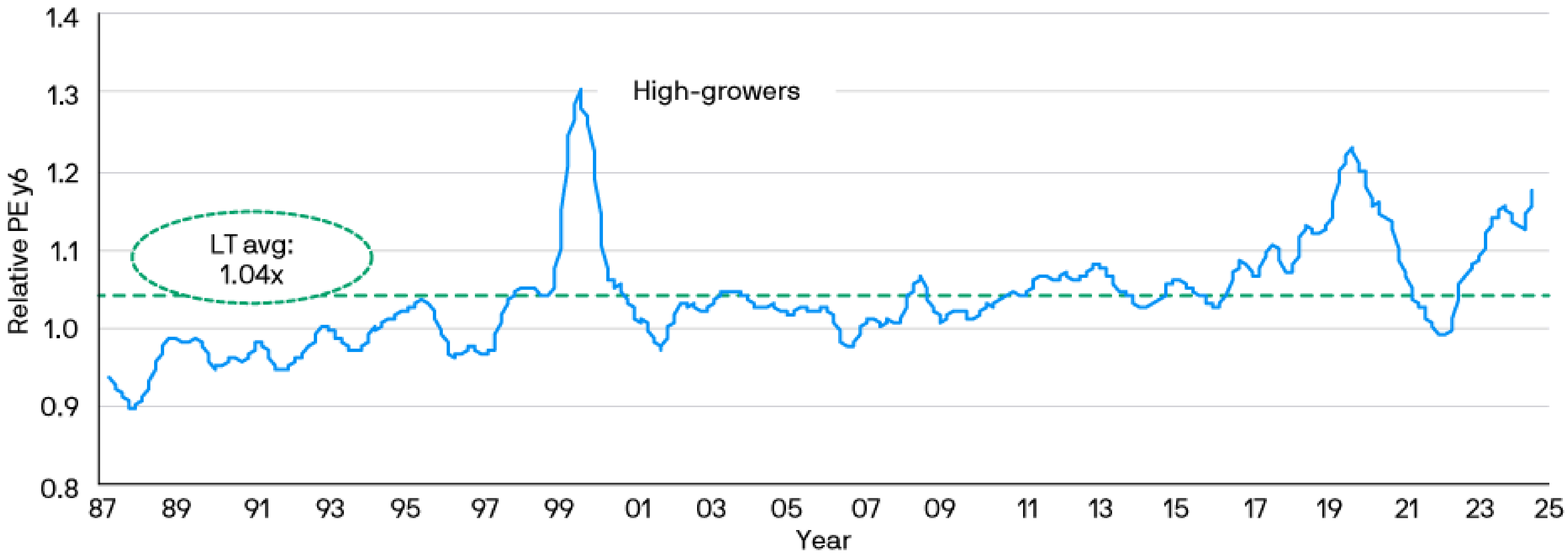
At this point, our biggest concern is that if policy risks do come back into focus, equity valuations are now elevated and markets will struggle. For example, investors may once again direct their attention to tariff issues. The true impacts of tariffs on the economy and profits are still unclear, and markets may have become complacent about that. There isn't much margin for error at these levels.

We see common themes in both our fundamental and quantitative research work. As equity prices have recovered sharply since April, expected returns have declined while still offering reasonable gains ahead. Within markets, value themes look increasingly attractive again: The gap between high and low valuations is now in the 78th percentile globally, in a data set spanning the past 30 years. Financials, health care and energy stocks rank relatively well in our fundamental research, while technology has become pricier again after the big Q2 recovery.

Indeed, the best companies in many sectors look more expensive across most regions, although lower quality stocks have already performed well in Europe and thus look less appealing. Defense stocks, ignored for decades, have soared in Europe and Asia as many countries move to boost their defense budgets. While we think the sector's earnings prospects have improved significantly, valuations are now much too high for many of our investors.

In our research work the valuation of the fastest growing companies in the U.S. looks more demanding again

Exhibit 1: Relative price to long-term earnings ratio of top trend growth



Source: FactSet, J.P. Morgan Asset Management; data as of June 30, 2025. Chart shows the universe relative price-earnings ratio (PE) of the top quintile by trend growth. PE is based on the J.P. Morgan's y6 EPS divided by price. Portfolios are constructed by sorting stocks on trend growth within sectors across the J.P. Morgan U.S. coverage universe. Stocks are weighted equally within sectors; sectors are weighted according to their respective S&P 500 market value.

A European banking boom highlights value theme potential in a technology dominated era

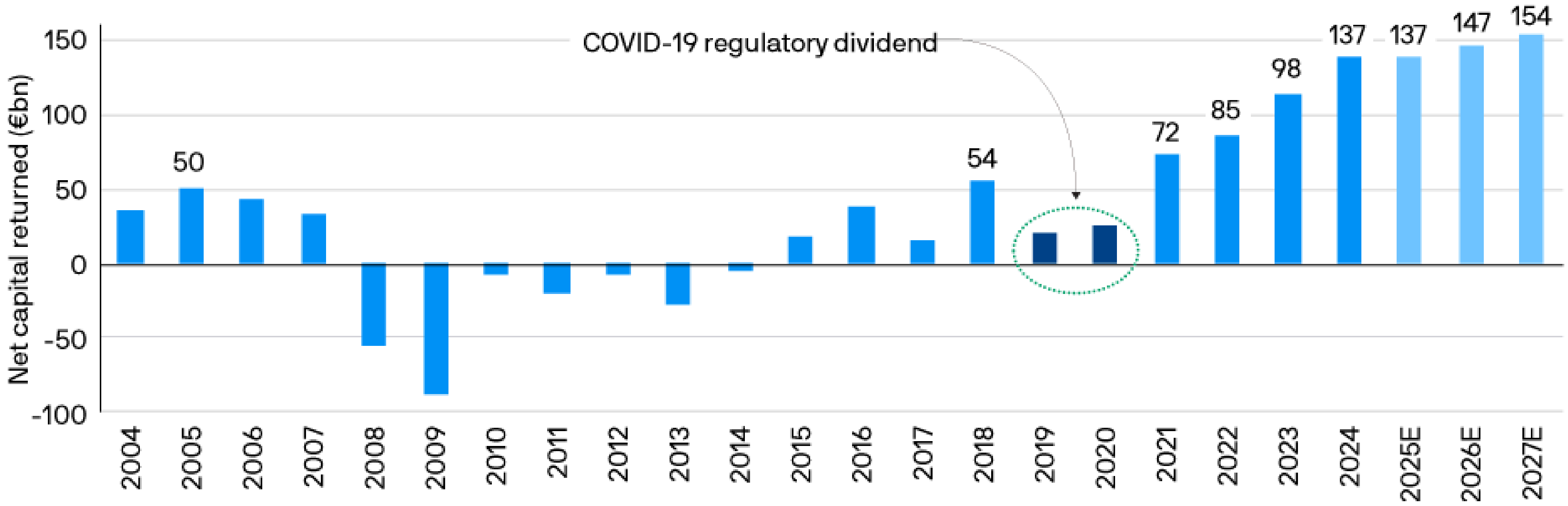
Five years ago, European banks were unquestionably one of the most unloved corners of the global equity market, priced 70% below the pre-global financial crisis highs reached in early 2007. But much has changed; higher interest rates finally boosted net interest income, balance sheets are robust and cost cutting has further enhanced profitability. Recent returns have been exceptional, exceeding those of most U.S. mega cap technology stocks. On average, European bank stock prices have tripled over the period.

In the first half of this year, the pace of gains accelerated, with European bank stocks up 45% in U.S. dollar terms. What's next? We see healthy earnings momentum and few asset quality issues. Valuations look reasonable, if no longer cheap. We are carefully tracking one potentially negative trend in the sector– increasing M&A (including deals in which returns are questionable) and less corporate focus on increasing capital returns to shareholders.

Still, the tremendous gains from these very traditional companies highlight the potential in identifying improving prospects for low-priced and out-of-favor stocks in traditional, long-established industries.

Capital returns for European banks are still strong, but increasingly balanced with M&A spending

Exhibit 2: European banks net capital returned (€bn)



Source: Source: Autonomous Research estimates, J.P. Morgan Asset Management; data as of June 2025.

“Value up” trends in Asian equity markets look to be gaining momentum

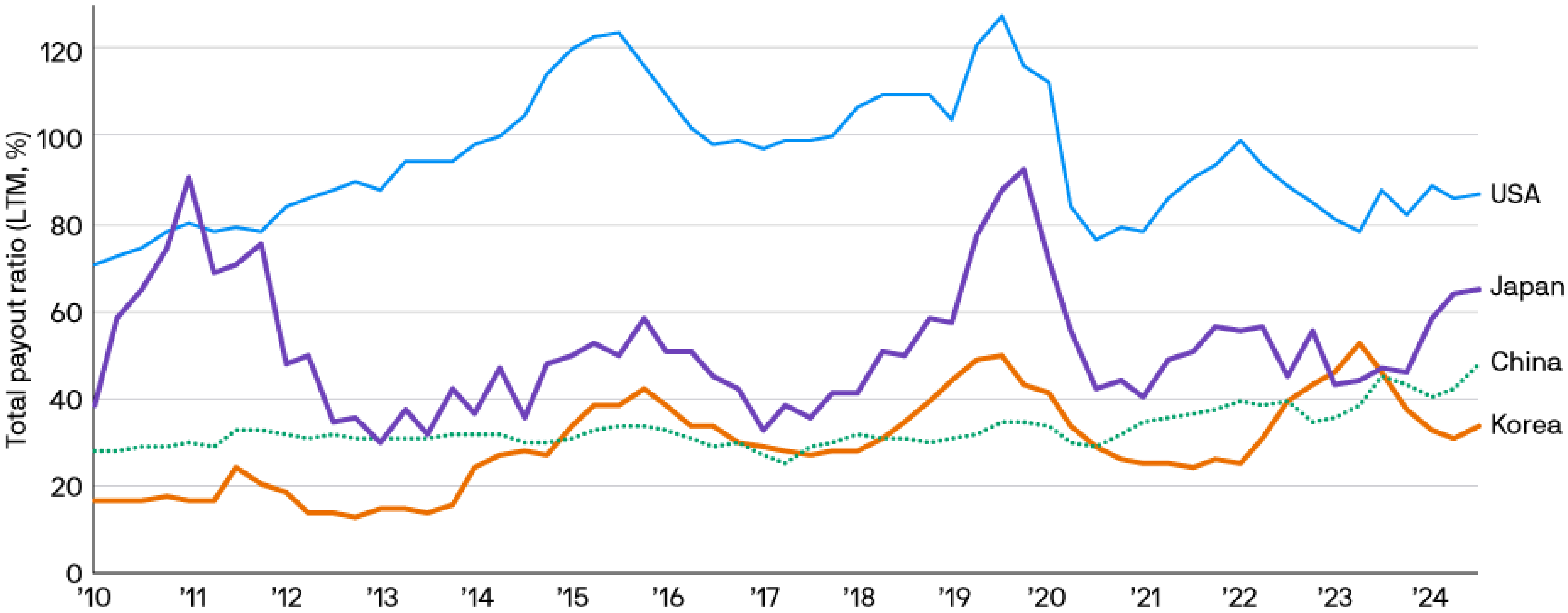
For some time now, equity investors in Japan have been encouraged by growing pressure on corporate management to pay more attention to their shareholders’ interests. Last year, we saw some early signs of similar behavior in China and now Korea is the latest market to join the trend. Korea’s “value up” movement, driven by government policy, aims to unlock hidden value and encourage better capital discipline, especially among the sprawling conglomerates that dominate the local market.

Investors cheered the shift in Q2, driving Korean stocks up over 40% year to date in U.S. dollar terms. We think this enthusiasm is a little overdone in the near term; progress will be slow and markets have moved fast. But the longer-term direction does seem correct. Companies can unlock tremendous potential to improve their return on equity and return more cash to shareholders.

In Japan, the momentum in buybacks and dividend hikes continues to steadily accelerate. In China on the other hand net issuance of new shares has just turned negative for the first time as companies moderate their capital spending and instead choose to repurchase their own shares.

"Value up" trends are gaining momentum across Korea, China and Japan

Exhibit 3: Total payout ratios across Korea, China and Japan relative to U.S.



Source: FactSet, Jefferies, J.P. Morgan Asset Management; data as of end March 2025. Chart shows total payout trends since 2011. ROE and shareholder return of companies with targets announced, mostly by 2027.

Broadly, "value up" trends move at a steady pace and we have to be alert for overly optimistic market reactions. In the long run, we believe, "value up" is real and it is another reason we expect the gap between returns in U.S. and Asian equity markets to narrow after 15 years of complete U.S. dominance.

Exhibit 4 shows the views of our team members. Many favor quality stocks in the financial and health care sectors while avoiding high priced defense stocks.

Views from our Global Equity Investors Quarterly, July 2025

Exhibit 4 : Opportunities and risks

Source: A subset of survey results are shown for Global Equity Investors Quarterly participants taken in July 2025. These responses are taken from a quarterly survey representing 53 CIOs and portfolio managers across Global Equities. Opinions, estimates, forecasts, projections and statements of financial market trends are based on market conditions at the date of the publication, constitute our judgment and are subject to change without notice. There can be no guarantee they will be met. Past performance is not a reliable indicator of current and future results.

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