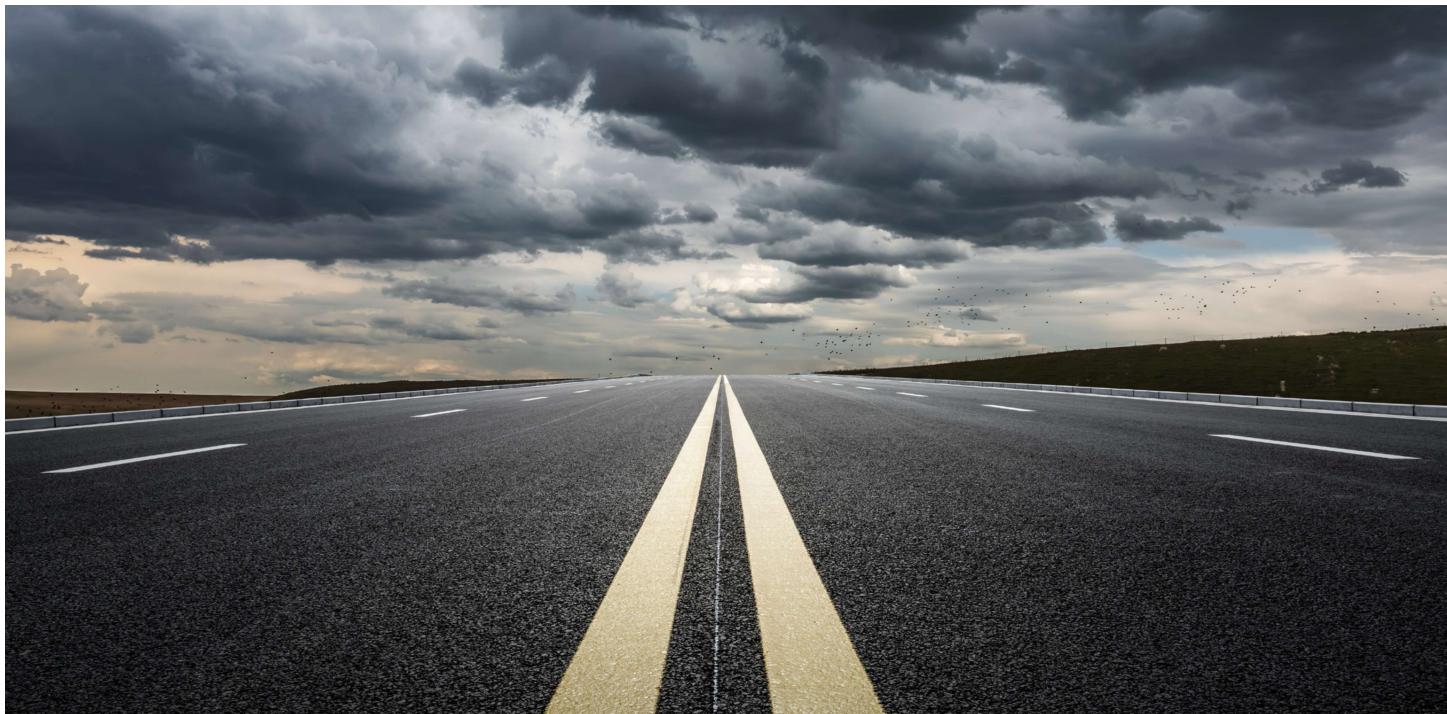


2025 Year-Ahead Investment Outlook

Out of the Cyclical Storm and into the Policy Fog



Executive Summary

Over the past four years, the U.S. and global economy and markets have weathered a myriad of challenges, including: the pandemic-induced distortions in manufacturing and services activity, acute supply chain and labor force disruptions due to the pandemic and the war in Ukraine, the resulting global inflation surge, rapid and coordinated central bank policy tightening – and the impacts on real economic growth, labor markets, consumer and producer prices and earnings growth. Yet, through these cyclical storms, the U.S. economy has maintained an above-average pace of real economic growth and risk assets have delivered strong returns above and beyond those found in cash. As 2024 was ending, these cyclical forces were making their way out of the economy and profits, with a normalization in real economic growth, job creation, inflation pressure and earnings growth – as well as the level of interest rates.

However, the U.S. economy's momentum is downshifting into a more normal pace. While this alone is unlikely to trigger a recession, it does leave the economy more vulnerable to shocks, including those from significant policy changes that might be coming from Washington this coming year. Additionally, the strong market performance of the past two years has left valuations elevated in certain markets – and, importantly, portfolios unbalanced by asset class, sector and style and region. As the cyclical storm passes but the policy fog settles in, the number one action call for investors is to ensure portfolios are rebalanced after a few very abnormal years.

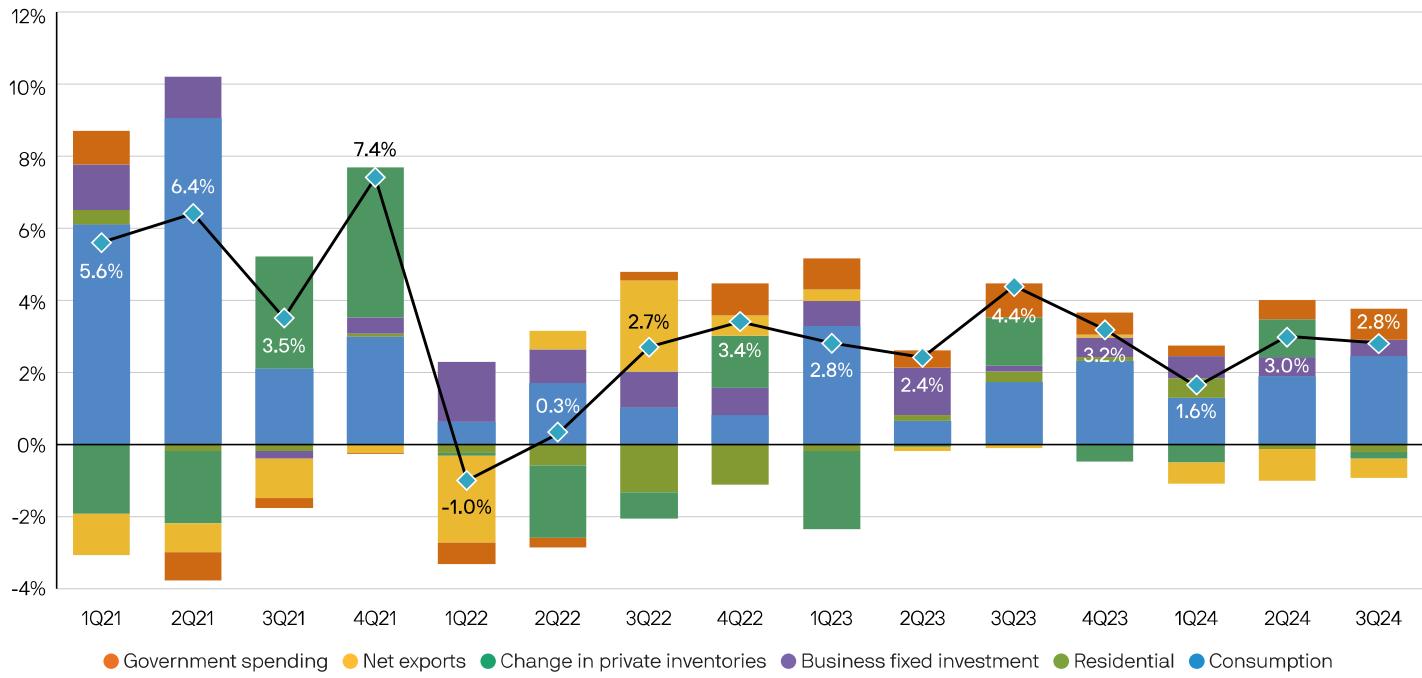
Economy: A post-cycle economy faces greater policy uncertainty

Clearer skies on the cyclical climate

This year, the economy saw surprisingly robust growth with real GDP on track to expand at a 1.8% annualized rate in the fourth quarter, closing 2024 with 2.3% annual growth, by our estimates. The biggest driver of this strength has been consumer spending, which contributed an average 78% of real GDP growth in the first three quarters. Despite pushing back on high retail prices, a thrifter consumer managed to stretch their budget and still expand their shopping cart. Inflation-adjusted consumer spending grew 3.0% year in 3Q, accelerating from 2.7% in 2Q, fueled by strong gains in real after-tax income. Consumption has been dominated by high-income households, which have enjoyed enormous gains in household wealth, along with strong interest, dividend and property income. Elsewhere, consumers have been more cautious but continue to spend.

Consumption remains the biggest driver of the economy, accounting for roughly 80% of growth in the first three quarters of 2024

Exhibit 1: Contributors to real GDP growth, q/q change, annualized rate



Source: BEA, FactSet, J.P. Morgan Asset Management. Guide to the Markets – U.S. Data are as of November 15, 2024.

In the year ahead, continued progress in real wage growth should broadly support consumers, but consumption is likely to contribute less to growth going forward as the tailwind of pent-up savings and debt has largely faded.

Interest rate-sensitive sectors continued to face challenges but began to stabilize as interest rates peaked. The scope of its acceleration will depend on how much long-end yields move lower next year. Residential investment contracted in 2Q and 3Q as homebuilder sentiment struggled under elevated long-term interest rates, which may persist even as the Fed lowers the federal funds rate. The manufacturing sector, grappling with slow global demand, has also experienced weak job growth and new order activity. However, potential rate cuts could stimulate activity in these sectors, thereby broadening support for GDP growth.

Despite high borrowing costs, business investment has been buoyed by strong corporate balance sheets and fiscal support from legislation such as the CHIPS Act and the Inflation Reduction Act. Tech companies, in particular, have accelerated investment amidst an AI-arms race, and lower rates could facilitate similar investments across other sectors.

The labor market, while facing challenges such as recent hurricanes and strikes, is expected to remain healthy, with continued job gains and a stable unemployment rate at close to 4%. Employment growth has moderated and may stabilize at a monthly pace of 100,000 to 150,000, consistent with moderate employment growth and a down-shift in immigration. As the labor market normalizes, so too should the inflation rate. We anticipate headline PCE inflation to close the year at 2.3%, and then average 2.0% next year. Altogether, we expect real GDP to expand 2.1% year-over-year in 2025, marking its fifth consecutive year of expansion.

Policy shifts cast a fog of uncertainty on the outlook

The re-election of Donald Trump and the Republican sweep of Congress could lead to significant policy changes, casting a fog on the economic outlook. While the specifics and timing of potential policy shifts remain unclear, we anticipate tax cuts, higher tariffs, reduced immigration and deregulation of various sectors.

On the tax front, a full extension of the Tax Cuts and Jobs Act and the potential for a lower corporate tax rate for U.S.-based production seem most likely. Slim majorities in the Senate and House may limit a full implementation of proposed tax measures, but there could still be some items folded in on business tax provisions, tip income and the cap on SALT deductions. Regardless of any tariff budgetary offsets the administration may propose, these policies are likely to increase the deficit without significantly stimulating economic activity, adding to the nation's long-term fiscal challenges.

An area of potential economic concern is the incoming Trump administration's stance on tariffs. President-elect Trump has proposed a 10% tariff on all imports and a 60% tariff on all Chinese goods, which could be interpreted as a bargaining tool in trade negotiations. If these tariffs were enacted as stated, they could lead to higher inflation and reduce overall demand, as well as higher interest rates and a stronger U.S. dollar.

According to a recent estimate by the Budget Lab at Yale, these tariffs would raise consumer prices by 1.4% to 5.1% before substitution, equivalent to the cost of \$1,900 to \$7,600 in disposable income for the average household.¹

Additionally, severely curtailed immigration could decrease real economic growth by limiting the growth of the labor force and may cause higher inflation through higher wages.

Lastly, it remains to be seen what the countervailing effect of lower regulations across various sectors is, especially the perspective for higher capital investment and hiring.

If we incorporate a rough expectation of these policy changes into our economic forecasts, the outlook shifts accordingly²:

- Real GDP would be largely unaffected next year, but tax cut stimulus kicking in at the start of 2026 could boost real GDP growth to 2.8% by the end of 2026.
- Job growth would be relatively unaffected in 2025 but labor markets would tighten. Lower labor force growth from less immigration would cut the unemployment rate to 3.9% by the end of 2025.
- Inflation, in terms of headline PCE, could rise to 2.7% by the end of 2025 in a one-time boost from tariffs then drift down to 2.1% by the end of 2026.
- The Fed could put a premature end to its easing cycle with just three more cuts, bringing the funds rate to 3.75%-4.00% by next summer and holding it there.

Policy forecasts at this stage are still highly speculative, but they don't seem to spell disaster for the economy or markets in the short run. In the coming months, investors will look for greater clarity on the new administration's agenda, which will help refine the economic outlook. Until then, the economy remains on stable footing as we enter the new year, with a gradual return to normal across many fronts. However, investors should remain vigilant, considering the fragility of the economic expansion that underpins a bullish fervor in markets.

¹ Yale Budget Lab, "Fiscal, Macroeconomic, and Price Estimates of Tariffs Under Both Non-Retaliation and Retaliation Scenarios," October 16, 2024.

² See "Policy Changes and the Macro Outlook" by Dr. David Kelly for further details on these policy scenarios.

Fixed income: Embracing the new, old normal

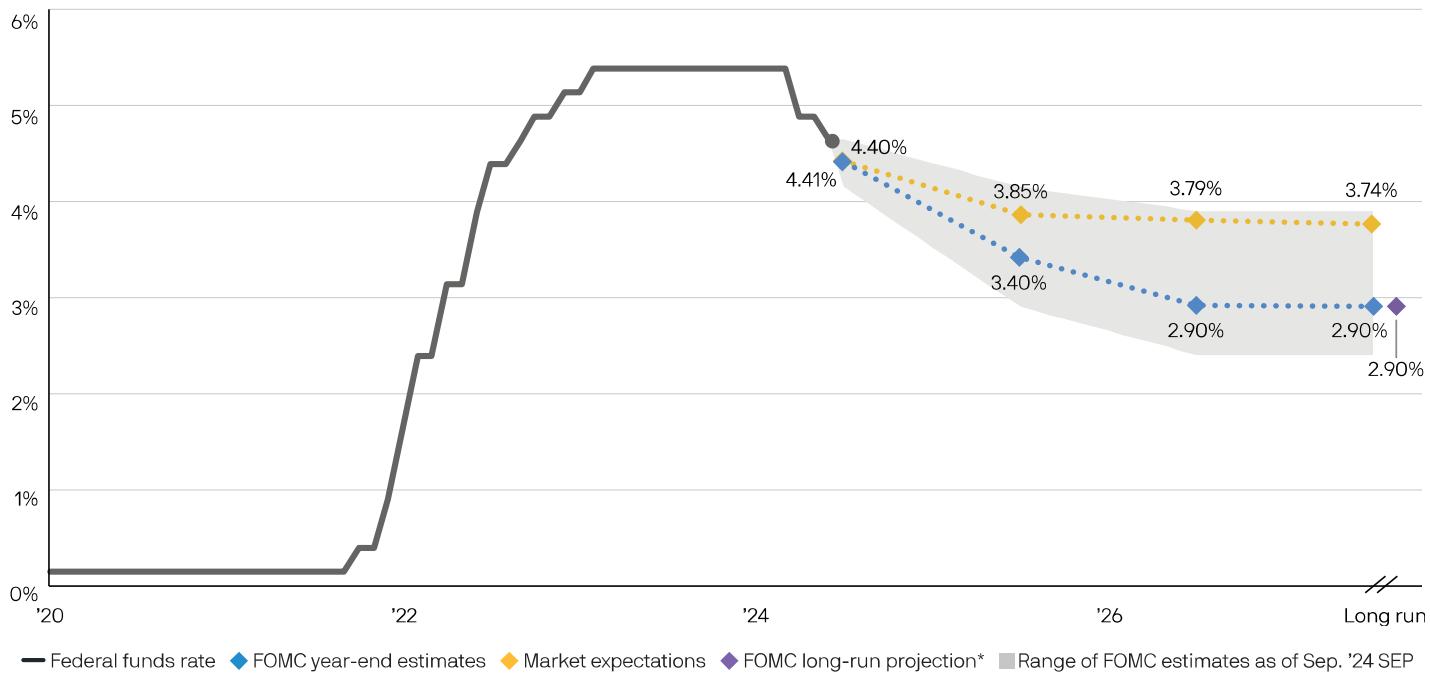
The Federal Reserve kicked off this easing cycle with a jumbo 50 basis point (bp) rate cut and appears committed to continue lowering interest rates at a reduced quarter percent pace to return to neutral. At time of writing, the committee has already delivered 75bps worth of cuts, lowering policy rates from 5.25%-5.50% to 4.50%-4.75%; however, a data-dependent Fed suggests the outlook for further easing remains uncertain. What does appear certain is the committee's desire to lower rates by enough to ease restriction on the economy, but not by too much to encourage inflation. This goal is, of course, very difficult to achieve, but slowing, yet stable growth and easing price pressures provide runway for continued cuts through 2025.

But how low does the Fed go? In an environment of heightened uncertainty, forecasting Fed action this cycle has been difficult to say the least. The most hawkish Fed governor expects just two more 25bps rate cuts might be sufficient, while the most dovish members expect to cut rates by a further 175bps by the end of 2025.

Markets expect a more hawkish outlook with roughly 75bps of additional cuts through next year before pausing (**Exhibit 2**). While the Fed would like to reduce rates to roughly 3.00%, a fully controlled Republican government and the potential for tariffs next year and fiscal thrust in 2026, could lead to a premature end to the cycle.

Markets reflect more hawkish FOMC forecasts, signaling an early end to the cutting cycle

Exhibit 2: FOMC and market expectations for the federal funds rate



Source: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management. Market expectations are based off of USD Overnight Index Swaps.

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

Guide to the Markets – U.S. Data are as of November 15, 2024.

While investors are likely to be myopically focused on the pace and magnitude of rate cuts next year, investors should take a step back and recognize that the Fed is still in cutting mode in 2025, with the bar to pause cuts or to raise rates set extremely high. However, if the Fed felt that the incoming administration would push through policies that lead to higher federal deficits and supply-side constraints that could boost inflation, they might consider a pause in their easing plans. That said, getting rates to neutral appears to be top priority, suggesting it's unlikely policy rates fall below 3% outside of recession. Importantly, rates have returned to the pre-Global Financial Crisis "normal" of positive real rates. Given this, reinvestment risk in short-term bonds is high and investors will need to consider other areas of fixed income to achieve their income and return goals.

Fed rate cuts tend to lead to higher rate volatility as evidenced in previous rate-cutting cycles. Moreover, we see the long end of the curve being influenced by next year's fiscal policy discussions, as well as potential inflationary impacts. With that said, yields have recently backed up and we believe long-term interest rates as measured by the nominal U.S. 10-year Treasury yield should be biased modestly lower from current levels (albeit with intra-year volatility). We see the 10-year yield stabilizing between 3.75%-4.25% in a soft landing scenario, which remains our base case, and below 3.5% in a hard landing scenario.

All things considered, the 2025 fixed income playbook is:

- **Extend duration out of cash:** After falling to 3.6% in 3Q24, long-term interest rates are comfortably above 4% again, giving investors another bite at the "duration" apple. Even if long-term rates are pressured slightly higher by rising debt levels, there is enough income to offset bond price losses. As the yield curve shape continues to normalize toward its steeper slope, reinvestment risk is real on ultra short-duration bonds.
- **Embrace credit for the yield, not the spread:** We like high-quality duration in securitized markets like agency MBS and asset-backed securities. We also favor the full spectrum of corporate credit (IG, high yield, bank loans and convertible bonds). These sectors would benefit in a soft landing scenario and continue to provide attractive yields even though spreads remain tight.

- **Search for value:** Municipal bonds are trading close to their cheapest levels this year and long duration municipal bonds offer meaningful tax-equivalent yield pickup relative to Treasuries.

Overall, the current backdrop suggests the new normal interest rate environment looks a lot like the "old" normal before 2008: attractive yields, tight spreads, positively sloped yield curves and higher income. To that end, an active approach to bond investing will be key to finding attractive relative value opportunities while balancing risks with higher rates.

U.S. equities: Sturdier leadership extends the bull market

The U.S. has enjoyed a strong bull market for the past two years, with U.S. equities rallying around 60%. Economic resiliency, the start of a Fed easing cycle and the emergence of AI have been key contributors to this performance. Strong gains were mostly concentrated in the "Magnificent 7" in 2023 and the first half of 2024, but broader leadership is now emerging and should continue. Looking ahead, we expect extraordinary earnings growth will settle at still-elevated levels for mega-cap tech while reaccelerating in other areas of the market. This broadening, coupled with resilient economic fundamentals, policy tailwinds and secular trends, should support a more inclusive rally in the year ahead.

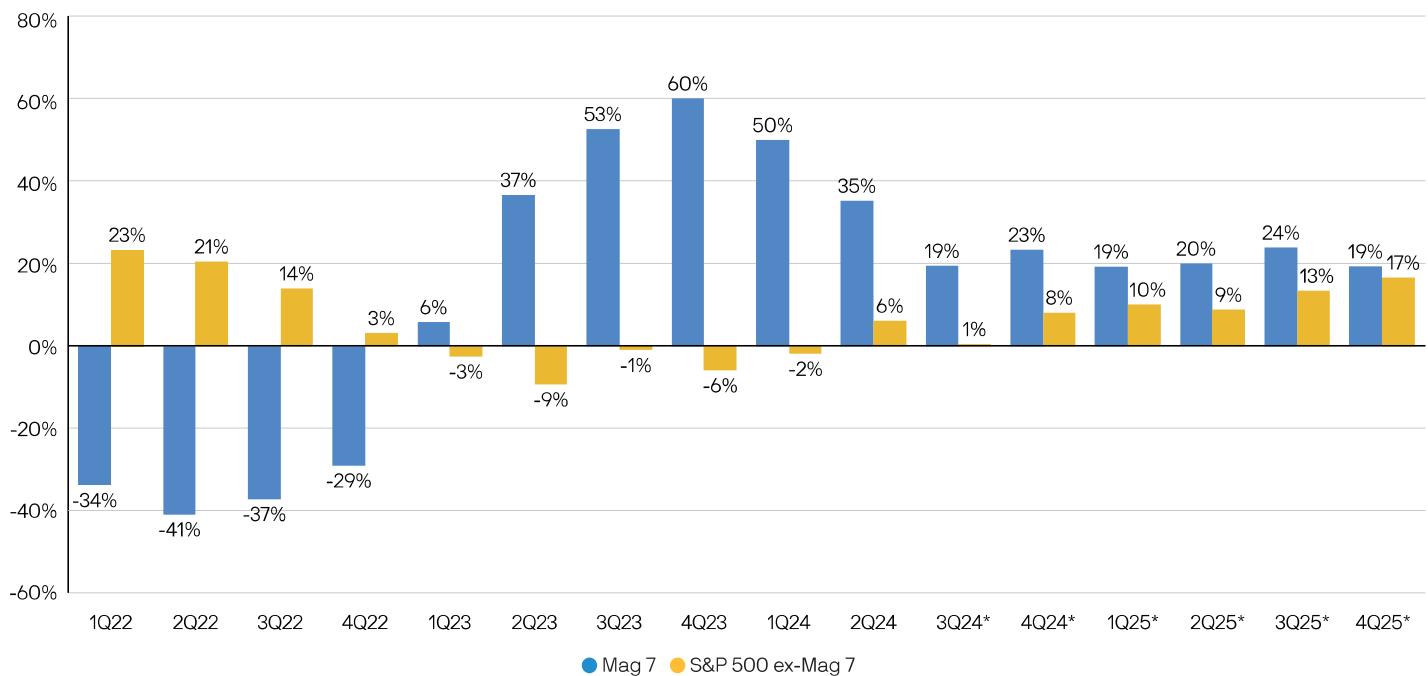
Earnings outlook remains supported

In 2024, earnings growth was primarily driven by profit margin expansion from the mega-cap tech names. As the inflation, wage growth and supply chain issues that plagued profitability in 2022 continue to abate, margin recovery should broaden with health care and consumer discretionary seeing notable improvement. However, the contribution to earnings from margins should normalize, and disinflation could also add some pressure by constraining pricing power. Buybacks should also remain tame as companies increasingly use excess capital to invest in their businesses rather than return it to shareholders. As such, revenue growth will be an increasingly important driver of future returns.

Altogether, markets are currently expecting S&P 500 earnings growth to accelerate from 0% in 2023 to 9% this year, followed by an impressive 15% in 2025 and 13% in 2026. We expect earnings growth will be robust and more broad-based, but if GDP growth normalizes towards trend, as we expect, then consensus estimates could be overly optimistic unless a broad-based corporate tax cut is delivered. However, any benefit from a corporate tax cut could be at least partially offset by weakness of multinational performance and a stronger dollar from proposed tariffs. If mid single-digit to low double-digit earnings growth were achieved, it would hinge upon continued economic resiliency, revenue growth and the other 493 companies pulling their weight.³

As Mag 7 earnings growth decelerates in 2025, the rest of the market catches up

Exhibit 3: Pro-forma EPS, y/y



Source: FactSet, J.P. Morgan Asset Management. *Numbers are forecasts based on consensus analyst expectations. Data are as of November 15, 2024. Magnificent 7 includes AAPL, AMZN, GOOG, GOOGL, META, MSFT, NVDA and TSLA. Earnings estimates for 2024 are forecasts based on consensus analyst expectations.

Earnings breadth should drive market breadth

Underneath the surface, the composition of earnings is projected to shift as well. Earnings growth for the Mag 7 is expected to decelerate to a (still solid) 20% annual pace, while accelerating for the rest of the market (Exhibit 3). AI will continue to be a focal point, but the conversation is becoming more balanced with return-on-investment concerns weighed against impressive profits and cash flow generation. This is already reverberating in a more inclusive rally. The Mag 7 accounted for 63% of S&P 500 returns in 2023, and that share has stepped down to 47% so far this year.

³The other 493 companies are expected to contribute 29% of earnings growth in 2024, compared to 73% next year.

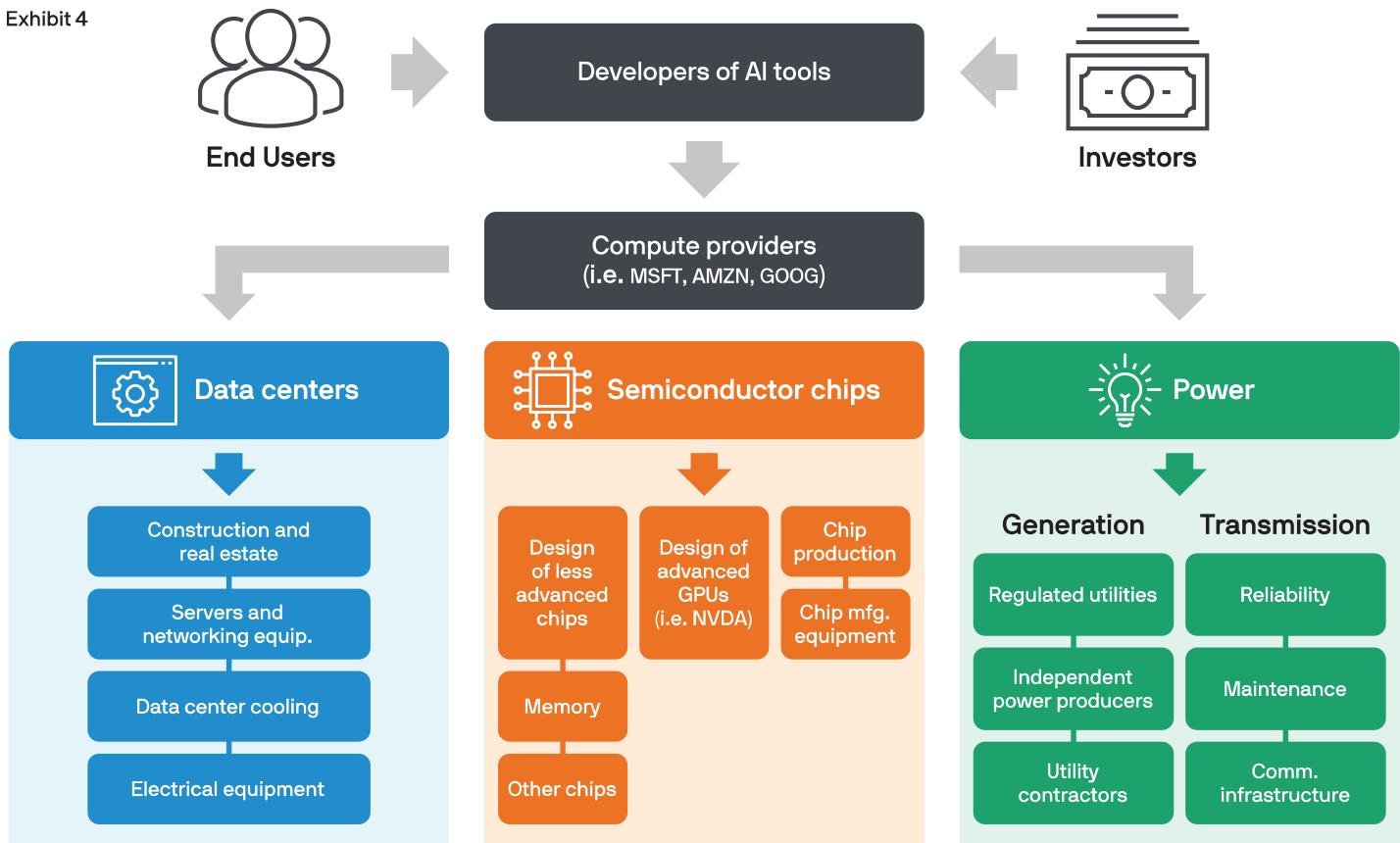
Beneath the surface, certain sectors are just emerging from cyclical headwinds. Industrials, energy and materials earnings have been in the doldrums with weak U.S. manufacturing activity for the past two years. But as the cost of capital declines with interest rates, consumers and companies should resume capital intensive expenditures. Durable goods subsectors, particularly those tied to housing, should also see a boost. Financials should benefit from increased loan and insurance demand, a more favorable yield curve, normalizing M&A and IPO activity and prospects for deregulation, while falling rates also increase the relative value of bond proxy sectors like utilities and real estate. Lastly, consumer sectors can likely inch along with improving household purchasing power, but heightened price sensitivity will keep non-discretionary or value-oriented companies most supported.

The prospect of deregulation and corporate tax cuts may finally give investors conviction to add to previously unloved areas of the market, like value and mid/small cap stocks, which are also benefiting from earnings recovery and attractive valuations. However, volatility may be ahead should more growth-negative policies emerge, such as tariffs.

Secular spending on AI, the energy transition and diversifying supply chains are also providing sizable tailwind for the market. The “hyperscalers” are accelerating capex to upwards of \$200B this year and 2025 is set to be another year of significant investment.⁴ This spending will benefit areas of the market like data center real estate, engineering and construction, nuclear and renewable power, energy transmission, gas-powered electricity, cooling technologies and the electrical components that connect it all (Exhibit 4).

The AI infrastructure buildout has revealed a broad set of beneficiaries

Exhibit 4



Source: Bridgewater Associates, J.P. Morgan Asset Management. Data are as of November 15, 2024.

⁴ Hyperscalers are the large cloud computing companies that own and operate data centers with horizontally linked servers that, along with cooling and data storage capabilities, enable them to house and operate AI workloads. Alphabet, Amazon (AWS), Meta, Microsoft and Oracle comprise the five major hyperscalers expected to spend \$194B and \$225B on capex in 2024 and 2025, based on Bloomberg consensus estimates.

International equities: Focusing on structural rather than cyclical stories

We began the year expecting international equities to catch up to the U.S., given the extreme valuation discount to the U.S., expectation of a weaker dollar and the better earnings backdrop. While international equities are up a robust 7% so far in 2024, the gap with the U.S. remains significant. Additionally, with the pro-U.S. policies of the next administration, especially those that promote a stronger dollar (through higher rate differentials and tariff uncertainty), some headwinds are increasing for international stocks.

Despite coordinated stimulus leading to a 30% tactical rebound in Chinese equities in 3Q, China remains stuck in its cyclical storm. Policy will likely remain accommodative until economic momentum stabilizes, but policymakers do not seem intent on generating strong growth. Therefore, in 2025, investors may be disappointed by the scale of fiscal policy stimulus and hence overall economic growth. In the case of full implementation of President-elect Trump's tariff campaign promises, Chinese policymakers may stimulate the economy more forcefully; however, this remains uncertain. As a result, investors may be unwilling to pay a higher multiple for Chinese stocks after the recent rally. Pockets of opportunities do exist, particularly among private companies prioritizing shareholder returns and belonging to innovative sectors linked to business technology (automation, software) or the renewable energy and electric vehicle supply chain.

Europe is also facing its own cyclical challenges. A shift in sentiment and earnings for European equities will depend largely on a rebound in China, a manufacturing upturn or stronger consumer spending - all challenging to overcome in 2025. Additional European Central Bank (ECB) easing should eventually provide some support, especially for businesses that rely more on bank lending, but confidence and consumer spending have been slow to improve. Additionally, the eurozone may be hit by tariffs next year, as the region struggles to provide a proactive unified response. However, sector-level discounts, combined with healthy buybacks and dividend yields, present compelling opportunities in select European companies.

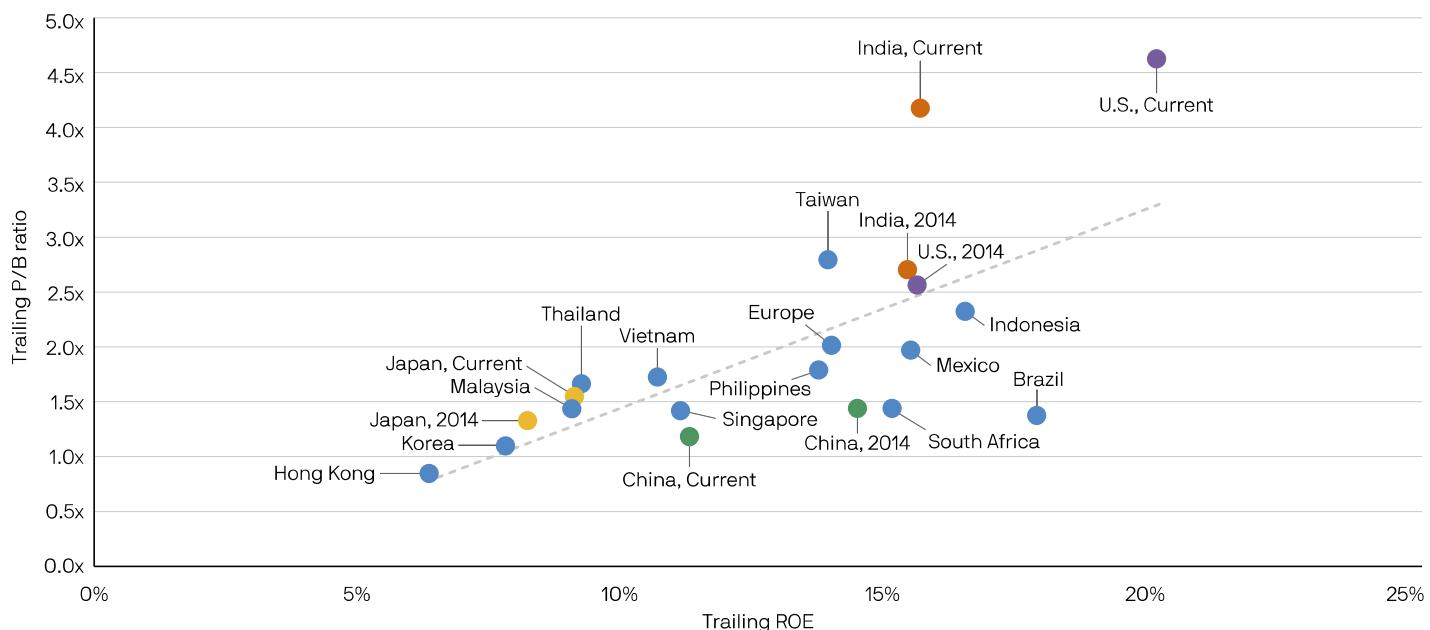
Meanwhile, compelling structural stories are driving impressive returns in certain markets (**Exhibit 5**): Japan, India and Taiwan, up 7%, 13% and 33% respectively. Japan, for instance, is moving out of a long period of deflation, stagnant nominal growth and negative rates. In the year ahead, reflation should support consumer spending and domestic earnings more broadly. Japan's corporate governance reforms, leading to record-high buyback announcements and more M&A activity, should continue supporting flows and returns as its valuation discount fades. However, yen volatility has increased due to "yen carry trade" unwinds and higher U.S. rate expectations, hurting sentiment and equity returns. Looking ahead, yen stability, which is crucial for internationally exposed companies and foreign investors, is expected to improve as Japanese interest rates normalize gradually and yen short positions close. There is risk of a more disruptive rise in U.S. 10-year yields driven by deficit and inflation concerns.

While China's path ahead may be bumpy and involve trade conflicts with the U.S., opportunities in EM ex-China remain promising. India is expected to maintain strong earnings momentum due to falling rates and robust services export growth. Recently, foreign inflows have stalled due to high equity valuations, which have been bolstered by strong investments from domestic investors. This could eventually result in a market correction. However, there is likely a floor as the long-term investment case remains highly compelling. Furthermore, India stands out as one of the leading destinations for "friendshoring" in EM Asia, potentially boosting foreign direct investment and driving growth in the manufacturing sector.

Elsewhere in Asia, the tech cycle boom can continue to support Taiwanese companies, as key beneficiaries of the AI infrastructure build-out. Korean equities continue to face challenges but could eventually participate, as the cyclical tech cycle picks up and the impact of its "Value-Up" program becomes more apparent.

India and Taiwan offer quality growth, while Japan and Korea offer value linked to corporate reforms

Exhibit 5: Return-on-equity and price-to-book ratio for different markets, last 12 months



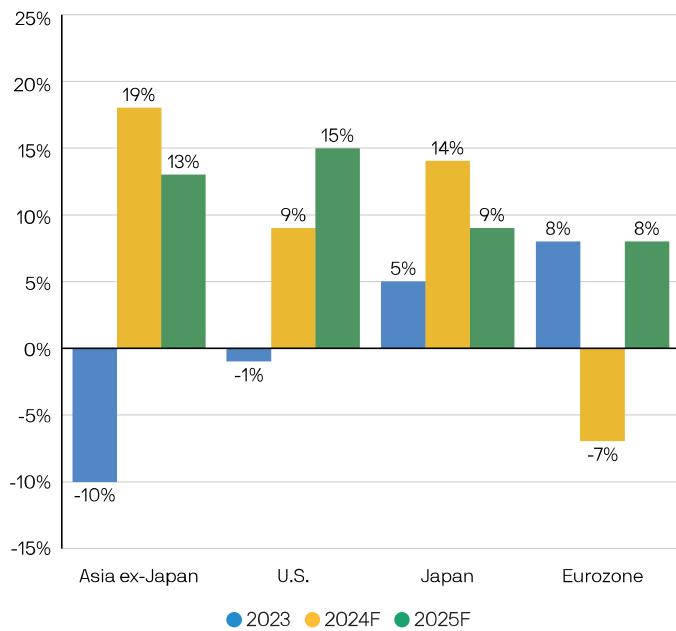
Source: FactSet, MSCI, J.P. Morgan Asset Management. Numbers are based on MSCI indices except for the U.S., which is based on the S&P 500 Index. ROE = return-on-equity and P/B = price-to-book. Historical data are shown for select markets to showcase progress. Data are as of November 15, 2024.

Lastly, Mexico is likely to experience continued volatility next year as the 2026 USMCA renegotiations draw near. The U.S. may intensify efforts to limit the passage of Chinese products through Mexico, particularly in the automotive sector, as well as use trade negotiations as a bargaining chip for Mexico's help in managing immigration. It will be key to monitor whether the Mexican government adopts a pragmatic approach in handling these negotiations. In any case, in the longer run, its role in the "nearshoring" trend will remain critical due to its proximity with the U.S. Additionally, friendshoring can benefit Southeast Asian markets as well.

Looking ahead, international equities should benefit from multiple expansion and better earnings growth expectations (Exhibit 6). However, there are plenty of risks, including disappointing economic growth in China, higher U.S. 10-year yields, a strong dollar, tariffs and local currency volatility. In particular, the impact of tariffs on the already fragile global economy will hinge on the timing, scope and execution by the incoming U.S. administration. Increasing tariffs on China could speed up nearshoring activities, while a universal tariff could have significant repercussions for major U.S. trade partners with which it has trade deficits, including Mexico, Europe, Canada and Vietnam. Despite the risks, international equities offer investors the chance to diversify beyond expensive U.S. markets. Adopting an active approach is crucial for capturing attractive opportunities fueled by powerful long-term trends, while also skillfully maneuvering through the policy fog ahead.

Earnings growth expected to remain strong next year

Exhibit 6: Next 12 months earnings per share, y/y growth



Source: FactSet, MSCI, J.P. Morgan Asset Management. Forecasts are from FactSet. Each country/region is represented by its respective MSCI index except for the U.S., which is represented by the S&P 500. Based on consensus expectations and earnings per share figures in local currency. Data are as of November 15, 2024.

Alternatives: Stabilizing in a shifting world

Like the broader economy, 2025 should be a year of normalization in alternatives. New norms are taking hold; the democratization of alts means they should play a key role in portfolio construction for both institutions and individuals, while emerging global themes and structurally higher interest rates could reshape asset demand. Moreover, easier monetary policy should allow activity in the most distorted markets to gradually normalize.

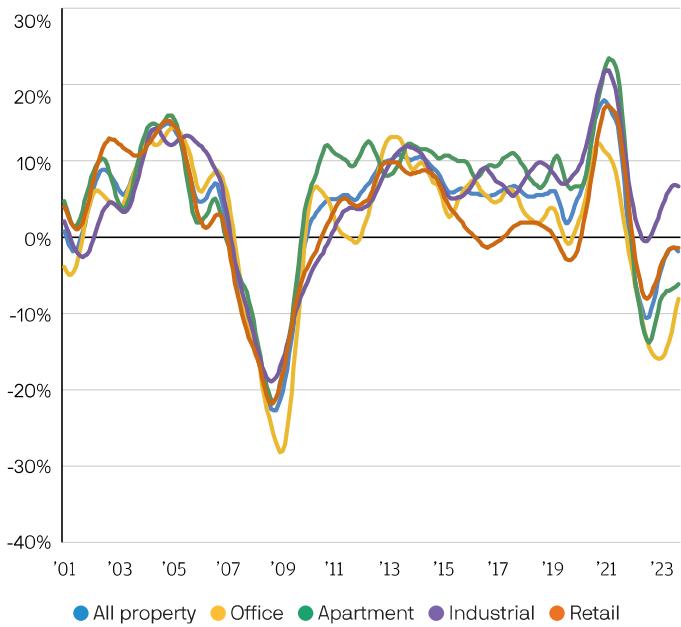
As the Federal Reserve cuts rates, exit activity in private equity could improve. Green shoots are apparent with exit values up ~51% year-over-year through 3Q24⁵, although this is due to sellers bringing their highest quality assets to market. On a count basis, exits have only modestly recovered. Still, lower rates and better access to debt financing should help buyers and sellers find better balance. Moreover, a more business-friendly regulatory backdrop under the incoming administration should fuel a continued recovery in exits via M&A. As lower quality deals come to market, however, valuations may come

under pressure, benefiting new fund vintages but creating challenges for legacy assets. With rates unlikely to return to 0%, we would favor small-to middle-market companies given their lower dependence on leverage for returns, while secondaries remain an attractive way to gain instant exposure to mature assets.

Dynamics in commercial real estate are improving but unevenly. Valuations across most sectors are stabilizing (**Exhibit 7**) and may continue to as monetary policy loosens. Fundamentally, office remains challenged while industrials and multifamily look attractive, although there are regional divergences. Nevertheless, managers with liquidity can seek quality assets at attractive prices as valuations turn the corner. Those well-positioned for shifting demand in a post-pandemic world, like data centers or logistics properties, are especially compelling. Moreover, opportunistic investors may look to deploy capital as assets are brought to market by existing owners reluctant to refinance at higher rates. All that said, the outlook for real estate is murkier after the election, and it remains unclear whether a more favorable regulatory backdrop can offset the impact of persistently higher mortgage rates.

Commercial real estate valuations appear to be stabilizing

Exhibit 7: Property prices by sector, y/y % change



Source: Apollo Global Management, Bloomberg, MSCI Real Capital Analytics, J.P. Morgan Asset Management. The RCA Commercial Property Price Indices are transaction based indices that measure property prices at a national level. Data are as of November 15, 2024.

⁵Calculation includes PitchBook estimates of late-reporting deals.

Unlike real estate, private credit has yet to see a cyclical correction. Defaults have trended higher in recent quarters but remain low, although elevated amend-and-extend activity points to a building credit cycle

(**Exhibit 8**). Moreover, increased bank lending, which could be further boosted by deregulation in the banking industry, could force direct lenders to focus on lower quality borrowers, pressuring default rates higher. That said, while returns may retreat alongside policy rates, investors searching for enhanced yields should continue to find them in private credit.

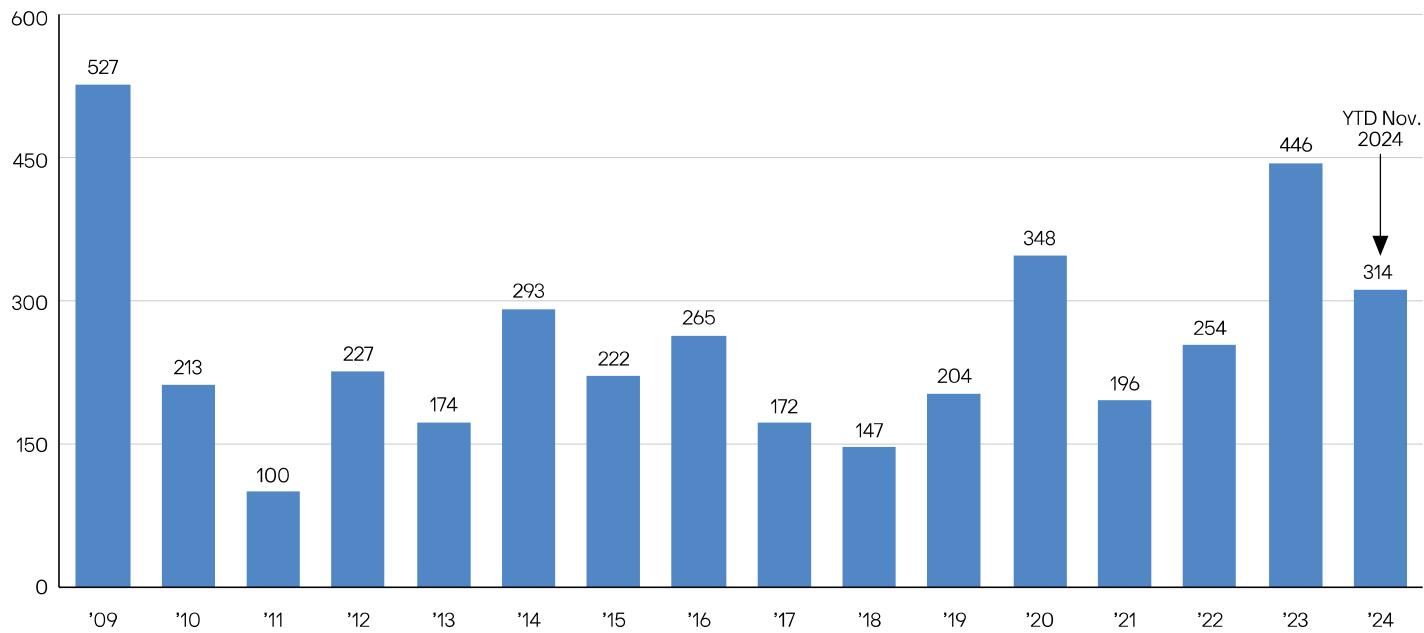
As short-term interest rates settle at more normal elevated levels and as policy uncertainty increases, volatility across financial markets could remain elevated. Both dynamics should benefit hedge funds, which can

provide diversification and the potential for enhanced returns. Meanwhile, investments in infrastructure and transportation can provide stability via steady income. Even as we usher in a new administration and policies, these assets should continue to benefit from long-term secular tailwinds such as supply chain shifts, AI infrastructure build-out and the energy transition (particularly increased electricity consumption).

Given rich public market valuations, lower bond yields and positive stock/bond correlation, investors should leverage alternatives to enhance portfolio return, income and diversification. Importantly, “alternatives” is one word used to describe asset classes with a variety of different characteristics. They can diversify not only public market exposure, but among themselves as well.

Amend-and-extend activity remains elevated

Exhibit 8: U.S. leveraged loans amendments and extensions by year, count



Source: LCD, PitchBook, J.P. Morgan Asset Management. Data are as of November 15, 2024.

Asset allocation: Reports of my death are greatly exaggerated

The notion of “correct” portfolio construction has been challenged and diversification has become unpopular. This is because certain assets have outperformed their counterparts: stocks over bonds, growth over value and U.S. over “international.” As a result, many investors may find themselves “offsides,” over-allocated to past winners and underweight laggards.

When thinking about portfolio construction in 2025, investors must determine what problems they are solving for: are they looking for income, capital preservation or growth? Are they tolerant of volatility or risk-averse? And is liquidity important? The answers to those questions will inform asset allocation, and both traditional and alternative assets can play a role.

How these assets will perform is tied to the macro backdrop. Here, the picture is muddled: growth remains robust on the back of strong consumption and a tight labor market; core inflation is still somewhat firm; and the outcome of the U.S. election suggests significant policy changes might be in the pipeline. All of this means that the interest rate outlook may oscillate, translating into volatility across the economy and markets.

Underneath this volatility, the opportunity set is shifting. Fixed income is arguably more attractive than in recent decades, though while allocations to intermediate bonds have increased, many investors remain underweight duration relative to the Bloomberg U.S. Aggregate. That said, those changing rate expectations suggest duration should not be overextended, and ultimately investor sentiment should inform the appropriate exposure: those concerned about the economy should extend more – current rates make bonds an effective ballast against recession – and those interested in income extend less. The credit conversation follows a similar path: while a benign macro backdrop supports an overweight to credit, especially for total return seekers, recession fears would encourage a tightening-up on credit quality.

In equities, strong earnings growth from the “Magnificent 7” over the past two years has exacerbated an already powerful period of growth outperformance, leaving investors underweight other markets. While U.S. equity portfolios seem to have equal exposure to value and growth when approached at the index level, an analysis of underlying holdings shows a 10%pt overweight to growth. Interest in foreign markets seems to have stalled, with the average allocation to ex-U.S. equities at a 12-month low. This translates into a 20% average allocation within equity portfolios to international assets, roughly half of what is considered “diversified.”

These underweights are too severe: geopolitical uncertainty, currency headwinds and widening growth differentials could make strong and sustained foreign market performance illusive, though multiple expansion and improvements to earnings growth, coupled with a focus on long-term trends, should allow ex-U.S. markets to compete. Moreover, with inflation easing and borrowing costs falling, U.S. earnings growth should broaden out and will likely include value names, which as an added benefit are also attractive to income-seeking investors, especially as bond yields continue to normalize. That said, the pendulum should not swing too far: large cap U.S. growth names, including the “Magnificent 7,” still have strong secular tailwinds behind them. In other words, portfolios should be balanced.

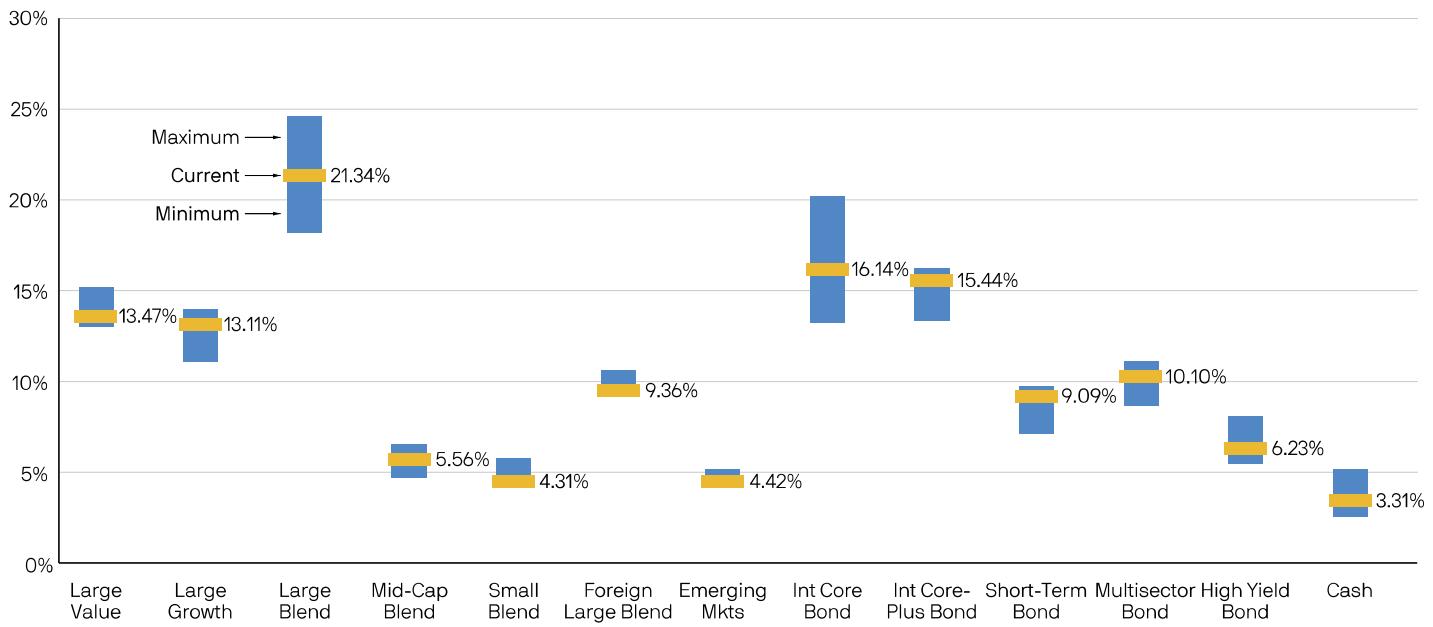
For alternatives, the outcome-oriented approach toward portfolio construction is particularly relevant, with each major component – commodities, hedge funds, real assets and private capital – solving for one or more “problems.” This will be particularly true looking forward, with stretched valuations challenging future returns, income opportunities fading as rates fall and stock/bond correlations remaining positive in the absence of a recession, and will complement cyclical, structural tailwinds for the asset class like a normalizing rate environment. These assets will also become increasingly approachable, as technology “democratizes” access through lower minimum investments and greater liquidity. For this reason, the traditional stock/bond framework of “60/40” may be reformed into one that also includes alternative assets: a “50/30/20” portfolio, for example, with the 20% allocation to alternatives financed to varying degrees by both stocks and bonds.

All told, while the “60/40” portfolio may not be as relevant as it once was, this is because it has evolved, not because diversification is unnecessary. In fact, as macro forces continue to shift and a bevy of potential policy changes loom on the horizon, a well-diversified long-term portfolio will be that much more important,

helping to keep investors steady through turbulence and prevent them from “jumping ship.” For those worried that in today’s world, the “60/40” is dead, take comfort: reports of its death are greatly exaggerated, and the “new” diversified portfolio is alive and kicking.

Investors are off-sides in certain key sub-asset classes

Exhibit 9: Average allocations in moderate models, last 12 months



Source: J.P. Morgan Asset Management. Note average allocations will not sum to 100 as not all categories are represented in each portfolio analyzed.
 "Moderate models" refers to an investment portfolio benchmarked to the 60/40 portfolio. Data as of November 15, 2024.

Authors



Dr. David Kelly, CFA

Managing Director
Chief Global Strategist



Gabriela Santos

Managing Director
Chief Market Strategist - Americas



Meera Pandit, CFA

Executive Director
Global Market Strategist



Jack Manley

Executive Director
Global Market Strategist



Jordan Jackson

Executive Director
Global Market Strategist



Stephanie Aliaga

Associate
Global Market Strategist



Marina Valentini

Vice President
Global Market Strategist



Brandon Hall

Associate
Research Analyst



Mary Park Durham

Associate
Research Analyst



Katie Korngiebel

Associate
Research Analyst

Index Definitions

All indexes are unmanaged and an individual cannot invest directly in an index. Index returns do not include fees or expenses.

The **Composite PMI future output index** is a gauge of economic growth and can provide valuable insights into GDP, service sector growth and industrial production trends well ahead of official data.

The **Bloomberg Euro Aggregate Corporate Index** is a benchmark that measures the corporate component of the Euro Aggregate Index. It includes investment grade, euro-denominated, fixed-rate securities.

The **Bloomberg Pan-European High Yield Index** measures the market of non-investment grade, fixed-rate corporate bonds denominated in the following currencies: euro, pounds sterling, Danish krone, Norwegian krone, Swedish krona, and Swiss franc. Inclusion is based on the currency of issue, and not the domicile of the issuer. The index excludes emerging market debt.

The **Bloomberg U.S. Aggregate Treasury Bond Index** is a broad-based benchmark that measures the investment grade, U.S. dollar denominated, fixed-rate taxable bond market. This includes Treasuries, government-related and corporate securities, mortgage-backed securities, asset-backed securities and collateralized mortgage-backed securities.

The **ICE BofA MOVE Index** tracks fixed income market volatility.

The **J.P. Morgan Corporate Emerging Markets Bond Index Broad Diversified (CEMBI Broad Diversified)** is an expansion of the J.P. Morgan Corporate Emerging Markets Bond Index (CEMBI). The CEMBI is a market capitalization weighted index consisting of U.S. dollar denominated emerging market corporate bonds.

The **J.P. Morgan Emerging Markets Bond Index Global Diversified (EMBI Global Diversified)** tracks total returns for U.S. dollar-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, Eurobonds. The index limits the exposure of some of the larger countries.

The **J.P. Morgan GBI EM Global Diversified** tracks the performance of local currency debt issued by emerging market governments, whose debt is accessible by most of the international investor base.

The **J.P. Morgan Leveraged Loan Index** is designed to mirror the investable universe of U.S. leveraged loans.

The **MSCI ACWI (All Country World Index)** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets.

The **MSCI EAFE Index (Europe, Australasia, Far East)** is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada.

The **MSCI Emerging Markets Index** is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.

The **MSCI Europe Index** is a free float-adjusted market capitalization index that is designed to measure developed market equity performance in Europe.

The **MSCI Pacific Index** is a free float-adjusted market capitalization index that is designed to measure equity market performance in the Pacific region.

The **MSCI World with USA Gross Index** measures the performance of the large and mid-cap segments across 23 Developed Markets (DM) countries. With 1,540 constituents, the index covers approximately 85% of the global investable equity opportunity set.

The **Russell 1000 Index**[®] measures the performance of the 1,000 largest companies in the Russell 3000.

The **Russell 1000 Value Index**[®] measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

The **S&P 500 Index** is widely regarded as the best single gauge of the U.S. equities market. The index includes a representative sample of 500 leading companies in leading industries of the U.S. economy. The **S&P 500 Index** focuses on the large-cap segment of the market; however, since it includes a significant portion of the total value of the market, it also represents the market.

The **U.S. Treasury Index** is a component of the U.S. Government index.

2025 Year Ahead Outlook

J.P. Morgan Asset Management

277 Park Avenue | New York, NY 10172

The Market Insights program provides comprehensive data and commentary on global markets without reference to products. Designed as a tool to help clients understand the markets and support investment decision making, the program explores the implications of current economic data and changing market conditions.

For the purposes of MiFID II, the JPM Market Insights and Portfolio Insights programs are marketing communications and are not in scope for any MiFID II/MiFIR requirements specifically related to investment research. Furthermore, the J.P. Morgan Asset Management Market Insights and Portfolio Insights programs, as non-independent research, have not been prepared in accordance with legal requirements designed to promote the independence of investment research, nor are they subject to any prohibition on dealing ahead of the dissemination of investment research.

This document is a general communication being provided for informational purposes only. It is educational in nature and not designed to be taken as advice or a recommendation for any specific investment product, strategy, plan feature or other purpose in any jurisdiction, nor is it a commitment from J.P. Morgan Asset Management or any of its subsidiaries to participate in any of the transactions mentioned herein. Any examples used are generic, hypothetical and for illustration purposes only. This material does not contain sufficient information to support an investment decision and it should not be relied upon by you in evaluating the merits of investing in any securities or products. In addition, users should make an independent assessment of the legal, regulatory, tax, credit and accounting implications and determine, together with their own professional advisers, if any investment mentioned herein is believed to be suitable to their personal goals. Investors should ensure that they obtain all available relevant information before making any investment. Any forecasts, figures, opinions or investment techniques and strategies set out are for information purposes only, based on certain assumptions and current market conditions and are subject to change without prior notice. All information presented herein is considered to be accurate at the time of production, but no warranty of accuracy is given and no liability in respect of any error or omission is accepted. It should be noted that investment involves risks, the value of investments and the income from them may fluctuate in accordance with market conditions and taxation agreements and investors may not get back the full amount invested. Both past performance and yields are not reliable indicators of current and future results.

J.P. Morgan Asset Management is the brand name for the asset management business of JPMorgan Chase & Co. and its affiliates worldwide.

To the extent permitted by applicable law, we may record telephone calls and monitor electronic communications to comply with our legal and regulatory obligations and internal policies. Personal data will be collected, stored and processed by J.P. Morgan Asset Management in accordance with our privacy policies at <https://am.jpmorgan.com/global/privacy>.

This communication is issued by the following entities:

In the United States, by J.P. Morgan Investment Management Inc. or J.P. Morgan Alternative Asset Management, Inc., both regulated by the Securities and Exchange Commission; in Latin America, for intended recipients' use only, by local J.P. Morgan entities, as the case may be; in Canada, for institutional clients' use only, by JPMorgan Asset Management (Canada) Inc., which is a registered Portfolio Manager and Exempt Market Dealer in all Canadian provinces and territories except the Yukon and is also registered as an Investment Fund Manager in British Columbia, Ontario, Quebec and Newfoundland and Labrador. In the United Kingdom, by JPMorgan Asset Management (UK) Limited, which is authorized and regulated by the Financial Conduct Authority; in other European jurisdictions, by JPMorgan Asset Management (Europe) S.à r.l. In Asia Pacific ("APAC"), by the following issuing entities and in the respective jurisdictions in which they are primarily regulated: JPMorgan Asset Management (Asia Pacific) Limited, or JPMorgan Funds (Asia) Limited, or JPMorgan Asset Management Real Assets (Asia) Limited, each of which is regulated by the Securities and Futures Commission of Hong Kong; JPMorgan Asset Management (Singapore) Limited (Co. Reg. No. 197601586K), which this advertisement or publication has not been reviewed by the Monetary Authority of Singapore; JPMorgan Asset Management (Taiwan) Limited; JPMorgan Asset Management (Japan) Limited, which is a member of the Investment Trusts Association, Japan, the Japan Investment Advisers Association, Type II Financial Instruments Firms Association and the Japan Securities Dealers Association and is regulated by the Financial Services Agency (registration number "Kanto Local Finance Bureau (Financial Instruments Firm) No. 330"); in Australia, to wholesale clients only as defined in section 761A and 761G of the Corporations Act 2001 (Commonwealth), by JPMorgan Asset Management (Australia) Limited (ABN 55143832080) (AFSL 376919). For all other markets in APAC, to intended recipients only.

For U.S. only: If you are a person with a disability and need additional support in viewing the material, please call us at 1-800-343-1113 for assistance.

© 2024 JPMorgan Chase & Co. All rights reserved.

MI-MB_2025_investment_outlook

09bq241911184352