The Investment Outlook for 2022

Investing Beyond the Pandemic

IN BRIEF

- As pandemic effects fade, U.S. economic growth should reaccelerate into early 2022 and then slow for the rest of the year as the economy heads towards full employment. Inflation should ease but remain above its pre-pandemic pace.
- 2022 should see a second year of above-trend global nominal growth, but with more synchronous momentum across regions. This should cause some depreciation of the U.S. dollar, albeit with some fits and starts, due to differences in the timing of monetary policy normalization.
- Central banks are moving to normalize policy due to persistent above-trend inflation and a stronger, more synchronized rebound in global growth.
- Profit growth looks set to drive returns as rising earnings tame current above-average valuations.
- 2022 should be a strong year for international equity market performance across regions, driven by gains in earnings expectations and reasonable valuations. These markets provide investors an attractive combination of both cyclicality and growth.
- International commitments and domestic legislation should maintain momentum in sustainable investing alternatives.
- Low rates and muted expected returns from traditional financial assets have led alternatives to transition from optional to essential.
- Given the nature of the global recovery and shifting pockets of opportunity, sector and security selection across asset classes will be of paramount importance.

J.P.Morgan
Asset Management

INTRODUCTION

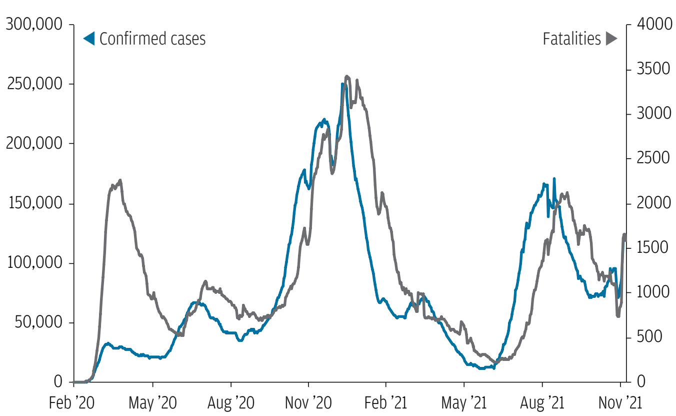
Two years ago, the U.S. and global economies were rocked by two enormous shocks – the pandemic and the policy response. These two shocks triggered giant waves in economic output, employment and inflation and simultaneously suppressed interest rates while supporting very strong gains in asset prices. However, these waves are now subsiding. For investors, the key to investing in 2022 and beyond is to navigate what is left of these waves and, more importantly, to see how they have altered the financial landscape.

DIMINISHED PANDEMIC IMPACTS SHOULD PUSH THE U.S. ECONOMY TO ITS CAPACITY LIMITS

On the pandemic itself, there are reasons for cautious optimism. The death toll has been horrific with over 800,000 Americans now having perished from the disease. However, we estimate that a combination of vaccinations and infections has left close to 90% of the country with some immunity to Covid-19 and daily fatalities have fallen to roughly 1,000 as the Delta wave has subsided. New variants threaten the world with a further resurgence in cases. However, the history of prior pandemics suggests that, even without widespread vaccinations, viruses tend to mutate to become more contagious but less deadly, which should allow society to slowly return to normal. In addition, from an economic perspective, much of the economy has adapted to a pandemic environment, allowing certain industries to thrive even as some remain depressed due to health concerns.

Exhibit 1: Fatalities from Covid-19 should fade in 2022, helping society move on from the pandemic

7-DAY MOVING AVERAGE



Source: Centers for Disease Control and Prevention, Johns Hopkins CSSE, J.P. Morgan Asset Management. Data are as of December 7, 2021.

As the pandemic fades, the extraordinary fiscal support provided by the federal government is also diminishing. As this is being written, the Infrastructure Bill has been signed into law while the House has passed a version of a reconciliation bill that contains an extension of various tax credits, funding for many climate change initiatives and tax increases on corporations and wealthy families. The details of the final act will have to be negotiated between the House and the Senate. However, even if a bill close to the House bill is passed, the net impact of these two pieces of legislation would likely boost the budget deficit in fiscal 2022 by less than $200 billion compared to the $5.3 trillion added to federal deficits by previous coronavirus relief measures over the past two years.

Following a better than 6% annualized gain in the first half of the year, real GDP growth slumped to just 2.1% in the third quarter, as supply-chain issues impeded both production and consumer spending. This was particularly notable in light vehicle sales, which fell from an annualized 16.9 million units in the second quarter to just 13.3 million units in the third. However, the fourth quarter has seen signs of improvement in supply chains with rising auto production, smaller backlogs at ports, increased hiring of truck drivers and fewer purchasing managers reporting slower deliveries. This should allow pent-up demand to boost spending over the next few months. In addition, while government aid has diminished, consumer spending should be supported by massive gains in household net worth and lower debt service costs. Capital spending and inventory rebuilding should also contribute to growth, financed by strong profits and low interest rates and motivated by labor shortages and high margins. Because of this, we expect real GDP growth to exceed 5% annualized over the fourth and first quarters combined before subsiding to a near 2% pace by the end of 2022, as labor constraints act as a more significant drag on economic momentum.

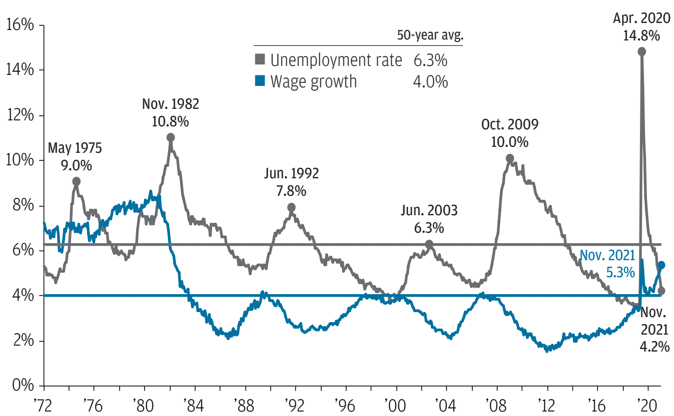
The labor market saw huge improvement over the course of 2021, with the unemployment rate falling from 6.7% in December 2020 to 4.2% by November 2021 with the addition of 6.1 million non-farm payroll jobs. However, even with this, payroll employment remains 3.9 million below its peak in February 2020. Equally significantly, the labor force is 2.4 million people smaller than it was in February 2020, with the labor force participation rate falling from 63.3% to 61.8%. This statistic needs to be treated with caution however, as it partly reflects the continued retirement of baby boomers. A more serious issue from an economic perspective is that the U.S. population aged 16-64 has fallen by 465,000 since February 2020 and is likely to fall further in 2022 due to the aging of the baby boom cohort and very limited immigration.

This lack of labor supply combined with strong economic growth should allow unemployment to decline rapidly in the year ahead, with the unemployment rate falling below 4% by the middle of the year. This should be accompanied by strongly rising wages as companies compete to hire and retain a limited supply of workers.

Rising wages, in turn, should continue to add to inflation pressures in the year ahead. However, CPI inflation, having exceeded 6% for the first time in over 30 years in the fourth quarter of 2021, should ease on average in 2022 as oil prices recede, supply chain difficulties diminish and government aid to low- and middle-income households dries up. Still, with strong wage growth, high inflation expectations and the lagged effect of higher home prices on rents, we expect inflation as measured by the core consumption deflator to remain solidly above 2% by the end of 2023.

Exhibit 2: Very strong labor demand should continue to reduce unemployment and boost wages

SEASONALLY ADJUSTED, PERCENT



Source: BLS, FactSet, J.P. Morgan Asset Management. Data are as of December 7, 2021.

INTERNATIONAL ECONOMY: FADING PANDEMIC STORM SHOULD PERMIT REGIONS TO SWIM IN THE SAME DIRECTION

As 2021 comes to a close, the global economy is registering solid momentum, with 88% of countries having a composite PMI over 50 in November versus only 71% in August. 2022 looks to be a second consecutive year of above-trend growth for the international economy, but with a key difference versus this year: more coordinated acceleration of momentum across sectors and regions. The global economy recovered to its pre-pandemic level of real output already in 4Q20, but since then pandemic waves have hit different regions at different times causing variation in when sectors and regions were ebbing and flowing. We may yet see a few more months of uneven growth as a winter wave of Covid-19 causes some fall in mobility in Europe, while growth accelerates in Japan and Southeast Asia as they leave behind their previous Covid-19 waves.

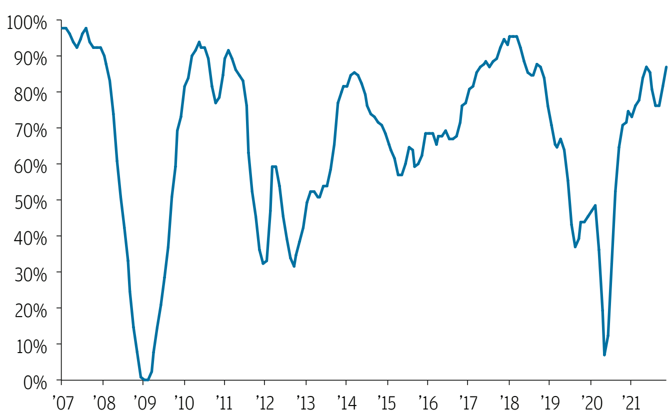
However, as 2022 progresses, the global economy should leave the storm of the pandemic behind due to a combination of naturally acquired immunity, accelerated vaccination rates, expected introduction of oral anti-viral pills and abandonment of "zero tolerance" approaches to the virus (with China potentially joining other Asian countries in doing so later in the year). By sector, services should register the strongest growth rates, with travel, leisure and hospitality finally returning to their pre-pandemic levels as households enjoy their sustained mobility, with spending supported by previous fiscal support and continued strengthening of labor markets. The hand-off of the baton from goods to services spending should ease the pressure on global supply chains, allowing businesses to re-stock their inventories. While for some items it may take the better part of the year for a full return to normal, incremental progress should support growth early on, as supply disruptions might have peaked in the third quarter. Lastly, the Chinese economy's ability to find its footing will be key. Following its deceleration in the second half of 2021, growth should return to China's new normal growth rate of near 5% early next year due to some targeted monetary and fiscal easing, as well as more visibility on the direction of reforms.

In addition to above-average global growth, 2021 is ending with above-average inflation, with only China and India seeing below-average inflation. September's pop of 3.7% in global consumer prices (versus the 10-year average of 2.4%) is explained by higher than normal growth rates of energy, food and core goods prices. Throughout 2022, inflation should gradually normalize as the year-over-year comparison for energy and food prices becomes more challenging and as easing supply disruptions bring down goods prices. On the other hand, services prices should move higher due to the fading of the pandemic storm, keeping core inflation rates still somewhat elevated until the end of the year. By then, more structural disinflationary forces, such as technology, demographics and income inequality, should reassert their dominance. Ultimately, the new range for inflation this cycle will vary by country, depending on whether more structural forces like wages have turned (with more muted signs of this in continental Europe and Japan) and the extent to which inflation expectations have become unmoored (which will depend on central banks' policy credibility, more so an issue for some emerging market high yield countries).

Overall, above-trend global nominal growth should characterize the year ahead. The more coordinated nature of the acceleration should cause some depreciation of the U.S. dollar, as capital flows to other markets looking for better valuations and returns ahead in this cycle. With that said, some exceptions of dollar strength can be expected during the year, as investors focus on some central banks lagging behind the interest rate normalization trend, especially those of Europe and Japan. Overall, the expected broader depreciation of the U.S. dollar should provide a currency boost to international returns for U.S. dollar-based investors.

Exhibit 3: As 2021 comes to a close, countries are accelerating more in sync

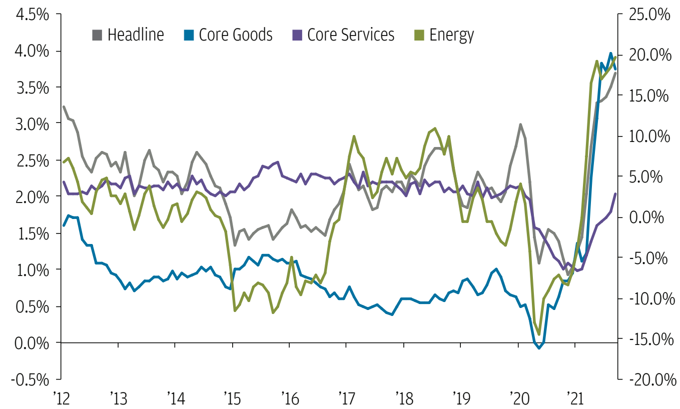
% OF COUNTRIES WITH COMPOSITE PMI OVER 50, 3-MONTH MOVING AVG.



Source: Markit, J.P. Morgan Asset Management. Data are as of December 7, 2021.

Exhibit 4: Global CPI should gradually normalize as the pop in energy and core goods fades

YEAR-OVER-YEAR % CHANGE



Source: J.P. Morgan Global Economic Research, J.P. Morgan Asset Management. Data are as of December 7, 2021.

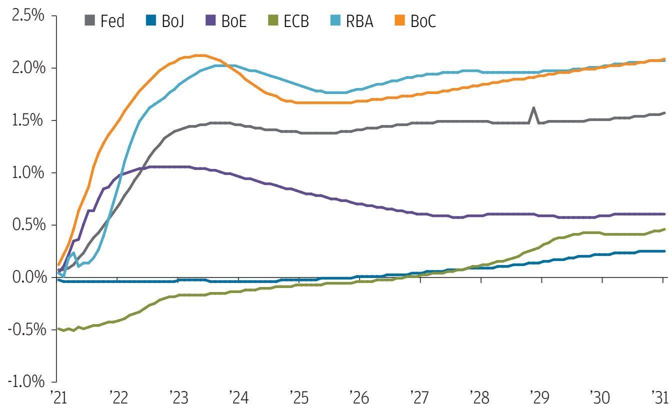
FIXED INCOME: RATE HIKES? NOT *SO* FAST

As pandemic conditions recede globally, we are likely to move past peak monetary policy accommodation as developed market (DM) central banks respond, in varying degrees, to persistent above-trend inflation and a more synchronized rebound in global growth next year. All major DM central banks have had to acknowledge the reality of, and expectations for, higher inflation, and how they respond in 2022 will be critical for markets.

We believe central bank policy response will depend on policy flexibility toward higher inflation and broader economic conditions. To be clear though, inflationary pressures are running above target everywhere (with the exception of Japan) and, as highlighted in Exhibit 5, investors firmly believe most central banks should begin hiking rates next year, while the pace at which central banks tighten policy through 2023 and beyond is up for debate. The Federal Reserve (Fed), Bank of England (BoE), Bank of Canada (BoC) and Reserve Bank of Australia (RBA) are all expected to start hiking, while the European Central Bank (ECB) and Bank of Japan (BoJ) have clearly positioned themselves more dovish, in large part due to a historically ultra-dovish policy and pandemic conditions that continue to cause economic activity to ebb and flow.

Exhibit 5: Generally, central banks are expected to quickly lift rates over the next two years, but proceed with caution after 2023

GLOBAL OIS CURVES, %



Source: Bloomberg, J.P. Morgan Asset Management. The curves represent the respective currency denominated overnight index swap rates. Fed = Federal Reserve; BoJ = Bank of Japan; BoE = Bank of England; ECB = European Central Bank; RBA = Reserve Bank of Australia; BoC = Bank of Canada. Data are as of December 7, 2021.

With that said, while we acknowledge central banks will be on the move next year, we still believe markets are too aggressive in their expectations for interest rate hikes and we expect central banks to tilt slightly more dovish and not overreact to high inflation. We think central banks will remain more cautious for a few reasons:

1. It's generally accepted among central bankers that the current bout of inflation is mostly transitory, driven by rising energy prices and supply chain pressures, both of which should begin to moderate next year.

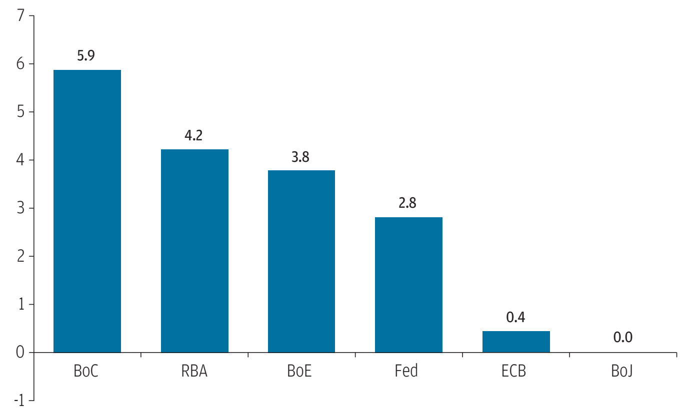
2. Monetary policy acts with a significant lag, and policymakers recognize a tightening in rates today could lead to a softening in aggregate demand just when the post pandemic economic surge is fading.

3. A slower than anticipated pickup in vaccination rates globally could lead to another wave in cases, challenging the growth outlook.

For investors, as central banks shift to less accommodative policy, we expect this will lead to steeper curves driven by rising long rates as markets recognize that DM central banks will be more gradual in hiking rates, therefore not restricting the rebound in economic activity. More directly, over the course of 2022, we expect the ECB and BoJ to remain on hold; the Fed and RBA to hike once; and the BoC and BoE to deliver 2-3 hikes, much less aggressive than current market pricing (Exhibit 6).

Exhibit 6: Markets anticipate aggressive hiking cycles in 2022 due to persistent elevated inflation

DERIVED FROM OIS CURVES



Source: Bloomberg, J.P. Morgan Asset Management. Fed = Federal Reserve; BoJ = Bank of Japan; BoE = Bank of England; ECB = European Central Bank; RBA = Reserve Bank of Australia; BoC = Bank of Canada. Data are as of December 7, 2021.

This dynamic suggests investors should look to shorten duration within their core bond portfolios. Moreover, as growth rebounds, credit fundamentals should continue to be supported as default rates will likely remain at multi-year lows. Investors are being compensated at current spread levels for the minimal credit risk in markets; however, further spread compression will be hard to come by. Lastly, emerging market (EM) debt could provide opportunities as many EM central banks have already begun hiking rakes to ward off higher inflation and to defend their currencies, allowing for more attractive valuations relative to DM rates.

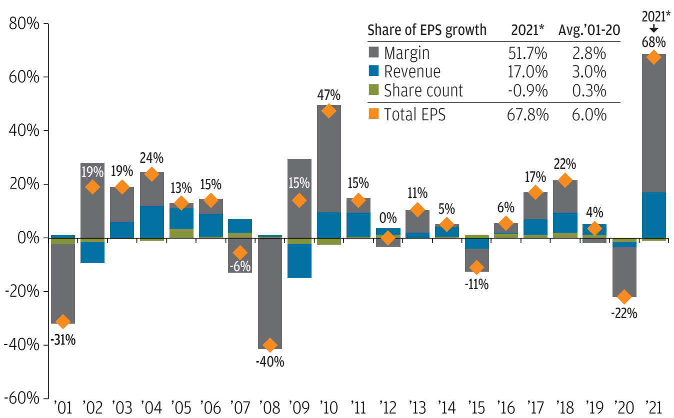
EQUITIES: FOLLOW THE EARNINGS IN 2022

2020 saw the equity market move higher against a backdrop of rising earnings expectations and declining valuations. However, with the U.S. equity market now sitting close to its all-time high, many investors are asking what is in store for 2022. By our lights, the coming year should see earnings act as the primary driver of returns as the U.S. equity market continues to grow into its above-average valuation.

Earnings growth has been nothing short of spectacular in 2021, with Standard & Poor's currently estimating that S&P 500 operating earnings per share grew by 70%. The majority of this earnings growth came from margin expansion, as companies cut costs aggressively during the pandemic and subsequently benefited as revenues came roaring back earlier this year. Alongside this rebound in revenues, however, has been a continued increase in input costs and wages. This has led to concerns that profit margins may come under pressure next year and potentially lead earnings to decline.

Exhibit 7: Margins may come under pressure in 2022

ANNUAL GROWTH BROKEN INTO REVENUE, CHANGES IN PROFIT MARGIN & CHANGES IN SHARE COUNT



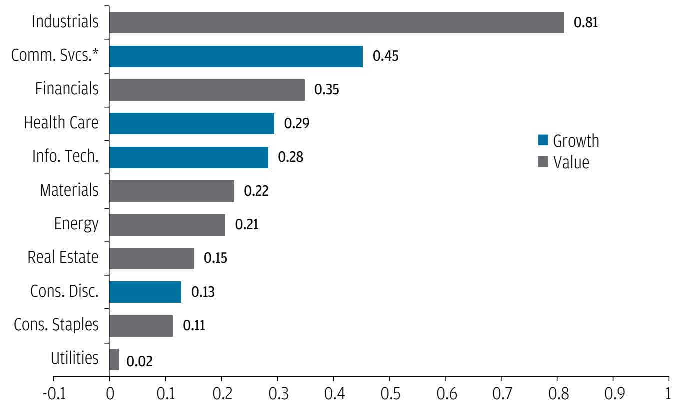
Source: FactSet, Compustat, Standard & Poor's, J.P. Morgan Asset Management. Data are as of November 30, 2021.

Despite these rising costs, however, companies may be able to defend their margins in two different ways. First, we have already seen companies pass along higher prices to the end consumer – while there are implications for inflation, this does help preserve profitability. At the same time, we have seen more and more managements mention a focus on productivity and efficiency. Historically, capital spending tracks earnings growth with a 12-month lag; this suggests that business investment may accelerate next year, helping offset rising input costs in a more sustainable way.

With economic growth set to remain above trend and earnings likely to be the primary driver of returns, we prefer those sectors and industries with earnings that are most sensitive to the underlying pace of economic activity. Importantly, this does not mean investors have to choose between value or growth – the best allocation will actually be a blend of the two. Earnings of companies in the technology, communication services, financial and industrial sectors have historically been most correlated to changes in real GDP; furthermore, we believe that the financial sector could benefit from higher interest rates and a resumption of buyback activity.

Exhibit 8: Investors should focus on sectors with earnings that are sensitive to growth

1Q 2009 - 2Q 2021



Source: FactSet, FTSE Russell, J.P. Morgan Asset Management. Data are as of November 30, 2021.

The emergence of the Omicron variant has reminded us that the pandemic is not yet behind us, and volatility could remain elevated into the end of 2021 and beginning of 2022. However, a balanced approach to equity investing that is focused on earnings seems to be the optimal strategy in an environment of continued uncertainty.

INTERNATIONAL EQUITY MARKETS: BALANCING CYCLICAL RECOVERY AND STRUCTURAL GROWTH EXPOSURE

2022 should be a strong year for international equity market performance across regions, driven by solid fundamentals and reasonable valuations. 2021's strong nominal economic growth has translated to a surge in international earnings growth of 51% year-over-year this year (represented by the MSCI All Country World Index ex-U.S.). While the outlook for 2022 includes another year of above-average nominal economic growth, consensus earnings expectations for next year are of modest 7% growth (right in line with the 20-year average), suggesting room for earnings expectations to move higher. In addition, international valuations (represented by the next 12 months' price-to-earnings ratio) have contracted a substantial 14% this year, leaving less room for multiple contraction next year. In addition, the discount versus the U.S. is still at record highs (three times the average discount of 10%).

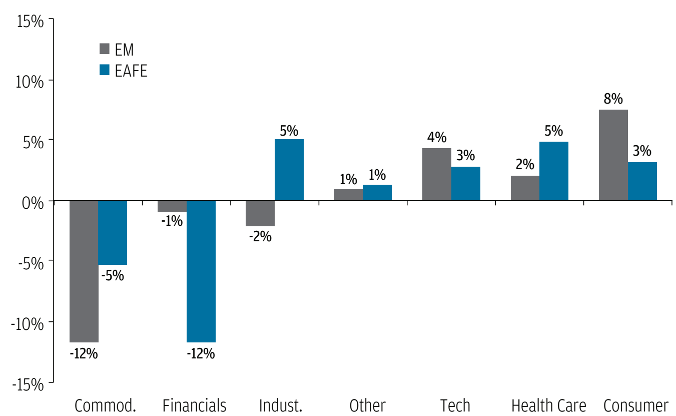
As the global recovery continues in 2022, cyclically oriented international markets offer investors exposure to strong earnings growth in sectors like energy, materials, industrials and financials. In particular, the strongest cyclical bang for the buck can be found in Europe and Japan, where cyclical sectors make up 55% of the market. In addition, these international markets also offer investors a hedge against inflation, a topic that will remain under debate for the better part of next year. In particular, financials and materials can offer an inflation hedge, as the banking sector benefits from steepening yield curves and the mining sector benefits from high commodity prices.

Lastly, Chinese equity markets will likely find their footing as investors feel more comfortable around the visibility of this latest reform cycle, turning China from a big drag on EM returns this year to potentially a big boost to it in 2022. Looking at historical episodes of reform cycle-induced 30% plus corrections in Chinese markets (2011, 2015 and 2018), markets have been positive on average 28% six months after the market trough. While reforms are unlikely to be rolled back, investor confidence about the end of surprises should help the market find its footing sooner rather than later. Returning inflows to Chinese markets since September is an encouraging early sign.

As the year progresses and the global economy goes from recovering to recovered, it is also key to focus portfolios on structural post-pandemic growth opportunities. These include themes like technological innovation, the growth of the EM middle class and the global push for decarbonization. These are themes that can be found across regions, for example in hard-technology companies listed in China, Korea and Taiwan; luxury goods companies listed in Europe that derive the majority of their revenue from emerging consumers; and renewable energy and electric vehicle companies listed in Europe and China. While international markets are still more cyclical than U.S. ones, the representation of more growth-oriented sectors has grown over the past decade, offering investors the sweet spot of cyclicality and growth in these better-valued international markets.

Exhibit 9: International markets are still cyclical, but increasingly offer access to growth too

CHANGE IN SECTOR WEIGHTINGS, % POINT CHANGE FROM DEC. 31, 2005



Source: MSCI, J.P. Morgan Asset Management. Data are as of December 7, 2021.

ESG: SUSTAINED MOMENTUM

Investor appetite for ESG investing has continued to grow, with roughly one-fifth of net new flows in the U.S. going into sustainable strategies in 2021. As policymakers, consumers, corporations and regulators coalesce around a goal to achieve a more sustainable future, we are likely to see massive change over the next several decades — change that can drive long-term opportunities for portfolios. Policymakers began setting the stage for that change with climate negotiations that will carry into 2022.

Global policymakers convened at the U.N. Climate Change Conference (COP26) in November to cement the details of the 2015 Paris Agreement, to strengthen commitments to net zero greenhouse gas emissions and to mobilize financing. The summit yielded mixed success, with commitments to reduce methane emissions, to "phase down" coal, to halt and reverse deforestation and to finance the transition to net zero through greater public and private investment. However, the primary goal, to strengthen net zero targets, was essentially postponed to late 2022 when countries are expected to further revise their commitments, placing a heavy emphasis on COP27 in Egypt in 2022.

Although the U.S. is unlikely to revise its commitment of cutting emissions by 50% by 2030, lawmakers did propose spending to work toward that target. The $1.2 trillion infrastructure package includes funding for infrastructure resiliency, $15 billion for electric transport and $6 billion for Western water infrastructure, and a reconciliation package could include up to $555 billion for clean energy tax credits and clean technology. This would represent the largest climate commitment the U.S. has made yet.

While that is a start, the public sector globally will likely struggle to accelerate net zero efforts further in 2022, shifting focus to the private sector for financing and innovation. There is evidence this is underway; global sustainable debt issuance doubled in 2021 to nearly $1.5 trillion, and venture capital had its strongest year ever for climate tech. This presents attractive long-term opportunities for investors in both the public and private markets and across equity, fixed income and alternatives. Key beneficiaries are likely to be industrials, utilities, technology and transportation, and the opportunities will be global, in Europe and even China. However, just as the transition to a more sustainable future will be a multi-decade one, investors should likewise be patient, selective and active in ESG investing as the landscape evolves.

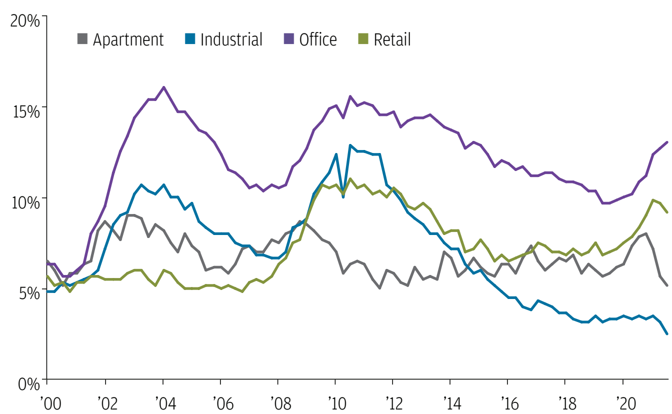
ALTERNATIVES: ALTERNATIVES ARE NO LONGER OPTIONAL

Alternative assets and investment strategies continue to transition from optional to essential. As laid out in our 2022 Long-Term Capital Market Assumptions, the expected return for a 60/40 stock/bond portfolio over the next 10 to 15 years is a mediocre 4.3%, well below what many investors will need to generate in order to achieve their long-term goals. Against this backdrop, we see opportunities across the spectrum of alternative assets and strategies to generate income, enhance returns and further diversify portfolios. As always, however, we advocate for an outcome-oriented approach; first, investors need to determine the challenge they are working to address and then determine the asset that will provide the intended solution.

When it comes to generating income, core real assets are the first place to look. The commercial real estate sector has continued its uneven recovery in 2021, with vacancy rates in the industrial and multi-family housing sectors sitting at or near their lows. On the other hand, the office and retail sectors continue to come back online as workers return to the office and shoppers return to the stores. The coming year should see a continued recovery in these sectors as the pandemic fades into the background.

Exhibit 10: The pandemic has impacted different real estate assets in different ways

PERCENT



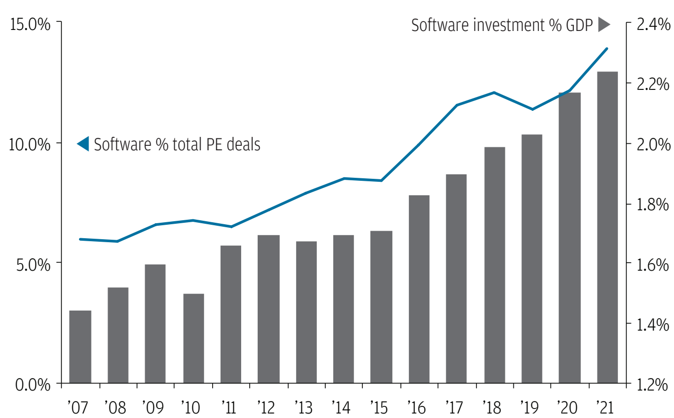
Source: NCREIF, J.P. Morgan Asset Management. Data is based on availability as of November 30, 2021.

Infrastructure assets continue to look attractive in a low-rate worth, particularly given the risk that inflation remains elevated over the medium term — many of these assets can pass along any increase in cost to the end consumer to protect their return on equity from higher input prices. Meanwhile, transportation assets should continue to benefit from supply chain disruptions, whereas other real assets like timber can generate income and help offset carbon emissions in a world where sustainability is increasingly in focus. Finally, for investors that need more liquidity, covered call and strategic income strategies can help solve the income conundrum.

Private equity investors continue to embrace technology companies despite elevated valuations, and this should continue in 2022. However, it would not be surprising to see an increase in activity in those sectors hit hardest by the pandemic, particularly if it does fade over the course of the coming year. Private credit, and particularly direct lending strategies, are another way of generating income; furthermore, while the leveraged loan market continues to be characterized by covenant-lite deals and earnings adjustments, the quality of the loans being made on the private side is much higher.

Exhibit 11: Software remains a key focus for private equity investors

% U.S. PE DEALS TARGETING SOFTWARE COMPANIES, SOFTWARE INV. % GDP



Source: BEA, FactSet, Pitchbook, J.P. Morgan Asset Management. Software investment is represented by nonresidential fixed investment in software. Deal, exit and investment data are as of June 30, 2021. Data is based on availability as of November 30, 2021.

Public markets have generated fantastic performance over the past two years, but we expect that returns will be lower and volatility will be higher going forward. Furthermore, while interest rates should rise, they will likely only do so gradually. At the end of the day, it will be essential for investors to embrace alternatives going forward as they navigate a world characterized by muted expected returns, historically low interest rates and elevated volatility.

ASSET ALLOCATION AND THE GLOBAL RECOVERY: PORTFOLIO POSITIONING IN A CHANGING WORLD

As investors look into next year, it has become clear that while the backdrop has changed considerably from the early innings of 2020, there still exists great uncertainty. Once again, investors must ask: where are we in the recovery? Cyclical positioning can help to inform portfolio positioning, and given the building headwinds, having a firm grasp on the outlook is of vital importance.

The impact of the Covid-19 pandemic on the economy is fading in both directions — booster shots and anti-viral medications will allow for a continued return to normalcy, but the post-Covid-19 bounce-back in activity has largely run its course; a high probability of divided government in the U.S. following mid-year elections suggests that future fiscal stimulus will be limited; and, due largely to continued upward wage pressure, modestly higher inflation may linger. This economic cool down will impact corporations, which will face weaker demand alongside higher costs and a renewed interest in "social responsibility"; and the Fed will normalize. Meanwhile, global economic momentum looks poised to accelerate.

In other words, it seems that the U.S. economy is transitioning once more, shifting from "mid-cycle" to "late-cycle" conditions — trend growth, squeezed margins, rising inflation and tightening monetary policy; it should be noted, though, how unusual this cycle has been and will be, and despite this transition, there still seems to be room left to run for cyclicality in portfolios. International economies will be transitioning, too, though their respective cyclical positions will generally be less mature than in the U.S.; the global recovery has not been synchronized, as expected, but is rolling instead.

THE NATURAL NEXT QUESTION, THEN, IS: HOW SHOULD INVESTORS BE POSITIONED?

Ongoing global monetary policy tightening suggests that bond investors would be wise to shorten duration and could encourage additional risk-taking in fixed income. This may mean an increased allocation to lower-credit U.S. instruments, though the limited ability for spreads to compress further suggests instead a greater opportunity in foreign debt, particular in the emerging world.

From an equity perspective, investors should look primarily toward profitability. This favors an allocation to value stocks in the short term, as economic growth remains above trend. Outside the U.S., cyclically oriented international markets, like Europe and Japan, will benefit from the shifting global recovery, and could also offer investors an attractive hedge against inflation. Post-pandemic opportunities are also worth considering, particularly the emerging world and global technological innovation.

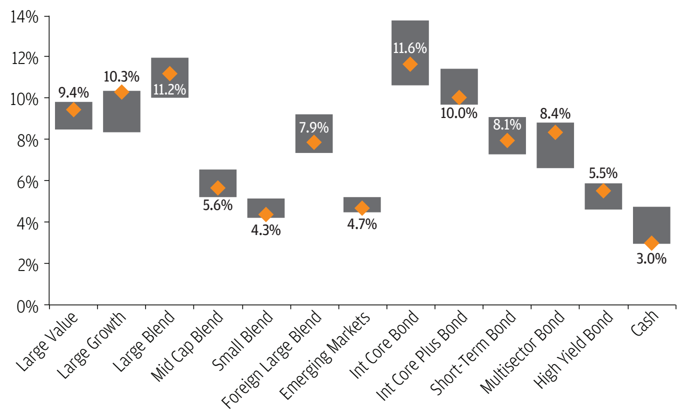
This changing backdrop may also push investors to further diversify portfolios. This suggests the need to consider a heartier allocation to alternatives, which are typically uncorrelated to public markets, and also explains the heightened interest in ESG investing, which can mitigate some – though not all – of the risks in capital markets.

Looking at portfolio positioning, this outlook has only partially been implemented. Fixed income allocations to low duration and extended credit bonds are both elevated; however, appetite for foreign debt remains depressed. In equities, a recent uptick in value allocation has only modestly impacted a strong overweight to growth; and while interest in non-U.S. stocks has risen going into 2022, it is no greater than it was in the beginning of 2021. Put another way, next year's opportunities have not yet been fully embraced.

All told, the investing landscape continues to be complex. Given the nature of the ongoing global recovery and the shifting pockets of opportunity, the best way to approach asset allocation is to broadly diversify and work with active managers; likely more than in recent history, sector and security selection will be of paramount importance.

Exhibit 12: Investors are only somewhat well positioned to capture future growth trends

INVESTOR ASSET ALLOCATION, LAST 12 MONTH RANGE, 3Q21



Source: Morningstar, J.P. Morgan Asset Management. All data are as of December 7, 2021.

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