The J.P. Morgan View

2021 Global Equity & Cross-Asset Outlook -- Higher visibility, high valuations, high return dispersion

- **2021 Global Equity return projections & cross-asset strategy:** Above-average returns on Equities (10-20% across regions) compared to FICC's small losses (-2% on DM Bonds) or below-average gains (1% to 4% on parts of Credit). The problem in FICC is valuations (combination of low starting yields and below-average spreads). Equities carry high valuations (P/Es) too, but the multiple matters less for total returns if earnings momentum should be strong during a young expansion. Equities also remain cheap relative to Bonds. The Value rotation across style, sector and region is incomplete even if it only unwinds the COVID-19 effect, and provides optionality around possible regime shifts in fiscal and regulatory policy.
- **Global Economics in 2021**: Five core themes are **(1)** down-and-up growth; **(2)** sectoral divergences (manufacturing vs services); **(3)** regional divergences (US/Europe vs rest of world around turn of year, North Asia vs other EMs); **(4)** incomplete recovery (GDP below pre-pandemic levels); and **(5)** slack attack (disinflation due to below-potential GDP level).
- **Fixed Income Markets in 2021**: Overall, above-average losses on DM Bonds and below-average total returns on DM/EM Credit from tight spreads and duration loss. US 10Y at 1.3%, -2% total returns on DM Bonds. About 10bp tightening of HG Credit and 25bp tightening of HY Credit from current levels, so 1% to 4% total returns given duration loss. About 2% decline in trade-weighted dollar, with more alpha opportunities in EM than DM FX. EM Bonds to return about 4% given small decline (-10bp) in index yield, but FX appreciation. Brent to $56/bbl. Opportunities for 5% to 10% gains only at the sub-index level (CCC Credit, Oil, some EM high-yielders).
- **US Equities in 2021** S&P500 4,400 (+20%). OW Discretionary, Financials, Energy, Healthcare; and UW Staples, Utilities, Real Estate; VIX down to 17%.
- **European Equities in 2021:** MSCI EMU 268 (+20%) & FTSE 7,100 (+10%). OW Banks, Insurance, Mining, Utilities; and UW Staples, Real Estate, Media.
- **Japanese Equities in 2021:** TOPIX 1,900 (+9%). OW Financials, Industrials, discretionary: and UW Healthcare, Utilities and Communications.
- **EM Equities in 2021:** MSCI EM 1,450 (+18%). OW Financials, Materials, Real Estate; and UW Utilities, Staples and Healthcare.
- **Wildcards & volatility generators** (sequentially from late 2020): **(1)** Congress fails to pass **stimulus** pre-Christmas, thus allowing virus to drive sentiment; **(2)** UK opts for a **hard Brexit; (3)** Democrats **sweep** after Georgia Senate runoffs on Jan 5th; **(4)** President Trump generates one last **geopolitical** disruption; **(5)** the virus lingers for longer or keeps returning due to low vaccine uptake; **(6)** a debt-related **aftershock** hits, similar to EMU Crisis or EM credit crunch; **(7)** US **inflation** rises enough to motivate Fed tapering scare.
- **For a website of JPM Research's 2021 outlooks, *click this link*.**
- ***J.P. Morgan View* video (Normand & Matejka): *Click here to watch.***

- **Over the past three weeks JPM Research has published most of its 2021 Economics and Strategy outlooks** (see blue box on page 7 for core reports and this website for all reports), which now allow a more complete discussion of cross-asset strategy for the year ahead. Before detailing that asset allocation, today's View recaps the key points from the Global Economics & FICC Outlook issued on Nov 29th (see *Stronger growth should be easy; much higher inflation and returns will be harder*), and from regional Equity outlooks published since then. The cross-asset strategy presentation *What's left of rotation trades and value rotations* from Dec 10th provides further details, for those who like charts.

Cross-Asset Strategy

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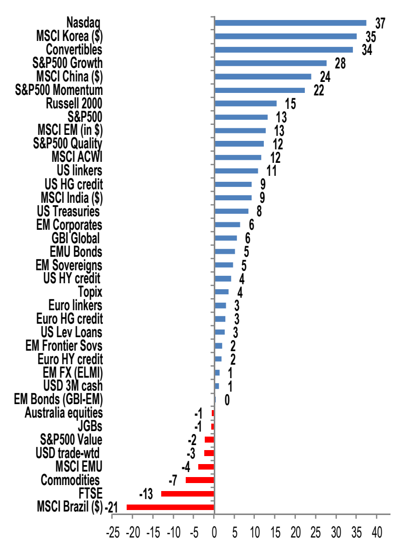
Chart 1: 2020 year-to-date returns



Source: J.P. Morgan

See page 13 for analyst certification and important disclosures, including non-US analyst disclosures.

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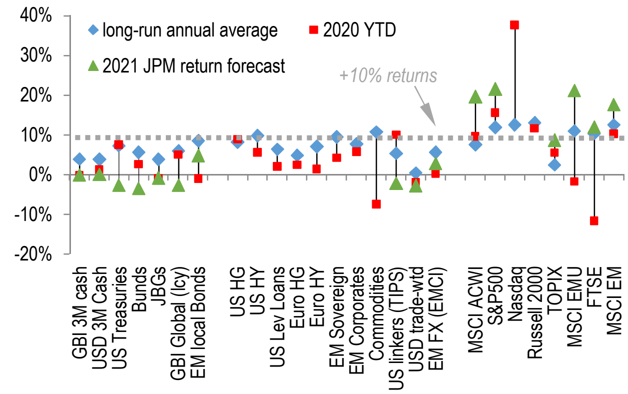
- **We're mindful that little of what we project for 2021 across economies and markets will surprise, alarm or even animate readers**, give the year-ahead optimism catalyzed by US elections, vaccine progress and US stimulus talks. Such is the downside of good things happening near year-end: the annual ritual of formulating, writing and discussing year-ahead outlooks seems overwrought when the path ahead is seemingly so clear. Still, the core Economic & Policy elements of the JPM view are these:
- **(1)** a Q1 US growth pothole (-1% quarter-on-quarter annualized), followed by a **mini- boom** over the rest of year that should put global growth well above trend (6% quarter-on-quarter vs 2.7% trend);
- **(2)** volatile but **below-target inflation** in the US, Europe, Japan and China;
- **(3)** slower but still **extraordinary monetary easing** through balance sheet expansion ($5trn or +15% yoy in 2021 vs $8trn ort +70% yoy in 2020); and
- **(4) modest fiscal drag** (about -1.5% of GDP globally) after 2020 record thrust (+4.7%), though more from the US (-1% drag) and China (-2%) than Euro area (-0.5%). See *Down, up and a way to go: 2021 global economic outlook* by Kasman from Nov 24th for details.
- **Although the implications of that backdrop for Fixed Income are either tame** (US 10Y rates rise to 1.3%) **or positive** (tighter spreads and flatter credit curves, stronger EM currencies, higher Brent prices to about $56/bbl), **JPM's total return forecasts are below average for almost every FICC sector due to low entry yields and spreads** (chart 2). The only FICC markets expected to return at least 3% are DM High Yield Credit; EM Sovereigns, Corporates and Bonds (local currency in USD terms) and Oil (+10%). DM Bonds should lose 2-3% (which they tend to do only when the Fed is tightening), and DM High Grade Credit probably returns nothing (in Europe) or around 1% (US) due to duration losses offsetting spread gains. Losses on some parts of Fixed Income are why only about 70% of all asset classes should generate positive returns next year, which is quite low for a young expansion. Usually the first one or two years

Chart 2: 2021 return projections – long-term valuation measures are high in all markets, but JPM projects above-average returns only in Equities

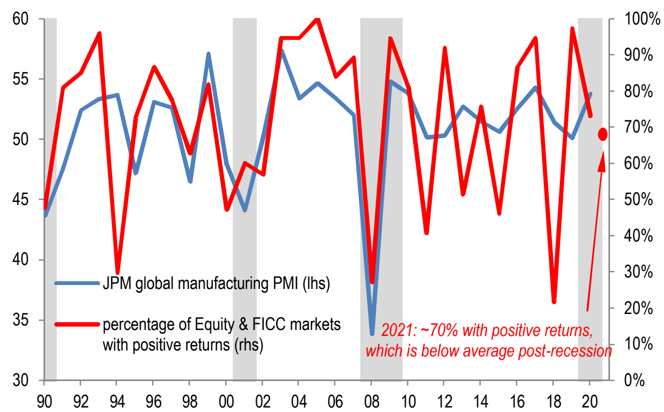
JPM Research total return projections for 2021 in local currency except for EM Local Bonds (in USD). Based on Dec 10th market levels.



Source: J.P. Morgan year-ahead reports posted on *2021 Economics & Strategy Outlooks*

Chart 3: Young expansions can deliver positive returns on 90-95% of markets including DM Bonds, but 2021 might only deliver gains on 70%

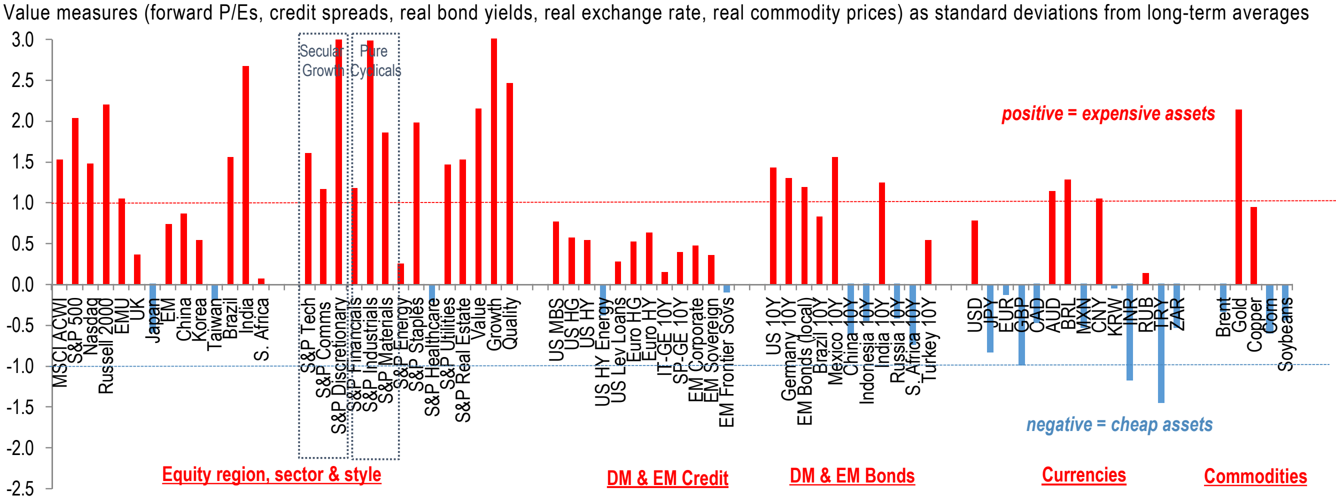
Global PMI vs share of Equity and FICC markets with positive returns



Source: J.P. Morgan

Chart 4: Almost all markets are expensive on long-term measures except non-USD currencies, Commodities ex Metals and some EM Bonds

Value measures (forward P/Es, credit spreads, real bond yields, real exchange rate, real commodity prices) as standard deviations from long-term averages



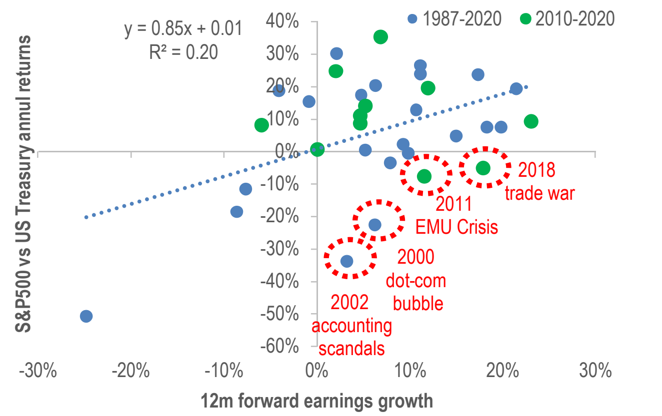
Source: J.P. Morgan

after a recession deliver positive returns on 90% to 95% of FICC and Equity markets due to cheapness, or a still-decent running yield on DM Bonds (chart 3). The zero/negative yield problem that investors faced pre-pandemic has worsened in 2020, which in turn could complicate return generation throughout the next business cycle.

- **Equity valuations are high too on long-term measures like forward P/Es** (chart 4), **but the multiple doesn't tend to constrain Stock versus Bond outperformance when earnings momentum is strong due to a young expansion.** A couple of notable exceptions were 2002 (after the 2001 recession) due to US corporate accounting scandals, and in 2011 (after the Global Financial Crisis) due to the EMU Crisis. Otherwise, even just mid-single digit earnings growth has generally been sufficient to allow Equities to beat Bonds (chart 5), and 2021 is more likely to deliver global earnings growth of at least 20% year-on-year. Equities are also relatively cheap to Bonds based on comparisons of the earnings yield (inverse of the forward P/E) to real US 10Y rates (chart 6). When the spread between the two is this wide (about 5%), Equities usually outperform Bonds over the subsequent year. The only exception was in 2011, again due to the EMU Crisis.
- **Hence the high index and total return targets of our strategists** of 4,400 (+20%) for the S&P500 (Lakos), 268 (+20%) on MSCI EMU (Matejka), 7,100 (+11%) on FTSE 100 (Matejka), 1,900 (+9%) on TOPIX (Sakagami) and 1,450 (+18%) on MSCI EM (Martins). Equity volatility is expected to normalize further, and should fall from the current 23% level to an average near 17% (Kolanovic). Strategists in all regions are overweight Cyclicals and Value, though specific sector recommendations vary somewhat by region. Overweight recommendations are Financials, Energy, Discretionary and Healthcare in the US; Banks, Insurance, Mining and Utilities in the Euro area; and Financials, Materials and Real Estate in MSCI EM (see ***Equity sector recommendations*** on page 11). By extension, the preference for Value implies the usual overweights of Europe, Japan and EM vs the US, but with an important nuance: the EM preference is for MSCI EM ex China, given how much China outperformed as a COVID-19 beneficiary this year.
- **For how long this Value rotation persists is debated internally and externally, but within JPM Research, no team considers this move to be just a three-month trade.** The high conviction on Value's persistence into 2021 is driven by two considerations. One is that the exogenous shock of COVID that amplified Value's long-term underperformance this year has not fully reversed, even given vaccine-inspired price gains since November. As charts 7 and 8 highlight, many COVID losers across Equities and FICC remain at least 20% or 200-300bp cheap to their pre-pandemic levels. It's true that structural damage to business models and sovereign credit risk can prevent full retracement, but these gaps still seem rather large. The other element is optionality on some erosion of structural constraints on Value, if fiscal policy could be turning more stimulative on a long-term basis, and if the regulatory pendulum could swing towards tighter policy. Obviously, the Georgia Senate runoff elections are the key wildcard for turning a vaccine-related rotation into something more durable. So while our medium-term asset allocation bias is to favor Growth – and by extension the US market – again, that strategy pivot is unlikely come for several months.
- **This rotation theme runs deeper than Equities – most of what we are now overweight entering 2021 are markets that performed in the bottom half of the 2020 league table shown in chart 1.** Our current overweights in the multi-asset portfolio include EM FX (+1% YTD), Commodities (-11% YTD), MSCI EMU (-4% YTD), S&P Value (-2% YTD), MSCI EM ex China (+8% YTD), and US and Euro HY Credit (+2% to 4% YTD). The funding legs for these trades are underweights in some of 2020's best-,

Chart 5: Earnings momentum: Even just mid-single digit EPS growth is usually sufficient for Equities to beat Bonds

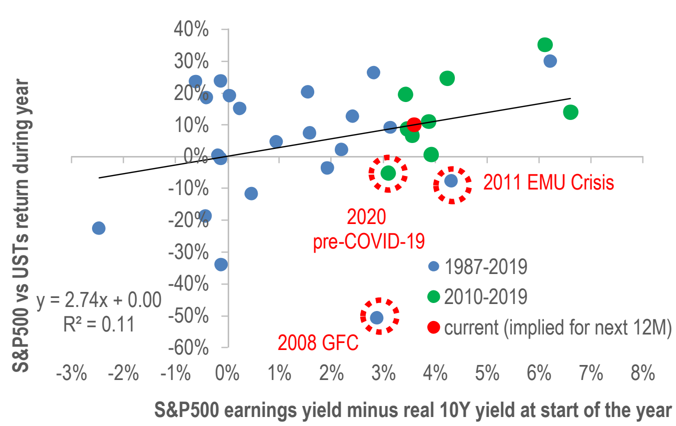
S&P500 minus US Treasuries year-on-year return vs S&P500 12M forward EPS growth year-on-year. Annual data since 1987.



Source: J.P. Morgan

Chart 6: Relative valuations: A high earnings yield relative to real Treasury yields biases Equities to outperform Bonds over the year

S&P500 1Y forward earnings yield (inverse of forward P/E) minus real US 10Y yield at start of year versus S&P 500 minus UST returns during year. Annual data since 1987.



Source: J.P. Morgan

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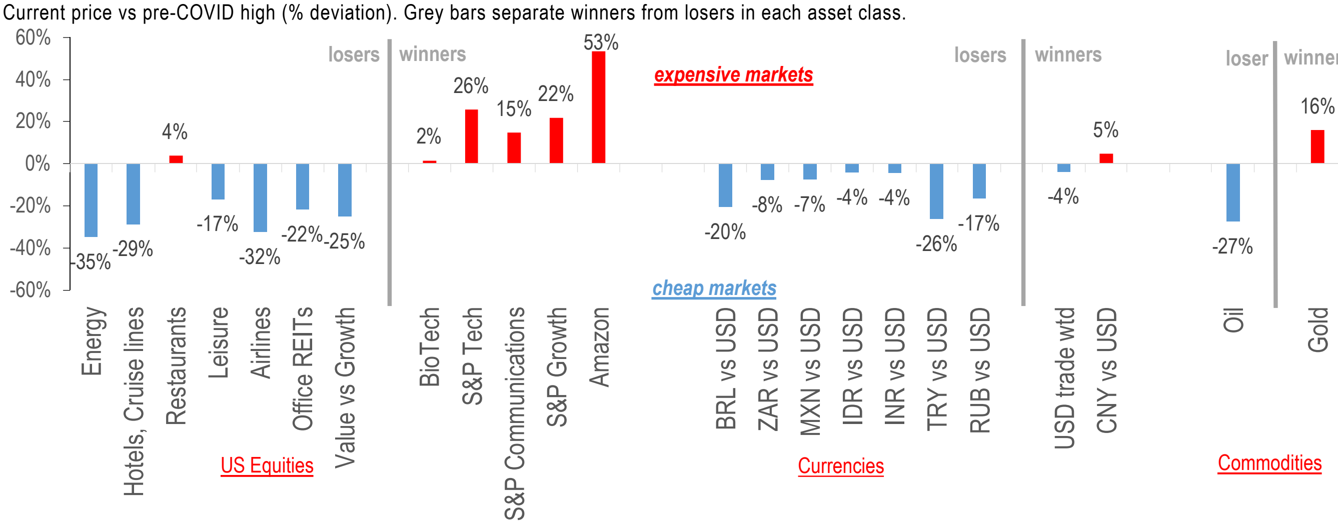
Chart 7: Retracement to pre-crisis levels for COVID-19 winners and losers in Equities, Currencies and Commodities

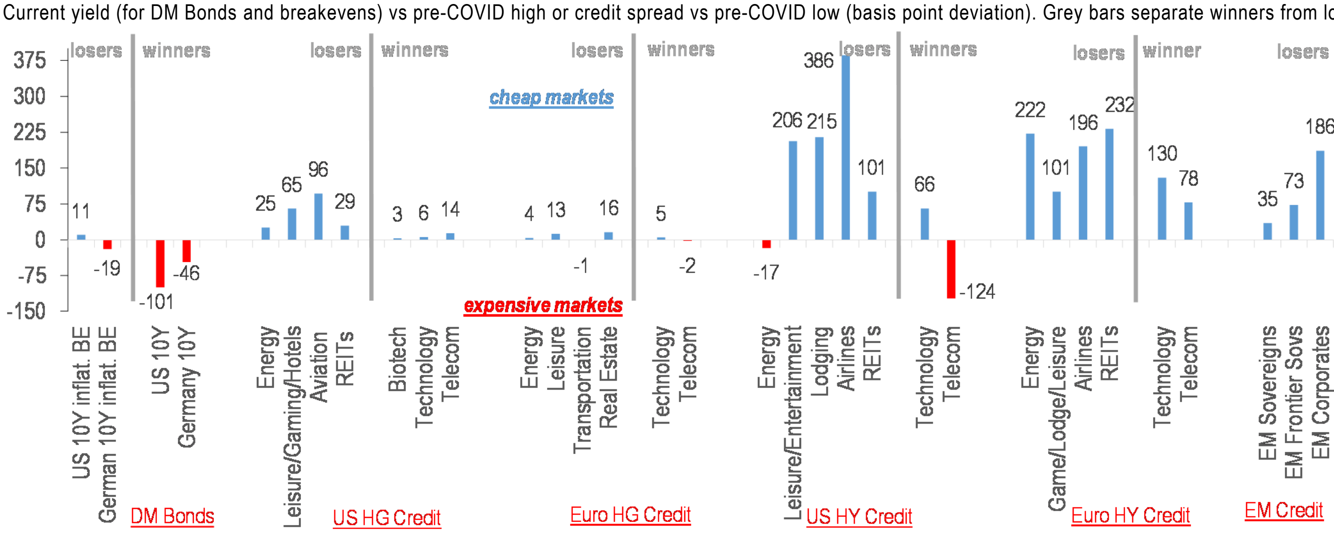
Current price vs pre-COVID high (% deviation). Grey bars separate winners from losers in each asset class.



Source: J.P. Morgan

Chart 8: Retracement to pre-crisis levels for COVID-19 winners and losers in Bonds & Credit

Current yield (for DM Bonds and breakevens) vs pre-COVID high or credit spread vs pre-COVID low (basis point deviation). Grey bars separate winners from losers.



Source: J.P. Morgan

performing markets like S&P Growth (+28% YTD), MSCI China (+24%), US High Grade Credit (+9%) and DM Bonds (+5%). The rationale is two-fold. In a naive statistical sense, most top performers in a given year aren't the best performers the following year, even if those winners still deliver positive returns (chart 9). From a fundamental perspective, the business and policy cycles change to some degree ever year, whether in terms of overall momentum, degree of stimulus and regional differentiation. In turn, these changes drive relative performance.

- **Table 1 on page 6 presents the current all-asset portfolio across public and private markets, and is adapted and extended from one we publish monthly in the flagship publication *Global Asset Allocation*.** Red bars indicate underweights and green bars are overweights, with minimum and maximum deviations of about 15% from the index. The investment rationale is detailed in the far right column. A few points are worth detailing. **Across the portfolio**, we do not hold a maximum overweight in any cyclical asset despite our high-conviction view in above-trend growth and stimulative monetary policy. This reluctance to be all-in reflects the broad expensiveness of Equity and Credit markets at the index level, and the prevalence of turn-of-year event risks such as the virus's impact on the US and European economies. These spoilers include the uncertain timing of additional US fiscal stimulus, and more recently the prospect of a hard Brexit. We have already considered the UK/EU divorce to be more a local than a pan-European much less global issue, however, beyond intra-month volatility in markets.
- **In Bonds**, the underweight is above-average in order to fund an above-average overweight of Equities for high absolute returns and a small overweight of Credit for

income. The size of that Bond underweight raises questions about how the portfolio mitigates risk in the event of growth disappointment or a macro shock. The answer is: with a few second-best defensive and quasi-defensive assets such as EM local markets duration and the Japanese yen.

- **In Credit**, the size of the overweight is small given that the gap between Equity and Credit performance tends to widen as the business cycle advances, so we prefer to allocate risk to the former. Within Credit, we only own High Yield and EM Sovereigns/Corporates rather than DM High Grade, since spreads in the latter are below the level that tends to beat Bonds over a one-year horizon. **In Equities**, the Value tilt in style and sector flows through to the regional allocation, with two caveats. One is that the EM overweight should be in MSCI EM ex China, given China's 2020 outperformance as a COVID-19 beneficiary via market share gains. The other is that an overweight of **Private Equity** adds to the tilt towards Value.
- The **Commodities** allocation is overweight but only in Oil and Base Metals, so amplifies cyclical risk rather than mitigates it. Gold could serve as a diversifier again now that it no longer screens as overvalued based on simple valuation models linking it to US real yields, but other defensives like the yen are even cheaper and some quasi-defensives like EM Bonds obviously offer income. This asset allocation results in a net short USD position within **Currencies**, which we leave open on the expectation of a trade-weighted USD decline.
- As we make adjustments in the coming months, strategy is unlikely to turn defensive during such an early-stage business cycle upturn given that recessions are the ultimate trigger for bear markets and that expansions usually need to run for at least five years to build sufficient vulnerabilities to a shock. Changes next year are more likely to be between small and large overweights of risk, and around the tactical versus strategic view on Value versus Growth/Quality. This latter rotation mainly concerns Equities, but has extensions within Credit and Currencies.

Chart 9: Above-average returns rarely repeat two years in a row, but positive returns do. The leader board usually rotates

Percentage of 40 Equity & FICC markets with positive returns in Year 2 given above-average returns in Year 1 (light blue bar); percentage with above-average returns in Year 2 given above-average returns in Year 1 (dark blue); and percentage in Top 10 list in both Year 1 and Year 2 (red bar).

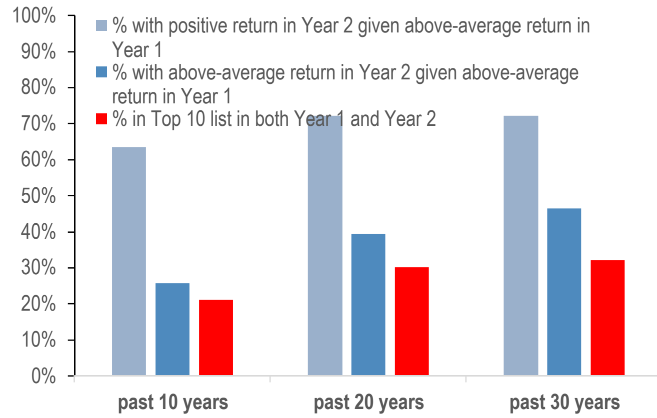


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Table 1: How to invest 100 units of capital in 2021

Red indicates degrees of underweight and green the degree of underweights, where min is approximately -15% deviation from benchmark for Equities & Bonds and -10% for DM Credit

	Benchmark weight	Year to date return	Active weights: Min			Neutral			Max	Rationale
Cash	**3%**	**1.2%**	■							(1) **UW Cash** funds Equity OW
Bonds	**26%**	**4.7%**		■						(1) **Moderate UW of Fixed Income** (Bonds, Credit) & Cash funds moderate OW of EM Bonds, Global Equities, Private Equities & Commodities; **(2) indifferent amongst DM Bonds**, as all have negative total return prospects for 2021; **(3) Long duration** for yield and to partially hedge macro risks is taken in **EMU periphery & EM** rather than in US and Germany.
DM Bonds	**21%**	**5.7%**								
US	8%	8.2%		■						
US TIPS	1%	10.7%					■			
Euro core	3%	3.4%		■						
Periphery	2%	6.5%					■			
Euro linkers	0%	3.0%				■				
UK	2%	9.4%		■		■				(1) **EM Bond OW** is moderate given only a few EM central banks easing in 2021; **(2) currency exposure focussed on EM rather than G10 pairs**, and on currencies of countries with some combination of current account surpluses (CNY, THB, SGD) or relatively high real cash rates relative to the US (IDR, MXN, RUB, TRY). Stay **neutral low-quality currencies** offer low real cash rates relative to debt sustainabilty challenges (BRL, ZAR), or which intervene heavily (INR).
Japan	4%	-0.8%		■		■				
EM Bonds	**5%**	**0.6%**					■			
Credit	**17%**	**6.5%**					■			
DM Credit	**12%**	**7.0%**								
US HG Credit	8%	9.1%			■					
Euro HG Credit	3%	2.8%			■					
US HY Credit	1%	4.1%						■		(1) Only a **small OW of Credit globally for income and diversification**, as Equity returns are more leveraged to global growth at this stage of the business cycles. Equity returns also less sensitive to rising yields than is Credit at tight spread levels; **(2) Within Credit**, OW of US High Yield and EM Sovereigns/Corporates is funded with UW of US & Euro High Grade, whose current spread is below breakeven level typically required to outperform Bonds over a 12-mo holding period.
Euro HY Credit	0.4%	1.8%			■					
EM Credit	**5%**	**5.3%**								
EM Sovereigns	2%	4.6%					■			
EM Corporates	2%	6.4%					■			
EM Frontier Sovs	0.2%	2.0%				■				
Equities	**44%**	**9.7%**						■		
DM Equities	**30%**	**8.6%**								**(1) Moderate rather than Max OW due to valuations**, correction risk in Q1 and difficulty of hedging in zero-rate world; **(2)** UW US vs rest of world due to **Value rotation across style, sector and region; (3) within MSCI EM,** preference for non-China markets like Korea, Brazil and Russia
US	21%	13.4%			■					
EMU	4%	-4.0%					■			
UK	1%	-13.6%			■					
Japan	3%	3.5%					■			
EM Equities	**13%**	**12.2%**					■			
Alternatives	**11%**	**5%**								
Commodities	**1.5%**	**-7.5%**					■			(1) **OW Commodities is cyclical amplifier rather than diversifier**; **(2) OW Private Equity** adds to Value tilt within Equities; **(3) neutral Private Credit** reflects skepticism about long-term risk premium over public Credit
Private Equity	**5.7%**	**9.7%**					■			
Private Credit	**1.4%**	**7.3%**				■				
Infrastructure	**1.1%**					■				
Real Estate	**0.8%**	**-6.6%**				■				
Currency exposure and overlay										(1) assets exposure results in short USD position vs EM FX, Japan and Europe, which is left open on expectation of mutli-year **decline in trade-weighted dollar**
Net USD position from asset allocation				■						
Net USD position after FX overlay				■						

Source: J.P. Morgan

J.P. Morgan Economics & Strategy 2021 Outlooks

For a continuously-updated webpage of reports, click *JPM 2021 Economics & Strategy Outlooks*.

Global Economics
Down, up, and a way to go: 2021 global economic outlook by Kasman et al from Nov 24th
The 2021 US Economic Outlook: The needle and the damage undone by Feroli et al from Nov 20th
Japan 2021 Outlook: If winter comes, can spring be far behind? by Ugai et al from Nov 26th
Antipodean economies in 2021: A year of gap fillers by Jarman from Nov 26th

Global Rates
Global Fixed Income Markets 2021 Outlook" More jabs, not many jobs, steeper curves by Bassi et al from Nov 25th
Treasuries 2021 Outlook: It's times like these you learn to live again by Barry et al from Nov 24th
TIPS 2021 Outlook: Bluer skies ahead by White et al from Nov 24th
Short-Term Fixed income 2021 Outlook by Roever et al from Nov 24th
Interest rate derivatives 2021 Outlook by Younger et al from Nov 24th
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United Kingdom 2021 Outlook by Diamond et al from Nov 25th
Scandinavia 2021 Outlook by Gupta et al from Nov 25th
Japan Fixed Income Markets 2021 Outlook by Yamawaki et al from Nov 25th
AUD fixed income strategy 2021 Outlook by Jarman et al from Nov 25th
NZD Fixed Income Strategy 2021 Outlook by Jarman et al from Nov 25th

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2021 High-Yield Bond and Leverage Loan Outlook by Acciavatti et al from Nov 24th
European Credit Outlook & Strategy 2021 by Doctor et al from Nov 18th
CLO 2021 Outlook by Ahluwalia et al from Nov 24th
2021 Securitized Products Outlook by Sim et al from Nov 24th

EM Fixed Income and FX Strategy
EMOS for 2021: A strong start for markets and a strong end for growth by Oganes et al from Nov 24th
EM FX Strategy 2021: Starting conditions look good by Siddiqui el al from Nov 24th
EM Sovereign Credit 2021 Outlook by Nguyen et al from 25th
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CHF: Rates sink, CHF rises by Meggyesi et al from Nov 24th
JPY: Back to the 90s by Shatil et la from Nov 24th
FX Volatility: The gravitational pull of early cycle, zero rates by Sandilya et al from Nov 24th

Commodities
Oil Markets Outlook 2021/2022 by Kaneva et al from Nov 27th
Precious Metals Quarterly by Kaneva et al from Dec 7th

Global Equities
US Equity Markets - 2021 Outlook by Lakos et al from Dec 9th
Equity Macro and Quantitative Outlook for 2021 by Kolanovic et al from Dec 9th
2021 Equity Derivatives Outlook by Kolanovic et al from Dec 9th
Europe and Global 2021 Outlook by Matejka et al from Nov 30th
Japan Year Ahead 2021 by Sakagami et al from Dec 3rd

2021 Year Ahead - Emerging Markets Equity Strategy by Martins et al from Nov 24th
EM Equity Strategy: Bottom-up ideas for 2021 Year Ahead by Martins et al from Dec 9th
CEEMEA Year Ahead 2021 by Aserkoff et al from Nov 23rd
LatAm Equity Year Ahead by Shayo from Nov 18th
2021 SMid Preview by Lecubarri from Dec 1st

Cross-asset Strategy & Global Asset Allocation
2021 Cross-Asset Strategy presentation & video: What's left of rotation trades and value rotations by Normand from Dec 10th
The J.P. Morgan View: 2021 Global Economics & FICC Outlook -- Stronger growth should be easy; much higher inflation and returns will be harder from Nov 29th
Global Asset Allocation - Trading themes into 2021 by Panigirtzoglou et al from Dec 10th
Equity supply and demand for 2021 by Panigirtzoglou et al from Dec 8th
Bond supply and demand for 2021 by Panigirtzoglou et al from Dec 1st

US Equities in 2021

- **Our US strategists expect the S&P500 to reach 4,400 by end of 2021, realizing a 20% price return** (see *US Equity Markets - 2021 Outlook* by Lakos et al from Dec 9th). EPS are projected to reach $178 in Dec-2021 and $200 in Dec-2022. The current S&P 500 forward P/E multiple at 22.2x may appear expensive at face value but seems less extreme when measured against a low 10-year bond yield, a negative real policy rate and a reasonable growth rate.

- **Equities are facing one of the best backdrops for sustained gains next year.** A "market nirvana" scenario is expected for equities with the melt-up continuing into 1H21, driven by earnings recovery and multiple expansion. Most of the upside should occur in the first six months of the year and drivers include: 1) expectations of continued exceptionally easy monetary policy and another round of fiscal stimulus ($700-900b) in the near future. 2) COVID-19 vaccine distribution and easing of mobility restrictions. 3) Election outcome with an expected balance of power and likely legislative gridlock. This is a goldilocks scenario for equities because it reduces risk of higher taxes and regulatory tightening, and increases the likelihood of global trade tensions easing and some tariff rollbacks. 4) Steady decline in USD trade-weighted index. 5) Corporates should begin to release record excess-cash balances next year, revitalizing capex, M&A, and capital return, and reducing debt/revolvers. 6) ~$1 trillion of equity inflow / demand in 2021 driven by systematic flows, hedge fund positioning, retail buying, share buybacks, rotation from non-equity into equity.

- **At the Style level, the recommendation is for a Barbell portfolio with preference for COVID-19 Recovery Value plays alongside Winner Takes All stocks**. In a risk-on backdrop, Value remains the style of preference. While Value may have the biggest positive correlation to COVID-19 Recovery, various parts of Growth, Momentum and even Quality are also positively exposed to COVID-19 Recovery. Consequently, the recommendation is for a barbell portfolio favoring Value and Growth, and underweighting defensive styles, i.e. Low Vol and to a lesser extent Quality. At a **Sector level**, COVID-19 recovery means the team is OW in Cons. Discretionary, Financials and Energy. Healthcare is also OW because of its strong defensive growth, below market valuation, and reducing headline risk with an expected gridlock in Congress. An OW is also kept on Tech as these companies should continue to deliver strong growth and market share gains. However, economic recovery and reflation should be a hurdle for bond proxies. Hence, the UW in Utilities, Staples and Real Estate.

Quantitative & Derivatives Strategy in 2021

- **The outlook for 2021 is positive for equities and more broadly for risky assets**. Markets will be driven by recovery from the COVID-19 crisis and continued extraordinary monetary and fiscal support. Given the level of interest rates, money managers should initiate a substantial rotation out of bonds and into higher yielding assets. This would be an environment in which market volatility declines, creating a positive feedback loop, where systematic and discretionary hedge fund strategies increase allocation to equities. With additional increases in buyback activity, these inflows would overpower equity supply to drive equity markets higher.

- **The VIX should decline further, averaging in the mid- to high teens, with the most likely average level of ~17**. The significant increase of monetary accommodation 9 months ago and an improving macro backdrop should pressure VIX lower in 2021. Further, several quantitative technical drivers should help volatility declining. The first is a rotation between sectors which reduces the average correlation between the stocks in a broad equity index, and hence its realized volatility. Second, in rising markets, dealers' exposure to index option gamma tends to be long. Hedging long gamma exposure causes intraday mean-reversion, which in turn reduces realized volatility. Finally, increased supply of volatility (i.e. selling of options) should put direct pressure on implied volatility (and indirectly via gamma hedging). (see *Equity Macro and Quantitative Outlook for 2021* by Kolanovic et al from Dec 9th).

European Equities in 2021

- **Our strategists look for positive equity returns in 2021 driven by a strong rebound in earnings**. P/E multiples might hold on to most of their rerating, as bond yields are not expected to move significantly higher. Monetary policy should remain supportive, trade uncertainty could ease and fiscal stimulus will likely continue to be rolled out. They turned bullish on Value ahead of the US elections, and think that the broadening in market participation will extend into 2021. The starting point is still extreme. The Growth vs Value run that took place up to Nov 2020 dwarfs anything seen before, at least looking at the last 50 years of data. Tech continues to screen well fundamentally, but a significant gap has opened up between performance and the stalling relative EPS revisions. On the other side, Banks had a poor year and continue to show attractive valuations. Further, Banks earnings are stabilizing, dividends could come back, credit spreads are holding in well, balance sheets do not need to be diluted this time around, and any move up in bond yields could result in multiple expansion. (See *Europe and Global 2021 Outlook* by Matejka et al from Nov 30th).

- **In the Euro area, MSCI EMU is projected to reach 268 in Dec-21, delivering a 18% price return.** Eurozone has lagged US significantly this year and the team believes there is scope for narrowing in this performance spreads. Hence, Eurozone is upgraded to OW, while the US is reduced to N. Eurozone is attractively valued, and could benefit from the style switch into Value. Relative earnings trends have favored US over Eurozone for a while now, but a potential bounce in relative earnings could be on the cards. Peripheral spreads are well behaved, further fiscal stimulus in the region is forthcoming, and any easing in trade uncertainty will benefit Euro area, too.

- **In the UK, FTSE 100 is expected to hit 7,100 by 2021 year-end, 8% above current levels**. UK equities are also likely to keep recovering, after another terrible year. Having said that, a N stance is kept on the UK as it will likely not outperform Eurozone, nor the global, equities against the backdrop of higher yields/PMIs/GBP and rising equity levels. UK stocks have attractive valuations and yields, but the region's Defensive tilt may be a problem in a more reflationary backdrop. FTSE100 also shows a strong inverse correlation to the GBP. With a Brexit deal looking more likely, chances are GBP is supported, at least in the near term Within the UK, a preference on FTSE 250 vs FTSE 100 and Domestic vs Exporters is kept.
- **In Europe, the 2021 allocation across sector/styles favors Value vs Growth and Cyclicals vs Defensives**. Sector recommendations include: OWs in Financials, Materials and Utilities and UWs in Staples, Com. Services and Real Estate.

Japanese Equities in 2021

- **The 4Q21 target for TOPIX stands at 1,900, implying roughly a 7% price return in 2021** (See *Japan Year Ahead 2021* by Sakagami et al from Dec 3rd).). Earnings are expected to recover in FY2021 from a significant downturn in FY2019 due to the consumption tax hike and from COVID-19 in FY2020. The bullish outlook is based on (1) favorable supply/demand, (2) continued economic recovery, and (3) possibly higher expectations for normalization of economic activity due to the dissemination of COVID-19 vaccines.
- **Stock prices are expected to strengthen and set highs in 1H21 and be range-bound in 2H21**. In years when it is clear that profits will rise to some extent in the new fiscal year, Japanese stocks tend to rise from the beginning of the year to May and then become range-bound. Hence, Japanese stocks should follow a pattern where prices will rise ahead of full-year results announcements on advance expectations before seesawing when reality sets in next year.
- **On sector/styles return reversal is expected with Cyclical and Value stocks outperforming.** The trend of return reversal is expected to intensify especially in 1H 2021, and economy sensitive and foreign demand-driven industries will have the edge. In this case, Value stocks should outperform Growth stocks. A global rise in long-term interest rates will also be a tailwind for Value. However, since the longer-term economic and financial environment should be a tailwind for Growth, the dualism of Reversal versus Momentum and Value versus Growth is insufficient, and stock selection and investment strategies that identify promising and not so promising stocks in each category may be necessary.

Emerging Market Equities in 2021

- **Our EM Equity strategists have a price target for MSCI EM at 1,450 for 2021 YE, a 15% price return**, with EPS growth, rather than valuation, being the primary source of return. Above-trend global growth; continued USD weakness; ultra-lose monetary policy; and the easing of major market risks should help EM stocks. Further, these should also catalyze important rotations within EM i.e. Value/Cyclical sectors and Ex-North Asia allocations. EM equities could outperform DM equities in 2021 on the back attractive relative valuations vs DM, tailwind of a weaker dollar, USD+$350bn in dry powder and EM growth premium to the US likely to reaccelerate in 2021. (See *2021 Year Ahead - EM Equity Strategy* by Martins et al from Nov 23rd).
- **The team favor a pro-risk allocation and uses the risk budget to rotate further into global cyclical areas** funded with low-beta segments and pockets of idiosyncratic challenges Brazil, Indonesia, Russia, S. Korea and Thailand are key OWs while Argentina, Colombia, Malaysia, Peru and Saudi Arabia are the main UWs. At the sector level, OWs include Cons. Discretionary, Financials, Materials and Real Estate while UWs enclose Staples, Healthcare and Utilities.
- **In** LatAm, **the base case is for MSCI LatAm index to rise 8% in 2021 (target 2,600)** driven mainly by earnings growth and modest multiple expansion. The main drivers of upside are (1) earnings estimates; (2) higher commodities prices; (3) relatively stable FX given the possibility of USD weakening; (4) improving global environment providing less tension on the trade front and; (5) improving CDS in the region. Country recommendations include OW in Brazil, N Mexico and Chile and UW Peru, Colombia and Argentina.
- **In** CEEMEA, **the Dec-21 target for MSCI EMEA is 260, which implies a return of 9%.** The global value trade will be the key theme for 2021 and CEEMEA should benefit given its high sensitivity to factors like Value and short Momentum. Key country allocation calls are: OW Russia and South Africa, N CE3 and Turkey and UW MENA.

SMid in 2021

- **Our SMid strategists stick with a calls for SMid-Caps to remain range bound through the end of next year** (a +/- 15% return potential). That said, they think there is still tremendous potential upside hidden at the stock level that offer big alpha opportunities. With this in mind, they stick to OWs on: a) SMid vs Large; b) Value vs Growth (focusing on stocks still down >30%, with a balance sheet and FCF generation that ensures investors won't be diluted via a rights issue); c) Materials, Industrials, and Cons. Discretionary at the sector level; and d) PanEurope vs the US. They are also turning OW on the UK vs Europe (see *2021 SMid Preview* by Lecubarri et al from Dec 1st).

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Cross-asset forecasts & strategy

Rates	Current	Mar-21	Jun-21	Sep-21	Dec-21
US (Fed funds)	0.09	0.00	0.00	0.00	0.00
10-year yields	0.89	1.00	1.10	1.25	1.30
Euro area (Depo)	-0.50	-0.50	-0.50	-0.50	-0.50
10-year yields	-0.64	-0.50	-0.45	-0.35	-0.30
Italy - Germany 10Y (bp)	119	100	90	80	90
Spain - Germany 10Y (bp)	64	60	55	50	55
United Kingdom (repo)	0.10	0.10	0.10	0.10	0.10
10-year yields	0.16	0.40	0.45	0.55	0.65
Japan (overnight call rate)	-0.10	-0.10	-0.10	-0.10	-0.10
10-year yields	0.01	0.00	0.00	0.05	0.10
EM Local (GBI-EM yield)	4.32		4.20		4.24
Currencies	**Current**	**Mar-21**	**Jun-21**	**Sep-21**	**Dec-21**
JPM USD Index	118	118	118	118	118
EUR/USD	1.21	1.20	1.20	1.19	1.18
USD/JPY	104	102	101	99	98
GBP/USD	1.32	1.35	1.34	1.33	1.32
AUD/USD	0.75	0.68	0.68	0.68	0.68
USD/CNY	6.55	6.40	6.35	6.30	6.25
USD/KRW	1090	1080	1070	1060	1050
USD/MXN	20.12	20.00	20.50	21.00	21.50
USD/BRL	5.06	5.15	5.30	5.35	5.40
USD/TRY	7.89	7.50	7.70	7.90	8.10
USD/ZAR	15.11	15.00	15.50	16.00	17.00
Commodities	**Current**	**Mar-21**	**Jun-21**	**Sep-21**	**Dec-21**
Brent ($/bbl, qtr avg.)	50	43	49	51	56
WTI ($/bbl, qtr avg.)	47	41	47	48	53
Gold ($/oz, qtr avg.)	1,834	1,815	1,790	1,720	1,650
Copper ($/ton, qtr avg.)	7,862				
Aluminum ($/ton, qtr avg.)	2,048				
Iron ore (US$/dt, qtr avg.)	155				
Wheat ($/bu, qtr avg.)	5.9				
Soybeans ($/bu, qtr avg.)	11.5				

Source: Bloomberg, Datastream, J. P. Morgan

Credit		Current	Dec-21
US High Grade (bp over UST)	JPM JULI	133	125
Euro High Grade (bp over Bunds)	iBoxx HG	101	90
US High Yield (bp vs. UST)	JPM HY	469	450
US Lev Loans (bp vs. 3Y Index)	JPM LL	496	450
Euro High Yield (bp over Bunds)	iBoxx HY	355	350
EM Sovereigns (bp vs. UST)	JPM EMBIGD	400	325
EM Corporates (bp vs. UST)	JPM CEMBI	269	250
Equities		**Current**	**Dec-21**
S&P 500		3,668	4,400
MSCI Europe		1,602	1,830
MSCI Eurozone		226	268
FTSE 100		6,539	7,100
Topix		1,782	1,900
MSCI EM ($)		1,255	1,450
MSCI China		106	125
MSCI Korea		878	900
MSCI Taiwan		574	605
MSCI India		1,543	1,430
Brazil (Ibovespa)		115,129	134,000
Mexico (MEXBOL)		43,519	46,300
MSCI South Africa		1,340	1,795

Equity sector recommendations & year-to-date returns

	US		Europe		Japan		EM	
Energy	-29%	OW	-29%	N	-33%	N	-16%	N
Materials	18%	N	8%	OW	13%	N	20%	OW
Industrials	12%	N	2%	N	4%	OW	0%	N
Discretionary	44%	OW	3%	N	9%	OW	37%	OW
Staples	9%	UW	-4%	UW	1%	N	7%	UW
Healthcare	14%	OW	-1%	N	16%	UW	43%	UW
Financials	-5%	OW	-16%	OW	-12%	OW	-10%	OW
Technology	40%	OW	10%	N	18%	N	49%	N
Comm Services	25%	N	-12%	UW	31%	UW	26%	N
Utilities	-2%	UW	10%	OW	-15%	UW	-9%	UW
Real Estate	-5%	UW	-14%	UW	-15%	N	-17%	OW

Core strategic and tactical recommendations by asset class

	Strategic (6M to 2Y trades)	Tactical (1M to 6M trades)
Asset allocation	Above-average OW of DM Equities & HY Credit vs Cash/Bonds; broad OW of EM complex – Equities, Duration, FX, Sovereigns & Corporates	Increased Equity overweight from 8% to 10% and moved OW HY vs HG Credit in November edition of *Global Asset Allocation*
Equities	**Country**: biased towards US after Value rotation is more complete **Sector**: OW Healthcare; UW Staples, Utilities, REITs **Style**: biased towards OW Growth again	**Country:** OW EM ex China, EMU & Japan vs US, UK, rest of world **Sector:** OW Cyclicals (Discretionary, Financials, Energy) **Style**: OW Value
Bonds	**DM Duration**: Neutral **EM Duration**: OW China, Russia, Indonesia, Mexico & UW Chile, Poland in GBI-EM.	**DM Duration:** neutral **DM Curve:** steepeners in US (3s/10s) & Germany (2s/10s) **DM Inflation:** long in US, neutral elsewhere **DM Spread**: OW Spain (10Y) vs France, OW AU vs US (10Y)
Credit	**US HG:** OW Yankee Banks, Energy, Utilities, Cap Goods & Telecoms; UW US Banks, Healthcare, Tech & Retail **US HY**: OW Energy, Gaming, Transport; UW Healthcare, Tech, Cable, Paper, Industrials **Euro HG**: OW Autos, Toll Roads & Mail, Transport; UW Healthcare, Chemicals, Tech, Media **Euro HY**: OW Transport, Paper, Retail; UW Chemicals, Telecoms	**US HY:** OW CCCs & Bs vs BBs **Euro HG:** Long Euro AT1 **Euro HY**: Long HY (iTraxx Crossover) vs IG (iTraxx Main) **EM Sovereigns**: OW Mexico, Nigeria, Egypt **EM Corporates**: favour HY over HG globally; OW China (Property), CEEMEA Utilities, Latam Commodities
Currencies	Few strategic trades; most currency positions are tactical	**Long** JPY vs USD & EUR; long NOK vs EUR; long CNH, SGD, THB & TRY vs USD; OW RUB, MXN, CNY, IDR vs HUF, CLP in GBI-EM
Commodities	**Long** JPMCCI Agricultural sub-index	**Long** Base Metals & Oil

Source: J.P. Morgan flagship weekly and monthly strategy publications, including *Global Asset Allocation*, available on www.jpmm.com. Red shading indicates higher-conviction view

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Model Portfolio and Asset allocation

Global economic forecasts

	Real GDP			Real GDP						Consumer prices			
	% over a year ago			% over previous period, saar						% over a year ago			
	2020	2021	2022	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	2Q20	4Q20	2Q21	4Q21
United States	-3.6	3.3	3.3	-31.4	33.1	2.8	-1.0	4.5	6.5	0.4	1.2	2.8	2.0
Canada	-5.6	3.4	3.6	-38.1	40.5	3.0	0.0	4.0	4.7	0.0	0.8	2.4	2.0
Latin America	-7.1 ↑	3.6	3.1	-44.2	49.5	7.5 ↑	-0.4 ↓	1.7	3.5	6.5	6.8	9.3 ↓	8.5 ↓
Argentina	-10.7	4.1	2.5	-50.7	64.0	6.0	1.0	1.5	3.0	43.8	37.3	55.9	55.5
Brazil	-4.6	2.6	2.9	-33.2	34.6	4.0	-2.0	1.5	4.0	2.1	4.1	5.6	4.0
Chile	-5.7	5.4	2.8	-43.9	22.6	32.0	2.0	1.0	1.5	2.9	3.0	3.7	3.3
Colombia	-8.0	5.0	4.5	-50.5	39.6	12.5	5.0	3.5	3.5	2.9	1.6 ↓	1.9 ↓	2.7 ↓
Ecuador	-7.0	3.2	2.0	-34.3	22.0	8.0	3.2	2.5	2.5	0.6	-1.2	-1.6	0.3
Mexico	-8.7 ↑	3.5 ↑	3.2	-52.4	58.0	6.4 ↑	-1.0 ↓	2.0	4.0	2.8	3.6 ↓	3.8 ↓	3.2 ↓
Peru	-13.0	8.0	3.6	-74.0	156.7	8.0	0.0	1.0	1.5	1.7	2.0	2.0	1.9
Uruguay	-4.0	3.4	3.0	-31.4	41.0	3.0	0.0	1.0	5.0	10.8	9.7	6.8	6.7
Asia/Pacific	-1.5 ↑	7.0	4.5	9.7	24.7 ↑	10.6	4.3	4.4	5.2	2.0	0.7	1.1	1.8
Japan	-5.1	3.1 ↑	1.7	-29.2 ↓	22.9 ↑	8.0	0.5	3.0	3.5	0.1	-1.0	-0.4	0.2
Australia	-2.9	3.4	2.6	-25.3	14.0	6.6	5.0	3.2	2.8	-0.3	0.4	2.9	2.0
New Zealand	-5.5	5.2 ↓	3.3	-40.5	36.4 ↓	13.1 ↓	3.2 ↓	3.2 ↓	4.8 ↓	1.5	0.9	1.2	1.5
EM Asia	-0.6	8.2	5.3	21.1	25.7	11.4	5.2	4.7	5.7	2.6	1.0	1.4	2.1
China	2.0	8.6	5.5	56.5	7.5	11.9	4.1	4.8	5.8	2.7	0.1	0.7	1.9
India	-9.0	12.2	4.7	-68.4	117.1	19.0	14.0	4.0	4.5	6.5	6.8	4.6	4.4
Ex China/India	-2.9	4.7	4.8	-22.4	23.1	5.8	3.2	5.0	6.2	0.1	0.4	1.4	1.4
Hong Kong	-5.8	4.7	3.0	-0.4	11.7	5.0	2.5	4.5	5.5	1.3	-1.0	0.0	2.1
Indonesia	-2.2	4.0	4.8	-24.9	14.6	5.0	5.0	5.0	5.0	2.3	1.7	1.8	2.1
Korea	-1.0	3.5	3.5	-12.0	8.8	4.0	2.5	3.5	7.0	-0.1	0.3	1.4	1.2
Malaysia	-5.4	7.3	5.0	-51.4	95.0	1.1	5.0	4.0	6.0	-2.6	-1.0	3.2	1.9
Philippines	-9.1	8.4	5.7	-47.4	35.9	30.0	3.0	7.5	6.0	2.3	2.6	2.6	2.4
Singapore	-6.2	5.7	8.0	-43.2	42.3	3.5	3.0	8.0	9.0	-1.2	-0.2	0.7	0.5
Taiwan	2.6	4.5	3.4	-2.8	16.6	3.0	1.8	4.5	5.0	-1.0	-0.2	1.1	1.3
Thailand	-6.3	5.1	9.2	-34.0	28.8	4.5	3.0	7.0	6.0	-2.7	-0.9	0.7	0.3
Western Europe	-7.6 ↑	4.9 ↑	4.6 ↓	-41.7 ↑	60.9 ↓	-7.9 ↑	2.5	10.7 ↓	9.4	0.3	-0.1	1.2	1.7
Euro area	-7.2 ↑	4.7	4.4	-39.2 ↑	60.0 ↓	-9.0	2.0	10.0	9.0	0.2	-0.3	1.0	1.6
Germany	-5.6	3.6	4.0	-33.8	38.5	-4.0	-1.5	12.5	6.5	0.7	-0.6	1.3	2.7
France	-9.0	5.8	4.3	-44.8	98.3	-15.0	4.5	8.5	9.5	0.3	-0.1	0.9	1.2
Italy	-8.9	5.7	4.8	-42.7	80.4	-10.0	3.5	7.5	10.5	-0.2	-0.6	0.3	1.1
Spain	-11.3	6.6	7.2	-54.3	85.5	-8.0	3.5	11.5	15.5	-0.6	-0.9	0.5	1.3
Norway	-3.7	3.2	3.6	-22.0	22.4	-0.3	-0.5	7.5	6.5	1.1	1.9	3.0	2.6
Sweden	-3.1	2.6	3.8	-28.2	21.2	-0.7	-1.4	9.0	7.0	0.1	0.3 ↑	1.6 ↑	1.1 ↓
United Kingdom	-11.0 ↑	6.4 ↑	5.8 ↓	-58.7	78.0	-5.0 ↑	5.7 ↓	14.5 ↓	12.1 ↓	0.7	0.7	2.0	2.0
EMEA EM	-3.5	3.4	4.0	-33.5 ↓	40.0 ↓	-4.8 ↑	3.3 ↓	6.1 ↑	5.8	4.1	4.9	4.8	4.3
Czech Republic	-6.9	4.5	5.0	-29.9	30.7	-18.0	20.0	5.5	8.2	3.1	2.8	2.2	1.8
Hungary	-6.0	3.5	5.6	-46.8	53.9	-10.5	4.3	7.4	8.7	2.5	2.8	3.2	3.3
Israel	-3.5	5.5	5.0	-29.8	37.9	-10.0	10.8	8.2	8.2	-0.5	-0.8	0.2	0.3
Poland	-3.3	4.0	5.7	-25.2	35.5	-11.5	8.9	6.4	8.2	3.2	2.9	2.3	2.6
Romania	-5.2	3.0	6.0	-40.6	24.1 ↓	0.0	0.4	7.6	10.8	2.5	2.2	2.0	3.1
Russia	-3.7	2.8	3.0	-30.3	21.9	-0.5	2.0	7.5	4.0	3.1	4.3	3.9	3.4
South Africa	-7.0 ↓	3.8 ↓	2.2	-51.7 ↓	66.1 ↓	7.0 ↑	-2.0 ↓	3.8 ↑	3.5	2.4	3.1	4.2	4.1
Turkey	0.7	3.0	4.1	-36.6	78.4	-7.8	-4.3	2.4	4.9	11.7	13.3	13.3	11.3
Global	-4.0	5.1 ↑	4.1	-19.4	37.6	3.2 ↑	2.0 ↓	5.7 ↓	6.4	1.5	1.2	2.3	2.3
Developed markets	-5.3	3.9 ↑	3.6	-35.0	41.8	-0.4 ↑	0.7	6.5 ↓	7.0 ↓	0.3	0.4	1.9 ↑	1.7
Emerging markets	-2.0	6.8	4.8	3.9	31.1 ↓	8.5 ↑	4.1 ↓	4.5	5.4	3.4	2.4	3.0	3.4
Emerging ex China	-5.2	5.4	4.1	-38.7	50.3	5.8 ↑	4.1 ↓	4.3 ↑	5.1	2.4	2.6	2.6	2.5
Global — PPP weighted	-3.8	5.8	4.3	-18.2	38.8	4.8 ↑	2.9	5.4 ↓	6.1	2.0	1.6	2.3	2.4

Note: For some emerging economies seasonally adjusted GDP data are estimated by J.P. Morgan. Bold denotes changes from last edition of *Global Data Watch*, with arrows showing the direction of changes. Underline indicates beginning of J.P. Morgan forecasts. Unless noted, concurrent nominal GDP weights calculated with current FX rates are used in computing our global and regional aggregates. Regional CPI aggregates exclude Argentina, Ecuador and Venezuela. Regional GDP aggregates exclude Venezuela. Forecasts for Argentina are based on JPMorgan's estimates of GDP and CPI. Source: J.P. Morgan.

Disclosures

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